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PERFORMANCE BUDGETING

Current Developments and Future Prospects

Statement of Paul L. Posner, Managing Director
Federal Budget Analysis, Strategic Issues

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GAO-03-595T

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Highlights

Highlights of GAO-03-595T report to the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

Why GAO Did This Study

Since the Government Performance and Results Act (GPRA) was enacted in 1993, federal agencies increasingly have been expected to link strategic plans and budget structures with program results. The current administration has taken several steps to strengthen and further the performance-resource linkage by making budget and performance integration one of its five management initiatives included in the President's Management Agenda.

GAO has reported and testified numerous times on agencies' progress in making clearer connections between resources and results and how this information can inform budget deliberations. The administration's use of the Program Assessment Rating Tool (PART) for the fiscal year 2004 President's budget and further efforts in fiscal year 2005 to make these connections more explicit, have prompted our examination of what can and cannot be expected from performance budgeting.

www.gao.gov/cgi-bin/getrpt?GAO-03-595T.

To view the full testimony, click on the link above. For more information, contact Paul Posner at (202) 512-9573 or posnerp@gao.gov.

What GAO Found

Performance management is critical to delivering program results and ensuring accountability, but it is not without risks. Building on agencies' hard-won achievements in developing plans and measures, the government faces the challenge of promoting the use of that information in budget decision making, program improvement, and agency management. More explicit use of performance information in decision making promises significant rewards, but it will not be easy. Decision makers need a road map that defines what successful performance budgeting would look like, and identifies key elements and potential pitfalls.

Credible performance information and measures are critical for building support for performance budgeting. For performance data to more fully inform resource allocation decisions, decision makers must feel comfortable with the appropriateness and accuracy of the outcome information and measures presented—that is, that they are comprehensive and valid indicators of a program's outcomes. Decision makers likely will not use performance information that they do not perceive to be credible, reliable, and reflective of a consensus about performance goals among a community of interested parties. The quality and credibility of outcome-based performance information and the ability of federal agencies to evaluate and demonstrate their programs' effectiveness are key to the success of performance budgeting.

Successful performance budgeting is predicated on aligning performance goals with key management activities. The closer the linkage between an agency's performance goals, its budget presentation, and its net cost statement, the greater the reinforcement of performance management throughout the agency and the greater the reliability of budgetary and financial data associated with performance plans. Clearer and closer association between expected performance and budgetary requests can more explicitly inform budget discussions and shift the focus from inputs to expected results.

The test of performance budgeting will be its potential to reshape the kinds of questions and trade-offs that are considered throughout the budget process. The real payoff will come in strengthening the budget process itself. The focus on outcomes potentially can broaden the debate and elevate budget trade-offs from individual programs to a discussion of how programs work together to achieve national goals. It is critical to understand how programs fit within a broader portfolio of tools and strategies for program delivery. Shifting perspectives from incremental budgeting to consideration of all resources available to a program, that is, base funding as well as new funds, potentially can lead to a reexamination of existing programs, policies, and activities. Prudent stewardship of our nation's resources is essential not only to meeting today's priorities, but also for delivering on future commitments and needs.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss efforts to further integrate budget and performance information—what many have referred to as "performance budgeting." Since the Government Performance and Results Act (GPRA) was enacted in 1993, federal agencies have been increasingly expected to focus on achieving results and to demonstrate, in performance plans and reports, how their activities help achieve agency goals. The current administration has taken several steps to strengthen and further performance-resource linkages for which GPRA laid the groundwork. For example, the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART), has been designed to use performance information more explicitly in the federal budget formulation process by summarizing performance and evaluation information. The administration applied this new tool to about 20 percent of the programs in the fiscal year 2004 President's budget request. Most recently, OMB required agencies to submit a performance-based budget for fiscal year 2005 and later years.

Given this effort to change the presentation of the President's budget request to explicitly connect agencies' budget and planning structures, it is crucial to understand what can and cannot be expected from performance budgeting, and what opportunities and challenges lay ahead.

In my testimony today I make several points:

- Performance management is critical to delivering program results and ensuring accountability, but it is not without risks.

- In a sense decision makers need a strategic plan for performance budgeting—a road map to define what performance budgeting would look like.

- The presence of credible performance information and measures is a critical underpinning for building support for performance budgeting.

- Successful performance budgeting is predicated on aligning performance goals with key management activities.

- Ultimately, the test of performance budgeting will be its potential to reshape the kinds of questions and trade-offs that are considered throughout the budget process.

This testimony draws upon our wide-ranging ongoing and completed work on federal budget and performance integration; the President's *Budget of the U.S. Government*, *Fiscal Year 2004;* and performance management initiatives. We conducted our work in accordance with generally accepted government auditing standards.

