

Attachment 3

EPA Balanced Scorecard Program

BALANCED SCORECARD

Environmental Protection Agency
EPA

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BALANCED SCORECARD

*Environmental Protection Agency
Acquisition System*

*Performance Measurement and
Management Program Guide*

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PART 1

Background

This part provides a brief discussion of the implementation of a results-oriented business-assessment program for the EPA Acquisition System.

All Federal agencies are continually faced with real and dramatic challenges to improve the performance of their business systems. This is especially true for Federal acquisition systems, which have undergone a series of reform efforts over the past thirty years. All of these reforms have focused on improving the quality, timeliness, and effectiveness of awarding and administering contracts in support of agency missions. These objectives require that agencies continually assess existing systems and processes to identify common-sense business solutions and business systems that work better and cost less. Moreover, Federal acquisition organizations continue to experience dramatic increases in the levels of customer expectations for quality, timeliness, and service – all at lower cost. These expectations are driven in large part by continuing budget and resource restrictions, coupled with high-priority program objectives, which require organizations to fundamentally and continually rethink existing approaches to business systems and business relationships.

1. Business Systems Performance and Oversight

Although historically OAM has expended considerable effort and resources to ensure that internal Strategic Goals mirror and support Agency goals, an objective, systematic, approach toward measuring achievements against either OAM or Agency Strategic Goals had not been established. Furthermore, although OAM has several programs in place which measure various aspects and/or criteria associated with the procurement process (e.g. Customer Survey, Employee Survey, and the Quality Assessment Program), a methodology did not exist in which results of the programs may be considered together as an indicator of the quality, effectiveness, and efficiency of the EPA's contracting operations.

As a result, OAM is implementing a Balanced Scorecard (BSC) performance measurement and performance management program (PMP) as the methodology for assessing the Agency's acquisition related business functions. The PMP is intended to facilitate an EPA-wide collaborative approach to ensure that business systems effectively support EPA's mission, vision, and strategy statements; follow best business management practices; and comply with applicable statutes, regulations, and contract terms and conditions. Through the utilization of the BSC, the Agency will be better positioned to strengthen its acquisition systems and its workforce. The intended result is to ensure a world class procurement operation at EPA.

2. Mission, Vision, and Strategy

These statements express the organization's highest-level purpose, desired end-state, and methodology for achieving that end-state for its business systems. All BSC objectives and measures should support these statements.

MISSION: To provide trusted acquisition leadership and partnership to meet the Agency's mission of protecting human health and the environment.

VISION: To develop and execute strategic acquisition solutions to provide exceptional client services for EPA.

STRATEGY: To invest in our people, provide business leadership, optimize business processes, and strengthen the link between the acquisition function and the Agency's mission.

3. Business Systems Management Goals

EPA seeks to:

- Translate its vision into clear, measurable outcomes that define successes that will be recognized and shared throughout EPA;
- Develop an approach and methodology to assess and measure the results obtained under various independent OAM initiatives/programs together, in order to evaluate and improve the overall quality, effectiveness, and efficiency of EPA's contracting operation;
- Include measures of quality, cost, timeliness, customer service, and employee alignment, motivation, and skills in order to provide an in-depth, predictive, performance management system; and
- Move from strictly prescriptive audit and compliance based oversight models to an ongoing, forward-looking, strategic partnership, involving Headquarters and the Regions, to ensure the effectiveness and integrity of the EPA Acquisition System.

PART 2

Business Systems Assessment Program

This part describes the objectives, concept, and scope of the business systems assessment program. It also addresses the roles and responsibilities of key participants in the program.

1. Program Objectives

The objectives of the EPA business systems assessment program is to ensure that business systems support the EPA's and OAM's mission, vision, and strategy statements; follow recognized "Best Business Management" practices; and, comply with applicable statutes, regulations, and contract terms and conditions.

2. Program Concept and Scope

This program requires periodic assessments of business systems and processes by each intra-organizational component responsible for those systems and processes. This evolutionary approach looks beyond compliance and evaluates performance and operational effectiveness. The program is intended to be an adaptable, reliable tool that drives proactive results-oriented approaches and continuous improvement which that leads to process efficiencies and more effective oversight.

The assessment program is characterized by the following key features:

- It determines the degree of customer satisfaction with performance;
- It employs measures and trends to determine cost and efficiency of business systems and processes;
- It assesses the organization's strategic information and skill in order to ensure that they are aligned to support critical business systems and processes; and
- It ensures compliance with applicable laws, regulations, and contract terms and conditions.

This assessment program is consistent with and supports EPA's core values and cross-cutting fundamental strategies as listed in EPA's Strategic Plan.

3. Roles and Responsibilities

A. Cognizant EPA Office

The Cognizant EPA Office is the entity, either at Headquarters or in the Regions, that has the responsibility for performing oversight of the Agency's acquisition functions and systems.

The Cognizant EPA Office concurs with and validates assessment processes, reviews problem analyses, and must be knowledgeable about the approach and timing of improvement action planning. The outcome of assessments shall be used to determine whether additional follow-on reviews should be conducted. A follow-on review of business system operations may be required as a result of the identification of significant areas for improvement or trends which indicate the potential for improvement, and which require EPA follow-up to protect the Government's interest or to validate the implementation of new functions or systems.

The Operations Division Directors (DDs) and Regional Acquisition Managers (RAMs) have both operational and oversight responsibility for EPA acquisition functions and systems. Operational responsibilities include acquisition-related business systems such as Agency procurement systems (e.g., EAS), as well as other Agency business systems.

