

The Federal Government continues to manage its costs, improve program performance, and spend the taxpayer's money smarter every year.

To help all agencies assess how much it would cost to get greater or fewer results, this quarter several agencies and departments shared best-in-class practices in estimating the marginal cost of different levels of performance. Over 135 government professionals, representing every major agency in the executive branch, held the first-ever Marginal Cost Seminar. The purpose was to discuss the complexities of measuring the cost or savings a program incurs when it increases or decreases its level of outcome or output. The seminar highlighted some reasons why measuring marginal costs is important:

- Marginal cost analysis shows which programs and policy options give the taxpayer the most performance for their dollar;
- Incorporating marginal cost analyses within Budget requests better justifies how taxpayer dollars are used to maximize performance;
- In a situation where like-programs are competing for scarce resources, policy makers can allocate budget dollars to the program that achieves the greatest amount of results for the lowest cost; and
- Marginal cost is not the sole variable in deciding resource allocation, but one that complements other factors.

The agencies that have achieved success in measuring marginal costs shared some of their best practices with the assembled group. A summary of those practices are listed below, and to view their presentations please go to www.results/agenda/sharing.html.

- The Department of Transportation measures its budget-performance trade-offs through its Marginal Cost of Performance system. This system connects clearly defined performance data with the department's accounting system. It links the following: Mission – Strategic Goals – Program Goals – Strategies – Activities – Resources. Specifically, through this system they can tell you the dollar cost that is necessary to improve driver behavior in order to reduce the number of drug-impaired drivers on the nation's highways.
- NASA has implemented best-in-class marginal cost practices for use in making many of its strategic resource allocation decisions. They first allocate full cost to a particular project and then allocate the costs to each of their strategic objectives.
- The Department of Energy is developing a cost-performance mapping application that leverages off the agency's integrated data systems. Known as the Performance Mapping Tool, this application will permit the linking of cost with performance at the sub-program level and will provide summary data reports, showing both the cost for specific program performance and the costs not directly linked to performance. By creating detailed cost-

performance linkage data, the Department will be able to further refine its marginal cost calculations that support the budget reallocation process.

- The Department of the Interior measures its marginal cost by integrating its strategic goals with its Activity-Based Costing system and then conducts quarterly reviews and performance budgeting. These integrated systems allow Interior to more clearly link program costs to organizational results.
- The Social Security Administration has successfully integrated three data systems to establish the building blocks for measuring and analyzing marginal costs – Cost Analysis System, Work Measurement System, and Financial Accounting System.

We will continue to collect and report best practices across the executive branch and encourage agencies to continue sharing good management practices internally.

PART Consistency and Appeals

In an effort to sustain the high quality of PART assessments, the Office of Management and Budget (OMB) will once again be conducting an intensive two-week quality control analysis newly completed PARTs. To earn a high PART rating, a program must use performance to manage, justify its resource requests based on the performance it expects to achieve, and continually improve efficiency – all goals of the BPI Initiative. This consistency check will be conducted by OMB's PET (Performance Evaluation Team) to determine if the performance measures and the PARTs across all departments and agencies are rigorous and consistent with the published guidance. (http://www.whitehouse.gov/omb/part/fy2005/2005_guidance.doc)

Additionally, we are establishing an Appeals Board to complement our normal structured appeals process. The purpose of establishing this Board is to provide agencies with a high-level, systematic review of PART ratings to ensure that "challenged" assessments are accurate and consistent. The Appeals Board is a five-member panel of Deputy Secretaries led by Clay Johnson, the Deputy Director for Management at OMB. This group will meet in early September to judge individual appeals of PART questions.

Sincerely,

Robert J. Shea
Counselor to the Deputy Director for Management