Current Performance Budgeting Initiatives Are Grounded in Past Efforts

An Historical Perspective

In the 1990s, Congress and the executive branch laid out a statutory and management framework that provides the foundation for strengthening government performance and accountability, with GPRA as its centerpiece. GPRA is a continuation of more than 50 years of efforts to link resources with results. These management reforms of the past—the Budget and Accounting Procedures Act of 1950, Planning-Programming-Budgeting-System, Management by Objectives, and Zero-Base-Budgeting—failed partly because they did not prove to be relevant to budget decision makers in the executive branch or Congress.[1]

GPRA melds the best features, and avoids the worst, of its predecessors. Unlike most of its predecessors, GPRA is grounded in statute, giving Congress an oversight stake in the success of this initiative. Moreover, unlike these other initiatives, GPRA explicitly sought to promote a connection between performance plans and budgets. The expectation was that agency goals and measures would be taken more seriously if they were perceived to be used and useful in the resource allocation process. GPRA has now entered its 10th year, has survived two successive administrations, and has periodically formed the basis for congressional oversight.

[1] U.S. General Accounting Office, *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation*, GAO/AIMD-97-46 (Washington, D.C.: Mar. 27, 1997).

Recent Initiatives

The current administration has implemented several efforts to more completely integrate information about cost and performance during its annual budget review process. The President's Management Agenda (PMA), by focusing on 14 targeted areas—5 mutually reinforcing governmentwide goals and 9 program initiatives—seeks to improve the management and performance of the federal government. Budget and performance integration is one of the administration's five priorities in the PMA, while PART is the central element in the performance budgeting piece of the PMA.

To track both agencies' progress towards and current status in achieving each of the five PMA initiatives, OMB implemented an Executive Branch Management scorecard. We have found that the value of the scorecard, with its red, yellow, and green "stoplight" grading system, is not, in fact, the scoring, but the degree to which scores lead to a sustained focus and demonstrable improvements. The Scorecard criteria for the budget and performance integration initiative include elements such as the integration of budget and planning staff, an integrated performance plan and budget grounded in outcome goals and aligned with the staff and resources necessary to achieve program targets, and whether the agency can document program effectiveness. While the scorecard focuses on the capacity of agency management to develop an infrastructure for performance budgeting, OMB's PART is meant to more explicitly infuse performance information into the budget formulation process at a level at which funding decisions are made.

PART was applied during the fiscal year 2004 budget cycle to 234 "programs."[2] OMB rated programs as "effective," "moderately effective," "adequate," or "ineffective" based on program design, strategic planning, management, and results. If OMB deemed a program's performance information and/or performance measures insufficient or inadequate, a fifth rating of "results not demonstrated" was given. According to OMB, the assessments were a factor in funding decisions for the President's fiscal year 2004 budget request. In an unprecedented move, OMB has made the assessment tool, rating results, and supporting materials available on its Web site.

[2] There is no consistent definition for the term program. For purposes of PART, the unit of analysis (program) should have a discrete level of funding clearly associated with it.

OMB has said that it will apply PART to another 20 percent of programs and reassess the fiscal year 2004 programs in developing the President's fiscal year 2005 budget request. Moreover, it has announced its intention to use agencies' updated strategic plans, which were due in March 2003, as templates for future budget requests.

Performance Budgeting Holds Great Promise and Great Challenges

During GPRA's first 10 years, the federal government has managed, for the first time, to generate a systematic, governmentwide effort to develop strategic and performance plans covering the essential functions of government. While clearly a work in progress, the formulation of performance goals and indicators has laid the foundation for a more fundamental transformation in how the government does business.

As we begin this next decade of performance management at the federal level, we may have reached a crossroad. Building on agencies' hard-won achievements in developing plans and measures, the government now faces the challenge of promoting the use of that information in budget decision making, program improvement, and agency management.

Promoting a more explicit use of performance information in decision making promises significant rewards, but it will not be easy, and in fact, is fraught with risks. Decision makers need a road map that defines what successful performance budgeting would look like, and that identifies the key elements and potential pitfalls on the critical path to success. In a sense, what is needed is a strategic plan for performance budgeting.

In the remainder of this testimony I will discuss some of these key elements and risks, including a definition and expectations for performance budgeting itself; the underpinnings of credible performance information and measures; addressing the needs of various potential users; the alignment of performance planning with budget and financial management structures; elevating budget trade-offs; and the continuing role of congressional oversight.

What Is Performance Budgeting, and What Might Be Expected from It?

Performance-based budgeting can help enhance the government's capacity to assess competing claims in the budget by arming budgetary decision makers with better information on the results of both individual programs as well as entire portfolios of tools and programs addressing common performance outcomes. Although not the answer to vexing resource trade-offs involving political choice, performance information could help policymakers address a number of questions, such as whether programs are contributing to their stated goals, well-coordinated with related initiatives at the federal level or elsewhere, and targeted to those most in need of services or benefits. It can also provide information on what outcomes are being achieved, whether resource investments have benefits that exceed their costs, and whether program managers have the requisite capacities to achieve promised results.