B. Director, Office of Acquisition Management (The Senior Procurement Executive)

The Director, as the Agency's Senior Procurement Executive (SPE), is responsible for the management and direction of the EPA acquisition system, including implementation of Agency-specific policies, regulations, and standards. The SPE is responsible for overall management of the BSC program, including facilitating the collaborative establishment of Agency-wide performance measures and assessments.

PART 3

Performance Management Strategy

This part sets forth the definitional baselines for performance measurement and performance management, and provides a discussion of the characteristics and types of measures to be established.

1. What is Performance Management?

There are a wide range of definitions for the terms performance objective, performance goal, performance measure, performance measurement, and performance management. To frame the dialog and to move forward with a common baseline, certain key concepts need to be clearly defined and understood, such as:

Performance objective. This is a critical success factor in achieving the organization's mission, vision, and strategy, which if not achieved would likely result in a significant decrease in customer satisfaction, system performance, employee satisfaction or retention, or effective financial management.

Performance target or goal. A target level of activity expressed as a tangible measure, against which actual achievement can be compared.

Performance measure. A quantitative or qualitative characterization of performance.

Performance measurement. A process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose), and the effectiveness of government operations in terms of their specific contributions to program objectives.

Performance management. Refers to the use of performance measurement information to effect positive change in organizational culture, systems, and processes. Accordingly, performance management helps to set agreed-upon performance goals, allocates and prioritizes resources, confirms or changes current policy or program direction to meet established goals, and shares the results of performance while pursuing established goals.

Output measure. A calculation or recording of activity or effort that can be expressed in a quantitative or qualitative manner.

Outcome measure. An assessment of the results of a program compared to its intended purpose.

2. Performance Measures

Each performance objective should be supported by at least one measure that will indicate an organization's performance against that objective. Measures should be precisely defined, include the population to be measured, the method of measurement, the data source, and the time period for the measurement. Measures should be written as formulae whenever possible.

A. Characteristics of Measures

Ideally, measures should possess the following characteristics:

- **Objective** – not judgment calls.
- **Controllable** – the results are substantially in the hands of the organization with the effects of potential outside influences minimized.
- **Simple** – easily understood and measuring only one thing.
- **Timely** – frequently available indicators of recent or current performance.
- **Accurate** – reliable, precise, sensitive indicators of results.
- **Graded** – use ongoing data from a reliable procurement system – not binary yes/no measures.
- **Cost-effective** – providing data worth the cost to gather.
- **Useful** – providing data necessary for the organization to manage business operations.
- **Motivating** – achieving the targets should drive good business decisions versus over-expenditure, over-compliance, or other sub-optimizing results.

B. Types of Measures

Types of measure normally include the following:

Core Measures. These are EPA-wide measures. As such, organizational performance measures that each EPA contracting organization will use and from which aggregate EPA system-wide performance can be measured.

Optional Measures. These are suggested, but not required, measures which may be useful indicators for assessing progress towards core objectives.

Local Measures. These are measures, which are specific for a site; each site may identify and include as part of their BSC.

Outcome and In-Process Measures. Core, optional, or local measures may be outcome or in-process measures.

Outcome measures may be found in the Customer, Financial, or Internal Business Process Perspectives. Outcomes are products delivered to customers. Outcome measures establish the current performance of a system.

In-process measures will drive future performance and are no less important than outcome measures. However, success is only desirable in these metrics to the extent that it leads to success in outcome measures. Success in these measures alone will not satisfy customers. Poor performance in these measures may be addressed in time to prevent negative impact on process outcomes and customer satisfaction. In short, in-process measures are management tools to drive and sustain performance.

Both outcome and in-process measure are indicators of performance (mission success in business systems).

C. Agency Expectations/Targets

Annual core measures will be established through collaboration with and among all EPA contracting activities. It is recognized that local situations are impacted by organizational alignment, structure, vision, strategic objectives, and other conditions. All of these factors must be considered in the establishment and performance of core measures. All EPA contracting activities must strive to meet or exceed these expectations/targets.

D. Local Targets

Each site may establish short-term local targets for core, optional and local measures. While these should provide aggressive "stretch" performance targets, they should still be realistic. It is expected that when targets are set below expectations, they will stimulate substantial progress toward those expectations and will rise over time. Similarly, where organizations have already exceeded expectations, targets in excess of Agency-wide averages may be maintained as part of continuous improvement.

It is understood that performance should not be driven beyond what is necessary to be supportive of the organizational mission, taking into consideration funding and resource realities. Local targets therefore may not rise perpetually. When acceptable levels are achieved, these should be maintained and other performance areas emphasized; especially areas where improvement is of greater strategic importance.

PART 4

The Balanced Scorecard Performance Measurement and Management System

In this part, the framework of the Balanced Scorecard performance measurement and management system is discussed, including a description of the four perspectives of the assessment methodology.

1. The Balanced Scorecard (BSC) Approach

The BSC is a performance measurement and performance management system developed by Robert Kaplan and David Norton (see “The Balanced Scorecard – Measure That Drive Performance”, Harvard Business Review, Jan-Feb 1992; and “The Balanced Scorecard- Translating Strategy into Action”, Harvard Business School Press, 1996) and has been adopted by a variety of public and private organizations.

The BSC is a conceptual framework for translating an organization’s vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth. Some indicators are maintained to measure an organizations’ progress toward achieving its vision; other indicators are maintained to measure the long term drivers of success. Through the BSC, an organization monitors both its current performance (finances, customer satisfaction, and business process results) and its efforts to improve processes, motivate and educate employees, and enhance informational systems – its ability to learn and improve.

2. The Four Perspectives of the Balanced Scorecard

A. Financial

Financial considerations in Government are different from those in the private sector. For example, financial considerations for public organizations are rarely the primary objective for business systems. Rather, success in Government is measured by how effectively and efficiently the Agency or organization meets the needs of its constituencies. This measure in Government is cost efficiency – delivering maximum value to the customer for each dollar spent.

