

September 2004

DEFENSE
MANAGEMENT

Tools for Measuring
and Managing Defense
Agency Performance
Could Be
Strengthened



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-04-919](#), a report to the Committee on Armed Services, U.S. Senate

Why GAO Did This Study

GAO was mandated to assess the effectiveness of defense agency performance contracts as management tools. As agreed, GAO also reviewed other tools (performance plans and balanced scorecards) and focused on three defense agencies—the Defense Logistics Agency (DLA), the Defense Information Systems Agency (DISA), and the Department of Defense Education Activity (DODEA). GAO addressed (1) the extent that the defense agencies initially used performance contracts, including whether this tool addressed attributes associated with results-oriented management; (2) defense agencies' efforts to implement performance plans using lessons learned from the initial contracts; and (3) the extent DOD established mechanisms to share lessons learned. GAO reviewed the content of these tools, but not the actual or reported performance. DISA has not yet finalized its scorecard, thus this report discusses only DISA's plans for its scorecard.

What GAO Recommends

GAO is making recommendations to DOD aimed at improving guidance to make performance plans and scorecards more informative and useful and further strengthen the potential of these tools for measuring and managing agency performance.

In its comments, DOD generally concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-919.

To view the full product, click on the link above. For more information, contact Sharon Pickup at (202) 512-4300 or pickups@gao.gov or Patricia Dalton at (202) 512-6806 or daltonp@gao.gov.

DEFENSE MANAGEMENT

Tools for Measuring and Managing Defense Agency Performance Could Be Strengthened

What GAO Found

Since fiscal year 1998, the Department of Defense (DOD) has implemented various tools to help manage and oversee the performance of defense agencies. Between fiscal year 1999 and 2003, DLA, DISA, and DODEA initially used “performance contracts”—internal management agreements—to bring specific problems to the attention of senior DOD and agency leadership. While the contracts produced some useful information for decision makers, this tool would have been more effective for assessing performance, making resource allocation decisions, and taking corrective actions if DOD had required the agencies to include certain attributes associated with results-oriented management. Such attributes include aligning agency performance goals and measures with agency strategic plans and departmentwide goals; identifying individuals accountable for achieving results; providing a comprehensive view of organizational performance; linking resource needs to performance; discussing data quality; and providing contextual information, including external factors that affect reported performance.

Beginning in fiscal year 2003, DOD renamed the performance contracts as “performance plans” and gave the defense agencies the option to use a “balanced scorecard” approach, a tool used in the public and private sectors to assess organizational performance. Based on experiences using the initial contracts, DOD took steps to strengthen performance plans and scorecards by revising the oversight and review process, requiring performance measures to align with agency and departmentwide goals, and requiring measures to provide a more comprehensive view of agency performance. DLA's scorecard, DODEA's performance plan, and DISA's plans for the agency's scorecard incorporated these changes and other attributes to varying degrees. While these tools have the potential to provide information useful to decision makers, they would be strengthened if DOD had required the agencies to include additional attributes such as designating specific individuals responsible for achieving results; identifying the relationship between resource needs and performance; reporting on data quality; and providing contextual information to allow top leaders to understand the extent of progress made, take corrective actions to achieve goals, and establish realistic performance goals for future years. With these attributes, decision makers would potentially gain additional insights into agency performance and areas needing greater management attention.

DOD has developed mechanisms, such as a performance management Web site and roundtables, to help agencies share lessons learned from implementing performance plans and scorecards. In response to GAO's suggestions during this review, DOD recognized the need to continue to hold roundtables more frequently. DLA and DISA have also proactively shared their experiences with each other.

Contents

Letter		1
	Results in Brief	4
	Background	7
	While Used to Varying Degrees, Performance Contracts That We Reviewed Could Have Been More Effective Had They Included Certain Attributes Associated with Results-Oriented Management	10
	The Plan and Scorecard We Reviewed Show Improvement, but Could Be Strengthened by Including Certain Key Attributes	19
	DOD Captures and Shares Lessons Learned	35
	Conclusions	35
	Recommendations for Executive Action	36
	Agency Comments and Our Evaluation	37
Appendix I	Scope and Methodology	39
Appendix II	Department of Defense’s Risk Management Framework	41
Appendix III	Fiscal Year When Defense Agencies Implemented Their First Performance Contract, Plan, or Scorecard	42
Appendix IV	Certain Key Attributes Associated with Results-Oriented Management	45
Appendix V	Comments from the Department of Defense	48
Appendix VI	Key Contact and Staff Acknowledgments	51
Related GAO Products		52

Tables

Table 1: Time Frames for DLA's, DISA's, and DODEA's Use of Performance Contracts, Performance Plans, or Balanced Scorecards	3
Table 2: Extent To Which DLA's, DISA's, and DODEA's Performance Contracts Incorporated Certain Key Attributes Associated with Results-Oriented Management	13
Table 3: Extent To Which DLA's Scorecard and DODEA's Plan Incorporated Certain Key Attributes Associated with Results-Oriented Management	21

Figures

Figure 1: Depiction of How DLA's May 2004 Scorecard Supports Departmentwide Goals and Cascades to Lower Organizational Levels	23
Figure 2: Example of the Type of Information in DODEA's Performance Plan That OSD Officials Monitor, as of May 2004	25
Figure 3: Detailed Data on DODEA's Pupil to Teacher Ratio as of May 2004	26
Figure 4: Format of a Sample Measure from DISA's Draft September 2003 Balanced Scorecard	34
Figure 5: DOD's Risk Management Framework	41
Figure 6: Defense Agencies	43
Figure 7: Defense Field Activities	44

Abbreviations

DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DOD	Department of Defense
DODEA	Department of Defense Education Activity
OSD	Office of the Secretary of Defense
PA&E	Program Analysis and Evaluation
USD/P&R	Under Secretary of Defense for Personnel and Readiness

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

September 13, 2004

The Honorable John W. Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

Department of Defense (DOD) agencies and field activities, such as the Defense Logistics Agency, are a key part of DOD's business operations and provide numerous support services, ranging from information technology and education of servicemembers' dependents to logistics support for the department.¹ The agencies' customers include the military services, other agencies, and military personnel and their families. During the past 2 decades, service officials have expressed concern about inadequate oversight and performance of the defense agencies; specifically, the lack of customer responsiveness and inefficient business processes in light of growing defense agency budgets.

As part of a departmentwide effort, known as the Defense Reform Initiative, aimed at improving DOD's business operations, in 1998, the Deputy Secretary of Defense directed the defense agencies to develop agreements between the defense agencies and the Under and Assistant Secretaries to which they report. Known as "performance contracts" at the time, these agreements were intended to help improve the Office of the Secretary of Defense's (OSD) oversight of these agencies as well as their performance. According to a DOD official, these performance contracts were not intended to be contracts in the legal sense, but rather were one of a number of management tools—such as strategic plans—used by the defense agencies to improve performance by setting performance goals, focusing the attention of OSD and agency leaders on customer concerns, and bringing management visibility over key areas of the agencies'

¹ Defense agencies and DOD field activities perform similar support functions. However, the field activities are smaller and serve a more limited portion of DOD than do defense agencies. For purposes of this report, we use the term "defense agencies" to refer collectively to defense agencies and field activities.

performance.² In fiscal year 2003, DOD refined its approach to performance management and renamed the contracts as “performance plans” in order to more accurately reflect the intent of the agreements. According to DOD, these plans are intended to provide a more comprehensive view of agency goals and performance and align with agency strategic plans and departmentwide goals. DOD gave the defense agencies the option to use a “balanced scorecard”—a form of performance plan.³ Balanced scorecards organize performance measures by organizational drivers—including financial, customer, and internal business processes as well as workforce learning and growth—to help measure performance, make improvements, and assess how well organizations are positioned to perform in the future. Although the plans and scorecards themselves are not intended to resolve or prevent problems, OSD and defense agency officials intend to use these tools to monitor agency performance, identify developing problems and corrective actions to improve business practices, meet customer needs, and set funding priorities.

We have conducted an extensive body of work over the last decade identifying leading practices in results-oriented management, including performance measurement and reporting. In our prior work on government performance, we identified attributes associated with results-oriented management that help inform management decision making.⁴ For this report, we identified seven key attributes that we feel are the most important for accurately assessing the strengths and weaknesses of programs and making improvements. These attributes include aligning performance measures with strategic goals, assigning accountability for achieving results, developing measures that demonstrate results, developing measures that provide a comprehensive view of agency

² For purposes of this report, we use the term “performance contracts” to include both performance contracts as well as accompanying annual performance contract reports that discuss agencies’ progress toward meeting performance contract goals.

³ The balanced scorecard is a private-sector concept introduced by Robert Kaplan and David Norton in 1992 to assess organizational performance and is used by several government agencies.

⁴ Some of these products include GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: Mar. 10, 2004); *The Results Act: An Evaluator’s Guide to Assessing Agency Annual Performance Plans*, [GAO/GGD-10.1.20](#) (Washington, D.C.: Apr. 1, 1998); and *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1, 1996).

performance, linking resource needs to performance, discussing data quality, and including contextual information.

The Senate Committee on Armed Services report accompanying the National Defense Authorization Act for Fiscal Year 2004 directed us to assess the effectiveness of defense agency performance contracts as management tools.⁵ Because of the evolution from performance contracts to plans or balanced scorecards, this report evaluates all of these tools. Of the 14 defense agencies that presently use these tools, we focused our work on 3—the Defense Logistics Agency (DLA), the Defense Information Systems Agency (DISA), and the Department of Defense Education Activity (DODEA)—based on their levels of experience using performance contracts, different types of missions, and types of services and customers.

Table 1 shows the time frames during which these agencies used performance contracts, performance plans, or balanced scorecards.

Table 1: Time Frames for DLA’s, DISA’s, and DODEA’s Use of Performance Contracts, Performance Plans, or Balanced Scorecards

Fiscal year			
Agency	Performance contract	Performance plan	Balanced scorecard
DLA	1999-2001	Not applicable	2003-2004
DISA	2000-2002	2003	2004
DODEA	2000-2003	2004	Not applicable

Sources: DLA, DISA, and DODEA.

Note: Because DLA was transitioning to a balanced scorecard, with DOD’s approval, the agency did not develop a performance contract or plan during fiscal year 2002. DODEA officials decided to use a performance plan rather than exercise their option to develop a balanced scorecard for fiscal year 2004. DISA submitted a sample draft balanced scorecard to the Office of the Secretary of Defense, Program Analysis and Evaluation in September 2003 in order to meet reporting requirements.

Although we obtained DISA’s draft balanced scorecard dated September 2003, we did not evaluate it against certain key attributes associated with results-oriented management that we discuss in this report because the scorecard had not been finalized by the time we completed our review. However, we do discuss DISA’s plans for using a scorecard

⁵ S. Rep. No. 108-46, at 347 (2003).

and addressing the attributes, as applicable. Our objectives were to evaluate

(1) the extent to which the defense agencies initially used performance contracts to manage and measure agency performance, including whether the contracts addressed certain key attributes associated with results-oriented management, such as performance measurement and reporting;

(2) the status of efforts by the defense agencies to implement performance plans, including the extent to which these plans reflect any lessons learned from DOD's experience with the initial performance contracts and address certain key attributes associated with results-oriented management; and

(3) the extent to which DOD has established mechanisms to capture and share lessons learned from the implementation of performance plans.

To address these objectives, we collected data from and interviewed knowledgeable OSD, defense agency, and service officials about the use of performance contracts, plans, and balanced scorecards, as applicable, at DLA, DISA, and DODEA. We obtained these agencies' performance contracts, plans, and scorecards, as applicable, and analyzed them against certain key attributes associated with results-oriented management that we identified in our prior reports. We did not review actual or reported agency performance, only the content of the tools and how they were used. We also did not validate procedures that the defense agencies have in place to ascertain the reliability of data used in their performance plans and scorecards. We conducted our review between July 2003 and May 2004 in accordance with generally accepted government auditing standards. Details about our scope and methodology appear in appendix I.

Results in Brief

Between fiscal year 1999 and 2003, DLA, DISA, and DODEA—the three agencies we reviewed—initially used performance contracts to varying degrees to identify performance issues, elevate management challenges and customer concerns to the attention of senior OSD and defense agency leaders, and take corrective action. The contracts were an important step toward more results-oriented management practices for the defense agencies. However, the contracts would have been more effective tools for informing decision making and managing and measuring agency performance had they included additional attributes associated with results-oriented management. The contracts showed progress made and encouraged discussion among top agency and OSD leaders about actions needed to achieve targeted results, particularly in terms of quality,

quantity, cost, and timeliness of services. For example, DODEA officials told us that the agency's fiscal year 2003 performance contract included a measure to achieve optimum pupil to teacher ratios that influenced DOD to fund the hiring of 200 full-time teachers. However, DOD guidance did not require performance contracts to include certain key attributes that we have identified in prior reports that are associated with results-oriented management. While other management documents may reflect some of these attributes, it is important that they also be reflected in the contracts to provide a comprehensive picture of goals and performance. Consequently, the performance contracts could have been strengthened by including the following attributes:

- *Aligns goals and measures with agency and departmentwide goals.* Performance goals and measures for some of the agencies we reviewed only partially aligned with agency and departmentwide goals and none of the contracts cascaded goals and measures to lower organizational levels.
- *Assigns accountability for achieving results.* Individuals at lower organizational levels accountable for accomplishing specific goals and taking corrective actions were not identified.
- *Demonstrates results.* Contracts were inconsistent in using a combination of clearly defined output and outcome goals accompanied by trend data.
- *Provides a comprehensive view of agency performance.* With the exception of DODEA, the contracts we reviewed lacked some measures that could have provided officials with a comprehensive view of factors that drive organizational performance, such as financial, customer, and internal business processes. The contracts, to some extent, did reflect the different concerns of customers and stakeholders.
- *Links resource needs to performance.* Contracts did not discuss the relationship between resource needs and performance outcomes.
- *Discusses data quality.* Contracts did not discuss whether data were reliable, valid, or verifiable, or identify data sources.
- *Provides contextual information.* Contracts lacked some contextual information to help officials assess the significance of factors that affected reported performance, such as how performance measures

help achieve mission and departmentwide goals or the impact of contingency operations on achieving performance goals.