Although performance budgeting can reasonably be expected to change the nature of resource debates, it is equally important to understand what it cannot do. Previous management reforms have been doomed by inflated and unrealistic expectations, so it is useful to be clear about current goals.

Performance budgeting cannot replace the budget process as it currently exists, but it can help shift the focus of budgetary debates and oversight activities by changing the agenda of questions asked in these processes. Budgeting is essentially the allocation of resources; it inherently involves setting priorities. In its broadest sense, the budget debate is the place where competing claims and claimants come together to decide how much of the government's scarce resources will be allocated across many compelling national purposes. Performance information can make a valuable contribution to this debate, but it is only one factor and it cannot substitute for difficult political choices. There will always be a debate about the appropriate role for the federal government and the need for various federal programs and policies—and performance information cannot settle that debate. It can, however, help move the debate to a more informed plane, one in which the focus is on competing claims and priorities. In fact, it raises the stakes by shifting the focus to what really matters—lives saved, children fed, successful transitions to self-sufficiency, and individuals lifted out of poverty.

Under performance budgeting, people should not expect that good results will always be rewarded through the budget process while poor results will always have negative funding implications. Viewing performance budgeting as a mechanistic arrangement—a specific level of performance in exchange for a certain amount of funding—or in punitive terms—produce results or risk funding reductions—is not useful. Such mechanistic relationships cannot be sustained. Rather than increase accountability, these approaches might instead devalue the process by favoring managers who meet expectations by aiming low. The determination of priorities is a function of competing values and interests that may be informed by performance information but also reflects such factors as equity, unmet needs, and the appropriate role of the federal government in addressing these needs.

OMB's PART initiative illustrated that improving program design and management may be a necessary investment in some cases. For example, the Department of Energy's Environmental Management (Cleanup) program was rated "ineffective" under PART. The administration recommended additional funds for the program compared to fiscal year 2002 funding and reported that the Department will continue to work with federal and state regulators to develop revised cleanup plans. The Department of State's Refugee Admissions to the U.S. program was rated "adequate" under PART; in addition to recommending increased funding, the administration will review the relationship between this program and the Office of Refugee Resettlement at the Department of Health and Human Services. For its part, State will continue its ongoing efforts to improve strategic planning to ensure that goals are measurable and mission-related.

Ultimately, performance budgeting seeks to increase decision makers' understanding of the links between requested resources and expected performance outcomes. Such integration is critical to sustain and institutionalize performance management reforms. As the major annual process in the federal government where programs and activities come up for regular review and reexamination, the budget process itself benefits as well if the result of integration is better, more reliable performance information.

Credible Performance Information and Agencies' Capacity to Produce It Is Critical

For performance data to more fully inform resource allocations, decision makers must feel comfortable with the appropriateness and accuracy of the outcome information and measures presented—that is, they are comprehensive and valid indicators of a program's outcomes. Decision makers likely will not use performance information that they do not perceive to be credible, reliable, and reflective of a consensus about performance goals among a community of interested parties. Moreover, decisions might be guided by misleading or incomplete information, which ultimately could further discourage the use of this information in resource allocation decisions.

Accordingly, the quality and credibility of outcome-based performance information and the ability of federal agencies to produce such evaluations of their programs' effectiveness are key to the success of performance-based budgeting. However, in the fiscal year 2004 President's budget request, OMB rated 50 percent of PART programs as "results not demonstrated" because they found that the programs did not have adequate performance goals and/or data to gauge program performance were not available. Likewise, GAO's work has noted limitations in the quality of agency performance and evaluation information and in agency capacity to produce rigorous evaluations of program effectiveness. We have previously reported that agencies have had difficulty assessing many program outcomes that are not quickly achieved or readily observed and contributions to outcomes that are only partly influenced by federal funds. [3] Furthermore, our work has shown that few agencies deployed the rigorous research methods required to attribute changes in underlying outcomes to program activities.[4]

Data Quality

If budget decisions are to be based in part on performance data, the integrity, credibility, and quality of these data and related analyses become more important. Developing and reporting on credible information on outcomes achieved through federal programs remains a work in progress. For example, we previously reported[5] that only five of the 24 Chief Financial Officers (CFO) Act agencies' fiscal year 2000 performance reports included assessments of the completeness and reliability of their performance data in their transmittal letters. Further, although concerns about the quality of performance data were identified by the inspectors general as either major management challenges or included in the discussion of other challenges for 11 of the 24 agencies, none of the agencies identified any material inadequacies with their performance data in their performance reports.

[3] U.S. General Accounting Office, *Performance Budgeting: Opportunities and Challenges*, GAO-02-1106T (Washington, D.C.: Sept. 19, 2002).