B. Customer

This perspective captures the ability of the organization to provide quality goods and services, effective delivery, and overall customer satisfaction. For purposes of BSC, both the requiring activity (the internal customer) and the EPA, as the sponsor, are regarded as customers of the business processes. Since, in government, customers and stakeholders take precedence over financial results, the principle driver of BSC performance is effective business partnership.

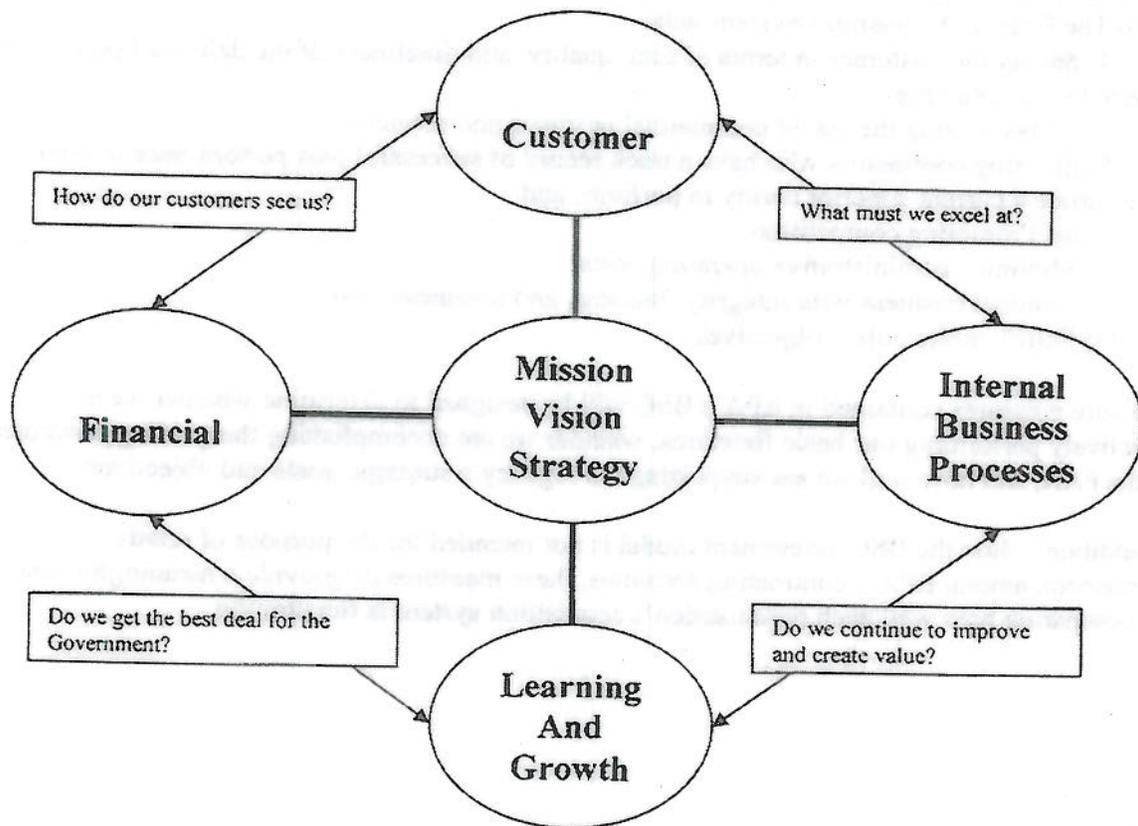
C. Internal Business Processes

This perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. Key processes are monitored to ensure that outcomes are satisfactory. Internal business processes are the mechanisms through which performance expectations are achieved.

D. Learning and Growth

This perspective captures the ability of employees, information systems, and organizational alignment to manage the business and adapt to change. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information, are driving them. In order to meet continually evolving requirements and customer expectations, the contracting workforce may be asked to take on dramatically new responsibilities. This may require skills, capabilities, and organizational designs that were not previously available.

Figure 1: Balanced Scorecard Strategic Perspectives



PART 5

Selection of Performance Objectives and Measures

This part summarizes the process used to establish core measures and how they will be used. Additionally, it provides samples of organizational-specific measures for acquisition.

1. Establishing Measures for an Acquisition System.

The term “core objectives and measures” as used throughout this document refers to EPA-wide objectives and related measures used in order to determine progress towards Agency strategic goals. Individual organizations may add objectives and measures as necessary to implement specific strategic and tactical planning goals.

The guiding principles of the Federal Acquisition Regulation may be considered objectives against which any Agency acquisition function may be measured. Those principles are as follows:

1.102 Statement of guiding principles for the Federal Acquisition System.

(a) The vision for the Federal Acquisition System is to deliver on a timely basis the best value product or service to the customer, while maintaining the public’s trust and fulfilling public policy objectives. Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility.

(b) The Federal Acquisition System will—

(1) Satisfy the customer in terms of cost, quality, and timeliness of the delivered product or service by, for example—

(i) Maximizing the use of commercial products and services;

(ii) Using contractors who have a track record of successful past performance or who demonstrate a current superior ability to perform; and

(iii) Promoting competition;

(2) Minimize administrative operating costs;

(3) Conduct business with integrity, fairness, and openness; and

(4) Fulfill public policy objectives.

The core measures contained in EPA’s BSC will be designed to determine whether we are effectively performing our basic functions, whether we are accomplishing the guiding principles of the FAR, and how well we are supporting the Agency’s strategic goals and objectives.

In addition, while the BSC assessment model is not intended for the purpose of relative comparison among EPA’s contracting activities, these measures do provide a meaningful basis for comparing how well each organization’s acquisition system is functioning.

