



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past,
A New Vision*

Office of Inspector General

August 15, 2016

To: Federal Co-Chair
ARC Executive Director
ARC General Counsel
ARC Program Director
ARC Regional Planning & Research Director
From: Hubert Sparks, Inspector General *HS*

Subject: Report 16-27, Performance Measures

The primary conclusions and recommendations in report 16-27 pertain to improved and increased obtaining and reporting actual results with respect to projected and estimated outcomes. These recommendations are consistent with prior audit and ARC contracted evaluations and a purpose of the Government Performance and Results Act (GPRA) with respect to using performance results in program decision making.

cc: Assistant General Counsel

**Office of Inspector General
Program Measurement Evaluation**

The Appalachian Regional Commission



August 15, 2016

Report 16-27

Summary

The purpose of this evaluation was to follow-up on recommendations included in a prior report on performance measures. The evaluation was conducted in accordance with the Quality Standards for Inspections and Evaluations.

ARC initiated actions such as including all projects in metrics determinations, identification of performance measures for all grants emphasizing relevant documentation to support evidence of performance measures, inclusion of all grants as subject to validation visits and dissemination and discussion of performance measure results at the annual Development District of Appalachia Conference.

Our primary conclusion is that continued attention is necessary to implement provisions in the Government Performance and Results Act (GPRA) that ARC voluntarily implements. Of particular importance ARC reports grantee initial projections of project results as FY intermediate estimates and results achieved but actions are not initiated to subsequently report actual results based on grantee closeout reports or surveying grantees after project closeout. This includes information received from Basic Federal and State agencies responsible for administering ARC construction projects.

Prior ARC contracted evaluations have recommended improved actions to identify performance outcomes.

Definitions of some performance measures, such as businesses served or improved did not include criteria as to actions that would be considered as a service or improvements, and Basic Agency reporting can be improved.

Background

The GPRA was enacted to improve program performance and requires agencies to develop strategic plans and prepare related annual performance plans and annual performance reports. The GPRA Modernization Act of 2010 was enacted in January 2011 to, among other purposes, update the requirements for assessing agency performance and improvement.

ARC's efforts to obtain performance results, some of which help ARC meet compliance with GPRA standards, include several different phases of the project life-cycle and include the following:

- During the grant application process, grantees estimate projected outputs and outcomes. The estimates are recorded in ARC's grant management system (ARC.Net) and reported in the Annual Performance and Accountability Report (PAR) as intermediate estimates and results achieved.

- At grant close-out, the grantees final reports to ARC are to include actual project outputs and outcomes. ARC records these results in ARC.net as actual outputs and outcomes.
- During annual validation visits to 40 to 60 projects funded two to three years earlier, ARC staff survey grantee management about project results, including previously reported outputs and outcomes. ARC interviews grantee management and other project participants and reviews the methodology for how results are compiled. ARC records these results in ARC.net as validated outputs and outcomes. No validations were performed in FY 2015 or to date in FY 2016 due to other priorities.
- ARC also uses project evaluations conducted by contractors hired by ARC to confirm the benefits of ARC initiatives and sub-programs. ARC typically funds one evaluation per year which generally covers a five year period for a specific ARC initiative or program type. ARC does not record these results in ARC.net. The evaluations related to performance measures outcomes rely primarily on survey questionnaires to grantees, grantee self-reporting and do not address outcomes resulting after grant closeout.
- Basic Agency Monitoring Reports (BAMR) identify performance measures.

The GPRA states that each program performance report shall set forth the performance indicators established in the agency performance plan and the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year. It also provides for addressing actual results for the prior five years as a means of assessing program outcomes.

Obtaining and Reporting Some Actual Performance Measure Results

As noted, and included in the OIG 2011 performance measure report, ARC reports grantees' estimates of projected performance in its PAR. Performance results included in grantee close out reports are not being used in the current year PAR and information on results obtained after grant closing is not obtained. Thus, a primary purpose of performance measures including comparing actual performance results with performance goals and reporting results when results become available is not being achieved.

The ARC Strategic Plan for 2016-2020 identifies the annual performance targets. These include 2,500 businesses created and/or strengthened, 20,000 jobs created or retained a ratio of 6 to 1 in leveraged private investment, 22,000 students, workers and leaders improved, 22,000 businesses and households with access to improved infrastructure and 250 communities with enhanced capacity.