Based on experiences using the initial performance contracts, DOD took steps to strengthen performance plans and scorecards by revising the oversight and review process as well as guidance to require that, beginning with fiscal year 2004, performance measures align with agency and departmentwide goals and provide a more comprehensive view of agency performance. However, these tools could have been strengthened had DOD required the defense agencies to include certain key attributes associated with results-oriented management. For example, while DLA's scorecard included a combination of output and outcome measures accompanied by trend data, it did not include clearly defined measures. DODEA's performance plan measures also were not consistently clearly defined and not always accompanied by trend data. The scorecard and plan we reviewed also lacked other attributes—not required by DOD—that could be useful to officials for discussing and understanding competing priorities and resource allocation constraints, assessing and understanding the extent of progress made against existing performance targets, making improvements, and establishing realistic performance goals for future years. Such attributes include

- identification of specific individuals who are responsible for achieving results;
- linkage of resource needs to performance;
- discussion of data quality, including data sources, as well as whether data were reliable, valid, and verifiable; and
- inclusion of contextual information such as external factors that could affect performance and relevant information about the agencies' missions, business lines, and customers.

DOD developed some mechanisms—such as a performance management Web site and roundtable discussions—to help the defense agencies capture and share experiences and lessons learned from developing performance plans and balanced scorecards, and some agencies are proactively sharing such information with each other. Based on our suggestions during this review, DOD recognized the need to continue to hold roundtables to discuss balanced scorecards. A DOD official also told us that DOD plans to revise and update its performance management Web site to include defense agencies' performance plans and balanced scorecards as well as guidance. Some defense agencies, such as DLA and DISA, are sharing their experiences with each other to leverage lessons learned.

This report contains recommendations to DOD aimed at making performance plans and scorecards more informative for decision making and further strengthening the potential of these tools for measuring and managing agency performance. In commenting on a draft of this report, DOD generally concurred with our recommendations.

Background

Evolution of Performance Contracts

In 1997, the Secretary of Defense issued the Defense Reform Initiative report outlining a plan for reforming the department's business operations. DOD established a management oversight structure to help sustain the direction and emphasis of these efforts. As part of its efforts to improve its business operations, DOD began requiring selected defense agencies to develop annual performance contracts for fiscal year 1999. These contracts were internal management agreements between the principal staff assistants—also known as Under and Assistant Secretaries—in the Office of the Secretary of Defense, the Deputy Secretary, and the defense agencies. DOD intended the performance contracts to improve oversight of the defense agencies by (1) identifying programming and budgeting issues, (2) providing agency directors with clear objectives and performance targets, (3) establishing open and direct communications with customers to, among other things, demonstrate how their actions affect agency performance, and (4) changing the way DOD does business. The contracts included improvement goals for the agencies in terms of cost, productivity, quality, and responsiveness to customers. DOD also required the defense agencies to assess their progress toward achieving performance contract goals in annual performance reports. A Defense Management Council—chaired by the Deputy Secretary and consisting of key civilian and military leaders—was created to oversee Defense Reform Initiative efforts, and a Defense Agency Task Force—chaired by the Deputy Director of Resource Analysis in the Office of the Secretary of Defense, Program Analysis and Evaluation (OSD/PA&E) and consisting of senior-level representatives from the Under Secretaries of Defense, the service secretaries, and the Joint Staff—was formed to oversee the development and review of performance contracts.

DOD initially selected 4 defense agencies to implement performance contracts during fiscal year 1999, and gradually expanded the requirement to a total of 10 agencies by fiscal year 2002. At that time, DOD issued guidelines that established a standard format for performance contracts and recommended that certain attributes associated with results-oriented

management be included. DOD initially excluded defense agencies with intelligence- or research-related missions from the requirement because officials believed it would be more appropriate to focus primarily on certain agencies with businesslike missions and develop lessons learned based on their experiences. The 4 agencies DOD initially selected were

- the Defense Logistics Agency, a revolving fund activity;
- the Defense Finance and Accounting Service, a businesslike agency;
- the Defense Contract Audit Agency, a small and appropriated fund agency; and
- the Defense Health Program.

As part of the current administration's focus on business transformation, DOD issued guidance in February and August 2003 that refined its approach to performance management and renamed the contracts as performance plans. These plans, first implemented in September 2003, build on the performance goals and measures established in the performance contracts and are intended to include a more comprehensive set of performance measures that align with agency strategic plans and departmentwide goals set forth in DOD's risk management framework. DOD uses the risk management framework, established in the 2001 Quadrennial Defense Review Report, to consider trade-offs among defense objectives and resource constraints. The framework consists of four dimensions of risk:

- **Force management**—the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing its many operational tasks;
- **Operational**—the ability to achieve military objectives in a near-term conflict or other contingency;
- **Future challenges**—the ability to invest in new capabilities and develop new operational concepts to dissuade or defeat mid- to long-term military challenges; and
- **Institutional**—the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the defense establishment.

These risk areas form the basis for DOD's annual performance goals and for tracking associated performance results. Appendix II depicts DOD's risk management framework.

DOD gave the defense agencies the option to use a balanced scorecard to develop performance goals and report on progress. Currently, according to

an official in OSD/PA&E, DOD requires 10 of 27 defense agencies with businesslike missions to have either performance plans or balanced scorecards. Five defense agencies use performance plans, and the remainder have exercised the option to develop balanced scorecards. In addition, this official told us that 3 intelligence agencies have developed performance plans in order to demonstrate how they are coordinating with DOD on strategic and budgetary planning in the post-September 2001 environment. Appendix III depicts the first fiscal year when each defense agency began using performance contracts, plans, or scorecards.

DOD Organizations Responsible for Development of Performance Contracts and Plans

The Director, PA&E, has responsibility for overseeing the development of defense agency performance plans, including reviewing the progress of each defense agency. Specifically, this official oversees the development of defense agency performance plans and balanced scorecards, provides guidance for interpreting and applying DOD's risk management framework, and, in conjunction with the relevant Under or Assistant Secretary of Defense, reviews the progress of each agency in building its performance plan or scorecard and reporting on its overall performance. The Under and Assistant Secretaries of Defense are responsible for overseeing the defense agencies and implementing performance plans and balanced scorecards.

Our Prior Work Identifies Attributes Associated with Results-Oriented Management

Measuring performance allows organizations to track the progress they are making toward their goals and gives managers critical information on which to base decisions for improving their programs. Our prior work on results-oriented management in the federal government indicates that agencies that are successful in measuring performance and achieving business transformation goals strive to establish goals and measures at all levels of the agency that

- align goals and measures with the agency's strategic plan and departmentwide goals;
- assign accountability for achieving results;
- demonstrate results;
- provide a comprehensive view of agency performance;
- link resource needs to performance;

-
- discuss data quality, including reliability and data sources; and
 - provide contextual information to help officials evaluate the significance of underlying factors that may affect reported performance.

While these may not cover all attributes associated with results-oriented management, we feel they are some of the most important for accurately assessing the strengths and weaknesses of programs and making improvements. Without these attributes, decision makers may not have as complete information for measuring and managing an agency's performance as needed. Each of these attributes is discussed in appendix IV.

While Used to Varying Degrees, Performance Contracts That We Reviewed Could Have Been More Effective Had They Included Certain Attributes Associated with Results-Oriented Management

Between fiscal year 1999 and 2003, DLA, DISA, and DODEA—the three agencies we reviewed—used performance contracts to varying degrees to identify performance issues, demonstrate progress made, and encourage discussions to improve agency performance. The contracts were an important step toward more results-oriented management practices for the defense agencies. However, the contracts could have been more effective had DOD guidance required the defense agencies to include certain attributes associated with results-oriented management. For example, the contracts addressed key business lines, but did not consistently include information that could have helped demonstrate results or provide some contextual information that could help officials assess progress and understand the significance of underlying factors that may affect reported performance.

Defense Agencies Used Performance Contracts to Varying Degrees

Officials at the three defense agencies we reviewed used performance contracts to varying degrees as part of their strategic planning systems to demonstrate progress made and increase visibility over the quality, quantity, cost, and timeliness of products and services for their key business lines. In some instances, the contracts helped OSD and defense agency officials to identify developing problems and assess the effectiveness of corrective actions, such as justifying additional funding to achieve performance goals and implementing or revising internal processes to meet customer expectations. We did not verify the actual or reported performance data included in the performance contracts or in these examples. The agencies we reviewed provided the following examples showing how they used performance contracts.

DLA officials told us that they used their performance contracts to focus management attention and monitor efforts to improve the agency's response time for providing logistics commodities, such as clothing and textile items, medical and pharmaceutical supplies, and weapon system spare parts. In its fiscal year 2001 performance contract, DLA established a performance measure for its supply centers to process a greater percentage of requisitions within shorter time frames. DLA reported that by increasing emphasis on logistics response time goals to officials in its Ohio-based Defense Supply Center and dedicating more trucks to its Defense Distribution Center, the agency had processed 96 percent of requisitions of commodities in 5.8 days during fiscal year 2001 rather than the targeted 9.3 days.

A DISA official told us that the performance contracts helped DISA reduce the cost of providing services in response to customer concerns. For example, DISA developed cost-related performance measures for delivering computing services, such as "Provide mainframe information processing services while incurring no more than the unit costs listed." As a result of increased management attention, DISA reported in its fiscal year 2002 annual performance report, which assessed progress against contract goals, that it had reduced the cost per unit for providing OS/390 mainframe processing services by 24 percent, from \$38.26 in fiscal year 2001 to \$29.04 in fiscal year 2002. DISA officials told us that the high-level attention made possible by the performance contracts helped ensure that cost reduction goals were established and pursued.

DODEA officials told us that in order to meet OSD requirements, they developed and submitted performance contracts that included measures taken directly from their community strategic plan. However, they primarily used their community strategic plan—containing strategic goals, objectives, and performance measures—rather than the performance contract, which mirrored the strategic plan, to manage and measure systemwide school performance. We determined that DODEA's contract did not show the relationship between resource needs and performance, but performance data helped bring attention to initiatives and programs needing additional funding and provided support for funding requests. For instance, DODEA officials noted that a measure in DODEA's fiscal year 2003 performance contract influenced DOD's decision to provide \$114 million to hire 200 full-time teachers so DODEA could achieve lower pupil to teacher ratios and, thereby, further improve student performance.

Contracts Did Not Fully Incorporate Certain Key Attributes

Although useful in some respects, the performance contracts for the agencies we reviewed would have been stronger tools if they had fully incorporated certain key attributes that are associated with results-oriented management and that contribute to effective government performance. In previous reports, we identified seven such attributes. However, the contracts we reviewed incorporated aspects of these attributes to varying degrees. We found that the contracts did not identify individuals accountable for achieving results or clearly demonstrate relationships between resource needs and performance. We also determined that the contracts, with the exception of DODEA, did not provide officials with a comprehensive view of agency performance, including factors that drive organizational performance, such as financial, customer, and internal business processes. Furthermore, defense agency contracts were inconsistent in demonstrating results by providing trend data to show agency progress in meeting established goals over time, and in discussing data quality issues and providing contextual information to help officials understand the measures used. We based our analysis on the most recent performance contracts developed by DLA, DISA, and DODEA because DOD officials told us that these would reflect lessons learned from prior iterations. Our analysis did not include other internal management documents, such as strategic plans, that may have addressed these attributes. We also did not evaluate the usefulness or appropriateness of the measures themselves. Table 2 summarizes the extent to which the performance contracts we reviewed included the key attributes we have identified.

Table 2: Extent To Which DLA's, DISA's, and DODEA's Performance Contracts Incorporated Certain Key Attributes Associated with Results-Oriented Management

Attribute	DLA FY 2001	DISA FY 2002	DODEA FY 2003
Aligns goals and measures with agency and departmentwide goals			
Each of the agency's strategic plan goals is supported by performance measures	◐	◐	◐
Measures align with departmentwide goals	◐	◐	●
Goals and measures cascade from the corporate level to the lowest level of the agency ^a	○	○	○
Assigns accountability for achieving results			
Establishes a foundation to hold top leadership accountable for achieving results	●	●	●
Performance appraisals for top agency leadership reflect performance goals and measures	◐ ^b	○	●
Identifies individuals accountable for achieving results	○	○	○
Demonstrates results			
Includes a combination of output- and outcome-oriented measures	◐	◐	●
Measures are clearly defined	◐	◐	◐
Provides trend data to demonstrate progress against targeted performance	●	◐	◐
Provides comprehensive view of agency performance			
Measures address factors that drive organizational performance (financial, customer, and internal business processes and workforce learning and growth)	◐	◐	●
Measures address cost, quality, quantity, and timeliness	●	●	●
Measures address key business lines	●	●	●
Incorporates customer and stakeholder priorities	◐	◐	◐
Links resource needs to performance			
Measures identify resources (e.g., human capital and information technology) needed to achieve performance goals	○	○	○
Discusses data quality			
Discusses data verification and validation procedures, including reliability	○	○	○
Identifies sources of data for each measure	○	○	○
Provides contextual information			
Provides context or explanation for understanding measures and reported performance	◐	◐	◐

Legend: ● Fully incorporated; ◐ Partially incorporated; ○ Not incorporated

Source: GAO analysis of DLA's, DISA's, and DODEA's performance contracts.