2. The EPA Balanced Scorecard Program

The EPA BSC is a functional component of EPA's PMP. Through collaboration, EPA's contracting activities will be poised to achieve the most effective combination of performance results in accordance with Agency expectations, customer requirements, laws, regulations, good business management and practices, and contract terms and conditions, as applicable.

The core objectives and performance measures established under the PMP apply to all activities. Under the BSC program, performance objectives and measures are established, targets are assigned, and measurements taken. Formal documented self-assessments are the principle data generating and gathering source. Measurements are formulated to report on the status of performance to management and the customer; the feedback cycle then drives improvement actions as appropriate.

The core objectives and measures contained in the PMP are to be used by EPA contracting activities to monitor their business processes. The initial step in each area will be to establish a baseline against which future performance will be compared. The objective should be to measure trends in continuous improvement affecting an organization's performance. To ensure this data is trackable and reliable, the method used to establish the baseline should also be applied in subsequent assessments. It is recognized that results may not be directly comparable from one contracting activity to another.

Core measures and associated targets change on a periodic basis, therefore the current core measures and targets for EPA programs are not incorporated into this document. As objectives and/or measures and targets are established, modified, or updated, they will be issued by the SPE independent of this guide and made available on the EPA BSC web site.

The following examples are provided as part of this guide as illustrative types of measures that are important to procurement organizations.

A. CUSTOMER PERSPECTIVE

For this perspective, "customer" means the government end-user of the contract. This includes direct, internal customers and, for multi-organization acquisitions, direct or external customers.

➤ Customer Satisfaction

- % of customers satisfied with timeliness: The degree of satisfaction with the timeliness of the delivery of products/services and the acquisition schedule. This may include:
 - Are products/services delivered when needed?
 - Are milestones/procurement administrative lead times (PALTs) consistently met?
 - Does procurement planning occur or occur early in the acquisition process?
 - Is there sufficient communication?

- Is there effective communication?
 - Does the contracting organization anticipate problems and issues in order to prevent potential delays?
- % of customers satisfied with quality: Customer satisfaction with the quality of goods and services procured. This may include an assessment of whether or not the selected contractor offered the best combination of quality and price.
- % of customers satisfied with the responsiveness, cooperation, and communication skills of the acquisition office: The perceptions and behavior of all participants in the acquisition process affect the outcome of any acquisition. This may include an assessment of the responsiveness of the acquisition team, as well as the degree of communications and problem solving abilities among all participants in the acquisition process.
- Customer Education
 - % of customers satisfied with the training they receive to support their role in the acquisition process: Customer satisfaction with the basic COTR courses offered through OAM, including information on how to achieve or maintain COTR eligibility.
 - % of customers satisfied with procurement policy knowledge sharing: Customer satisfaction with the way information regarding changes to procurement policy are shared. This may include: Hot Tips, Flash Notices, Mass Mailers, or other information passed from OAM personnel.

B. FINANCE PERSPECTIVE

- Cost to Spend Ratio. This element represents the cost for each division or regional office to spend one dollar of customer funds. The ratio is a calculation of the operating cost of the unit divided by the obligated dollars of the unit.
- Cost Avoidance/Savings. This element may include savings or cost avoidance achieved through various initiatives, including OMB Initiatives on Cost Savings and strategic sourcing of products and services.

C. INTERNAL BUSINESS PROCESSES PERSPECTIVE

- Acquisition Excellence
 - % Compliance as assessed through mechanisms such as: internal quality assessment processes, organizational self-assessments, peer reviews, protest activity/results, and Inspector General and Government Accountability Office audits.
- Maximization of Efficiency and Cost Effectiveness
 - As assessed through tools and exercises that may include: compliance with OMB cost savings initiatives, utilization of strategically sourced contract vehicles, reutilization of excess property, and % of awarded Performance Based Service Contracts (PBSC) of total eligible awards over \$25K.
- Streamlined Processes
 - Potential measurements may include: % of acquisitions awarded within established PALTs

- Reporting: Timeliness, Accuracy, and Completeness: Tools or exercises used to measure may include:
 - Timeliness of past performance rating information entered into Contractor Performance Assessment Rating System (CPARS)
 - FPDS-NG reporting accuracy, especially in relation to information such as:
 - Socioeconomic contracting
 - Buy American
 - Competition
 - Timeliness of reporting government property to the Contractor Property Coordinator (CPC)

D. LEARNING AND GROWTH PERSPECTIVE

- Acquisition Workforce Information: This includes initiatives such as implementing the Acquisition Workforce Development Strategic Plan recruitment and retention initiatives, and % of the contracting workforce that are certified at the appropriate level.
- Employee Satisfaction. This element may include measures such as % of employees meeting mandatory qualification standards of the GS-1102 job series; % of employees satisfied with their work environment; and % of employees satisfied with organizational leadership, professionalism, culture, values, empowerment, and available opportunities.

3. Initial Selection, Additional, and Deletion of Performance Measures

Many reasons exist for selecting a particular performance measure. However, in most instances the reason for selecting a measure should fall within one or more of the following:

A. Customer-focused

In most organizations, customer perception of product/service cost, quality, timeliness, and service provider responsiveness plays a significant role in organizational success. As a result, performance measures should be created that monitor product/service cost, quality, timeliness, and service provided.

B. Strategic Considerations

Senior management is responsible for guiding organizational performance in a direction that will ensure accomplishment of strategic goals. Once strategic goals are defined performance measures may be developed that will stimulate performance towards strategic objectives.

C. Critical Few

Performance measures should constitute those which are determined critical to achieving customer satisfaction and service, as well as organizational, informational, workforce, and business process improvements, and other meaningful strategic objectives. Too many measures will diffuse the focus of the organization and measurement process.

