



U.S. Department of Energy  
Office of Audit Services

# Audit Report

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Federal Energy Regulatory Commission's  
Performance Management




## Department of Energy

Washington, DC 20585

November 24, 2003

### MEMORANDUM FOR THE CHAIRMAN, FEDERAL ENERGY REGULATORY COMMISSION

FROM:

  
Gregory H. Friedman  
Inspector General

SUBJECT:

INFORMATION: Audit Report on "Federal Energy Regulatory Commission's Performance Management"

### BACKGROUND

The Federal Energy Regulatory Commission, as an independent, five-member body, regulates certain aspects of the oil, natural gas, and electricity industries, and licenses hydroelectric projects. As required by the Government Performance and Results Act of 1993, the Commission developed performance goals in four major areas to help guide mission accomplishment: Energy Infrastructure, Competitive Markets, Market Oversight, and Resource Management. In support of its goals, the Commission established about 45 annual performance measures and a number of related targets.

Because of the Commission's importance to the Nation's energy markets and supply, we initiated this audit to determine whether it had established objective, quantifiable, and outcome or output-oriented performance measures for its significant programs and whether it had met its annual performance goals.

### RESULTS OF AUDIT

While many of the Commission's performance measures were appropriate, we observed that:

- A few key activities – including conducting investigations of potential market abuses – did not have measures;
- Measures did not always directly address program activities;
- Measures in the Competitive Markets area were generally not objective, quantifiable, or oriented towards outcomes or outputs; and,
- In some cases, management could not demonstrate that it had actually achieved reported results.

The performance management system did not reach its full potential because the Commission had not promulgated necessary internal operating guidance, nor did it have in place a coordinated process to facilitate the development of performance measures and targets. In addition, a process to document and validate reported results had not been



implemented. Without well-developed performance management systems, the tools needed for day-to-day oversight of programs may be less effective, and the Commission cannot clearly demonstrate that it is satisfying its critical energy markets mission.

In our judgment, the overall quality of the Commission's Fiscal Year 2003 performance measures and targets appears to have improved since Fiscal Year 2002. However, we noted additional opportunities for enhancing the performance management system, and we have made several recommendations in this regard. As emphasized by the Office of Management and Budget, well-developed and functioning performance management systems are essential for increasing the efficiency of operations and meeting the President's Management Agenda initiatives.

#### MANAGEMENT REACTION

Management concurred with the report's findings and recommendations. Management indicated that it plans to issue new guidance and adopt procedures to facilitate the development of performance information and improve program accountability over results.

#### Attachment

cc: The Secretary of Energy  
Executive Director, Federal Energy Regulatory Commission

# FEDERAL ENERGY REGULATORY COMMISSION'S PERFORMANCE MANAGEMENT

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# **PERFORMANCE MEASUREMENT PROGRAM**

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## **Performance Measurement and Reporting**

Our review of the Commission's performance measurement and reporting systems disclosed opportunities for enhancement. Specifically, measures did not cover all key areas and, in some cases, could be better focused. In addition, certain measures could be more useful and reported results better supported.

### Coverage and Focus

The Commission had not developed performance measures and targets for all of its core activities within each of its goals. For example, despite being the primary method of protecting market participants, measures or targets had not been established for conducting investigations of potential market abuses for Fiscal Years (FY) 2002 through 2004. While we learned that about 60 investigations had been performed during FY 2002, their quality and timeliness cannot be determined without established performance measures and targets. Officials indicated that they have now begun to take a harder look at this area and hope to agree on a method of measuring performance.

The Commission had also not established a performance measure and target to guide the audit resolution process. Officials told us that while they coordinate certain issues through the Federal Managers' Financial Integrity Act process, the Commission had not established an audit resolution committee. After discussing the issue with officials from the Office of Executive Director, they indicated that they recognized the value of a measure in this area and planned to include one in future performance plans.