Notes: "Fully incorporated" indicates that all measures exhibited that particular attribute. "Partially incorporated" indicates that some of the measures, but not all, exhibited that attribute, whereas "not incorporated" means that none of the measures did.

^a Performance contract measures did not cascade to lower organizational levels. However, agency officials told us that they shared strategic goals and objectives from their strategic plans with all organizational levels and made these available to customers and stakeholders.

^b According to a DLA official, performance appraisals for top agency leadership reflected performance contract measures. However, DLA officials were not able to provide a standardized performance appraisal template to demonstrate this.

Additional information about the extent to which the performance contracts for the agencies we reviewed included these attributes is discussed below.

Performance Contracts Did Not Always Align with Agency and Departmentwide Goals

DOD did not require performance contract measures to align with agencies' strategic plans or departmentwide goals until fiscal year 2004. As a result, some of the agencies' performance contract measures did align, while other measures did not. Each agency's performance contract included statements conceptually linking performance goals with strategic plans and departmentwide goals. For example, DISA's fiscal year 2002 performance contract stated that "The performance measures used in this contract directly support the goals and objectives in the strategic plan," and DISA's strategic plan directly related to DOD strategic goals and objectives. We found that all of DODEA's performance measures aligned with the agency's strategic plan goals and could be linked to departmentwide goals. With the exception of the following example, all of DLA's fiscal year 2001 performance contract measures aligned with the agency's strategic plan goals, but not all aligned with departmentwide goals. DLA's contract lacked performance measures that addressed its strategic plan goal to ensure that the agency's workforce is able to deliver and sustain world-class performance. Consequently, the performance contract did not provide DLA and DOD officials with information to help assess recruiting needs or workforce skills and training requirements that contribute to meeting customer needs.

Furthermore, performance goals and measures used in the contracts we reviewed did not cascade from the highest to the lowest levels of the agencies to reinforce accountability throughout the organization.

Contracts Did Not Assign Accountability for Achieving Results to Individuals at Lower Organizational Levels

While defense agency performance contracts identified individuals accountable for achieving performance results at the most senior levels of DOD and the defense agencies, they did not identify individuals responsible for tracking performance or making improvements at lower organizational levels.

Defense Agency Task Force officials were directed to review the defense agencies' performance contracts and make recommendations to the Deputy Secretary of Defense on whether the performance contracts satisfied DOD guidance. The Defense Management Council was directed to

recommend ways to reduce costs incurred by the defense agencies while improving customer service. DOD officials told us that after the events of September 11, 2001, OSD's attention on the performance contracts temporarily diminished, less strict oversight occurred, and PA&E officials did not hold agencies to meeting reporting requirements. However, beginning in April 2002, the Deputy Secretary of Defense began requiring the Under and Assistant Secretaries of Defense to provide quarterly updates concerning the defense agencies' performance on key performance contract measures and the corrective actions to be taken if performance goals were not expected to be met. DOD officials were not able to provide historical information concerning whether these reviews occurred as frequently as required or whether corrective actions were taken.

Although top leaders had oversight of the performance contracts, none of the performance contracts we reviewed identified individuals, such as business managers, responsible for achieving results at lower organizational levels as a way to reinforce accountability for achieving results and maintain focus on organizational priorities. However, in a related internal management report called the *Chief Financial Executive 4th Quarter Fiscal Year 2002 Performance Contract Report*—which DISA used internally to report progress against performance contract goals—DISA identified business managers responsible for monitoring each performance measure.

Contracts Did Not Consistently Provide Information to Help Assess Progress and Demonstrate Results

Defense agency performance contracts did not consistently provide information to help assess progress and demonstrate results. Although the agencies' performance contracts included milestones or time frames for completing specific initiatives, they differed in the degree to which measures were clearly defined and outcome-oriented and the extent to which they included trend data. For instance, we found that some measures in DODEA's performance contract were not clearly defined. One example is:

“improve student achievement and education quality consistent with Presidential and national educational goals. Per pupil costs will not increase more than 7% over the previous year.”

This measure is actually two measures. Furthermore, the measure does not define the specific presidential and national education goals—such as

Contracts Did Not Provide a Comprehensive View of Organizational Performance

the No Child Left Behind Act of 2001—against which the agency measured its progress.⁶

In addition, DODEA and DISA did not consistently report trend data for each measure in their performance contracts to show progress made over time, and DLA limited trend data to the prior year. For example, in its fiscal year 2003 performance contract results, DODEA reported that it had met goals for teacher certification and school accreditation, but the agency did not identify the baseline or percentage of teachers certified or schools accredited.

Each agency's performance contract included measures that addressed key business lines as well as cost, quality, quantity, and timeliness of services, but, with the exception of DODEA, did not provide as comprehensive a view of agency performance as possible because the measures did not address all drivers of organizational performance, including customer, financial, and internal business processes, and workforce learning and growth. Doing so could have helped officials assess how well the agencies were positioned to perform in the future.

We found that each agency's most recent performance contract included measures assessing aspects of each key business line. For example, DLA's fiscal year 2001 contract included 26 measures that supported its 5 business lines, including Defense Automated Printing Service, Defense Distribution, Defense National Stockpile Center, Defense Reutilization and Marketing Service, and Supply (Energy and Non-Energy). DISA's fiscal year 2002 contract included 29 measures that addressed 4 business lines, including Computing Services, Enterprise Acquisition Services, Joint Warfighting and DOD-wide Enterprise Capabilities, and Telecommunication Services. DODEA's fiscal year 2003 performance contract included 15 measures that addressed its 2 business lines—domestic and overseas education.

While measures addressed the agencies' key business lines as well as cost, quality, and timeliness of services provided, they did not all address all drivers of organizational performance. For example, the contracts did not always reflect the different concerns of customers and stakeholders. According to defense agency officials, PA&E officials prescribed certain

⁶ The No Child Left Behind Act of 2001, among other things, focused attention on closing the achievement gaps among various groups of students.

measures, although agency officials believed these were not value added and did not align with agency strategic goals. For instance, PA&E officials required DODEA officials to identify Management Headquarters Costs—and specifically the “cost per school”—in DODEA’s performance contract. Agency officials told us that this measure had limited value because it provided aggregated data rather than specific information for individual school’s costs. Furthermore, according to a former senior official in the Office of the Secretary of Defense for Acquisition, Technology, and Logistics, the performance contracts did not reflect the needs of the chiefs of staff of the services and the Secretary of Defense, who were key customers and stakeholders. This official believed that the measures were too technical and “in the weeds” to help inform strategic management decisions and were more appropriate for lower-level managers to use when monitoring program performance.

Linkage between Resource Needs and Performance Outcomes Was Not Clearly Established

None of the contracts we reviewed identified the resources needed to meet performance goals or explained how additional resources could have contributed to achieving expected levels of performance. Such information could have helped officials to better understand how trade-offs among different investments—such as human capital, information technology, and workforce training—affected performance outcomes and drove costs. For instance, DLA established a fiscal year 2001 goal of improving inventory accuracy by 4.2 percent over the previous year’s performance, but it did not provide additional data in its performance contract that would have helped officials to determine the resources needed to achieve this goal, if any. DOD officials stated that they began to establish links between resource needs and performance outcomes by requiring the defense agencies to submit their performance contracts at the same time as their Program Objectives Memorandum.⁷

Quality of Data Was Not Discussed

None of the performance contracts we reviewed discussed the quality of performance data, including reliability, data sources, or data verification and validation procedures. Consequently, when reviewing the performance contracts, top officials in DLA, DISA, and DODEA may not have had information needed to determine whether reported data and performance results were accurate, reliable, or current enough to use in decision making and that corrective actions would produce the desired

⁷ Program Objectives Memorandum is the final product of the programming process within DOD. The Program Objectives Memorandum displays the resource allocation decisions of the DOD components in response to, and in accordance with, Defense Planning Guidance.

outcomes. For example, an October 2000 internal audit initiated by the DISA Inspector General concluded that data reported in DISA's *1st Quarter Fiscal Year 2000 Chief Financial Executive Report* contained errors or bias and lacked sufficient supporting documentation.⁸ The Inspector General reported that these conditions occurred because DISA had not established a systematic approach for collecting and reporting performance data. The Inspector General concluded that, as a result, reported data provided limited assurance that DISA had valid and reliable information to manage agencywide performance. The Inspector General concluded that DISA should establish a data collection and reporting process and definitive procedures to ensure performance information was sufficiently complete, accurate, and consistent to document actual performance and support decision making. Senior DISA officials told us that the agency did not initially implement related recommendations because DISA discontinued use of performance contracts. However, according to these officials, DISA is currently taking steps to address these recommendations by setting the expectation that senior officials will be personally accountable for the quality of data included in DISA's balanced scorecard and establishing internal focal points for data collection and reporting. In addition, DISA officials are reviewing commercial products to track data electronically.

Contextual Information Could Have Better Informed Decision Making

The performance contracts provided some contextual information about some external factors outside of the agencies' control that may have impacted the achievement of performance goals and provided general information about the agencies' mission, business lines, and customers. However, the performance contracts did not always provide some contextual information to help officials understand each agency's accomplishments for that fiscal year; determine how measures related to agency and departmentwide goals; assess agency progress; understand the impact that external factors, such as contingency operations, could have on the agency's ability to meet its performance targets; and determine how resource needs should be prioritized. For example, DISA reported in its fiscal year 2002 performance contract under the Joint Warfighting and DOD-wide Enterprise Capabilities business line that it planned to, "Successfully complete fielding of a DOD standard spectrum management information system (Spectrum XXI) software version 3.0 by December 2001." However, it is unclear how this linked specifically to DISA's

⁸Defense Information Systems Agency Inspector General. *Audit of DISA's Performance Contract. Final Report*. Project No. 2000-H-601. (Washington, D.C.: October 24, 2000).

strategic plan or DOD's goals or what external factors could have impacted DISA's intended performance.

The Plan and Scorecard We Reviewed Show Improvement, but Could Be Strengthened by Including Certain Key Attributes

In fiscal year 2003, DOD renamed the performance contracts as performance plans and, based on the agencies' experiences using performance contracts, revised the oversight and review process and guidance. DOD required performance measures, beginning in fiscal year 2004, to align with agency and departmentwide goals and provide a more comprehensive view of agency performance. However, the plan and scorecard we reviewed could be stronger tools for informing officials about agency performance if they incorporated some additional key attributes associated with results-oriented management such as linking resource needs to performance, discussing data quality, and providing contextual information for understanding the measures and reported performance.

DOD Strengthens Oversight Process and Requires Inclusion of Additional Key Attributes, but Some Are Still Lacking

Six years after implementation of the performance contracts, the original intent—to assist senior leaders at the defense agencies and within OSD to oversee agency performance and to encourage the agencies to become more responsive to customer needs—remains unchanged. However, beginning in fiscal year 2004, DOD renamed the performance contracts as performance plans and gave the defense agencies the option to use either performance plans or balanced scorecards. These tools were to build on the performance contracts, and to include additional attributes associated with results-oriented management that were previously lacking under the contracts. These changes centered on (1) revising the oversight and review process to strengthen accountability for achieving results, (2) requiring performance measures to align with agency strategic goals and DOD's risk management framework, and (3) requiring the measures to be more comprehensive in scope to better demonstrate results.

The defense agencies we reviewed are at different stages of developing and implementing performance plans and balanced scorecards, and DOD has required these tools to be in place for less than a year. Consequently, it is too soon to determine how useful they will be for managing and measuring agency performance. However, DLA's balanced scorecard and DODEA's performance plan showed progress in incorporating many of the attributes associated with results-oriented management that we have identified, but because DOD did not require the defense agencies to include all of the attributes discussed in this report, the plan and scorecard we reviewed continue to lack certain information—such as the

relationship between resource needs and performance, discussions of data quality, and some contextual information—that could strengthen these tools for managing defense agency performance. Although we obtained DISA’s draft balanced scorecard dated September 2003, we did not evaluate it against the key attributes discussed in this report because it had not been finalized by the time we completed our review. However, we do discuss DISA’s plans for addressing several of the key attributes in the balanced scorecard that the agency is developing.

Table 3 shows the extent to which DLA’s balanced scorecard and DODEA’s performance plan incorporated certain key attributes associated with results-oriented management. We based our analysis specifically on the performance plan and balanced scorecard, although other agency internal management documents may have addressed these attributes. We also did not evaluate the usefulness or appropriateness of the measures themselves.