Although many factors exist that may influence a decision to add or delete a measure in the future, the following criteria will be followed to the extent appropriate:

- *Each measure will be retained for multiple years; usually not less than three years.* Assessment of performance under the BSC methodology is dependent upon trend data established over time. A one-time-only assessment will provide a “snapshot” of current performance, but it does not provide a reliable assessment of ongoing performance. Therefore, each core measure developed should be available and used for several years in order to effectively assess progress toward achieving the intended objective(s).
- *In general, measures will be maintained for strategic purposes.* The BSC is a strategic tool whose objectives and measures are focused on strategic assessment and change. Therefore, when performance has reached stable levels of excellence, objectives and measures may be adjusted to focus on new directions and areas needing attention. However, because of the ongoing need to ensure excellence in performance in certain strategic areas (e.g. customer satisfaction, statutory and regulatory compliance), even when organizations achieve a high level of consistent performance, organizations must continue to remain focused on these strategic performance areas, and have an assessment system that provides the organization with immediate notification if performance begins to slip.
- *The EPA Senior Procurement Executive (SPE) may require the inclusion of a performance measure.* Such inclusion will be limited to instances where specific measurement is directed by law or regulation, or is deemed critical to guide organizational performance in a direction necessary to accomplish Federal or EPA mandated strategic goals.

PART 6

Compliance, Operational Awareness, and Reasonable Assurance

In this part, a discussion is provided on the importance of ensuring that procurement and purchasing organizations conform to appropriate laws, regulations, contract terms and conditions, etc. As a result, acceptable performance assessment methodology in a government organization should consider organizational compliance issues.

1. General

The EPA SPE and, by delegation, EPA's contracting activities are responsible for ensuring conformance with laws, regulations, terms and conditions of contracts, and performance sufficient to meet Agency expectations, including routine compliance activities, business systems surveillance, and validation and verification of measurement techniques and data. Together, these activities may be described as operational awareness. More specifically, operational awareness is the continuous attention to those activities which enable an organization to determine how well it is meeting established performance objectives.

2. Quality Assurance

Consistent with the need for control systems which prevent or detect unauthorized or undesirable activities, procurement organizations must have a quality assurance (QA) program. The QA program must provide adequate supervision and sufficient independent checks and balances to provide reasonable assurance that the expectations set, and the objectives established for the procurement system, are achieved. Quality assurance is an important part of achieving and maintaining a high-level of credibility.

The policies, plans, and procedures designed and implemented should be sufficient to reasonably ensure prevention and/or detection of noncompliance with applicable laws, regulations, terms and conditions of contracts, as well as identify good business management practices.

An integral part of the management control process is to perform periodic reviews led by qualified persons who are independent of the organization and who do not have any real or apparent conflicts of interest. These assessments ensure that the system and associated processes are adequate to provide reasonable assurance that the objectives of the system are being accomplished and that these controls are working effectively. "Qualified individuals" are persons with appropriate technical proficiency and education for the procurement activities that are being reviewed. "Independent of the organization" means the individual is not part of, or under the control of, the activity being assessed.

Management is responsible for initiating corrective actions that are deemed necessary to achieve compliance and performance objectives.

3. Risk Assessment

All organizations encounter risk. There is no practical way to reduce risk to zero. Accordingly, management must continually make judgments as to the level of risk it is willing to accept. For the purpose of this guidance, risk is the probability that an event or action may adversely affect the organization. In an assessment program, a risk assessment should be performed, and those areas found to constitute the greatest risk should be subject to frequent evaluation, monitoring, and testing.

4. Compliance Activities

Procurement systems must be evaluated periodically to assess basic compliance with system requirements, including laws, regulations, contract terms and conditions, ethical standards, and good business management practices, to name a few. Organizational self-assessment is a critical element in EPA's Quality Assurance Program (QAP). Under EPA's PMP, the QAP will be standardized and expanded in order to yield a more meaningful organizational and system-wide quality assessment. As a result, the PMP includes a self-assessment approach/ component which provides EPA's contracting managers with a mechanism to objectively evaluate: the effectiveness of a variety of management and internal controls; statutory, regulatory, and policy compliances; and the results of acquisition processing activities. A self-assessment checklist tool has been developed in order to assist organizations performing this component of the PMP. Use of this tool will enable organizations to identify systemic vulnerabilities as well as influence, evaluate, and ensure high quality acquisition and procurement operations.

5. Peer Review

EPA's PMP will also contain a peer review component. One of the critical elements of a credible acquisition performance measurement and performance management system is the level of competency, independence, and objectivity of those assessing the operation of the systems. To facilitate such credibility, an integral part of all procurement systems assessments should also include a periodic independent review.

This review approach will consist of involvement by knowledgeable contracting professionals, and potentially personnel from related disciplines (e.g. Policy and Financial Analysts) outside of the organization being reviewed. These personnel will be responsible for all logistical activities pertaining to the review. This includes coordinating with the cognizant management officials for the activity to be reviewed, staffing for the review, advance data collection and analysis, drafting of findings and recommendations and best practices, and subsequent to the reviews, monitoring the resolution of any corrective actions.

Peer review is a non-attribution process. The overall point of the peer review requirement is to ensure that independence and objectivity are maintained; and that no financial, organizational, or personal relationship will prevent the peer reviewer/evaluator from rendering an impartial and unbiased judgment and opinion when performing these critical evaluations.

6. Validation and Verification

The OAM SPE will validate assessment practices and results for EPA organizations. More specifically, the OAM SPE will concur with the organization's assessment plan, which includes the processes, approaches, and data systems to be used. The success of the assessment will depend largely on the mutually-agreed and understood performance objectives, measures, and expectations; the scope, depth, and effectiveness of the self-assessment; and the integrity of the self-assessment.