The reported intermediate estimates are the projected results noted in grant applications. A review of closeout information in ARC.Net generally identifies less actual outcomes than

included in the intermediate estimates. We did not consider the actual results contained in closeout reports as complete for key measures since actions occur subsequent to grant closeout. However, obtaining information on performance measure results subsequent to grant closing is necessary to provide more accurate information for inclusion in the PAR as actual results. This would be consistent with ARC emphasis on outcomes being the primary determinant with respect to return on investment.

The impact of not obtaining updated information after closeout resulted in projects with significant projected outcomes identifying no actual results in closeout reports. This was particularly applicable to Basic Agency administered grants that included measures related to job creation and retention and leveraged investment.

ARC also utilizes independent external evaluations of program objectives including emphasis on program measures in some cases. Evaluations emphasizing performance measures are primarily based on survey questionnaires for which response rates vary considerably and some more in depth grantee visits and generally conclude that actual results exceed projections. However, in two evaluations highlighting performance measures primary recommendations were directed at ARC improving the data collection and tracking process.

The September 2015 evaluation titled "Program Evaluation of the Appalachian Regional Commission Job Creation and Retention Projects" included recommendations with respect to ARC improving the data collection and tracking process, clarifying and specifying metrics and timing and accounting for longer periods to track full impact of some measures.

This evaluation provides substantial information related to ARC programs and grantee and concluded, based primarily on the 43 percent of grantees responding to the questionnaire, that ARC projects exceeded job creation and retention goals for grants awarded between FYs 2004 and 2010.

However, the evaluation excluded Pennsylvania Enterprise Development Program projects from the anticipated and actual outcome comparisons because these projects tended to skew the impacts as the information presented was typically modeled from an economic model rather than true observations. Since these projects represented 95 percent of the reported job creation and retention outcomes elimination of these projects was very significant to the results presented.

The 2010 Evaluation of the Appalachian Regional Commission's Education and Workforce Development Projects – 2002-2008 highlighted recommendations with respect to identifying performance outcomes. The recommendations were;

- Develop procedures that encourage projects to report outcomes to the ARC after grant awards have expired. The explanatory material notes aside from validation visits conducted with a small sample of projects the Commission currently has no

way to systematically document any education and workforce development outcomes that occur after the ARC grant has expired.

- Develop a coding scheme in ARC.Net to more precisely report on the accomplishments of education and workforce development projects.
- Expand the definition of what constitutes project success for the ARCs education and workforce development projects.
- Provide tools that education and workforce development projects can use to efficiently document on expanded set of outcomes.

We concur with the recommendations to improve identification and reporting of actual performance outcomes.

We recognize that obtaining and reporting actual performance measure reports over a multi-year period will incur some costs but believe the goal of obtaining actual information on projected project results is important to achieve GPRA purposes, including reporting more accurate results and use in program planning. A brief ARC.Net generated questionnaire three years after project completion requesting information on ARC emphasized outcomes in the grants would provide better outcome results at limited cost and is consistent with identifying return on investment and use in the planning process. Such a questionnaire could be sent to ARC, Basic Agency and State administered grantees with projected outcomes for which results can be expected after grant closeout – i.e. jobs created and retained, leveraged private investment, businesses created, etc.

Guidance on ARC Project Performance Measures

ARC guidance identifies various outputs and outcomes associated with ARC grants including three measures (combined jobs created and retained and leveraged project investments) that are highlighted in the annual Performance and Accountability Report (PAR).

Review of ARC guidance indicated that improvements are applicable to some definitions and criteria with respect to some measures and specifying the tracking process, including the methods used, in addition to validation visits, to identify results after project closeout.

The GPRA identifies output measure as the tabulation, calculation or recording of activity or effort and can be expressed in a quantitative or qualitative manner.

Outcome measure means an assessment of the results of a program activity compared to intended purposes.

The definitions of outputs are generally consistent with GPRA definition as are the definitions of outcomes including job creating, job retention and leveraged private investment. With respect

to outcomes business improvements is defined as the number of projects with measurable improvement but provides no criteria as to what is considered measurable improvement. The jobs created outcome is defined as the projected number of jobs that will result from the ARC project rather than the number of jobs created. Conversely, the definition of jobs retained is the number of jobs that would be lost or relocated without the ARC project rather than the projected number of jobs that would be lost.