Table 3: Extent To Which DLA’s Scorecard and DODEA’s Plan Incorporated Certain Key Attributes Associated with Results-Oriented Management

Attribute	DLA FY 2004	DODEA FY 2004
Aligns goals and measures with agency and departmentwide goals		
Each of the agency’s strategic plan goals is supported by performance measures	●	◐
Measures align with departmentwide goals	●	●
Goals and measures cascade from the corporate level to the lowest level of the agency	●	○ ^a
Assigns accountability for achieving results		
Establishes a foundation to hold top leadership accountable for achieving results	●	●
Performance appraisals for top agency leadership reflect performance goals and measures	●	●
Identifies individuals accountable for achieving results	●	○
Demonstrates results		
Includes a combination of output- and outcome-oriented measures	●	●
Measures are clearly defined	○	◐
Provides trend data to demonstrate progress against targeted performance	●	◐
Provides comprehensive view of agency performance		
Measures address factors that drive organizational performance (financial, customer, and internal business processes and workforce learning and growth)	●	●
Measures address cost, quality, quantity, and timeliness	●	●
Measures address key business lines	●	●
Incorporates customer and stakeholder priorities	◐	◐
Links resources needs to performance		
Measures identify resources (e.g., human capital and information technology) needed to achieve performance goals	○	○
Discusses data quality		
Discusses data verification and validation procedures, including reliability	○	○
Identifies sources of data for each measure	○	○
Provides contextual information		
Provides context or explanation for understanding measures and reported performance	○	◐

Legend: ● Fully incorporated; ◐ Partially incorporated; ○ Not incorporated

Source: GAO analysis of DLA’s balanced scorecard and DODEA’s performance plan.

Notes: “Fully incorporated” indicates that all measures exhibited that particular attribute. “Partially incorporated” indicates that some of the measures, but not all, exhibited that attribute, whereas “not incorporated” means that none of the measures did.

^aPerformance measures did not cascade to lower organizational levels. However, DODEA officials told us that they shared strategic goals and objectives from their strategic plans with all organizational levels and made these available to customers and stakeholders.

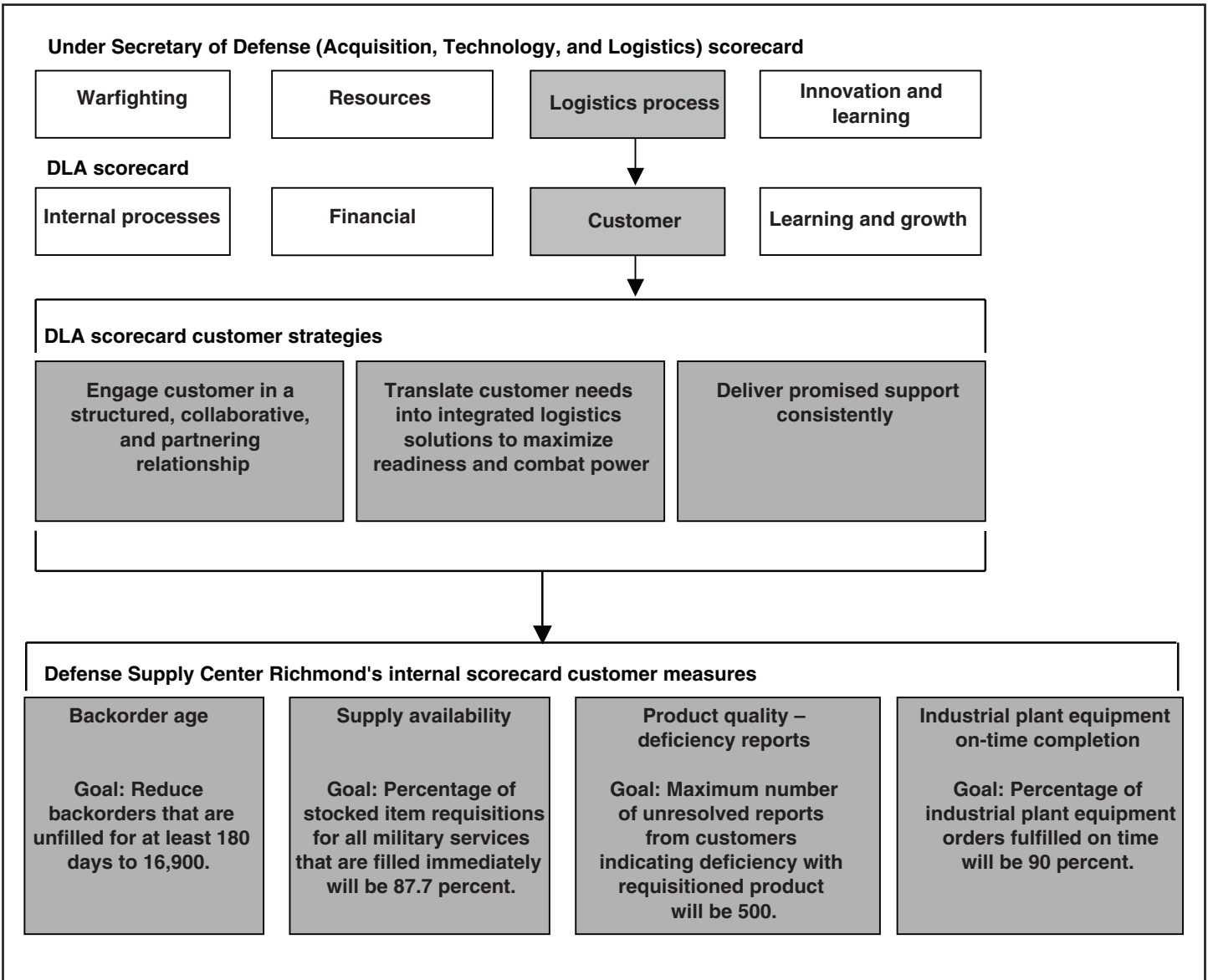
Varying Progress Made in
Aligning Performance Goals
and Measures with Agency and
Departmentwide Strategic
Goals and Cascading These to
Lower Organizational Levels

Additional information about the extent to which DLA's balanced scorecard and DODEA's performance plan include these attributes is discussed on the following pages.

The balanced scorecard and performance plan we reviewed showed varying progress in meeting DOD's requirement to align performance goals and measures with agency strategic plan goals and DOD's risk management framework beginning in fiscal year 2004. However, DLA and DODEA fulfilled DOD's requirement that every organization's performance goals and measures be consistent with those of its next higher and lower organizations. DLA and DODEA have adopted different strategies for cascading their scorecard and plan, respectively. DLA's corporate-level balanced scorecard aligns with its strategic plan goals to transform DLA's operations over the next 2 to 5 years to better support its customers and departmentwide performance measures outlined in DOD's risk management framework. DLA has also cascaded its corporate scorecard to each of its Defense Supply Centers located in Richmond, Virginia, Columbus, Ohio, and Philadelphia, Pennsylvania, as well as other field activities including the Defense Energy Support Center, Defense Distribution Center, and Defense Reutilization and Marketing Service. Each center's or field activity's scorecard identifies "how and to what extent" their strategies support DLA's corporate-level balanced scorecard and is expected to reflect DLA's overall vision of "Right Item, Right Time, Right Place, Right Price, Every Time...Best Value Solutions for America's Warfighters." According to DLA officials, in this way, DLA provides a consistent vision to its customers, stakeholders, and employees. They told us that this process also allows customers, stakeholders, and employees to understand how corporate-level strategies are supported by functional, day-to-day measures.

Figure 1 depicts how DLA's corporate-level scorecard aligns with departmentwide goals and measures and how the Defense Supply Center Richmond's internal scorecard supports these goals. DLA officials told us that the goals within the institutional risk area of DOD's risk management framework cascade down to the Under Secretary of Defense for Acquisition, Technology, and Logistics' balanced scorecard. This scorecard has four strategies that cascade down and inform DLA's scorecard. In turn, the four strategies in DLA's corporate-level scorecard cascade down to its defense supply centers. Figure 1 depicts specifically how the three strategies within the customer portion of DLA's scorecard cascade down to the Defense Supply Center Richmond. The supply center has developed four measures that it uses to assess its performance in terms of customer service on a monthly basis.

Figure 1: Depiction of How DLA's May 2004 Scorecard Supports Departmentwide Goals and Cascades to Lower Organizational Levels



Source: GAO presentation of DOD and DLA information.

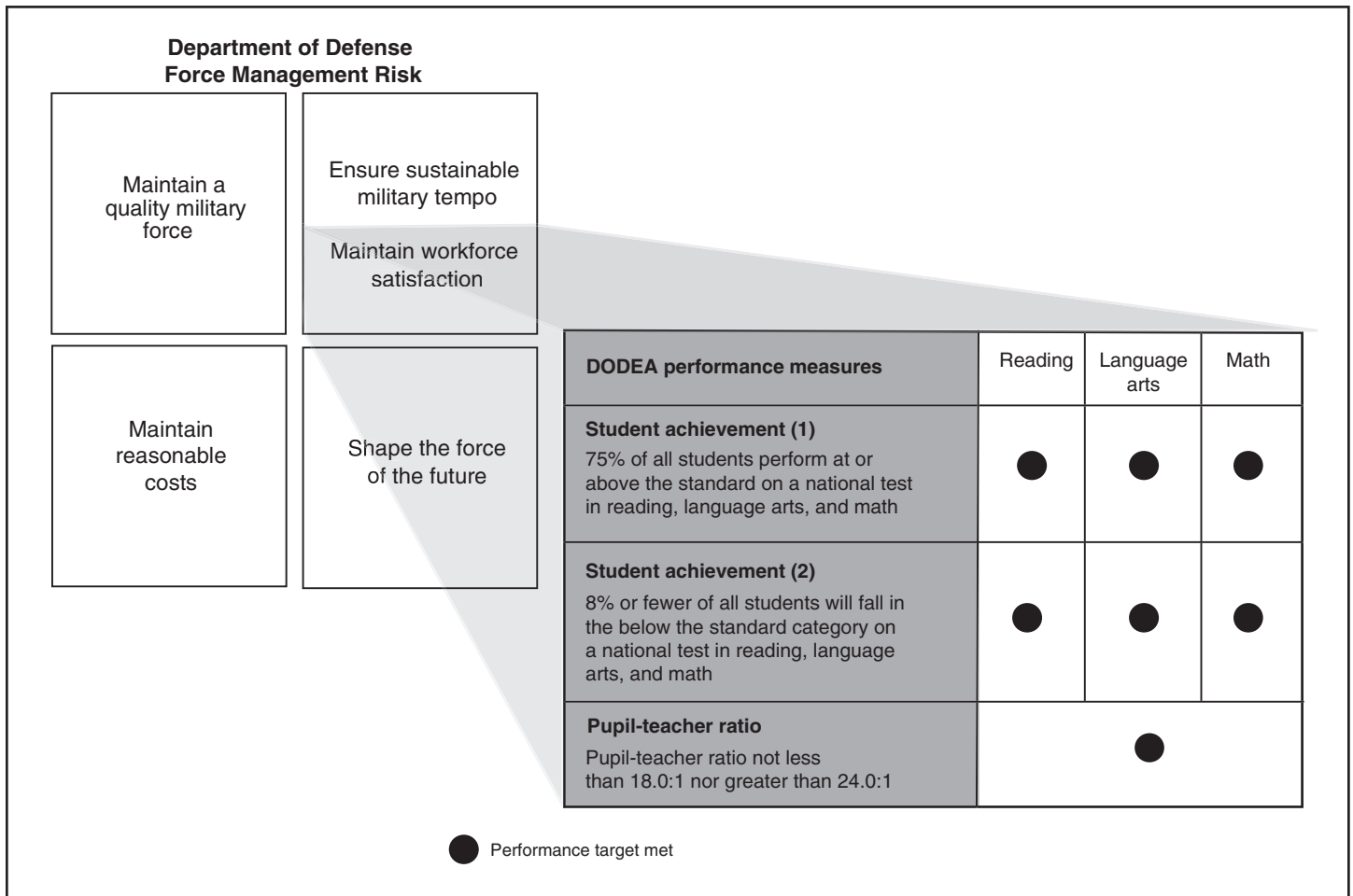
DODEA's fiscal year 2004 performance plan does not include goals and measures that support all of its community strategic plan goals and objectives such as (1) developing, promoting, and maintaining a network

of meaningful partnerships and alliances to enhance social, emotional, and academic growth and (2) maximizing resources or developing safe, well-managed, and disciplined environments conducive to learning. However, DODEA has linked each performance measure in its performance plan with the risk management framework area that it supports. For example, DODEA linked the measure “In fiscal years 2004-2009, no less than 95 percent of the Department of Defense Domestic Dependent Elementary and Secondary Schools teachers will be professionally certified in the subject area and grade level to which they are assigned within three years of employment” with force management risk, and specifically the departmentwide goal to maintain a quality workforce. DODEA officials told us that they continue to communicate these goals and performance measures to employees and customers systemwide through their community strategic plan, and school improvement plans reflect these goals, as relevant.

