Testimony of

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Before the
Subcommittee on Federal Financial Management, Government Information and International Security of the Senate Subcommittee on Homeland Security and Governmental Affairs

June 14, 2005

Mr. Chairman and Members of the Subcommittee:

Thank you Chairman Coburn, Senator Carper, and Members of the Committee on Homeland Security and Governmental Affairs for inviting me to testify before you today on the present state of accountability and results in federal budgeting. This is an issue that we follow closely at the Government Accountability Project at the Mercatus Center at George Mason University. I should note the views expressed in my testimony are not an official position of the University.

Much of my own research is concerned with the progress agencies have made towards developing outcome-oriented measures for their programs and results information, the effect the Performance Assessment and Rating Tool (PART) is having on budgetary decision-making and the extent to which Congress and the Executive use performance information in the budgetary process. I would like to submit to the record my forthcoming paper analyzing the results of the FY06 PART for your reference.

For the past several years our research team at the Mercatus Center has produced an Annual Scorecard that ranks agencies according to the quality of their annual performance reports, required under the Government Performance and Results Act (GPRA) (P.L. 103-62). I would like to submit our 2004 Annual Scorecard to the record for your reference. We have found that since GPRA's passage, agencies have made slow but measurable progress towards the integration of budget and performance information by federal agencies. However, much work remains to be done.

I. An overview: The importance of measuring performance

Before considering how much progress has been made in implementing GPRA, PART and the relationship between the two, I'd like to explore the question: why are we doing this? Why should we bother to evaluate the performance of either agencies or programs, and what is the purpose of linking performance information with cost information? In focusing on performance are we taking a narrow approach, thinking only in terms of efficiency, rather than our government's traditional broad focus on policy priorities that reflect a wide range of values?

Policymakers can and do debate values and priorities. Such debates are a healthy aspect of democracy. But a debate about values and priorities is a debate about ends, not means.

Policymakers often articulate many worthwhile ends. Most people of goodwill want to live in a society where the hungry are fed, the homeless are housed, dreaded diseases are eradicated, and we are secure from terrorism (to name just a few.) If government is to accomplish these ends, rather than just make gestures towards accomplishing them, it is imperative that decision makers understand what means can most effectively accomplish those ends.

This involves holding programs to a fact-based standard, not a values-based standard. If our goal is to reduce homelessness, does this program actually accomplish the goal? If so, to what degree does the program succeed? Do other, alternative, approaches reduce homelessness more effectively? How many fewer homeless people would we have if we moved resources from the programs that are less effective to those that are more effective?

Answering these kinds of factual questions requires reliable performance and financial information. Linkage of performance and cost information tells us which means are most likely to accomplish whatever ends policymakers decide are worthwhile.

II. GPRA

GPRA is the most recent initiative of the past fifty years to promote the usage of performance budgets in the federal government to better inform budgetary decision-making. A performance budget can be defined as, "an integrated annual performance plan and annual budget that shows the relationship between funding levels and expected results. It indicates that a goal or set of goals should be achieved at a given level of spending."[1] Performance budgeting means that money will be allocated not only based on policy priorities or perceived needs, but according to the government's ability to address effectively those needs and priorities. [2]

GPRA requires that agencies produce three types of reports: strategic plans, annual performance plans, and annual reports on program performance. In order to meet these reporting requirements, agencies must articulate their goals, design performance measures and assess results achieved.[3] This also requires that agencies be able to link their goals, objectives and performance measures with their budgets.

One of three reports required by agencies under GPRA is an annual performance report, the purpose of which is to give the American people accurate, timely information to let them assess the extent to which agencies are producing tangible public benefits. In this way, GPRA has encouraged the development of performance measures and data. This information helps to assess the progress of agency activities towards meeting their goals.

Since the GPRA requirements came into effect, the Mercatus Center at George Mason University has conducted an annual assessment of the 24 CFO agencies' annual performance reports. The purpose of an annual performance report is to identify how much public benefit federal agencies produce for citizens, and at what

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[1] John Mercer, *Performance Based Budgeting for Federal Agencies*, AMS, Fairfax, 2002, p. 2
[2] Maurice McTigue, Henry Wray and Jerry Ellig, *5th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public?* Mercatus Center at George Mason University, April 2005.
[3] McMurty, Virginia A., *Performance Management and Budgeting in the Federal Government: Brief History and Recent Developments*, CRS Report for Congress, December 5, 2003.

cost. Mercatus' Annual Scorecard evaluates the quality of these reports based on three main criteria: 1) how transparently an agency reports its successes and failures. 2) how well an agency documents the tangible public benefits it claims to have produced; and 3) whether an agency demonstrates leadership that uses annual performance information to devise strategies for improvement.

In evaluating the second criterion: how well an agency documents tangible benefits to the public, agencies are assessed on four questions:

- Are the goals and objectives stated as outcomes?
- Are the performance measures valid indicators of the agency's impact on its outcome goals?
- Does the agency demonstrate that its actions have actually made a significant contribution towards its stated goals?
- Did the agency link its goals and results to costs?

