

ACHIEVING GREEN IN FINANCIAL PERFORMANCE

President's Management Agenda

Improved Financial Performance Initiative

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Achieving Green in Improved Financial Performance

Introduction

This document is a reference guide on meeting the Green standards of success for the Improved Financial Performance initiative under the President's Management Agenda (PMA). The document is designed to help agencies understand the Green standards of success as well as to prepare for discussions with the Office of Management and Budget (OMB) where agencies will demonstrate and discuss how the criteria are being met. In addition, the reference guide can serve as a knowledge sharing tool whereby agencies can review the initiatives of other agencies in order to generate thoughts for enhancing their existing initiatives or for identifying new ones.

Background

The PMA is focused on ensuring that the resources entrusted to the Federal government are well managed and used wisely. One of the guiding principles for the President's vision for government reform is for the government to be results-oriented. To achieve that end, five government wide initiatives have been undertaken as part of the PMA, including the Improved Financial Performance initiative. The objective of the Improved Financial Performance initiative is for agencies to have accurate and timely financial information to manage cost and achieve efficiencies.

The Improved Financial Performance Scorecard

The Improved Financial Performance scorecard requires that agencies meet nine standards of success to receive a Green status rating. Seven of the standards are Yellow standards, and agencies are eligible for the Yellow rating after meeting all of them. The Yellow standards are also referred to as 'compliance' standards since each standard is a proxy on the accuracy, reliability, and timeliness of data and reports. Agencies report on the disposition of these items in their annual Performance and Accountability Reports (PAR). The Yellow standards are as follows:

1. Receives an unqualified audit opinion on its annual financial statements;
2. Meets financial statement reporting deadlines;
3. Reports in its audited annual financial statements that its systems are in compliance with the FFMIA;
4. Has no chronic or significant Anti-Deficiency Act Violations;
5. Has no material auditor-reported internal control weaknesses;
6. Has no material non-compliance with laws or regulations; and
7. Have no material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.

An agency is eligible for a Green rating once it meets all the Yellow standards and satisfies the two Green or ‘results’ standards. To satisfy the Green standards, agencies are asked to provide evidence that financial information is available for managers on demand and that information is actively being used to help agencies achieve results in key areas of operations. The Green standards and brief descriptions are as follows:

1. Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations.

Agencies demonstrate how financial data is used routinely by managers to make smarter decisions that lead to better or greater results. Examples should: (i) focus on significant business challenges faced by the agency (e.g., ensuring actual contract costs do not exceed expected contract costs); (ii) describe how data is being used to help address the challenge (e.g., analysis of variance by contract task order); and (iii) discuss results (e.g., reduced variances by X amount in Y timeframe).

2. Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional crucial areas of operations.

In this plan, an agency: (i) identifies several specific goals the agency is looking to achieve in the future (e.g., reduce the cost of a major administrative activity); (ii) describes how the agency plans to use data more strategically to achieve the goals (e.g., initiating new reporting tools); and (iii) indicates how the agency will track its progress in achieving the goals (e.g., quarterly cost reduction targets).

Meeting the Green Standards

While there are two Green standards of success, agencies need to provide and describe essentially the same information for both in order to receive approval by OMB. Broadly, these items are as follows:

1. Financial goals that are critical to management;
2. How data is used strategically to achieve the goals; and
3. How success is measured (e.g., reduce cost, increase efficiency) to provide evidence that the desired goal is being achieved.

This information will be shared during discussions with OMB and ultimately formalized in a document referred to as “The Green Plan.” The plan memorializes how agencies will achieve specific goals by using data and continuously expanding the scope of their routine data use to inform management decision-making in additional areas of operations. It acts as the agreement between OMB and the agency on the agency’s near and long-term areas of focus and what key actions and goals will be tracked on the quarterly PMA scorecard.

Preparing the Green Agenda

Typically, the following three activities occur when an agency prepares its Green roadmap:

1. OMB meets with the agency to describe the purpose and objective of the Green standards. During this meeting, OMB presents the broader requirements for the standards (e.g., identifying critical goals, using data strategically, achieving results) as well as highlights examples from other agencies. OMB will also review a series of more detailed questions to which the agency should be responsive in its written documentation.
2. The agency meets internally with financial and programmatic personnel to identify current examples (i.e., best in class) of how it uses financial information to inform decision making and achieve greater results. It should also begin to identify additional areas where it may expand the routine use of data within the agency.
3. The agency presents its current initiatives and recommended areas for future expansion to OMB. This information is reviewed and evaluated by OMB personnel. To finalize “The Green Plan,” OMB and the agency may engage in a series of follow-up question and answer discussions. This may include the agency updating the Green plan to clarify information or (possibly) identify different initiatives for ongoing efforts.