Verification is the process of substantiating a set of data results by means such as checking stated facts, citations, measurements, or attendant circumstances. For example, verification of data resulting from the assessment will substantiate the quality determination on the business system. As a result, data will be analyzed to determine accuracy.

Under the PMP, OAM will review each organization's self assessment results to identify and share best practices Agency-wide, and to identify systemic issues that require action. Systemic issues may be addressed using a variety of approaches including new or amended policies, guidance, models or templates; new or updated training; or changes to operational or management information systems. Self-assessment results will also be considered as part of the Peer Review process.

7. Reasonable Assurance

When properly carried out, operational awareness activities should provide reasonable assurance that the business systems are operating in the best interests of the Government. Reasonable assurance is based on the collection and analysis of limited, but critical data, from which inferences may be made and conclusions reached regarding the acceptability of the organizations management of a particular function and areas of opportunity to drive improvement. The organizational assessments under the PMP are a critical source of data required for reasonable assurance.

PART 7

Balanced Scorecard Assessment Plan

This part provides a discussion of the objectives and format for PMP Assessment Plans.

1. Contents of the PMP Assessment Plan

Consistent with EPA's traditional Quality Assurance Program (QAP), each contracting organization will prepare/update an annual PMP Assessment Plan. The Plan shall, at a minimum, address the following:

- (1) **Background information.** This section should include information specific to the organization, including: point of contact information, date of the last assessment(s), scheduled of upcoming assessment(s) and, in general terms, the status of any corrective actions taken since previous assessments (e.g., self-assessments, peer reviews, OIG or GAO audits, as applicable).
- (2) **Identification of Assessment Review Personnel.** Each plan must identify who is assigned to perform the internal oversight of the contracting activities' transactional and management programs and processes, i.e., name, position title, organizational component.
- (3) **Status of Prior/Current Assessment Activities.** This section shall describe the actions that have or have not been fully implemented from the most recent assessment(s), including self-assessment and prior peer review assessment, as applicable. It should include a summary of actions and completion dates or targeted completion dates.
- (4) **Assessment Activities for the Upcoming Fiscal Year.** The organization's assessment program, including internal independent transactional review processes, shall be addressed. A description of the specific review activities (internal controls) to be performed and the conditions under which such reviews occur (e.g., dollar value of action, pre-award or post-award reviews, etc.). Such activities shall establish an adequate strategy to evaluate the ongoing quality of each primary contracting workload function performed within the organization. This section shall also address the organization's plan for conducting an organizational self-assessment (see sections 2. and 5. of this chapter). The scope, duration, and number of staff that are appropriate for conducting a meaningful self-assessment will vary among EPA contracting organizations based on such factors as size of the contracting organization, the nature and complexity of the organization's contracting portfolio, and the results of previous assessments, including A-123 assessments and GAO or IG audits.

2. Planning for and Conducting a Self-Assessment

The self-assessment may be divided into phases. Within each phase, various activities should be accomplished to properly plan, coordinate, conduct, gather data, analyze results, and close-out the assessment activity for a particular review period.

Using the Self-Assessment checklist and this document as guides, the Plan should address the depth and scope of the assessment (e.g., sample size and type of transactions, assessment of 1102, COR, support activities). The depth and scope will be tailored to fit the breadth of the organization's activities. Organizations may determine the extent of the assessment required from prior assessment results, external review results, or from any other pertinent information. Additionally, organizations with significant areas of improvement from previous assessments may merit additional attention in areas of weakness, or of special interest or importance.

3. Problem Analysis and Business System Improvement Action Planning

An effective problem analysis will identify the most basic reason for a problem, inadequate performance, or obstacle to improvement. Improvement action planning shall be based on the results of problem analyses, as applicable, for any less than satisfactory area of organizational performance.

Once an assessment has been conducted, the organization will send the results to the OAM SPE. The results should describe any improvement to be undertaken to correct less than satisfactory areas identified in the assessment report. After review, the OAM SPE may require additional information supporting assessment results. Agreement should be reached on plans for performance enhancement activities.

Procurement Management Peer Reviews (PMPR) will be managed by the OAM/Procurement, Training and Oversight Division (PTOD). Teams may consist of core and rotating members from other procurement offices and disciplines (i.e. OGC or the EPA property office). After a PMPR is conducted, the organization's senior management and the SPE will be briefed on the findings and recommendations resulting from the review, which will include both acknowledgements of positive findings/best practices, areas that present opportunities for improvement or greater management attention, and findings and recommendations that may require action by the SPE relating to the need for new or amended policies, guidance, etc.

4. Submission of Assessment Plans to Headquarters

Annual assessment plans are to be submitted to the OAM Immediate Office by November 15 of each year (unless otherwise specified).

5. Administrative Issues Specific to Compliance

While specific information, approaches to conducting internal oversight/controls, and the scope of self-assessments may differ among EPA contracting organizations, to ensure consistency, all contracting office organizations shall follow the plan guidelines addressed in this chapter for structuring their PMP Assessment Plans. As previously addressed, a review of compliance activities is required by regulation and is a key element of the BSC PMP.

Procurement systems must be evaluated periodically to assess basic compliance with system requirements, including laws, regulations, terms and conditions of contracts, ethical standards, and good business management practices, as appropriate. This periodic assessment of

compliance activities is required by the regulations and is an important part of the Balanced Scorecard Program. The results of the periodic compliance reviews represent a key source of information for organizations assessing performance under core performance assessment measures. A compliance review of each organization will be conducted at least once every three years. This formal review of compliance activities will be used to support the organizations self-assessment results, as well as to benchmark best practices agency-wide and, when necessary, to develop agency-wide solutions to systemic vulnerabilities identified.