It is the last of these four questions that enables us to assess how much progress agencies have made towards linking costs to performance. Knowledge of resource allocation and linkage to strategic goals, objectives, and performance measures are useful because they help agency management, Congress, and citizens understand what we are receiving in exchange for what we are paying.

Strategic allocation of resources becomes possible only when financial information allows one to calculate the cost per unit of success and to compare alternative methods of *achieving the same goal*. Where there are programs of equal efficacy, then the best means of comparing them is the cost per unit of success. This allows us to know how resources might be used to increase the public benefit.

An agency cannot obtain the highest score on this criterion unless it breaks cost information down sufficiently to make such a calculation possible. The most meaningful linkage in this case is when an agency can link its performance measures to its costs.

We rate agencies on a scale of 1 to 5 on this criterion. Each year, the criteria are tightened to reflect the previous year's best practices. Roughly speaking, the following criteria determined scores for the fiscal 2004 reports:

1 = no linkages to costs

2 = costs linked only to strategic goals

3 = costs linked to strategic objectives within strategic goals

4 = costs linked to some level beyond strategic objectives

5 = costs linked to individual performance measures

In our earlier scorecards we found no agencies were truly meeting this criterion. It was not until our fourth annual scorecard in 2002 that any agency received the highest score. The Small Business Administration (SBA) received a score of five in that year because each performance indicator included a cost estimate. Some performance indicators included a cost per user or cost per output measure. In addition, the agency included a chart that broke down costs for some activities. The agency, however, still lacked an overall listing of costs by strategic goals, though that could be easily calculated.

SBA continued this best practice in 2003, receiving a score of five. SBA linked its FY 2003 budget resources to its strategic goals and long-term objectives. The tables for each long-term objective further allocated costs down to each individual outcome performance measure under the applicable long-term objective. The cost information was presented going back to FY2000, making it possible to calculate each outcome. While the report was formatted to fully link costs to performance measures, the accuracy of the cost information is not certain given SBA's financial management weakness.

Agencies have made some general improvements in recent years, getting closer to linking costs with goals. In this year's scorecard, seven agencies achieved a score of four on this criterion, the greatest number of agencies to achieve this score to date.

These agencies: USAID, Commerce, Energy, Labor, SBA, State and Veterans Affairs broke down costs by more than just strategic goals and objectives. Commerce, USAID and Energy allocated costs among lower-level performance or program goals. The reason none of these agencies obtained the highest possible score is because they failed to allocate costs to individual performance measures. It is this level of detail that enables us to calculate what is paid for various types of successes.

Most agencies still lag far behind in this measure. For FY2004, five agencies received a score of one indicating they have no linkage of costs to goals or measures. However, there has been progress from our first scorecard in 1999, in which 14 agencies received the lowest score on this criterion.

Many agencies are still at the stage of allocating budgets among strategic goals, too high a level for any meaningful performance-based budgeting.

There are obstacles that agencies face in linking costs to performance data. Few agency financial and management information systems are capable of producing cost data linked to performance measures. Until better systems emerge, it is likely that agencies will continue to struggle to link costs to goals.

In terms of the big picture of how agencies are performing in their annual reports, this year's Annual Scorecard found that only 11 percent of the federal budget is covered by reports that averaged a score of 36 – the score a report would have if it received a "satisfactory" score of 3 on each of our 12 criteria. Based on their reports, it is difficult to tell what results are dollars are delivering.

III. How can the legislative and executive branches work together to forward the goals of GPRA?

GPRA is unique among performance budgeting efforts in that it is a legislative and not an executive initiative. However, Congress has not paid much attention to the information in agency reports, though it requires them to be produced. When Congress does begin to use the information contained in agency reports, it will have the effect of motivating agencies to produce better results, better measures, and better data. This in turn will make performance information more accurate, reliable and valuable to Congress when allocating budgetary resources. Good information facilitates transparent and rational decision-making.

The Bush Administration has attempted to use performance information in its budgetary decisions with the development of a tool to evaluate agencies' programmatic performance. The Office of Management and Budget (OMB) created the Program Assessment Rating Tool (PART) in 2002 to evaluate all programmatic activity undertaken by agencies over a five-year period. To date, 60 percent of the budget has been rated, with another 20 percent currently under assessment. A program is evaluated in four areas: purpose and design, strategic planning, program management, and results/accountability. Based on a weighting of these criteria, a program can receive one of five ratings: effective, moderately effective, adequate, ineffective, and results not demonstrated.

PART is an attempt to take GPRA-like analyses of results down to the level of individual programs. By formally linking budget requests with program performance, PART provides a view into how the Executive is making some of its budgetary decisions.

The PART approach has several merits. It is a program-focused evaluation. This is a positive development if performance information is to influence budget decisions. Budget decisions are frequently made at the program level. When multiple programs aim to accomplish similar outcomes, a PART-like evaluation process can facilitate comparisons that help agency managers and Congress identify the most effective ways of accomplishing the agency's goals. If we fail to make such comparisons, we guarantee that important needs will go unmet. While some may say this is inefficient, it is more accurately, irresponsible to those whose needs these programs are supposed to address.