Performance Measure Reporting

In numerous cases grantees and/or Basic Agency BAMRs reported the same numbers with respect to projected and actual businesses served and businesses improved, and in many cases the same numbers are used for all four categories. For FY 2015 approvals 92 of 127 grants with performance measures provided the same numbers for projected businesses served and businesses improved. This was also a pattern in prior years with many grantees reporting the same actual numbers for these measurements. We consider such reporting to be unrealistic and indicates a potential for perfunctory responses.

Improvement was noted in FY 2015 for Pennsylvania PREP grants that constitute a significant percentage of ARC performance measurements since these grants noted lower projected businesses improved in relation to businesses served.

Split Funded Projects

ARC includes 100 percent of the projected output and outcome results reported by grantees in its PAR although ARC often provides less than 100 percent of project funding, and in some cases a small percentage of overall finding. ARC notes in the annual PAR that ARC funds assist in attracting additional funding.

A 2004 OMB assessment recommended that ARC accurately reflect its contribution to performance results by reporting only the percentage of project results related to their funding or finding an alternative that would credit ARC with leveraging private investment but also allow for comparisons with other economic development programs and Federal agencies.

OMB noted that ARC will be "Revising performance method terminology to eliminate double counting of performance due to commission and non-commission funding".

ARC includes total project funds provided by other agencies in the PAR but does not specify proportions of claimed ARC results.

Basic Agency Monitoring Report (BAMR)

Although ARC generally has no direct contact with grantees after project approval or during the grant period for projects administered by other Federal or State agencies the annual grant

closeout BAMR initiated in 2013 provides for the administering agency to report projected and actual outputs and outcomes.

A sample of these reports disclosed a lack of differentiation between projected and actual results that reduced the value of the information provided. For example, initial interim and final BAMRs often reported the same numbers with respect to performance measures.

Also, the BAMR does not provide information with respect to outcomes achieved after project closeout.

OMB Alternative Form

OMB provides for use of an alternative form if the agency determines it is not feasible to express the performance goals of a particular program in objective and measurable form. OMB approval is required for use of this procedure.

Based on the type of quantifiable measures highlighted by ARC it appears it is feasible to generally obtain performance measurement projected outputs and outcomes.

Recommendations

1. Actions be initiated that will permit inclusion of actual results in the PAR, including post grant closing questionnaires to obtain more complete information about actual outcomes for identified performance measures.
2. Include criteria identifying the basis for reporting actual results for outcomes such as businesses improved and ARC methods to track outcomes, including subsequent to grant periods.
3. Include additional comments in PAR that ARC reported performance measures include estimates derived from multi-funded projects.
4. Revise BAMR reports to differentiate between projected and actual performance measures.

ARC Comments

ARC comments to the draft report are included as exhibit A. ARC generally agrees with the recommendations and have initiated actions to assist with verification of performance measures. Actions would include communicating with grantees to obtain, verify, and validate actual performance measures and gather information on the outcomes and long-term impact of selected projects.

OIG Comments

We appreciate the ARC response and note that although telephone contacts are initially intended with respect to obtaining actual performance outcomes our primary recommendation emphasizes follow-up questionnaires that provides documented information about results subsequent to project completion.



MEMORANDUM

July 6, 2016

To: Hubert Sparks
Inspector General

Through: Charles Howard
General Counsel *CH*

From: Nancy Eyl *NE*
Assistant General Counsel

Subject: Draft *Performance Measure Report*

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) draft *Performance Measure Report*. The Appalachian Regional Commission (ARC) recognizes that even the most well run programs benefit from independent and objective evaluations. We appreciate your work in planning and conducting this review as we continue to enhance our programs. Although we agree with the four recommendations in the report, we would like to offer the following comments for your consideration in finalizing the report.

Recommendation 1: Actions be initiated that will permit inclusion of actual results in the PAR, including post grant closing surveys to obtain more complete information about actual outcomes for identified performance measures.

Response: Concur. ARC agrees with the OIG that it would be helpful to include more actual results in the Annual Performance and Accountability Report (PAR). However, as the OIG notes, our access to information has been limited due to external reasons. Data on actual results is often unavailable at project closeout. This is because several of ARC's performance measures are reported as project outcomes within three years of a project's closeout. For example, a project may predict that 500 jobs will be created, or 100 students will be served, but these outcomes may not be realized until after the grant is closed. Certain leveraged private investment projects also may not produce actual results by project closeout.