We also noted that two performance measures for the Office of Market Oversight and Investigation did not directly address that office's program activities. Instead, the measures were based on expected outcomes associated with the anticipated approval of one Regional Transmission Organization (RTO). For example, measures and targets were established to increase the number of market monitoring institutions and systems, and the amount of load covered by RTOs. While these are desirable outcomes of formulating such an organization, they are not activities directly within the Commission's control. One program official told us that the measures were created because the Commission anticipated approval of an RTO and that the measures were not used to manage program activities.

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### Usefulness of Measures

The design and structure of a significant number of the Commission's Competitive Markets performance measures could be improved. Specifically, 12 of the 15 FY 2002 measures were not, in our judgment, objective, quantifiable, and outcome or output-oriented. Further, none of the 15 stated the expected level of achievement by the program. For example, one measure and target related to investment in generation and transmission required that investment be "adequate" to meet market needs. Even though this measure relates to an important portion of the Commission's mission, the required level of achievement is subjective. While we noted certain improvements in the FY 2003 measures for this area, three of the seven we reviewed had similar issues. For example, we noted that the measure related to the establishment of Regional Transmission/Independent System Organizations did not define what planned actions were to be accomplished and did not provide target performance rates.

### Reporting Results

The Commission could not fully support reported results for certain measures in its Resource Management, Competitive Markets, and Market Oversight areas. For example, officials were unable to provide substantiating information for 4 of 15 annual goals we selected for detailed review. In the Resource Management area, for instance, the Commission was reporting that it was collecting 98 percent of the annual assessments receivable within 45 days of billing based on historical trends, rather than on actual data. We were informed near the end of our audit, however, that actual collections were made on only 85 percent of the assessments. Commission officials indicated that they did not use available receivable aging schedules to measure performance and could not determine whether collections were completed within 45 days. Accurate reporting in this area was critical because the Commission must recover the full cost of its operations from the industries it serves to offset its appropriation.

Regarding the Competitive Markets goal, the Commission could not provide information on a performance measure on the volume of financial risk-hedging transactions. Even though program officials reported details regarding its FY 2002 accomplishments in this area, they could not provide supporting documentation. Additionally, officials from the Office of Market Oversight and Investigation could not tell us why the related measure was established or how it was used to direct and oversee the program.

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Finally, under the Market Oversight goal, the Commission established a performance measure on customer satisfaction with alternative dispute resolution processes. Specifically, the Offices of Administrative Litigation, Administrative Law Judges, and Dispute Resolution Service reported that customers were satisfied with alternative dispute resolution processes in at least 90 percent of completed cases. These offices, however, did not survey customers and told us that the results were based simply on the number of completed cases or the fact that they did not receive any complaints.

### **Guidance and Collaboration**

Developing guidance and establishing a coordinated process to facilitate the development of performance measures and targets could improve the Commission's performance management program. In addition, a process to document and validate reported results could also help officials substantiate reported results. Currently, performance measures, targets, and results are based on data calls from the Office of Executive Director to various program offices. Other than general information supplied in the data call, the Commission provided no specific guidance and did not require adherence to Office of Management and Budget (OMB) Circular A-11 requirements for performance management. Absent overall direction or guidance, branch or division managers were free to decide how to develop measures, coordinate performance, validate accomplishments, and report results. Program officials also told us that there were no review processes to facilitate collaboration between the Office of Executive Director and program office directors. Such processes could help to ensure that the measures were aligned with overall goals and that they were useful in measuring day-to-day performance.

### **Integration of Budget and Performance**

A well-developed and functioning performance management system should provide leaders with valuable tools essential for day-to-day oversight of their programs. These measures can also aid the Commission in demonstrating that it is satisfying its critical energy markets mission. The President's Management Agenda requires that scarce resources be allocated only to programs that deliver results and that every program must eventually be judged as either a success or a failure. A refined performance management system therefore becomes critical to the Commission's ability to satisfy its statutory and regulatory responsibilities. Improvements in the development of measures and validation of results are essential for managers and leaders at all levels to ensure that their organizations are adequately addressing all core mission components.