Oversight and Review Process Strengthened to Reinforce Accountability

DOD has strengthened the accountability of OSD and top agency leadership for achieving performance results through the development of OSD-level scorecards and semiannual reviews of defense agency performance, and the agencies we reviewed are taking steps to strengthen accountability at lower organizational levels. However, DODEA’s performance plan does not identify specific individuals who are responsible for making improvements. The Under and Assistant Secretaries of Defense continue to have responsibility for reviewing the defense agencies’ performance plans or scorecards and providing direct feedback. However, some have developed balanced scorecards—such as the Under Secretary of Defense for Personnel and Readiness (USD/P&R)—and have taken steps to incorporate data from quarterly reviews of agency performance measures in their balanced scorecards while continuing to provide feedback to agency officials on a regular basis. For example, prior to approving DODEA’s fiscal year 2004 performance plan, the Deputy Under Secretary of Defense for Military Community and Family Policy within USD/P&R asked the agency to incorporate updated information on its customer satisfaction survey and to explain annual variations in the cost-per-pupil index. OSD and agency officials also review performance data during periodic internal meetings. For example, figure 2 shows the high-level DODEA performance measures that officials within USD/P&R monitor on a quarterly basis in their balanced scorecard called *Monitoring the Status of the Force. Part A: Balanced Scorecard*. USD/P&R officials are responsible for monitoring the force management risk area, and within this area, performance strategies related to “maintain workforce satisfaction.” Specifically, these officials monitor DODEA’s progress in meeting three performance contract measures.

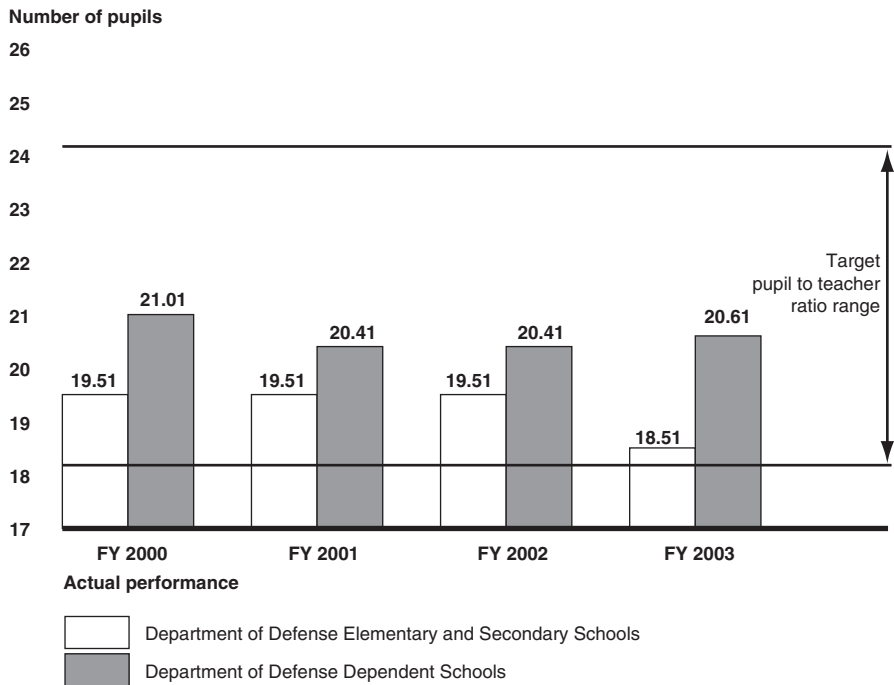
Figure 2: Example of the Type of Information in DODEA's Performance Plan That OSD Officials Monitor, as of May 2004



Source: GAO presentation of DOD data.

Additional details about each performance measure are also available to USD/P&R officials, as depicted in figure 3.

Figure 3: Detailed Data on DODEA's Pupil to Teacher Ratio as of May 2004



Source: DOD.

DOD officials told us that the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics that oversees DLA and the Assistant Secretary of Defense for Network Information and Integration that oversees DISA are developing balanced scorecards that are expected to incorporate certain performance measures from DLA's and DISA's balanced scorecards, respectively, in order to help maintain oversight and monitor the agencies' progress toward achieving specific performance goals.

DOD has also implemented semiannual performance reviews at which time the defense agencies brief PA&E officials, respective Under and Assistant Secretaries of Defense, and agency officials on progress to date against performance goals. DOD began holding midyear reviews during May 2004, and officials expect to complete these reviews by August. A DOD official told us that in the future, the first cycle reviewing the prior year's performance will occur between September and December and the second cycle, the midyear review, will occur between May and August. DOD officials expect results from these meetings to be reflected in the agencies' fiscal year 2005 performance plans and scorecards. During a

May 2004 midyear review of DLA's balanced scorecard, the Director, PA&E, recommended that the agency include more specific information on its customer surveys, including the population surveyed and the way customer feedback is obtained.

By assigning responsibility for each performance measure to specific individuals, some defense agencies are reinforcing accountability for achieving performance goals at all levels of the organization. For example, in addition to implementing performance appraisals for Senior Executive Service staff that are linked to strategic goals and objectives against which ratings are assessed, DLA identified individuals in its balanced scorecard and charged them with monitoring, reporting on, and implementing corrective actions for each scorecard measure. A senior DISA official told us that the agency recently approved linking balanced scorecard outcomes with Senior Executive Service members' and supervisory employees' performance appraisals beginning in fiscal year 2005 in order to institutionalize its balanced scorecard and improve accountability for results. DISA also is reinforcing accountability by requiring its senior leaders (scorecard owners), who are accountable for achieving results, to provide status updates during corporate-board meetings of senior agency officials. In contrast, DODEA's performance plan does not identify specific individuals accountable for monitoring, reporting on, and implementing corrective actions for each performance measure. However, DODEA officials told us that the agency includes performance plan objectives in each manager's performance appraisal, and both monetary and nonmonetary awards are used as incentives to meet or exceed goals and measures.

Agencies' Progress in Demonstrating Results Varies

DLA's balanced scorecard and DODEA's performance plan showed varying progress in the extent to which they included outcome-oriented measures and trend data to help demonstrate results, and the clarity of performance measures continues to be an issue. We determined that DLA's 2004 scorecard includes outcome-oriented measures and trend data that help to demonstrate progress made. For example, one of DLA's outcome-oriented financial measures—the achievement of accuracy in non-energy sales forecasting—includes baseline and trend data for the 3 preceding fiscal years. However, DLA's 2004 scorecard measures include terms that are generally not clearly defined, as demonstrated by the measure "Percentage of reengineered functionality implemented in BSM." In contrast, DODEA's performance plan includes almost all of the same measures as did its fiscal year 2003 performance contract, and these measures are not always clearly defined or accompanied by trend data. As we previously mentioned, DODEA does not clearly define the specific

Agencies' Scorecard and Plan
Show Progress in Providing a
Comprehensive View of Agency
Performance

presidential and national education goals against which it measures progress. Furthermore, DODEA's performance plan does not consistently include baseline information or trend data to help officials gauge progress. DODEA did not indicate the percentage of teachers who are certified in the subject area and grade level to which they are assigned within 3 years of employment, although the agency set a goal of no less than 95 percent. The plan also does not indicate the percentage of schools that have full high-speed connectivity to the Internet, although it establishes a goal of 100 percent.

Our analysis showed that DLA's scorecard and DODEA's performance plan included measures for key business lines that provide officials with information about agency performance and, to varying degrees, address the four drivers of organizational performance as well as cost, quality, and timeliness of services provided, and that all of the agencies we reviewed are taking steps to better reflect customers' and stakeholders' priorities.

DLA organizes its corporate-level scorecard by drivers of performance—including learning and growth and customer, financial, and internal business processes—and includes strategies and supporting measures that are cascaded to its defense supply centers and field activities. As would be expected, lower organizational level scorecards used by the defense supply centers include performance measures that address the key business lines for which they are responsible and provide more specific assessments of cost, quality, timeliness, and customer satisfaction. For example, the Defense Supply Center Richmond's scorecard includes performance measures focusing on aviation weapons systems and environmental logistics support, whereas the Defense Supply Center Philadelphia's scorecard focuses on the provision of clothing, textiles, and medical equipment, among other items. The learning and growth quadrant of DLA's corporate scorecard contains a measure to identify gaps between workforce competencies and skills required to meet mission requirements for 100 percent of DLA positions by the end of fiscal year 2007. The Defense Supply Center Richmond's scorecard includes several measures that address employee certification, including acquisition training certification to ensure that the supply center's workforce is fully proficient in the acquisition process. This measure, in turn, aligns with the departmentwide policy of establishing education and training for each defense acquisition position. Similarly, DODEA's plan includes measures that address its two key business lines—domestic and overseas education—and are cascaded to schools worldwide through its community strategic plan.

Unlike DLA's balanced scorecard, DODEA's performance plan does not specifically categorize performance measures by the factors that drive organizational performance, but we identified at least one measure or initiative that can be linked with each organizational driver. For example, DODEA's performance plan includes a measure to limit increases in per pupil cost to no more than 7 percent over the prior fiscal year. This measure addresses both financial and internal business processes that affect organizational performance. DODEA addresses workforce learning and growth by establishing a goal to certify no less than 95 percent of teachers in the subject and grade levels to which they are assigned within 3 years of employment. Finally, DODEA includes measures that address customer satisfaction such as students' performance and parents' satisfaction with local schools.

Our analysis showed that the defense agencies we reviewed are also taking steps to better address specific customer and stakeholder concerns about performance. Both DODEA and DLA conduct periodic reviews of agency performance and make adjustments to meet customers' and stakeholders' priorities. For instance, DLA's balanced scorecard Executive Board, comprised of DLA's Vice Director, designated leaders for each area of organizational performance (quadrant leaders), the Chief Information Officer, and a Lead Center representative, conducts monthly reviews of enterprisewide operational measures. Each quarter, DLA's Corporate Board, comprised of DLA's Director, Vice Director, and the heads of DLA's major organizational components, meets with commanders from the field to review the agency's performance from the corporate level down to the supply centers. The defense supply centers conduct weekly reviews to monitor progress, identify developing problems, and take corrective actions. According to DLA officials, to make information more timely, accessible, and relevant for measuring and managing the agency, DLA posts the agency's balanced scorecard on its internal Web site to allow all employees, including agency managers and leaders, to share performance data. This Web site is also available to all of DLA's military customers and stakeholders. DLA also continues to obtain customer and stakeholder feedback through a variety of mechanisms, such as customer surveys, reports from customer service liaisons embedded with deployed military service units, and meetings between the agency's Director and leaders of the military services. Moreover, DLA is taking steps to address the unique concerns of each military service through the development of performance-based agreements that include specific performance measures that are based on collaborative, direct negotiations between DLA and each military service. These agreements are intended to create and sustain end-to-end customer support by aligning DLA's resources with

the logistics solutions that will meet the services' needs and maximize their effectiveness.

In addition, we determined that the defense combat support agencies—such as DLA and DISA—are taking steps to incorporate additional strategies and measures in their balanced scorecards that respond to customers' changing needs during contingencies and war. For example, DLA's scorecard assesses readiness by measuring the percentage of items that the military services identify as requiring surge and sustainment support (e.g., hardware items, clothing and textiles, and medical supplies) to ensure appropriate inventory levels to accommodate short production lead times. DLA officials told us that to reduce procurement lead time and decrease delivery delays to the agency's primary customer, the warfighter, the agency has developed 22 long-term contracts, called strategic supplier alliances, with its major contractors. According to these officials, having these agreements in place enhances customer support through the inclusion of better performance metrics, such as reduced administrative lead times and increased stock availability. DISA officials told us that as a combat support agency, DISA's mission is to support the warfighter and that the strategies and performance measures DISA is developing focus on wartime requirements but also are applicable to peacetime environments. For example, DISA is developing measures that will support its customer strategy to eliminate bandwidth constraints in response to customer complaints that limited bandwidth is a problem, especially during contingency operations. According to DISA officials, removing current bandwidth limitations can provide DISA's customers with better and timelier information during combat and peacetime.

Funding Not Yet Linked with Performance

A major goal of DOD is to strategically link major decisions to program and budget development, and the defense agencies we reviewed are in the initial stages of attempting to do this. DOD has directed that the Under Secretary of Defense, Comptroller, and the Director, PA&E, review program performance and assess the degree to which budget estimates sustain and improve programmatic results and, as appropriate, recommend alternate solutions or funding adjustments to correct resource needs if performance goals are not met. Senior DOD officials told us that this continues to be a challenging undertaking. The defense agencies we reviewed are using their performance plans and scorecards to bring attention to priority management projects. Although these tools still do not discuss resource implications, DODEA included goals and measures from its fiscal year 2004 performance plan in its fiscal year 2004-2005 operation and maintenance, defensewide, biennial budget estimates. We believe that

inclusion of the agency's priorities can help officials better consider appropriate funding levels and trade-offs.

Although DISA is still developing its balanced scorecard, senior agency officials told us that the agency plans to use the scorecard to bring visibility and management attention to priority projects in order to fund them appropriately and to improve collaboration internally. These officials told us that DISA is in the process of aligning its investment and scorecard strategies and expects initiatives in its scorecard to be assigned funding priority. To this end, DISA is developing a Program Objectives Memorandum that aligns investments with its scorecard. During corporate-board meetings when senior agency officials review the agency's performance, DISA requires each measure owner to discuss the context and status of initiatives, including the need for additional resources. According to DISA officials, the agency has already experienced some benefits when testing this approach. DISA officials identified a disconnect between customer expectations, performance levels, and funding for an initiative to develop a Web-based portal to share information about DISA's business activities internally. The goal of the portal is to help employees perform critical operations faster and more effectively. Officials told us that although internal customers identified this initiative as a priority, the portal did not receive dedicated funding and, as a result, was neither as robust as planned nor on target to meet development time frames. DISA officials told us that inclusion of the project in its balanced scorecard is expected to raise these challenges to the attention of senior leaders to encourage corrective action and appropriate funding levels.