Monitoring Progress and Results

“The Green Plan” is a living document that an agency will periodically update and expand. Once OMB agrees that an agency has met both Green standards and the agency has submitted an acceptable “Green Plan”, OMB will monitor progress and results through the PMA (e.g., Proud-to-Be, quarterly scorecards). OMB will use an agency’s measure(s) of success as the primary indicator(s) that efforts are progressing according to plan.

For initiatives that are under the heading of “currently produces accurate and timely financial information,” agencies will periodically report how well they are performing relative to the objectives in their “Green Plan.” For initiatives under the heading of “implementing a plan to continuously expand the scope of its routine data,” OMB will monitor any actions and milestones needed to put the green initiative into effect (e.g., implementing a new system) as well as periodic reporting of results against targets and goals (i.e., results are being achieved). OMB will also work with agencies on any qualitative assessment needed to gauge progress. For example, if an agency fails to meet a quantitative target, it may be able to demonstrate, to the satisfaction of OMB, how it used the financial and performance information to identify a problem so that performance can improve in subsequent periods. In summary, progress and success are measured by the results an agency achieves in improving performance in key areas of operations.

The remainder of this document includes guidance on the questions to which an agency should be responsive when discussing its efforts for each Green standard. In addition, the document includes descriptions of efforts underway at agencies that are being used to meet the two Green standards. Agencies are encouraged to use a similar format when preparing its “Green Plan” and

related materials. While the examples provided are only summaries of agency initiatives, full initiative write-ups can be documented in less than two pages.

Responding to the Green Standards

To meet the Green standards, agencies should be responsive to the three key questions previously listed under *Meeting the Green Standards*. To ensure that an agency satisfactorily responds to these questions, the key questions have been further broken into more detailed components. Following each more detailed question is a brief discussion of what the agency can consider in its response.

1. What goals are critical to management?

1.1 What business area, risk, or deficiency is the agency addressing through this initiative?

Describe the underlying need that is being met through this initiative. For example, the business area, risk, or deficiency could be selected because it has been one of the agency's top management challenges for the past several years or because this program is critical to achieving the agency mission and is a key cost driver. Areas for consideration include, but aren't limited to, the following:

- Cost reduction / containment of administrative or programmatic functions,
- Financial Integrity,
- Error Reduction (e.g., reducing improper payments),
- Contract Management,
- Procurement Decisions,
- Asset Management (e.g., Operations and Maintenance costs on agency-wide systems and facilities),
- Strengthening of Internal Controls,
- Travel and Purchase Card Management,
- Grants Management, and
- Debt collection and other financial management improvements captured by the Chief Financial Office Council Metrics.

1.2 What results are managers driving with this initiative?

Address the goal(s) they are achieving to respond to the underlying need described in Question 1.1. For example, the goal could be to reduce costs, improve decision making, or strengthen internal controls. Initiatives without a quantifiable measure – such as an initiative that focuses on process-oriented activities (e.g., data collection, administrative duties or survey work) – may adopt a “proxy” measure. In such cases, the initiative must demonstrate a clear link between the “proxy” measure and the goals the initiative is trying to achieve, and clearly explain that relationship.

1.3 What are the business questions that managers are answering with this initiative?

Specify the key business questions managers are trying to answer for the business areas, risks, or deficiencies identified in Question 1.1 and the goal(s) highlighted in Question 1.2. That is, what are the key questions that managers need to answer on a systematic basis to ensure improvements are being made and performance is being sustained over time.

2. How is data used (or to be used) strategically to achieve the goals?

2.1 What data does the agency use to support this initiative and is it readily available?

Identify the data agencies use (or will use) to report on the initiative. Agencies should address whether this data is available through paper-based reports or systematically as well as whether additional reporting tools are required and / or being developed and when they may be available. The data should be able to answer or support the goal(s) the agency is hoping to achieve, be responsive to the questions that managers are looking to answer in Question 1.3, and be used as an input to calculate the results discussed in Question 3.

2.2 How is this information being used at the agency?

Agencies should describe how the information is used to make decisions. A key element of information driving decisions is that the information should answer the questions managers ask. This is different from providing information to managers who then must find a way to use that information. To explain how the information is being used, agencies can respond to questions such as the following:

- How is the data presented (e.g., monthly reports, email “pushes” of problem indicators, dashboards) in order to review key business problems rapidly?;
- How is the data used to answer the key business questions?
- What is the process for changing operations based on the answers to the key business questions provided by analysis of the data?
- Who in the organization looks at the information?;
- Are regular meetings scheduled to discuss the information?; and
- How are managers and others held accountable for improvement?