In the conduct of these compliance reviews, organizations are to use the *Acquisition Self-Assessment Checklist*. This checklist contains various compliance standards and review questions that offices may use when conducting internal reviews. The process and the timing structure of assessment activities may vary by office, so long as the cumulative results of compliance evaluations are sufficient to provide each organization with accurate, comprehensive, and timely quality information. Flexibility is permitted in the timing of the review (i.e. either a total review once every three years, a partial review each of the three years, etc.) as long as all appropriate review criteria are covered at least once every three years.

The *Acquisition Self-Assessment Checklist* document will be maintained by PTOD. The checklist will be updated, as necessary (e.g., regulatory changes), and coordinated with OAM Division Directors and RAMs for review prior to issuance. The checklist will be made available via the BSC website.

PART 8

Balanced Scorecard Assessment Reporting

At the end of each assessment period, each organization must prepare a report of the assessment results for submission to OAM.

1. General

Each contracting organization shall conduct a self-assessment in accordance with its approved PMP Assessment Plan. After conducting the assessment, the organization shall prepare a BSC Self-Assessment Report for submission to the SPE. This report shall contain, at a minimum, the following information:

- **Introduction/Background.** This section identifies the organization and point of contact with telephone number. List the date of the most current review thresholds (if applicable).
- **Identification of Assessment Review Personnel.** The names, titles, and organizational affiliation of all individuals (including peer personnel) who participated in the assessment review shall be listed in this section.
- **Scope of Review Activities.** The assessment review activities that were completed are listed in this section. This summary shall be presented in sufficient detail to allow any reader to understand the significance of the information contained in the report. The status of open items from the prior assessment shall be discussed (if applicable). Problem analyses and improvement action planning shall be discussed for assessments of greater significance. Be sure to include a separate discussion of compliance activities conducted.
- **Trend Analysis.** Include analysis of trends as to how performance over time indicates continuous improvement or opportunities for management attention.
- **Assessment of Trade -offs.** Include analysis of whether performance is "out-of-balance," and what is being done or needs to be done to bring it back into balance.
- **Identification of Management Initiatives.** Include any process reengineering/redesign, training, or benchmarking opportunities for leveraging across EPA contracting offices.
- **Root-Cause Analysis.** Root-cause analysis refers to the process of identifying the causal factors for an event or circumstance which, if corrected or eliminated, will prevent its reoccurrence. It is expected that managers will determine the real causes for occurrences, violations, problems, failures to achieve agreed to objectives or target levels of performance, less than satisfactory performance, etc.

➤ **Corrective Action Plans.** Improvement action planning should be based on the results of root cause/problem analyses, as applicable, for any less than satisfactory area of organizational performance. An effective problem analysis will identify the most basic reason for a problem, inadequate performance, or obstacle to improvement.

Once an assessment has been conducted, the organization shall brief the SPE, as appropriate, describing any improvements to be undertaken to correct less than satisfactory areas identified in the assessment report. Agreement shall be reached on plans for performance enhancement activities. Time frames will be established for completion of enhancement actions.

2. Data Reporting To OAM

Annual reports are required from all contracting offices. Reports are to be submitted directly to EPA HQ OAM. Submissions of reports are to be made to OAM Headquarters by November 15 for the fiscal year just ending, unless otherwise specified. The data submitted to OAM Headquarters will be used to generate expectations/targets for the performance measures for BSC programs. OAM Headquarters will also develop agency-wide average scores for each of the BSC performance measures in the BSC programs. Additionally, OAM Headquarters may share information with OAM DD's and RAM's on those contracting organizations that represent the top percentile for each measure. The intent here is to stimulate benchmarking among the offices. OAM Headquarters does not intend to release any names or individual organizational data submitted. However, voluntary sharing of this information among offices is encouraged.

PART 9

Using Performance Measurement to Effect Change

This part provides a discussion of the importance of using performance assessment results to help ensure organizational success.

Making constructive use of assessment results is a critical part of the BSC process. As a result, the following aspects/results must be considered when implementing an effective performance management system.

1. Performance Measurement Systems Must Provide Intelligence for Decision Makers, Not Just Compile Data

Performance measures should be limited to those that relate to strategic organizational goals and objectives, and that provide timely, relevant, and concise information for use by decision makers – at all levels – to assess progress toward achieving predetermined goals.

Although each organization is unique in how performance results can best benefit the organization, the following concepts generally apply to all organizations.

A. Assessment Results Must Provide Meaningful Information

Management needs intelligent information for decision making. If properly constructed, the performance measures selected will result in data that is meaningful to decision makers in terms of improving organizational performance. The data generated should be timely, relevant, and concise. Assessment results should provide information on the efficiency of production of goods and services, and on the effectiveness of organizational activities and operations in terms of their specific contribution to program objectives. Numerous factors need to be considered when determining the effectiveness of assessment results. They include:

- Does the data indicate any performance trends over time and over projects/functional areas?
- Can the data be used to improve performance in areas other than those that are assessed?
- Have the correct performance measures been selected for assessing desired performance?
- Do the measures reflect priorities?
- Do the results reflect an understandable causal relationship between performance effort and performance result?
- If performance targets are not met, what inhibited successful performance?

- If performance targets are significantly exceeded, are there additional benefits to the organization that can be gained in terms of reducing operating costs or improving performance?