[4] U.S. General Accounting Office, *Program Evaluation: Agencies Challenged by New Demand for Information on Program Results*, GAO/GGD-98-53 (Washington, D.C.: Apr. 24, 1998).

[5] U.S. General Accounting Office, *Performance Reporting: Few Agencies Reported on the Completeness and Reliability of Performance Data*, GAO-02-372 (Washington, D.C.: Apr. 26, 2002).

Moreover, reliable cost information is also important. Unfortunately, as we recently reported,[6] most agencies' financial management systems are not yet able to routinely produce information on the full cost of programs and projects as required by the Federal Financial Management Improvement Act of 1996 (FFMIA).[7]

The ultimate objective of FFMIA is to ensure that agency financial management systems routinely provide reliable, useful, and timely financial information, not just at year-end or for financial statements, so that government leaders will be better positioned to invest resources, reduce costs, oversee programs, and hold agency managers accountable for the way they run programs. To achieve the financial management improvements envisioned by the CFO Act, FFMIA, and more recently, the PMA, agencies need to modernize their financial management systems to generate reliable, useful, and timely financial information throughout the year and at year-end. Meeting the requirements of FFMIA presents long-standing, significant challenges that will be attained only through time, investment, and sustained emphasis on correcting deficiencies in federal financial management systems.

Evaluation Capacity

In the past, we have also noted limitations in agency capacity to produce high-quality evaluations of program effectiveness.[8] Through GPRA reporting, agencies have increased the information available on program results. However, some program outcomes are not quickly achieved or readily observed, so agencies have drawn on systematic evaluation studies to supplement their performance data collection and better understand the reasons behind program performance. However, in survey based on 1995 data covering 23 departments and independent agencies, we found that agencies were devoting variable but relatively small amounts of resources to evaluating program results. Many program evaluation offices were small, had other responsibilities, and produced only a few effectiveness studies annually. Moreover, systematic program evaluations—and units responsible for producing them—had been concentrated in only a few agencies. Although many federal programs attempt to influence complex systems or events outside the immediate control of government, we have

[6] U.S. General Accounting Office, *Financial Management: FFMIA Implementation Necessary to Achieve Accountability*, GAO-03-31 (Washington, D.C.: Oct. 1, 2002).

[7] P. L. 104-208, Div. A, Title I, sec. 101(f) [Title VIII], 110 Stat. 3009-389 (1996).

[8] GAO/GGD-98-53.

expressed continued concern that many agencies lack the capacity to undertake the program evaluations that are often needed to assess a federal program's contributions to results where other influences may be at work. In addition to information on the outcomes, impact evaluations using scientific research methods are needed to isolate a particular program's contribution to those outcomes. Yet in our survey, we found that the most commonly reported study design was judgmental assessment of program effects. These judgmental assessments, one-time surveys, and simple before-and-after studies accounted for 40 percent of the research methods used in agencies' evaluation studies conducted during the period we studied.

There are inherent challenges affecting agencies' capacity to conduct evaluations of program effectiveness. For example, many agency programs are designed to be one part of a broader effort, working alongside other federal, state, local, nonprofit, and private initiatives to promote particular outcomes. Although information on the outcomes associated with a particular program may be collected, it is often difficult to isolate a particular program's contribution to those outcomes. Additionally, where federal program responsibility has devolved to the states, federal agencies' ability to influence program outcomes diminishes, while at the same time, their dependence on states and others for data with which to evaluate programs grows.

In past reports, we have identified several promising ways agencies can potentially maximize their evaluation capacity. For example, careful targeting of federal evaluation resources on key policy or performance questions and leveraging federal and nonfederal resources show promise for addressing key questions about program results. Other ways agencies might leverage their current evaluation resources include adapting existing information systems to yield data on program results, drawing on the findings of a wide array of evaluations and audits, making multiple use of an evaluation's findings, mining existing databases, and collaborating with state and local program partners to develop mutually useful performance data.

Our work has also shown that advance coordination of evaluation activities conducted by program partners is necessary to help ensure that the results of diverse evaluation activities can be synthesized at the national level.[9]

Improvements in the quality of performance data and the capacity of federal agencies to perform program evaluations will require sustained commitment and investment of resources, but over the longer term, failing to discover and correct performance problems can be much more costly. More importantly budgetary investments need to be viewed as part of a broader initiative to improve the accountability and management capacity of federal agencies and programs.

Credible Performance Information Must Be Available to and Used by Actors with Different Needs

Improving the supply of performance information is in and of itself insufficient to sustain performance management and achieve real improvements in management and program results. Rather, it needs to be accompanied by a demand for that information by decision makers and managers alike. The history of performance budgeting has shown that the supply of information will wither if it is perceived to have failed to affect decision making. Accordingly, PART may complement GPRA's focus on increasing the supply of credible performance information by promoting the demand for this information in the budget decision making process.