In short, agencies should describe what the link is between collecting the data and using it to achieve the desired goals.

3. How is success measured (e.g., reduce cost, increase efficiency) to provide evidence that the desired goal is being achieved?

3.1 How are results measured?

Building on the business areas and goals identified in Question 1, agencies should describe the following:

- The measures it will use to monitor progress;
- The baseline performance;
- Any interim targets; and
- The long-term goal.

These measures will be clear indicators of whether the intended goal was achieved. If the goal wasn't achieved, agencies should use its supporting data to isolate the problem areas and revise its dates for achieving interim targets and final goals. As stated earlier, for results that aren't quantifiable, agencies should describe how they will know that a program is better positioned in the future and what indicators could demonstrate this improvement. When considering how to describe the goal, Agency personnel should consider how they would report the results of a program to the Agency head during an annual briefing.

3.2 What are other critical milestones for this effort?

Agencies should discuss other milestones (i.e., process milestones) that demonstrate progress toward the achievement of results, but are not the results identified in Question 3.1. For example, agencies can identify milestones to gather data or build the underlying technology (e.g., data warehouse) to support reporting that will help improve their Improved Financial Performance efforts in the future. While these process milestones are critical actions to achieve the intended results, the results themselves need to be stated as goal oriented goals (see Question 3.1).

“Green Plan” Example

What follows is a series of initiatives accepted under the Green standard. This first example is a detailed example drawn from a Department of Labor initiative entitled ‘Prevention and Detection of Improper Payments in Unemployment Insurance.’ Appendix A includes additional initiative write-ups in *short summary form* from other agencies. As summaries, these don’t reflect the complete discussion needed to accept an initiative under the Green standard. However, a full initiative write-up is possible in less than two pages.

Department of Labor, Prevention and Detection of Improper Payments in Unemployment Insurance

The unemployment insurance program provides eligible recipients with temporary benefits to mitigate the loss of wages due to unemployment. While the Department has overall responsibility for the program, States have primary responsibility for determining eligibility and providing benefit payments.

What goals are critical to management?

What business area, risk, or deficiency is the agency addressing through this initiative?

The unemployment insurance program is the major component of one of the five key business areas performed by the Department of Labor. Approximately \$46 billion was spent in fiscal year 2004 on the unemployment insurance program, a figure that constitutes approximately 80% of the Department’s budget. The two main cost drivers for the program are the programmatic cost of the benefit payments themselves and the administrative costs associated with administering the benefit payments. Payments to individuals who are not eligible for the benefits (improper payments) increase both programmatic and administrative costs.

What results are managers driving with this initiative?

The desired goal for this initiative is to reduce improper payments by denying claims to those no longer eligible.

What are the business questions that managers are answering with this initiative?

- What percent of unemployment insurance benefit disbursements are the result of overpayments?
- What are the leading causes of overpayments?
- What are the solutions to these problems?

How is data used (or to be used) strategically to achieve the results?

What results are agencies targeting for this initiative?

The Department uses the Benefit Accuracy Measurement system to estimate the rate of improper unemployment insurance benefit payments. State Workforce Agencies select representative samples of unemployment insurance payments and conduct an extensive examination of each selected claim, including reviews of available documents and interviews with all parties. All State Workforce Agencies, except the Virgin Islands, are required to conduct Benefit Accuracy Measurement investigations. The results of the investigations, including amounts overpaid, are reported by the States to the Department. The Department is also testing a wage record / new hire cross-match component of Benefit Accuracy Measurement investigations to determine whether the cross-match will be a beneficial, cost effective addition to the investigations.

How is this information being used at the agency?

The analysis of the Benefit Accuracy Measurement data helps identify the major causes of payment errors, and using those findings, the Department provides states with the tools, information, and incentives to improve overpayment prevention and detection. Benefit Accuracy Measurement data also yield information on the types of benefit payment errors which can not currently be detected in a cost-efficient manner. Additionally, the information from the system Benefit Accuracy Measurement is used to set a nationwide performance goal for the detection of overpayments. The statistical data developed by Benefit Accuracy Measurement are extrapolated to produce a national estimate of detectable, recoverable overpayments, which is compared to overpayments actually detected and established for recovery.

How is success measured (e.g., reduce cost, increase efficiency) to know that the desired out is being achieved?