B. Employing Supplemental Information Sources

An organization can leverage the BSC program by supplementing BSC results with data from other sources that provide information on the “health” and direction of the organization. Such information provides a more detailed picture of an organization’s external environment and internal capabilities. It can also identify issues or problems not otherwise reflected in BSC results. This in turn helps the organization to interpret BSC results with a fuller understanding, and make appropriate adjustments to its strategies. Useful sources for the acquisition function include:

- Agency protest statistics/ombudsman activities
- Workforce training and education data
- Debarment and suspension statistics
- Inspector General reviews
- Government Accountability Office reviews
- Internal review programs and self-assessments

C. Assessment results must be properly analyzed

Understanding what a particular result means is important in determining whether or not it is useful to the organization. Data by itself is not useful information, but it can be when viewed from the context of organizational objectives, environmental conditions, and other factors. Proper analysis is imperative in determining whether or not performance indicators are effective, and results are contributing to organizational objectives.

2. Results Must Be Used or No One Will Take Them Seriously

This point seems so obvious that it should not need to be stated. Nevertheless, assessments are often followed with little effective analysis of results, or honest attempts at improved performance. The following represent some of the ways leading organizations, both public and private, use performance information to improve performance, manage risk, and support decision-making.

A. Gap Management

Performance results can be used to determine gaps between specific strategic objectives and/or annual goals and actual achievement. The root causes of these gaps are analyzed, and

countermeasures developed and implemented. Whenever there is a gap between current results and an organization's objectives, it is an opportunity for process improvement. Reengineering and redesign are a frequent response to the identification of gaps between objectives and achievement, and are usually very effective when they include "process flow analysis". Process flow analysis requires a detailed examination of existing processes and allows for exploration of alternative procedures within a process. This is especially useful when BSC results indicate performance gaps in the areas of timeliness, purchasing costs, or efficiency. Understanding which key processes need the most attention, and then aggressively addressing the differences between current performance and the desired end state, is a hallmark of successful organizations.

B. Self-diagnosis

A contracting or purchasing activity can use BSC information for "self-diagnosis". BSC data, together with other reports and statistics, can help the activity anticipate and resolve issues before they become problems, or at least minimize the effect of problems by early action. Information from other reports and statistics may also indicate the need to adjust BSC strategies and measures.

C. Enhancing Strategic Feedback and Learning

In addition to tracking progress on past results, managers can use the BSC to learn about the future. Managers should discuss not only how they achieved past results, but also whether their expectations for the future remain on track. Changes in the environment (e.g. new technology, legislative initiatives, etc.) may create new opportunities or challenges not anticipated when the managers developed their initial strategies. If an organization followed established strategies, but did not achieve target results, managers should examine internal capabilities and assess whether the underlying strategies remain valid. Based on such analyses, managers may adjust or redirect their strategies or identify new strategies. This focus serves as a foundation for effective process improvement and risk management. It also completes a feedback loop that supports decision-making at all levels of the organization.

D. Benchmarking

An organization can use the BSC to benchmark its performance against other organizations. Benchmarking helps to get a picture of how the organization's procurement function performs as compared to others. It also serves as one input for developing target goals. However, the strength of benchmarking is not in identifying best performance, but in learning best practices. When benchmarking, the organization should identify, study, analyze, and adapt the "best practices" that led to informed decisions about where and how to effect organizational change.

To make valid comparisons, the organization should consider how other organizations are both similar and different. Common factors to consider, whether selecting another agency or an industry for benchmarking, include:

- Is the total size and budget similar?

- Is the amount spent on acquisition comparable?
- Is the percent of total budget spent on acquisition similar?
- Does the other organization have a similar mission or perform work of comparable complexity?
- Are the products and services acquired similar?

Several sources have information available for benchmark comparison:

- An organization can compare its performance on the core measures identified in the BSC to other Federal agencies that use the same measures.
- Other agencies may also have similar supplemental organization-specific measures.
- The Center for Advances Purchasing Studies (<http://www.capsresearch.org>) reports on numerous industries, municipal governments, and state/county governments on many standard benchmarks.
- FPDS-NG contains information useful for comparing several financial and internal business process measures (e.g. percent of acquisition dollars awarded competitively, percent of acquisition dollars spent on commercial items, etc.)

E. Oversight and Compliance

The SPE can use the BSC and supplemental data to support oversight and compliance activities. Results of BSC measures and other reports and statistics help highlight areas of success as well as areas of concern. If BSC measures are properly aligned with significant objectives, then review efforts should be focused where they will have the most benefit. Reviews should analyze the cause of concerns and identify appropriate remedies (e.g. recommending changes in operational practices, clarifying existing or developing new policies, eliminating or revising policies that create problems, eliminating non value-added activities, etc.). The BSC also provides a framework for reporting to the agency head, Chief Acquisition Officer, Congress, and the OMB.

F. The Business Case

In addition to strategic feedback and learning, managers can also use the BSC to build a strong, sound business case to support proposals for changes or requests for resources. The BSC illuminates links between strategies, measures, and expected outcomes at different levels in the organization, and across different operational components. This analysis provides a framework for explaining how and why a proposed change will benefit the organization, and the expected effect on linked components. For example, a contracting activity could use the BSC to demonstrate how a proposed change to processing requisitions would improve efficiency and also benefit program mission accomplishment.

The BSC also provides the framework for justifying requests for resources. For example, in presenting the annual budget request, a manager can use the BSC to demonstrate the expected results from a given level of funding. Similarly, by showing how additional resources would improve results for one or more measures, the manager could use the BSC to defend requests for increases in resources.

G. Cross-functional Problem Solving

By illuminating the links between strategies, measures, and expected outcomes at different levels in the organization, and across different operational components, the BSC also encourages cross-functional problem solving. For example, the procurement organization may identify an Agency-level or corporate policy that impedes its ability to accomplish a certain objective. The organization could raise the issue, using the BSC to demonstrate the cause-and-effect relationship, and work together with the appropriate management toward a solution.