In addition, data on actual results for construction grants is often unavailable at project closeout because ARC does not administer these grants. Rather, as the OIG notes, ARC relies on Federal or State basic agencies, which serve as the grant administrative and fiscal agents. ARC does not have direct contact with the grantee once a project has been awarded.

We improved our access to information by implementing Basic Agency Monitoring Reports (BAMR). Basic agencies are now required to submit data on the BAMR that relates to construction progress, financial drawdowns and revised estimates of project outcomes. Yet, as with other types of projects, some results might not be available at project closeout. In addition, ARC does not always receive the BAMR timely, and the BAMR information is not always complete.

ARC has collected data on actual results in the past. ARC engaged in “validation visits,” which were on-site attempts to determine actual results. Validation visits provided valuable data but were too labor and time intensive to continue. We discussed other options to replace the validation visits, including extensive follow-up surveys with each grantee. However, this idea also seemed to be not viable given the labor and costs involved.

In the end, we decided on testing a pilot program that we believe will enable us to gain additional insight into project outcomes after grant closeouts, while not unreasonably taxing our limited resources. We have instituted a new program to collect data from grantees telephonically. We are still working out the details of the program and hope to be able to report on more actual results within the next fiscal year.

Recommendation 2: Include criteria identifying the basis for reporting actual results for outcomes such as businesses improved and ARC methods to track outcomes, including subsequent to grant periods.

Response: Concur. ARC agrees that it is important to provide clear guidance relating to criteria identifying the basis for reporting results. To this end, ARC recently revised grantee guidance and definitions in “Guide to ARC Project Performance Measures” (Rev. June 2016).

Please note, however, that the criteria for each performance measure is not necessarily designed to report actual results but rather is considered at the outset when the grantee sets its performance goals. Also, while we improved our performance measure definitions, we will not be providing definitive instructions on how to apply each available performance measure. This is because ARC funds a wide variety of projects, and different projects may use the same performance measure in a different way. We revised our grantee guidance with these considerations in mind.

Recommendation 3: Include additional comments in PAR that ARC reported performance measures include estimates derived from multi-funded projects.

Response: Concur. ARC believes that it currently presents performance measures and results that accurately show the level of the Commission’s participation in projects it funds, as well as the amount of additional investment in the region by other funders. For example, for each of the performance goals in which ARC funds are matched or leveraged, the PAR presents data showing not only the matching or leveraging goal, such as achieving a 2:1 ratio of leveraged private investment, but also the actual results achieved relating to that desired ratio. With respect to achieving its first performance goal—jobs and income—the PAR shows that ARC’s goal was to leverage its funds 4:1. It also shows that ARC exceeded its goal with funds leveraged 6:1. This and similar data is presented throughout the PAR.

ARC is proud of matching and leveraging significant funds from other funders, and reporting such funding. In fact, for the past 10 years, one of ARC's performance goals has been to leverage non-ARC project funding and private non-project investments resulting from ARC projects. As the PAR states:

Both the non-ARC funds used as a match in projects and non-project leveraged private investments have been recorded by ARC in the past; however, in FY 2005 ratio of these funds to ARC funding were established as annual goals.

To ensure maximum transparency, ARC intends to include additional comments in the PAR that performance measures include estimates derived from multi-funded projects. ARC will use words like "help" or "assist" to indicate that ARC funds have "helped" achieve measures reported in multi-funded projects.

Recommendation 4: Revise BAMR reports to differentiate between projected and actual performance measures.

Response: Concur. ARC agrees that BAMR reports do not adequately differentiate between projected and actual performance measures. Currently, the default reporting method allows the actual results to reflect the projected results at project closeout, even though technically this may not be accurate. ARC will revise the reporting methods to remove this default reporting. We also will revise the BAMR reporting to add a category for actual results as of the reporting date, if available.

As a further matter on this recommendation, ARC's newly revised "Guide to ARC Project Performance Measures" emphasize the need to report actual outcomes, if applicable, whether or not they conform to projected outcomes. New guidance highlights the connection between outputs and outcomes, offers tips for paired measures, and offers samples of ARC project types and relevant performance measures. It provides greater detail and instruction for grantees on how to develop, document, and report on performance measures for ARC projects.

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.