[9] In a report to be issued in May 2003, we discuss the experiences of five diverse agencies that have demonstrated evaluation capacity. The report also identifies useful capacity-building strategies that other agencies might adopt.

Successful use of performance information in budgeting should not be defined only by the impact on funding levels in presidential budget requests and the congressional budget process. Rather, resource allocation decisions are made at various other stages in the budget process, such as agency internal budget formulation and execution and in the congressional oversight and reauthorization process.[10] If agency program managers perceive that program performance and evaluation data will be used to make resource decisions throughout the resource allocation process and can help them make better use of these resources, agencies may make greater investments in improving their capacity to produce and procure quality information. For example, in our work at the Administration on Children and Families, we describe three general ways in which resource allocation decisions at the programmatic level are influenced by performance: (1) training and technical assistance money is often allocated based on needs and grantee performance, (2) partnerships and collaboration help the agency work with grantees towards common goals and further the administration's agenda, and (3) organizing and allocating staff around agency goals allow employees to link their day-to-day activities to longer-term results and outcomes.[11] It is important to note that these and other examples from our work at the Veterans Health Administration and the Nuclear Regulatory Commission affect postappropriations resource decisions, that is, the stage where programs are being implemented during what is generally referred to as budget execution.[12]

[10] Philip G. Joyce and Susan Seig, *Using Performance Information for Budgeting: Clarifying the Framework and Investigating Recent State Experience* (Washington, D.C.: American Society for Public Administration, 2000).

[11] U.S. General Accounting Office, *Managing for Results: Efforts to Strengthen the Link Between Resources and Results at the Administration for Children and Families*, GAO-03-09 (Washington, D.C.: Dec. 10, 2002).

[12] U.S. General Accounting Office, *Managing for Results: Efforts to Strengthen the Link Between Resources and Results at the Veterans Health Administration*, GAO-03-10 (Washington, D.C.: Dec. 10, 2002), and *Managing for Results: Efforts to Strengthen the Link Between Resources and Results at the Nuclear Regulator Commission*, GAO-03-258 (Washington, D.C.: Dec. 10, 2002).

Structural Alignment

Sustaining a focus on performance budgeting in the federal government is predicated upon aligning performance goals with all key management activities—budgeting, financial management, human capital management, capital acquisition, and information technology management. The closer the linkage between an agency's performance goals, its budget presentation, and its net cost statement, the greater the reinforcement of performance management throughout the agency and the greater the reliability of budgetary and financial data associated with performance plans. Clearer and closer association between expected performance and budgetary requests can more explicitly inform budget discussions and focus them—both in Congress and in agencies—on expected results, rather than on inputs or transactions solely.[13]

Throughout government, as figure 1 shows, there exists a general lack of integration among budget, performance, and financial reporting structures.[14] Moreover, these structures can vary considerably across the departments and agencies of the federal government. For example, the current budget account structure was not created as a single integrated framework, but developed over time to reflect the many roles it has been asked to play and to address the diverse needs of its many users. It reflects a variety of different orientations which for the most part do not reflect agency performance goals or objectives. Agency budget accounts, for instance, can be organized by items of expense, organizational unit, program, or a combination of these categories.

[13] For further information see U.S. General Accounting Office, *Managing for Results: Results-Oriented Budget Practices in Federal Agencies*, GAO-01-1084SP (Washington, D.C.: August 2001).

[14] U.S. General Accounting Office, *Managing for Results: Agency Progress in Linking Performance Plans with Budgets and Financial Statements*, GAO-02-236 (Washington, D.C.: Jan. 4, 2002).

Figure 1: GPRA Performance Planning, Budget, and Net Cost Model

Budget	Performance Planning	Statement of Net Cost
Agency	**General Goal**	**Agency**
Budget Account	Strategic Objective	Responsibility Segment
Program Activity	Performance Goal	Segment Output
Budget	**Performance Planning**	**Statement of Net Cost**

Source: GAO.

The general lack of integration between these structures can hamper the ability of agencies to establish and demonstrate the linkage between budget decisions and performance goals. While special analyses can help illustrate these linkages, such efforts are often burdensome and awkward. A systematic capacity to crosswalk among these disparate structures can help encourage a more seamless integration of resources with results. Better matching of full costs associated with performance goals helps increase decision makers' understanding of the links between requested resources and expected performance outcomes. This will eventually require linkages between performance planning and budget structures (to highlight how requested resources would contribute to agency goals) as well as linkages between performance plans and financial reporting structures (to highlight the costs of achieving agency goals). Ultimately, over the longer term, this integration may require changing the structures themselves to harmonize their orientations.