Quality of Data Is Not Discussed

The balanced scorecard and performance plan we reviewed do not provide decision makers with confidence that performance data are credible because they do not include specific information on the procedures to verify and validate performance information. In addition, no information on the sources of data is included. Thus, decision makers may not have complete information needed to determine whether reported data and performance results are accurate.

Some Contextual Information Is Lacking

The scorecard and plan we reviewed did not include some contextual information that could have helped to inform decision makers because DOD guidance did not require the defense agencies to do so. However, a sample measure from DISA's draft September 2003 balanced scorecard depicts the type and amount of contextual information that agency officials have considered incorporating.

DLA's balanced scorecard lacks information about the agency's mission and customers that had been included in its performance contract. In contrast, DODEA's performance plan provides general information about the agency's mission, business lines, and customers. However, neither agency clearly articulates how its performance strategies and measures help achieve mission or departmentwide goals or improve customer responsiveness. Also, information about external factors, such as recent contingency operations, that can affect achievement of performance goals is limited or absent. For example, DODEA's performance plan includes a measure to maintain pupil to teacher ratios for kindergarten through grade 12 between 18:1 and 24:1 during fiscal years 2004-2009. However, DODEA's performance plan does not explain that studies have demonstrated that lower pupil to teacher ratios contribute to improved student performance or how this measure supports presidential and national goals against which the agency evaluates itself. Providing this contextual information could assist officials with realizing how human capital-related strategies, such as staffing, affect the agency's goals to continue to improve student performance in reading, math, and languages, and help establish links between resource needs and performance outcomes.

In September 2003, DISA developed a draft balanced scorecard with a sample measure that depicts the type and amount of contextual information that agency officials have considered incorporating. The sample measure, as currently structured, incorporates most of the attributes associated with results-oriented management that we have discussed in this report, including contextual information. However, the sample measure does not include some aspects of data quality such as reliability, validity, and verification, and it is unclear whether DISA plans to discuss external factors that could affect the achievement of performance goals or the link between resource needs and performance beyond funding problems. For example, as currently structured, the draft scorecard would

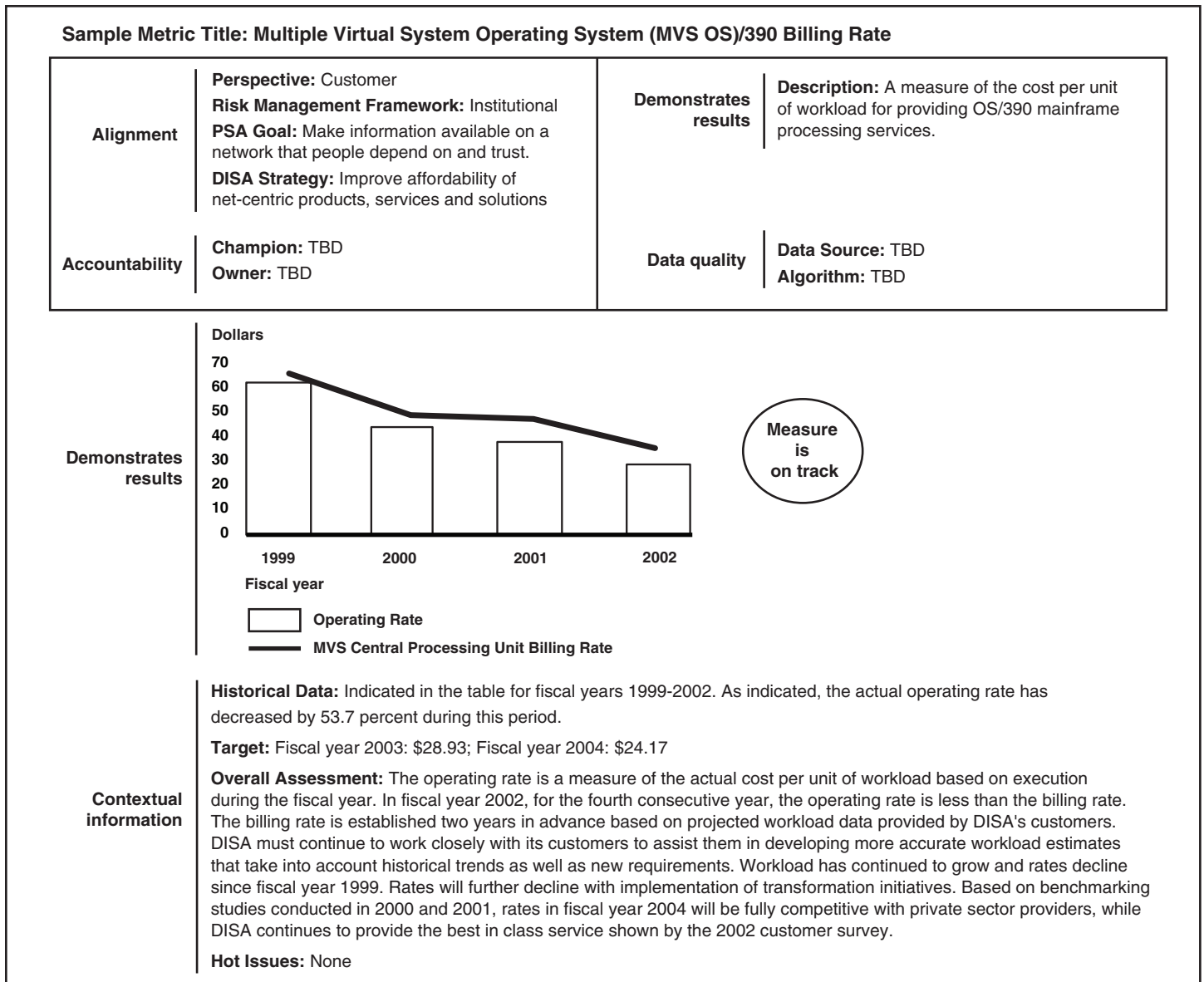
- (1) *align measures with agency and departmentwide goals.* The scorecard is expected to identify the quadrant of DISA's scorecard that the measure supports (e.g., customer) and the Assistant Secretary of Defense's balanced scorecard goal and risk management framework area with which it aligns.
- (2) *assign accountability for achieving results.* The scorecard is anticipated to identify individuals responsible for monitoring and reporting on performance and making corrections, as needed for

each measure.

- (3) *demonstrate results.* The scorecard is expected to define the measure and present trend data showing performance improvements over 4 fiscal years.
- (4) *discuss data quality.* The scorecard is expected to identify data sources but does not include information about the way data are collected or the verification and validation procedures.
- (5) *provide contextual information.* The scorecard is expected to include historical data, and an assessment of the measure's status compared to prior years, and identify any challenges that need attention (e.g., hot issues) such as funding problems.

Figure 4 shows the content that DISA officials told us that they expect to include and the way this information addresses the attributes we have identified in this report.

Figure 4: Format of a Sample Measure from DISA's Draft September 2003 Balanced Scorecard



Source: GAO analysis of DISA data.

Notes: PSA=Principal Staff Assistant. TBD=To Be Determined.

DOD Captures and Shares Lessons Learned

OSD/PA&E officials have developed some mechanisms to help the defense agencies capture and share experiences and lessons learned from developing performance plans and balanced scorecards. Some defense agencies, such as DLA and DISA, are sharing their experiences with each other to leverage lessons learned.

OSD/PA&E has taken some steps to help the defense agencies share their experiences and lessons learned with developing performance plans and balanced scorecards, and DOD plans additional initiatives. In response to our suggestions during this review, an OSD/PA&E official decided to continue to hold semiannual roundtables during which defense agency officials could voluntarily share their experiences developing and using performance plans or balanced scorecards. OSD/PA&E officials also told us that they plan to revise and update a departmentwide Web site originally used to disseminate agencies' performance contracts and related guidance and to incorporate this information, as well as defense agencies' performance plans and scorecards, into DOD's performance management Web site. The original site was not updated as frequently as it could have been, and firewalls used to protect information from unauthorized access precluded defense agencies with domain names that did not end in ".mil" from gaining access. For example, DODEA officials were not able to access the original Web site because the agency's World Wide Web domain address ends in ".edu." Consequently, DODEA could not leverage other agencies' contracts and performance measures when developing its own. DODEA officials told us that they were not even aware that the Web site existed, but that it would have been helpful for identifying some performance measures.

In addition, some defense agencies that we reviewed are proactively sharing lessons learned from developing and implementing balanced scorecards. For example, DISA officials told us that they contacted DLA to learn how it had developed and implemented its balanced scorecard. In addition, officials at both agencies told us that they have or are developing internal Web sites to facilitate performance measurement. DISA's internal Web site serves as a collaborative forum and repository for balanced scorecard material, and provides related guidance on developing balanced scorecards.

Conclusions

DOD has improved its process for measuring and managing defense agency performance by taking steps to include certain attributes associated with results-oriented management in defense agencies' performance plans and scorecards that were not included in the

performance contracts. Specifically, changes made to DOD's process for overseeing and reviewing defense agencies' balanced scorecards and performance plans have the potential to further strengthen the accountability of top leadership for overseeing the defense agencies and achieving business transformation goals. While it is too early to determine the extent to which these plans and scorecards will be fully useful, these tools still do not incorporate some specific attributes that would strengthen them. Until all performance plans and scorecards identify individuals responsible for monitoring progress and taking corrective actions, DOD's ability to ensure accountability and continuous assessment at lower organizational levels is hindered. Furthermore, without performance measures that are clearly defined and accompanied by trend data and absent a discussion of data quality and contextual information—such as information about the agency's missions, business lines, and customers as well as external limitations that could affect achievement of performance goals—senior OSD and agency leaders will not have the necessary information for fully assessing the extent to which progress has been made against existing performance targets and determining realistic performance goals for future years. Finally, without demonstrating the relationship between resource needs and performance outcomes, DOD officials do not have all of the information needed to make improvements and consider trade-offs among competing priorities.

Recommendations for Executive Action

To make performance plans and scorecards more informative and useful for decision making, and further strengthen these tools' potential for measuring and managing defense agency performance, we recommend that the Secretary of Defense direct the Director, Program Analysis and Evaluation, to revise guidance to require all defense agencies to address the following five recommendations in their plans and scorecards:

- identify individuals accountable for achieving results at lower organizational levels;
- include measures that are clearly defined and include trend data for at least the past fiscal year's performance to help assess progress;
- identify resources needed to achieve performance goals and inform budget decisions;
- discuss data quality, including the reliability, validity, and limitations of performance measures as well as data sources; and
- provide contextual information to better understand how performance measures support the agency's mission.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD concurred or partially concurred with all of our recommendations. DOD's comments are reprinted in their entirety in appendix V. DOD also provided technical comments that we incorporated as appropriate.

Specifically, DOD concurred with our recommendations to revise guidance to require defense agencies to include information on individuals accountable for achieving results at lower organizational levels; include measures that are clearly defined and include trend data for at least the past fiscal year's performance; discuss data quality, including the reliability, validity, and limitations of performance measures as well as data sources; and provide contextual information to better understand how performance measures support the agency's mission. DOD stated that it would revise guidance to either implement or clarify these recommendations.

DOD partially concurred with our recommendation to revise guidance to require all defense agencies to identify resources needed to achieve performance goals and inform budget decisions in their performance plans or balanced scorecards. DOD stated that it may not be possible to fully cost performance goals given the complex nature of defense operations and that the appropriate process for proposing resource alternatives is the Planning, Programming, Budgeting, and Execution System. However, DOD did acknowledge that the defense agencies' performance plans should be synchronized with this process by demonstrating how Planning, Programming, Budgeting, and Execution System decisions are being implemented and by providing performance information and metrics that can be used to inform the department's annual budget and execution review and the allocation of resources. We believe DOD is moving in the right direction by trying to synchronize defense agency performance management with the budget process. However, we continue to believe that the defense agencies' performance plans and balanced scorecards would be an appropriate vehicle to discuss resource implications. Full cost information may not be available, but the performance plans and balanced scorecards should discuss resource implications and include available cost information. Inclusion of this information would help decision makers understand the connection between performance goals and funding levels and evaluate competing needs at all phases of the planning and budgeting process.

We are sending copies of this report to other interested congressional committees; the Secretary of Defense; the Secretaries of the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please call Sharon Pickup at (202) 512-4300 or Patricia Dalton at (202) 512-6806. Additional contacts and staff acknowledgments are provided in appendix VI.