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**RECOMMENDATIONS**

To improve the quality and usefulness of its performance management system, we recommend that the Executive Director, Federal Energy Regulatory Commission:

1. Develop and implement guidance, consistent with Government Performance and Results Act and OMB Circular A-11, to aid in the development of goals, performance measures, and targets;
2. Establish requirements for budgetary staff and program officials to collaborate in the preparation of annual performance measures and targets to ensure that the Commission's core program activities are represented appropriately; and,
3. Ensure that reported performance results are documented and that a process is in place to verify and validate results as appropriate.

**MANAGEMENT REACTION**

The Commission's Executive Director concurred with the report's findings and recommendations. The Commission plans to issue appropriate guidance and meet with program offices to aid in the development of goals, performance measures, and targets. In addition, the Commission agreed that better accountability is needed, and plans to include a performance results review in the FMFIA process to verify and validate performance measures and results.



## Appendix 1

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### OBJECTIVE

The objective of the audit was to determine whether the Federal Energy Regulatory Commission had established objective, quantifiable, and outcome or output-oriented performance measures for its significant programs and whether it had met its annual performance goals.

### SCOPE

The audit was performed from February through July 2003 at the Federal Energy Regulatory Commission in Washington, DC.

### METHODOLOGY

To accomplish our objective:

- We reviewed the Government Performance and Results Act, President's Management Agenda, and Office of Management and Budget Circular A-11.
- Meetings were held with officials from the Executive Director's office responsible for performance data collection and reporting from their divisions and the program offices within the Commission. We also met with the program officials from the Offices of Energy Projects; Markets, Tariffs and Rates; Market Oversight and Investigation; Dispute Resolution Service; Administrative Law Judges; and, Administrative Litigation to discuss their core activities and performance measure processes.
- We analyzed all Commission performance measures and targets for FY 2002 and 2003 for consistency with OMB Circular A-11.
- We judgmentally selected 15 of 45 performance measures across each of the Commission's four major goals in FY 2002 for a more detailed review.
- We met with program office divisions responsible for the selected performance measures and targets to collect and analyze documentation to support the reported results and discuss how performance metrics were used to manage the program and how core activities were identified.

We conducted the audit in accordance with generally accepted Government auditing standards for performance audits, and included

## Appendix 1 (continued)

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tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not conduct a reliability assessment of computer-processed data because supporting documentation obtained to verify and validate performance results was traced to its original source.

On September 4, 2003, we met with the Executive Director, Federal Energy Regulatory Commission, who concurred with the report's findings and recommendations. The Commission elected to waive the exit conference.

## Appendix 2

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### PRIOR AUDIT REPORTS

#### Office of Inspector General Reports:

- *Special Report: Management Challenges at the Department of Energy* (December 2002, DOE/IG-0580). The President's Management Agenda identified Budget and Performance Integration as a government-wide initiative and outlined a plan to provide a results-oriented management process for the Federal government. A primary focus of the President's plan is that funding allocations are based on the achievement of goals. The Department has been criticized for deficiencies that include: performance measures that are not quantifiable, performance measures that do not support key goals, and underlying processes that are not results oriented.
- *Environmental Management Performance Measures* (June 2002, DOE/IG-0561). The audit disclosed that while the environmental remediation program had cost growth and schedule slippages, the Department reported the program as a success in meeting its goals. In addition, performance measures did not completely cover environmental cleanup projects.
- *Special Report: Performance Measures at the Department of Energy* (May 2001, DOE/IG-0504). Some performance measures were not output or outcome oriented and did not contain tangible, measurable goals stated in objective or quantifiable terms. Critical measures relating to some of the Department's major challenge areas were not present. Performance results reported for the selected measures were not always accurate and valid.