Our work indicates that progress has been made. Agencies are developing approaches to better link performance plans with budget presentations and financial reporting. They have made progress in both in establishing linkages between performance plans and budget requests and in translating those linkages into budgetary terms by clearly allocating funding from the budget's program activities to performance goals.[15]

For example, table 1 and figure 2 show the approaches used by the Department of Housing and Urban Development (HUD) in its last three performance plans. In table 1, for fiscal years 2000 and 2001, HUD used summary charts to array its requested resources by general goal but progressed from portraying this linkage with an "x" in fiscal year 2000 to using funding estimates derived from its budget request in fiscal year 2001. Figure 2 shows the fiscal year 2002 plan in which HUD removed the summary charts and instead directly portrayed the linkages in the body of the plan.

[15] GAO-02-236.

Table 1: Change in HUD's Presentation of Performance Plan-Budget Linkages, Fiscal Years 2000 and 2001

Fiscal Year 2000 performance plan

		General goals				
Selected examples of accounts or program activities	**Budget request**	**Increase availability of decent, safe, and affordable housing in American communities**	**Ensure equal opportunity in housing for all Americans**	**Promote self-sufficiency and asset development of families and individuals**	**Improve community quality of life and economic vitality**	**Restore the public trust in HUD**
Public Housing Capital Fund	$2,555	X		X	X	
Community Development Block Grants	$4,775	X	X	X	X	
FHA: GI/SRI	$208	X	X		X	

Fiscal Year 2001 performance plan

		General goals				
Selected examples of accounts or program activities	**Budget request**	**Increase availability of decent, safe, and affordable housing in American communities**	**Ensure equal opportunity in housing for all Americans**	**Promote self-sufficiency and asset development of families and individuals**	**Improve community quality of life and economic vitality**	**Ensure the public trust in HUD**
Public Housing Capital Fund	$2,955	$2,069	$443	$148	$295	--
Community Development Block Grants	$4,900	$1,470	$490	$980	$1,960	--
FHA: GI/SRI	$456	$456	--	--	--	--

Source: HUD.

Note: Dollars in millions. GAO analysis of HUD data.

Figure 2: HUD's Presentation of Performance Plan-Budget Linkages, Fiscal Year 2002

HUD's FY 2002 Annual Performance Plan

Resources supporting Strategic Goal 1: Increase the availability of decent, safe and affordable housing in American communities.

Budget Authority (BA) and Staffing Levels (BA is $ in millions)	FY 2000		FY 2001		FY 2002	
Program	**BA**	**Staff**	**BA**	**Staff**	**BA**	**Staff**
Community Planning & Development						
Community Development Block Grants Fund	1,587	136	1,687	133	1,585	133
HOME Investment Partnership Program a/	1,636	220	1,796	216	1,796	216
HOPWA	232	32	257	31	277	31
Rural Housing	25	18	25	18	0	18
Public and Indian Housing						
Housing Certificate Fund b/	7,095	168	8,667	167	8,383	167
Public Housing Operating Fund	1,484	149	1,530	148	1,601	148
Public Housing Capital Fund	2,884	86	2,993	86	2,293	86
HOPE VI	316	61	316	61	316	71
Indian Housing Block Grant	472	116	486	115	486	115
Indian Housing Loan Guarantee	5	4	5	4	5	4
Housing						
Sections 202/811 (elderly and disabled)	910	276	894	274	901	274
FHA MMI/CMHI	430	886	430	878	434	878
FHA GI/SRI c/	262	531	456	555	375	644
Manufactured Housing	11	12	11	12	17	12
Other Housing programs d/	0	21	0	21	0	21
Ginnie Mae	9	61	9	66	9	66
Healthy Homes & Lead Hazard Control	80	25	100	23	110	23
Other HUD Staff e/	-	228	-	163	-	64
TOTAL	17,438	3,030	19,662	2,971	18,588	2,971

Source: HUD's fiscal year 2002 performance plan.

[a] HOME includes housing counseling staff in the Office of Housing.

[b] Housing Certificate Fund BA numbers represent program levels instead of net budget authority (BA figures for this account are significantly affected by rescissions and advanced appropriations). Staff includes Office of Housing staff working with project-based Section 8.

[c] Fiscal year 2001 BA total does not include supplemental appropriations.

[d] Includes programs that do not receive a discretionary appropriation.

[e] Other staff includes the Real Estate Assessment Center and the Office of Multifamily Housing Assistance Restructuring.

We have also seen progress in agencies' initial efforts to link annual performance reporting with annual audited financial statements.[16] For example, for fiscal year 2000, 13 of the 24 agencies covered by the CFO Act, compared to 10 in fiscal year 1999, reported net costs in their audited annual financial statements using a structure that was based on their performance planning structure.

Better understanding the full costs associated with program outcomes is another important but underdeveloped element of performance budgeting. This entails a broader effort to more fully measure the indirect and accrued costs of federal programs. The administration has proposed that agencies be charged for the government's full share of the accruing costs of all pension and retiree health benefits for their employees as those benefits are earned. Such a proposal could help better reflect the full costs accrued in a given year by federal programs.