Sharon L. Pickup
Director, Defense Capabilities and Management



Patricia A. Dalton
Director, Strategic Issues

Appendix I: Scope and Methodology

To meet our first two reporting objectives, we interviewed knowledgeable Department of Defense (DOD), defense agency, and service officials. Specifically, we interviewed officials in the offices of the Under and Assistant Secretaries of Defense who act as principal staff assistants for the three defense agencies reviewed. We also collected data from and interviewed officials in the Office of the Secretary of Defense, Program Analysis and Evaluation and the Office of the Comptroller. We also reviewed our extensive prior work on results-oriented management and identified seven attributes that contribute to effective government performance. While these do not cover all attributes associated with results-oriented management, we believe they are the most important for accurately assessing the strengths and weaknesses of programs and making improvements. These include (1) aligning goals and measures with agency and departmentwide goals; (2) assigning accountability for achieving results; (3) demonstrating results; (4) providing a comprehensive view of agency performance by addressing factors that drive organizational performance; (5) linking resource needs to performance; (6) discussing data quality; and (7) providing contextual information. We systematically analyzed the measures contained in selected performance contracts, performance plans, and balanced scorecards against these attributes. We focused our analysis on the Defense Logistics Agency (DLA), the Defense Information Systems Agency (DISA), and the Department of Defense Education Activity (DODEA). We judgmentally selected these three defense agencies to review based on (1) their experience developing and implementing performance contracts, plans, and balanced scorecards; (2) different types of missions; and (3) types of services and types of customers. We analyzed the most recent performance contracts used by DLA, DISA, and DODEA, and we limited our analysis of balanced scorecards and performance plans to DLA's fiscal year 2004 balanced scorecard and DODEA's fiscal year 2004 performance plan. Although we obtained DISA's draft balanced scorecard dated September 2003, we did not evaluate it against the attributes we discuss in this report because DISA had not yet finalized its scorecard by the time we completed our review. However, we did discuss DISA officials' plans for developing a balanced scorecard. We did not evaluate the usefulness or appropriateness of the measures contained in the contracts, plans, and balanced scorecards or verify actual or reported performance. In addition to analyzing the performance contracts, performance plans, and balanced scorecards, we also reviewed the defense agencies' strategic plans and annual performance contract reports. Further, we reviewed the cascaded-balanced scorecards that are used at lower organizational levels, specifically, the fiscal year 2004 scorecards for DLA's supply centers (Richmond, Virginia, Philadelphia, Pennsylvania, and Columbus, Ohio) and

for its Defense Energy Support Center, Defense Distribution Center, and Defense Reutilization and Marketing Service. We also reviewed school improvement plans for three elementary and middle schools located at Fort Bragg, North Carolina, to determine whether they aligned with DODEA's community strategic plan and performance contract goals and measures.

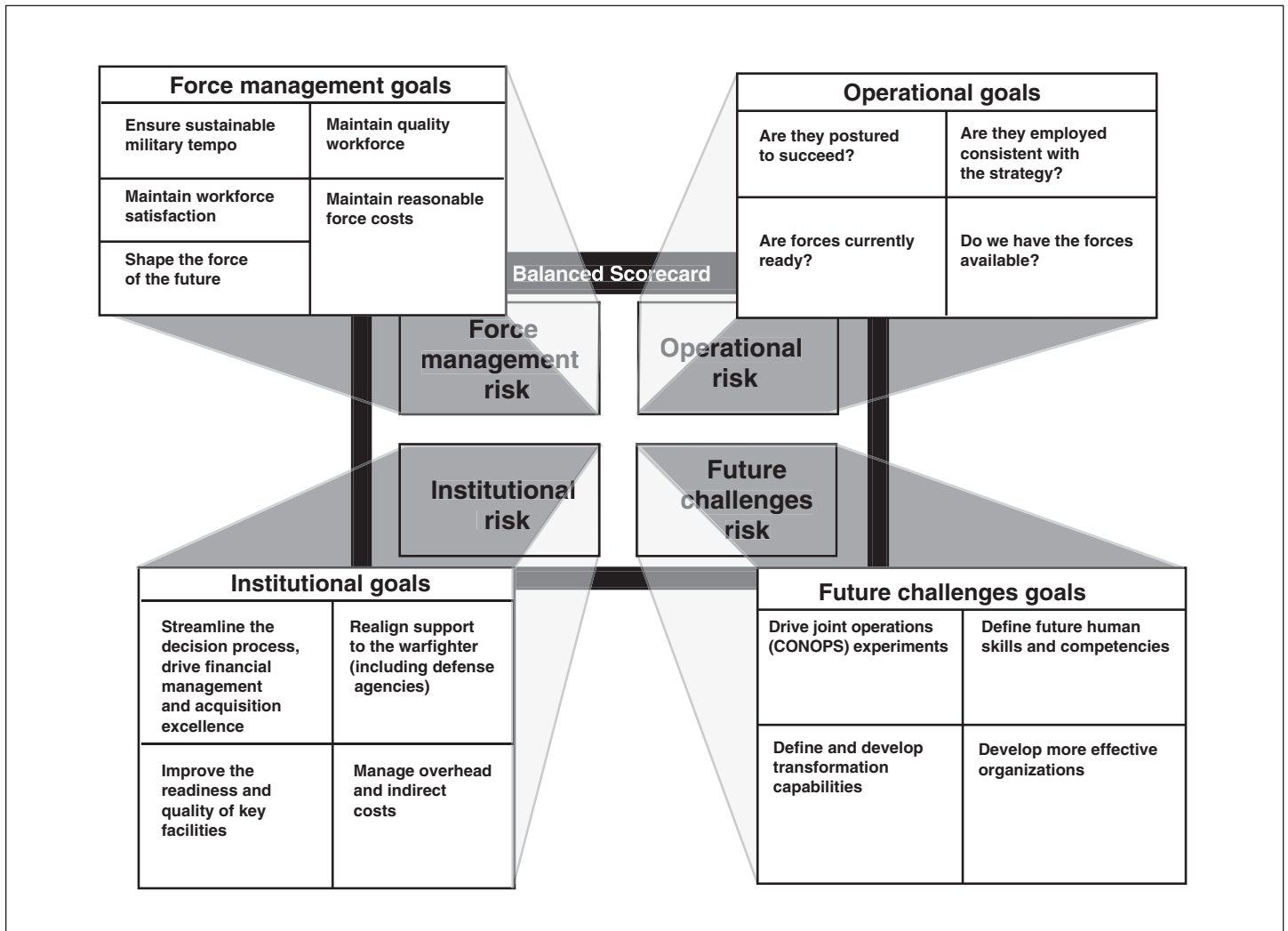
To assess the extent to which DOD has established mechanisms to capture and share lessons learned from the implementation of performance plans and balanced scorecards, we interviewed knowledgeable DOD, defense agency, and service officials and reviewed pertinent documents.

We performed our work between July 2003 and May 2004 in accordance with generally accepted government auditing standards. We obtained comments on a draft of this report from DOD and incorporated comments where appropriate.

Appendix II: Department of Defense's Risk Management Framework

In 2001, the Department of Defense (DOD) established a risk management framework to use in considering trade-offs among defense objectives and resource constraints. The framework consists of four dimensions of risk with supporting performance measures that are being cascaded to the defense agencies and activities as well as departmentwide. Although not depicted, financial considerations underlay each of DOD's risk areas.

Figure 5: DOD's Risk Management Framework



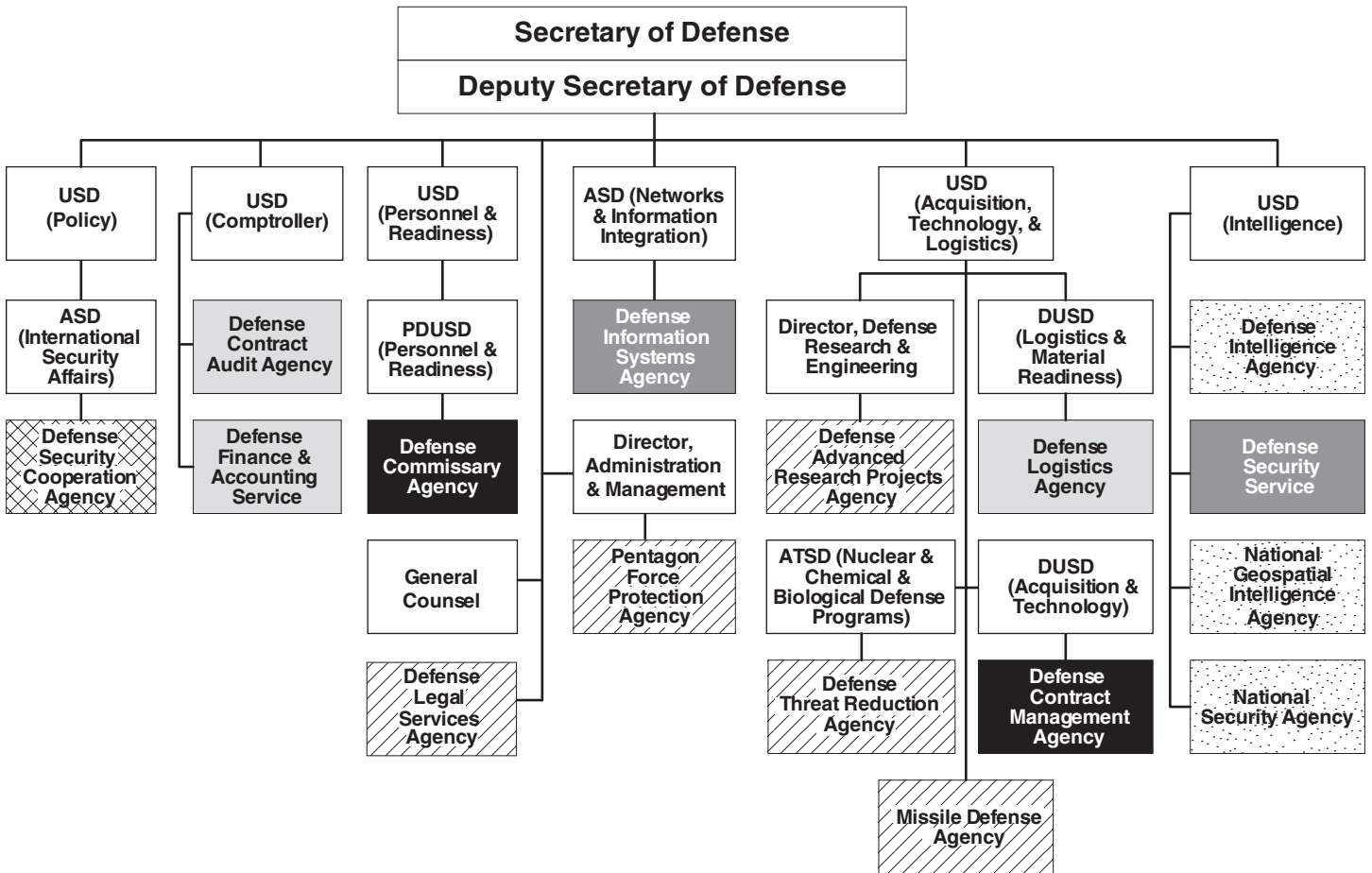
Source: DOD.

Appendix III: Fiscal Year When Defense Agencies Implemented Their First Performance Contract, Plan, or Scorecard

This appendix shows the fiscal year during which each defense agency and activity implemented its first performance contract or performance plan. The defense agencies and activities that implemented performance contracts later converted these to performance plans or scorecards. We use the generic term “performance plan” in figures 6 and 7 to include both performance plans and balanced scorecards.

Appendix III: Fiscal Year When Defense Agencies Implemented Their First Performance Contract, Plan, or Scorecard

Figure 6: Defense Agencies



First Performance Contract/Plan Implemented

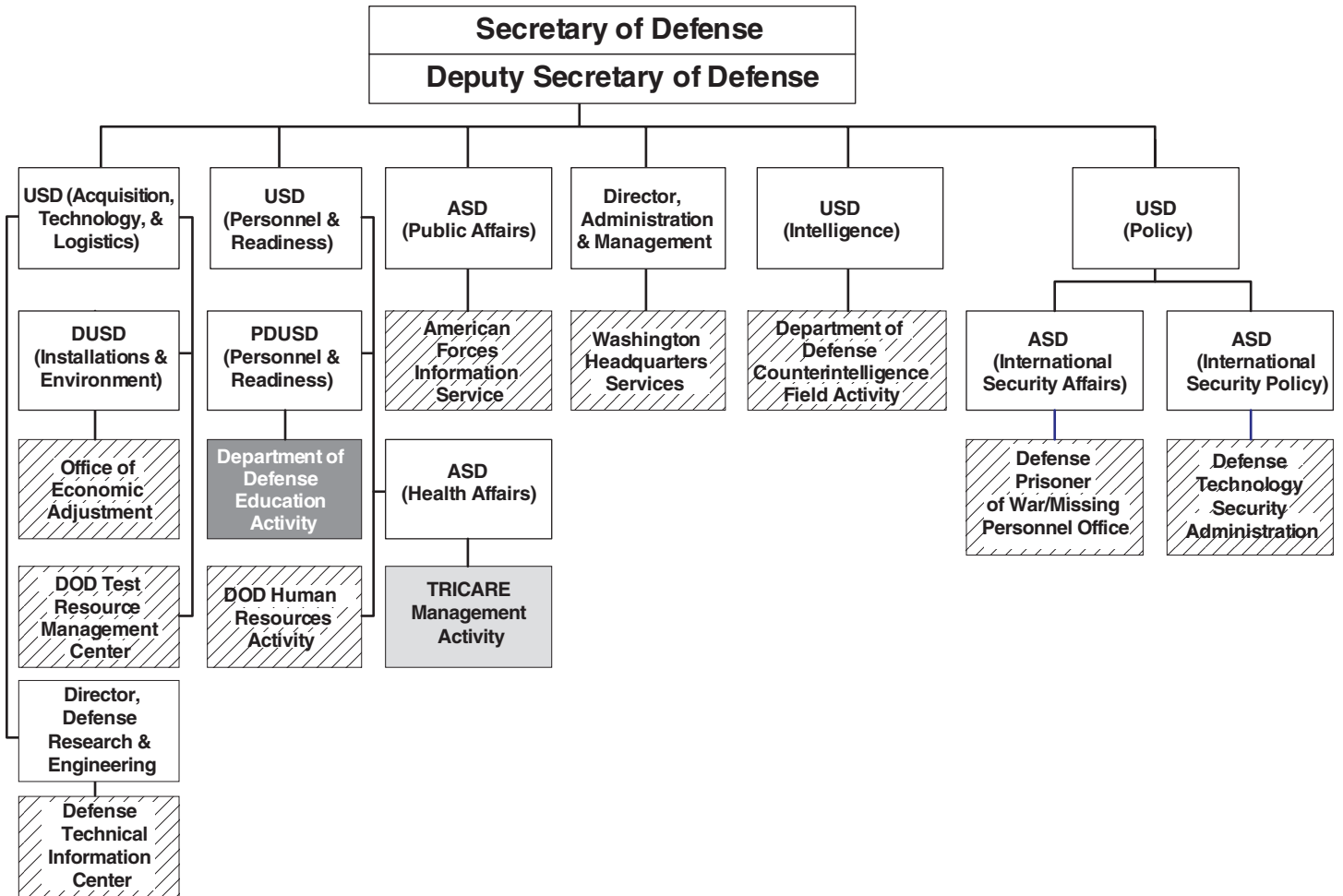
- Fiscal Year 1999
- Fiscal Year 2000
- Fiscal Year 2001
- Fiscal Year 2002
- Fiscal Year 2004
- DOD agencies without performance plans as of fiscal year 2004

- ASD** Assistant Secretary of Defense
- ATSD** Assistant to the Secretary of Defense
- DUSD** Deputy Under Secretary of Defense
- PDUSD** Principal Deputy Under Secretary of Defense
- USD** Under Secretary of Defense

Source: GAO analysis and presentation of DOD data.