This does not mean that all of OMB's PART evaluations are above criticism. We *do* have access to individual program questionnaires, but we may agree or disagree with individual PART evaluations. There remains a potentially subjective element to how ratings are assigned. The question format is limiting. There are legitimate difficulties that agencies face to relate PART's performance assessment of programs to GPRA's assessment of performance goals, which usually involve multiple programs. Given limited time and resources, it's understandable that some agency managers may feel that PART directs their attention away from GPRA. And we understand that PART's definition of performance or results, developed by OMB in consultation with agencies, may not always mesh perfectly with the performance goals or measures developed by agencies and stakeholders under GPRA.

To the extent that the current PART evaluations fail to adequately assess program performance and provide a basis for comparison of similar programs, PART's supporters and critics should both work to improve it. It would be a setback to the use of performance information in budgeting, if criticisms or shortcomings of PART were to distract decision makers from the important task of systematically evaluating program performance.

III. How has PART influenced Executive budget decisions?

In the "Major Savings and Reforms" in the President's 2006 proposed budget, the Administration has recommended 154 programs for termination or reduction. According to this document, the Administration was guided by three principles in making these decisions

1) Does the program meet the Nation's priorities?
2) Does the program meet the President's principles for appropriate use of taxpayer resources?
3) Does the program produce the results intended?

Of these 154 programs, 99 were recommended for termination for a reduction of $8.8 billion in spending. Of these 99 recommended terminations, 32 programs underwent a

PART review at least once, representing about $6 billion. Sixteen of these programs received a rating of results not demonstrated, six were rated adequate, and ten were rated ineffective.

Of the 55 programs recommended for reductions in spending, 22 underwent a PART review at least once. Eight were rated adequate, four were rated moderately effective, nine were rated results not demonstrated and one was rated ineffective.

A little over one-third (or 54) of the programs recommended for either termination or reduction had been submitted to a PART review, representing about $10 billion in saving or 0.4% of the proposed $2.57 trillion budget. Within these 54 programs, PART appears to have been used in combination with other Administration criteria such as meeting the nation's priorities and an assessment of whether the program is an appropriate use of taxpayer funds. That is, PART is not the only factor that is used to make funding decisions in the Executive, though it has advanced the use of performance information by linking program performance to the President's budgetary proposals.

In addition to reductions and terminations, PART also informed several program reform proposals in both the mandatory and discretionary categories. Notably, OMB performed a cross-cutting analysis of 35 Community and Economic Development programs across seven agencies in FY2005. As a result of this analysis, in combination with PART data on several of these programs, the Administration recommends the consolidation of 18 of these programs into a new initiative under the Commerce Department.

PART analyses are also responsible for recommended reforms to several mandatory programs. The Department of Treasury's Financial Management (FMS) Debt Collection Initiative received an effective rating due to it being, "a well-established tool to collect delinquent non-tax debt." This rating led the President to recommend in his 2005 budget, an initiative to increase opportunities to collect debt owed to agencies.

There is not a perfect correlation between a program's score and whether that program receives an increase or decrease in funding. That is, a poor score does not mean a program will necessarily be cut, and a high score does not mean a program will receive an increase.

Looking only at those programs that were recommended for termination or funding cuts in the FY2006 Major Savings and Reforms, 25 of 179 programs rated results not demonstrated to date were recommended for either termination or a reduction in funding. And half of the 22 programs rated ineffective to date were recommended for termination or cutting (several more ineffective programs were recommended for consolidation as part of budget reform proposals.)

Rating	**Total Progams PARTed**	**Terminations of PARTed programs (FY'06)**	**Total Budget Savings ($000)**	**Reductions in PARTed Programs (FY'06)**	**Total Budget Savings ($000)**
Results not Demonstrated	179	16	$2,999	9	$1,567
Moderately Effective	159	0	$0	4	$604

Ineffective	22	10	$2,598	1	$286
Effective	90	0	$0	0	$0
Adequate	157	6	$755	8	$1,301
Total	*607*	*32*	*$6,352*	*22*	*$3,758*

Performance information is one of several factors that appear to have influenced the Administration's proposed terminations, funding reductions, and reforms.

PART is not the only means by which we may achieve better integration of performance information into the budget. Important arguments remain about PART's mechanics and methodology, the extent to which the ratings are reflective of program performance and the issue of whether agencies are designing meaningful outcome measures as a result, or does PART create an exercise in minimum compliance. These criticisms should not detract from the fact that PART is a consistent and transparent attempt to evaluate program performance and to incorporate performance information into the budgetary process. It focuses on individual programs where budgetary decisions are often made. For this reason, PART is a valuable concept which can only improve the effort to advance performance budgeting.

I would like to conclude by thanking you Mr. Chairman, Senator Carper, and Members of the Committee for taking on this important subject. The integration of performance information into the budget is a vital means of guaranteeing the stewardship of public funds will achieve the most effective results and ensure the greatest public benefits. I hope this testimony will be helpful to the Committee as it considers the role of performance information in the federal budgetary process.

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