Recognizing long-term costs is also important to understanding the future sustainability and flexibility of the government's fiscal position. For activities such as environmental cleanup costs, the government's commitment occurs years before the cash consequences are reflected in the budget. These costs should be considered at the time resource commitments are made. Building on past work,[17] we are currently exploring these issues in greater detail.

More broadly, timely, accurate, and useful financial information is essential for managing the government's operations more efficiently, effectively, and economically; meeting the goals of financial reform legislation (such as the CFO Act); supporting results-oriented management approaches; and ensuring ongoing accountability. We have continued to point out that the federal government is a long way from successfully implementing the statutory reforms of the 1990s. Widespread financial management system weaknesses, poor recordkeeping and documentation, weak internal controls, and a lack of information have prevented the government from having the cost information needed to effectively and efficiently manage operations or accurately report a large portion of its assets, liabilities, and costs.

[16] GAO-02-236.

[17] U.S. General Accounting Office, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, GAO-03-213 (Washington, D.C.: Jan. 24, 2003).

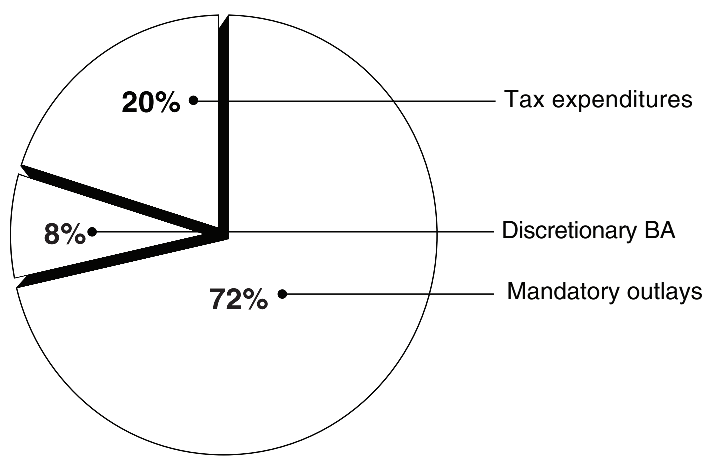
Performance Budgeting Can Broaden the Debate on Budget Trade-offs

Looking forward, it is appropriate to ask why all of this effort is worthwhile. Certainly making clear connections between resources, costs, and performance for programs is valuable. Improving evaluation capacity has the potential to create the demand to support further improvements. However, the real payoff will come in strengthening the budget process itself.

Expanding and Elevating Budget Deliberations beyond Individual Programs

The integration of budgeting and performance can strengthen budgeting in several ways. First, the focus on outcomes can broaden the debate and elevate budget trade-offs from individual programs to a discussion of how programs work together to achieve national goals. Although the evaluation of programs in isolation may be revealing, it is often critical to understand how each program fits with a broader portfolio of tools and strategies—such as regulations, direct loans, and tax expenditures—to accomplish federal goals. For example, in fiscal year 2000, the federal health care and Medicare budget functions included $319 billion in entitlement outlays, $91 billion in tax expenditures, $37 billion in discretionary budget authority, and $5 million in loan guarantees. (See fig. 3.)

Figure 3: Relative Reliance on Policy Tools in the Health Care Budget Functions, Fiscal Year 2000 ($447 Billion In Total Spending)



Source: Budget of the United States Government, FY 2001, Office of Management and Budget.

Note: Includes both the health and medicare budget functions. Loan guarantees account for about $5 million, or about 0.001 percent of the approximately $447 billion in total federal health care resources.

Achieving federal/national policy goals often depends on the federal government's partners—including other levels of government, private employers, nonprofits, and other nongovernmental actors. The choice and design of these tools are critical in determining whether and how these actors will address federal objectives. GPRA required the President to prepare and submit to Congress a governmentwide performance plan to highlight broader, crosscutting missions, such as those discussed above. Unfortunately, this was not done in fiscal years 2003 and 2004; we hope that the President's fiscal year 2005 budget does include such a plan.

Examining the Base in Budget Deliberations

Second, a focus on performance can help us shift our view from incremental changes to an evaluation of the base itself. Making government adapt to meet the challenges of the future is broader than strengthening performance-informed resource decisions. Fiscal pressures created by the retirement of the baby boom generation and rising health care costs threaten to overwhelm the nation's fiscal future. Difficult as it may seem to deal with the long-term challenges presented by known demographic trends, policymakers must not only address the major entitlement programs but also reexamine other budgetary priorities in light of the changing needs of this nation in the 21st century. Reclaiming our fiscal flexibility will require the reexamination of existing programs, policies, and activities. It is all too easy to accept "the base" as given and to subject only new proposals to scrutiny and analysis.