#### U.S. General Accounting Office Reports:

- *Energy Markets: Additional Actions Would Help Ensure That FERC's Oversight and Enforcement Capability Is Comprehensive and Systematic* (August 2003, GAO-03-845). FERC has not developed outcome or results-oriented performance measures that express what the office will be working to achieve and that can be used to assess its progress in carrying out its goals and objectives. FERC stated that developing outcome measures is proving to be difficult but believes that it is possible. Although FERC developed new performance measures for its market oversight goals and objectives for FY 2003 and 2004, the new measures are generally not outcome-oriented.
- *Energy Markets: Concerted Actions Needed by FERC to Confront Challenges That Impede Effective Oversight* (June 2002, GAO-02-656). Although FERC has made improvements to its strategic plan in 2000 and 2001, the plan still lacks outcome-oriented goals and objectives and important details on how FERC will monitor markets. FERC can address this issue by updating its strategic plan to include outcome measures that can be used to assess how well FERC is doing in overseeing competitive energy markets. The strategic plan should also include specific strategies for achieving the goals and objectives that set out explicitly how FERC will work with market participants to provide comprehensive oversight of the markets.

## Appendix 3

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FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

October 27, 2003

Office of the  
Executive Director

Fredrick D. Doggett  
Assistant Inspector General for Audit Services  
Office of Inspector General  
1000 Independence Avenue SW  
Washington, DC 20585-0001

Subject: Management Comments on the 9/22/03 DOEIG  
Draft Audit Report: "Federal Energy Regulatory  
Commission's Performance Management"

Dear Mr. Doggett:

Thank you for the opportunity to respond to your draft report titled "Federal Energy Regulatory Commission's Performance Management." We have reviewed the report and are providing the following comments. If you need any further assistance, please contact Matthew Sweet at (202) 502-8926.

1. Develop and implement guidance, consistent with the Government Performance and Results Act and OMB Circular A-11, to aid in the development of goals, performance measures, and targets.

Concur. We plan to establish and implement appropriate guidance, consistent with the Government Performance and Results Act and OMB Circular A-11, beginning with the FY 2006 Budget Call. In addition to including copies of the most current guidance from OMB to program office contacts with the initial budget call documentation, we will meet with program office contacts early in the budget cycle to clarify and explain the guidance in an effort to support their development of appropriate goals, performance measures, and targets.

2. Establish requirements for budgetary staff and program officials to collaborate in the preparation of annual performance measures and targets to ensure that the Commission's core program activities are represented appropriately.

Concur. We recognize the need to have a better performance management system to ensure that the Commission's core program activities are represented appropriately. Improvements in some key program areas have been made, but we agree that more needs to be done. As stated above, we plan to meet early with program office contacts to

## Appendix 3 (continued)

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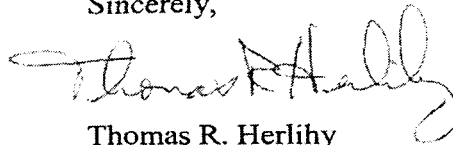
ensure understanding of the most current performance management guidance. We will also establish additional milestones during the budget cycle to meet and discuss performance measurements with program offices.

We feel that help from an external performance measurement consultant would be very beneficial to the Commission in developing better performance measures in each of our critical program areas. An initial target for the FY 2006 budget cycle will be to conduct a performance management workshop/training session to take place in FY 2004. This session will be for budget staff and budget contacts responsible for developing and/or coordinating performance measures and results in their respective offices.

3. Ensure that reported performance results are documented and that a process is in place to verify and validate results as appropriate.

Concur. Our performance goals, outcomes and measures are updated annually and depending on the changes in the energy markets, the measures could change. In the next year we will be updating and documenting these changes as part of our budget cycle. It is the responsibility of the program offices to track and document their performance results. We agree that better accountability on the part of the program offices needs to be addressed. Our plan for FY 2004 is to add a performance results review to our FMFIA process that will help verify and validate our measures and results.

Sincerely,



Thomas R. Herlihy  
Executive Director

cc: John Delaware  
Stacie Davis

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