How are results measured?

The baseline for the reduction in the amount of improper payments (i.e., underpayments and overpayments) is 10.34% (the fiscal year 2004 target, and the out-year performance targets are 10.14%, 9.94%, and 9.64% for fiscal year 2005, fiscal year 2006, and fiscal year 2007 respectively. The Benefit Accuracy Measurement data is then used to verify whether the Department has reached its annual objective.

What are other critical milestones for this effort?

The Department is offering States the opportunity to submit budget requests for automated cross-match systems with State and Federal data including data from the Department of Motor Vehicles, the Social Security Administration, and the National Directories of New Hires. The Department predicts that the Social Security Administration data will be fully operational in 75% of the funded States within two years and is facilitating states' access to the National Directories of New Hires.

The Department will assess the effectiveness of the cross-match systems as they are implemented widely. The Administration's fiscal year 2006 budget requests the authority to collect State unemployment insurance overpayments by offsetting Federal income tax refunds. If passed, this will enhance states' ability to recover improper payments. Benefit Accuracy Measurement will also continue to be assessed and refined.

Appendix A – “Green Plan” Short Summary Descriptions

Social Security Administration: Medicare Prescription Drug Improvement and Modernization Act

The Medicare Modernization Act was signed on December 8, 2003, requiring that the Social Security Administration assume new workloads related to implementation of a Medicare Prescription Drug Program (referred to as Part D). This provision, which goes into effect on January 1, 2006, requires that SSA take applications and determine eligibility for a new prescription drug subsidy. These applications are already being filed by potential beneficiaries.

The areas critical to management and the desired goal:

With an initial annual budget of \$500 million for fiscal years 2004 and 2005, the Social Security Administration has been tasked with interpreting, planning for, implementing, and accounting for the process of premium subsidy assistance determination. The Social Security Administration must monitor how effectively resources are being used to serve the needs of Part D applicants, and how much is being charged to the Medicare trust funds to cover the cost of the services being provided.

An explanation of how data is used strategically to achieve results in critical areas:

The Social Security Administration is leveraging its existing Medicare Management Information architecture to support the data needs of the program. The information will be used to identify whether the program is serving the needs of its beneficiaries and to identify what this service is costing the Medicare trust funds.

The way results are measured:

The Social Security Administration will measure results in areas such as customer service, resource planning, and the accuracy of its subsidy determinations. It will continually analyze its management information to ensure that the cost of administering the program is being measured correctly and that the program is servicing the eligible beneficiary population as accurately and effectively as possible with the resources invested.

Department of State: Bureau of Population, Refugees, and Migration - Cost Per Refugee Arrival

The Bureau provides protection and support to refugees, victims of conflicts, and migrants as well as diplomatic and financial assistance to multilateral as well as non-governmental humanitarian organizations that deal with such persons.

The areas critical to management and the desired goal:

One of the more significant cost drivers for this bureau is the Refugees Admissions Program, which admits refugees into the United States, outlaying \$170 million annually to support this function. The desired goal for this initiative is to lower the average cost incurred by the agency per refugee arrival.

An explanation of how data is used strategically to achieve results in critical areas:

The Bureau uses its financial system to track the various cost components (e.g., reception and placement, transportation, overseas processing) of the Refugee Admissions Program and presents the data to managers on a monthly basis so that trends, outliers, and cost performance can be monitored and addressed.

The way results are measured:

State has established annual baseline and target performance measures for reducing the average cost per refugee arrival.

Education Department: Mitigating Grant Portfolio Risk

In fiscal year 2004, the Education Department awarded over 20,000 discretionary and formula grant awards across nine individual program offices, totaling more than \$44 billion.

The areas critical to management and the desired goal:

The Department oversees these awards by working to mitigate the risk that grant funds are being improperly used or otherwise ensuring that grantees are meeting their obligations as Federal funding recipients. A critical goal / objective of the Department's is to ensure the integrity of the grant portfolio.

An explanation of how data is used strategically to achieve results in critical areas:

The Department is establishing the Grants High Risk Module, the official central repository for all information related to grants or grantees that have been designated as high risk. The module will be a tool to risk pool grantees based on available data. In addition to maintaining critical information on the identity of high risk grantees, the tool will generate user-friendly reports to Department managers to help ensure that they make better decisions on award determinations and grantee monitoring. It has also developed a Monitoring Information System that will provide quantitative data on individual program office activity directly related to monitoring requirements.

The way results are measured:

The Department is tracking the number of grants and total dollars awarded to high risk grantees and taking steps based on this data to mitigate grant portfolio risk.