As we have discussed previously,[18] many federal programs, policies, and activities—their goals, their structures, and their processes—were designed decades ago to respond to earlier challenges. In previous testimony,[19] we noted that the norm should be to reconsider the relevance or "fit" of any federal program, policy, or activity in today's world and for the future. Such a review might ferret out programs that have proven to be outdated or persistently ineffective, or alternatively could prompt appropriate updating and modernizing activities through such actions as improving program targeting and efficiency, consolidation, or reengineering of processes and operations. This includes looking at a program's relationship to other programs.

[18] U.S. General Accounting Office, *Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus*, GAO/T-AIMD-00-73 (Washington, D.C.: Feb. 1, 2000), and *Budget Issues: Long-Term Fiscal Challenges*, GAO-02-467T (Washington, D.C.: Feb. 27, 2002).

[19] U.S. General Accounting Office, *Homeland Security: Challenges and Strategies in Addressing Short- and Long-Term National Needs*, GAO-02-160T (Washington, D.C.: Nov. 7, 2001), GAO/T-AIMD-00-73, and GAO-02-467T.

The Role of Congressional Oversight

Finally, and most critically, Congress must be involved in this debate and the resulting decisions and follow-up oversight activities. Congressional buy-in is critical to sustain any major management initiative, but 50 years of past efforts to link resources with results have shown that any successful effort must involve Congress as a partner given Congress' central role in setting national priorities and allocating the resources to achieve them. In fact, the administration acknowledged that performance and accountability are shared responsibilities that must involve Congress. It will only be through the continued attention of Congress, the administration, and federal agencies that progress can be sustained and, more important, accelerated. Congress has, in effect, served as the institutional champion for many previous performance management initiatives, such as GPRA and the CFO Act, by providing a consistent focus for oversight and reinforcement of important policies.

More generally, effective congressional oversight can help improve federal performance by examining the program structures agencies use to deliver products and services to ensure that the best, most cost-effective mix of strategies is in place to meet agency and national goals. As part of this oversight, Congress should consider the associated management and policy implications of crosscutting programs.

Given this environment, Congress should also consider the need for processes that allow it to more systematically focus its oversight on programs with the most serious and systemic weaknesses and risks. At present, Congress has no direct vehicle to provide its perspective on governmentwide performance issues. Congress has no established mechanism to articulate performance goals for the broad missions of government, to assess alternative strategies that offer the most promise for achieving these goals, or to define an oversight agenda targeted at the most pressing crosscutting performance and management issues. Congress might consider whether a more structured oversight approach is needed to permit a coordinated congressional perspective on governmentwide performance matters. Such a process might also facilitate congressional input into the OMB PART initiative. For example, although the selection of programs and areas for review is ultimately the President's decision, such choices might be informed and shaped by congressional views and perspectives on performance issues.

Concluding Observations

How would “success” in performance budgeting be defined? Simply increasing the supply of performance information is not enough. If the information is not used—that is, if there is insufficient demand—the quality of the information will deteriorate and the process either will become rote or will wither away. However, for the reasons noted, the success of performance budgeting cannot be measured merely by the number of programs “killed” or a measurement of funding changes against performance “grades.” Rather, success must be measured in terms of the quality of the discussion, the transparency of the information, the meaningfulness of that information to key stakeholders, and how it is used in the decision-making process. If members of Congress and the executive branch have better information about the link between resources and results, they can make the trade-offs and choices cognizant of the many and often competing claims at the federal level.

A comprehensive understanding of the needs of all participants in the budget process, including what measures and performance information are required at different stages of the budget cycle, is critical. Making performance budgeting a reality throughout the federal government will be facilitated by efforts to improve the structural alignment of performance planning goals with budget and cost accounting structures and presentations. However, developing credible performance measures and data on program results will be absolutely critical in determining whether the performance perspective becomes a compelling framework that decsion makers will use in allocating resources.

Performance budgeting is difficult work. It requires taking a hard look at existing programs and carefully reconsidering the goals those programs were intended to address—and whether those goals are still valid. It involves analyzing the effectiveness of programs and seeking out the reasons for success or failure. It involves navigating through the maze of federal programs and activities, in which multiple agencies may operate many different programs, to address often common or complementary objectives. However, the task of revising and reforming current programs and activities that may no longer be needed or that do not perform well is fraught with difficulties and leads to real “winners” and “losers.” Notwithstanding demonstrated weaknesses in program design and shortfalls in program results, there often seems to be little “low hanging fruit” in the federal budget. In fact, some argue that because some programs are already “in the base” in budgetary terms, they have a significant advantage over new initiatives and new demands.

This is an opportune time for the executive branch and Congress to carefully consider how agencies and committees can best take advantage of and leverage the new information and perspectives coming from the reform agenda under way in the executive branch. Prudent stewardship of our nation's resources—whether in time of deficit or surplus—is essential not only to meet today's needs but also for us to deliver our promises and address future needs.

This concludes my prepared statement. I would be pleased to answer any questions you or the other members of the subcommittee may have at this time.

Contacts and Acknowledgement

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