Appendix III: Fiscal Year When Defense Agencies Implemented Their First Performance Contract, Plan, or Scorecard

Figure 7: Defense Field Activities



First Performance Contract/Plan Implemented

- Fiscal Year 1999
- Fiscal Year 2000
- DOD field activities without performance plans as of fiscal year 2004

- ASD** Assistant Secretary of Defense
- ATSD** Assistant to the Secretary of Defense
- DUSD** Deputy Under Secretary of Defense
- PDUSD** Principal Deputy Under Secretary of Defense
- USD** Under Secretary of Defense

Source: GAO analysis and presentation of DOD data.

Appendix IV: Certain Key Attributes Associated with Results-Oriented Management

Establishing goals and measuring performance are essential to successful results-oriented management practices. Measuring performance allows organizations to track the progress they are making toward their goals and gives managers critical information on which to base decisions for improving their programs. Our body of work on results-oriented management practices has identified key attributes of success. This work indicates that agencies that are successful in achieving business transformation goals, such as those being focused on by the Department of Defense in its performance contracts and plans, strive to establish practices and performance systems at all levels of the agency that include the seven key attributes described in this appendix.

- *Aligns goals and measures with agency and departmentwide goals.* Performance goals and measures should align with an agency's long-term strategic goals and mission as well as with higher-level departmentwide priorities, with the relationship clearly articulated. Such linkage is important in ensuring that agency efforts are properly aligned with goals (and thus contribute to their accomplishment) and in assessing progress toward achieving these goals. Goals and measures also should cascade from the corporate level of the agency to the operational level to provide managers and staff with a road map that shows how their day-to-day activities contribute to achieving agency and departmentwide performance goals. In addition, measures used at the lowest levels of the agency to manage specific programs should directly relate to unit results and upwards to the corporate level of the agency.
- *Assigns accountability for achieving results.* We have previously reported that the single most important element of successful management improvement initiatives is the demonstrated commitment of top leaders in developing and directing reform efforts. Top leadership must play a critical role in setting results-oriented goals and quantifiable measures that are cascaded to lower organizational levels and used to develop and reinforce accountability for achieving results, maintain focus on the most pressing issues confronting the organization, and sustain improvement programs and performance, especially during times of leadership transition. One way to reinforce accountability is through the use of employee performance appraisals that reflect an organization's goals.
- *Demonstrates results.* A key element of any major program is its ability to establish clearly defined goals and performance measures to monitor and report progress to management, identify corrective actions, set priorities, and allocate resources. Performance measures

should show an organization's progress toward achieving an intended level of performance or results and include quantifiable targets or other measurable values to help assess progress and trend data toward accomplishing goals. Using a combination of *output* measures that assess the actual level of work accomplished or services provided and *outcome* measures that assess the actual results, effects, or impacts of a program or service compared to the intended purpose can also help determine progress made.

- *Provides a comprehensive view of agency performance.* For each key business line, performance goals and measures should provide a comprehensive view of performance, including customers' and stakeholders' priorities. Goals and measures should address key performance dimensions such as (1) factors that drive organizational performance—including financial, customer, and internal business processes, and workforce learning and growth—and (2) aspects of customer satisfaction, including timeliness, quality, quantity, and cost of services provided. Doing so can allow managers and other stakeholders to assess accomplishments, make decisions, realign processes, and assign accountability without having an excess of data that could obscure rather than clarify performance issues.
- *Links resource needs to performance.* One of the ways that performance management can be promoted is if this information becomes relevant for (1) identifying resources (e.g., human capital, information technology, and funding) needed to achieve performance goals; (2) measuring cost; and (3) informing budget decisions. When resource allocation decisions are linked to performance, decision makers can gain a better understanding of the potential effect of budget increases and decreases on results.
- *Discusses data quality.* A key factor that contributes to the usefulness of performance data is the degree to which officials are confident that the performance information is credible. Useful practices for helping decision makers to assess the quality and value of performance data include discussion of data sources and standards and methods—including data collection and reliability, verification and validation procedures, and proposals to review these procedures—to assess the quality of performance data. Reliability refers to whether standard procedures for collecting and calculating results can be applied to measures so that they produce the same results if applied repeatedly to the same situation. Validity is the extent to which data adequately represent actual performance. Verification is the assessment of data

completeness, accuracy, consistency, timeliness, and related quality control practices.

- *Provides contextual information.* Performance reporting systems should include information to help clarify aspects of performance that are difficult to quantify or to provide explanatory information such as factors that were within or outside the control of the agency. This information is critical to identifying and understanding the factors that contributed to a particular result and can help officials measure, assess, and evaluate the significance of underlying factors that may affect reported performance. In addition, this information can provide context for decision makers to establish funding priorities and adjust performance targets and assess means and strategies for accomplishing an organization's goals and objectives.

Appendix V: Comments from the Department of Defense



PROGRAM ANALYSIS
AND EVALUATION

OFFICE OF THE SECRETARY OF DEFENSE
1800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-1800



AUG 25 2004

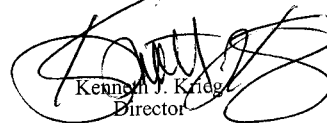
Ms. Sharon L. Pickup
Director, Defense Capabilities and Management
U.S. Government Accountability Office
Washington, DC 20548

Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the GAO draft report, "DEFENSE MANAGEMENT: Tools for Measuring and Managing Defense Agency Performance Could Be Strengthened," dated July 26, 2004 (GAO Code 350410/GAO-04-919).

The Department concurs with four of the recommendations and partially concurs with one recommendation. Detailed comments on the GAO recommendations and report are enclosed. Revised guidance will be forthcoming and will either implement or clarify these recommendations.

Sincerely,



Kenneth J. Krige
Director

Enclosure:
As stated



GAO DRAFT REPORT – DATED JULY 26, 2004
GAO CODE 350410/GAO-04-919

“DEFENSE MANAGEMENT: TOOLS FOR MEASURING AND MANAGING
DEFENSE AGENCY PERFORMANCE COULD BE STRENGTHENED”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

Now on p. 36.

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Director, Program Analysis and Evaluation, to revise guidance to require all Defense agencies to include in their performance plans and scorecards the identification of individuals accountable for achieving results at lower organizational levels. (Page 35/Draft Report)

DoD RESPONSE: Concur. The Department agrees that the Defense Agencies not currently including this information should do so in order to strengthen their respective performance plans. This is in agreement with the August 22, 2003 DoD guidance that the Defense Agencies should use the Balanced Scorecard/Risk Management Framework prescribed in Management Initiative Decision (MID) 901 as the guiding principles for structuring their performance plans.

Now on p. 36.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Director, Program Analysis and Evaluation, to revise guidance to require all Defense agencies to include in their performance plans and scorecards measures that are clearly defined and include trend data for at least the past fiscal year’s performance to help assess progress. (Page 35/Draft Report)

DoD RESPONSE: Concur. The Department agrees that the Defense Agencies not currently including this information should do so in order to strengthen their respective performance plans. This is in agreement with the August 22, 2003 DoD guidance that the Defense Agencies should use the Balanced Scorecard/Risk Management Framework prescribed in MID 901 as the guiding principles for structuring their performance plans.

Now on p. 36.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct the Director, Program Analysis and Evaluation, to revise guidance to require all Defense agencies to include in their performance plans and scorecards the identification of resources needed to achieve performance goals and inform budget decisions. (Page 35/Draft Report)

DoD RESPONSE: Partially Concur. Given the complex nature of defense operations, it may not be possible for Defense Agencies to fully cost performance goals. The authoritative guidance to propose resource alternatives is the Planning, Programming, Budgeting, and Execution System (PPBES). However, the Department agrees that the Defense Agency plans should be in synchronization with this process by demonstrating how PPBES decisions are being implemented, and by providing the performance information and metrics that can be used as part of the Department’s annual budget and execution review to ascertain whether an appropriate allocation of resources exists in current budgets. This is in agreement with the December 20, 2002, DoD guidance on performance and budget integration prescribed in MID 910, and the May 22, 2003 DoD guidance for implementing a 2-year Planning, Programming, Budgeting, and Execution Process prescribed in MID 913.

Now on p. 36.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense direct the Director, Program Analysis and Evaluation, to revise guidance to require all Defense agencies to include in their performance plans and scorecards a discussion on data quality including the reliability, validity, and limitations of performance measures as well as data sources. (Page 35/Draft Report)

DoD RESPONSE: Concur. The Department agrees that the Defense Agencies not currently including this information should do so in order to strengthen their respective performance plans. This is in agreement with the August 22, 2003 DoD guidance that the Defense Agencies should use the Balanced Scorecard/Risk Management Framework prescribed in MID 901 as the guiding principles for structuring their performance plans.

Now on p. 36.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense direct the Director, Program Analysis and Evaluation, to revise guidance to require all Defense agencies to include in their performance plans and scorecards the contextual information to better understand how performance measures support the agency's mission. (Page 35/Draft Report)

DoD RESPONSE: Concur. The Department agrees that the Defense Agencies not currently including this information should do so in order to strengthen their respective performance plans. This is in agreement with the August 22, 2003 DoD guidance that the Defense Agencies should use the Balanced Scorecard/Risk Management Framework prescribed in MID 901 as the guiding principles for structuring their performance plans.

Appendix VI: Key Contact and Staff Acknowledgments

GAO Contact

Marilyn K. Wasleski (202) 512-8436

Acknowledgments

Gabrielle M. Anderson, Krislin M. Bolling, Elizabeth H. Curda, Benjamin T. Licht, William A. McKelligott, Elizabeth G. Mead, Marjorie L. Pratt, and Robert K. Wild also made significant contributions to the report.

Related GAO Products

Future Years Defense Program: Actions Needed to Improve Transparency of DOD's Projected Resource Needs. [GAO-04-514](#). Washington, D.C.: May 7, 2004.

Department of Defense: Further Actions Needed to Establish and Implement a Framework for Successful Business Transformation. [GAO-04-626T](#). Washington, D.C.: March 31, 2004.

Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results. [GAO-04-38](#). Washington, D.C.: March 10, 2004.

Satellite Communications: Strategic Approach Needed for DOD's Procurement of Commercial Satellite Bandwidth. [GAO-04-206](#). Washington, D.C.: December 10, 2003.

Defense Inventory: Several Actions Needed to Further DLA's Efforts to Mitigate Shortages of Critical Spare Parts. [GAO-03-709](#). Washington, D.C.: August 1, 2003.

Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success. [GAO-03-488](#). Washington, D.C.: March 14, 2003.

Defense Management: New Management Reform Program Still Evolving. [GAO-03-58](#). Washington, D.C.: December 12, 2002.

Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures. [GAO-03-143](#). Washington, D.C.: November 22, 2002.

Performance Budgeting: Opportunities and Challenges. [GAO-02-1106T](#). Washington, D.C.: September 19, 2002.

Information Technology: Defense Information Systems Agency Can Improve Investment Planning and Management Controls. [GAO-02-50](#). Washington, D.C.: March 15, 2002.

Defense Management: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results. [GAO/NSIAD-00-72](#). Washington, D.C.: July 25, 2000.

Related GAO Products

Management Reform: Elements of Successful Improvement Initiatives
[GAO/T-GGD-00-26](#). Washington, D.C.: October 15, 1999.

Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information. [GAO/GGD-99-139](#). Washington, D.C.: July 30, 1999.

The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans. [GAO/GGD-10.1.20](#). Washington, D.C.: April 1, 1998.

Executive Guide: Effectively Implementing the Government Performance and Results Act. [GAO/GGD-96-118](#). Washington, D.C.: June 1, 1996.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

**United States
Government Accountability Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Service Requested

**Presorted Standard
Postage & Fees Paid
GAO
Permit No. GI00**