National Science Foundation: Facilities Management

The National Science Foundation supports investments for state-of-the-art tools and research facilities to educate and train the next generation of scientists and engineers.

The areas critical to management and the desired goal:

NSF currently invests over \$1 billion annually in major multi-user research facilities, of which approximately \$175 - \$270 million is for five to seven ongoing construction projects. The desired goal of this initiative is to ensure proactive resolution of performance issues, thereby avoiding negative impacts to facility lifecycle costs.

An explanation of how data is used strategically to achieve results in critical areas:

NSF is developing a system to capture obligation data in fiscal year 2005 that identifies the cost of key facility lifecycle phases including development, procurement, construction, operations and support, and shut-down. Staff will be able to quickly and easily generate reports that provide information by lifecycle phase and that include funding from all NSF appropriation accounts.

The way results are measured:

NSF staff will have the ability to identify obligations by lifecycle phase and determine whether the cost is within predefined ranges.

Department of Energy: Earned Value Management

The Department of Energy is required to use earned value management as a tool to manage its capital asset projects with a total project cost of \$20 million or more.

The areas critical to management and the desired goal:

The Department presently uses earned value management on 53 capital assets projects valued at over \$12 billion and 52 environmental restoration operating projects valued at over \$108 billion. The desired goal of this initiative is to ensure proactive resolution of performance issues to avoid any negative impacts to the overall project costs and schedules.

An explanation of how data is used strategically to achieve results in critical areas:

The earned value management data is used by Department executive, program managers, project directors, and site contractors to manage performance and monitor progress. Reports highlighting overall progress and performance issues are tailored to managers' needs such that the most senior Department personnel review summarized reports and site managers use detailed performance information on site activities. The Department is also undergoing a rigorous certification program to improve data integrity and ensure that the earned value management systems comply with industry accepted standards. The certification process verifies that performance data generated by the earned value management system is accurate and is being used to actively manage the project(s).

The way results are measured:

On a monthly basis, the Department is reporting and measuring several project components including whether they are within pre-defined cost and schedule ranges as well as progress in certifying the earned value management systems.

Environmental Protection Agency: Grants Management

Grants annually account for approximately 45% of the Environmental Protection Agency's total expenditures and are awarded for projects that are pertinent to its mission of protecting human health and the environment.

The areas critical to management and the desired goal:

The Agency's *2003 – 2008 Grants Management Plan* charted a path for more effectively managing and monitoring grant awards. The three centerpieces of this plan for improving management decisions are integrating financial and grants data, eliminating duplicate data entry, and maximizing financial data to assess capabilities of non-profits.

An explanation of how data is used strategically to achieve results in critical areas:

The Agency will be integrating its grants management and financial management systems to improve the entry and reporting of information to support the overall grants management process. This integrated tool will not only ensure that decision makers have access to the necessary financial data to make informed decisions on grants, but will also improve data through single source entry.

The way results are measured:

The EPA will measure progress and results by measuring the reduction of unliquidated obligations, optimizing personnel resources, and improving overall audit compliance.

Department of Commerce: Decennial Census

The Census Bureau within the Department of Commerce is the largest statistical agency of the Federal government, with an annual budget that exceeds \$990.5 million. One of the central missions of the Bureau is to carry out the decennial census – a comprehensive survey of the population and housing of the United States.

The areas critical to management and the desired goal:

The lifecycle cost of conducting the 2010 Census is expected to be \$11.3 billion (based on the fiscal year 2006 President's Budget). The Department of Commerce is taking steps to ensure that this large-scale effort is carried out in the most cost efficient manner possible, as even modest improvements in expected cost will yield significant savings for taxpayers. The Department's desired goal of this initiative is to ensure that Census Bureau managers have the data necessary to help manage costs and other efficiencies associated with the implementation of the 2010 census.

An explanation of how data is used strategically to achieve results in critical areas:

The Department's Consolidate Reporting System will integrate data from a variety of systems (e.g., Commerce Business System, 2010 Management Information System) and generate a series of performance metrics associated with reducing costs, improving operational efficiencies, and reducing risks associated with the 2010 Census. The Department's managers will use the Consolidate Reporting System to generate reports that track the agency's performance against established cost reduction targets and milestones.

The way results are measured:

The Department will assess progress and results by evaluating performance against cost targets and other efficiency measures. Measures for the 2010 Census include unit cost measures for the Initial Mail Collection, Telephone Non-Response Follow-up, and Personal Visit Non-Response Follow-up operations of the American Community Survey.