United States General Accounting Office

GAO

Report to the Ranking Minority Member, Committee on Governmental Affairs, U.S. Senate

January 2002

MANAGING FOR RESULTS

Agency Progress in Linking Performance Plans With Budgets and Financial Statements

G A O

Accountability ★ Integrity ★ Reliability

GAO-02-236

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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

January 4, 2002

The Honorable Fred Thompson
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Dear Senator Thompson:

As you requested, this report updates our previous assessments of agencies' experiences in linking performance plans and budgets under the Government Performance and Results Act of 1993 (GPRA).[1] As agreed with your staff, we have also included in this report an initial assessment of the approaches used by agencies to link performance plans with their audited annual financial statements. Pursuing a closer alignment between performance planning, budgeting, and financial reporting is essential in supporting the transition to a more results-oriented and accountable federal government. For example, developing a discrete allocation between requested budget funding and expected performance goals is a critical first step in defining the performance consequences of budgetary decisions. Comparably, linking performance and financial information is both a key feature of sound management—reinforcing the connection between resources consumed and results achieved—and an important element in presenting to the public a useful and informative perspective on federal spending.

The trend information in this report can be useful for the Congress and others in considering the administration's new management reform agenda. As part of this agenda and the proposed Managerial Flexibility Act of 2001, the Office of Management and Budget (OMB) has proposed several steps to better achieve transparency in performance, budgeting, and accounting and will attempt to integrate more completely information about cost and program performance during the fiscal year 2003 budget process.

[1]*Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans With Budgets* (GAO/AIMD/GGD-99-67, Apr. 12, 1999), and *Performance Budgeting: Fiscal Year 2000 Progress in Linking Plans With Budgets* (GAO/AIMD-99-239R, July 30, 1999).

We used the same universe of 35 agencies[2] reviewed in our previous reports to discuss the progress shown in making funding allocations to performance goals and to identify the approaches used to associate performance goals with budgetary requests. Specifically, we determined whether each agency (1) linked its performance plans to program activities[3] in its budget, (2) presented funding estimates for expected levels of performance, and (3) clearly indicated how the funding estimates were derived or allocated from the program activities in its budget request. In our two previous assessments covering fiscal years 1999 and 2000, we focused solely on the extent to which agencies described in their performance plans the linkage between their goals and budget requests. However, for the fiscal year 2001 and 2002 performance plans, we also looked at the nature of the linkage—that is, the level of the agency's performance planning structure (i.e., general goals, strategic objectives, or performance goals)—related to the program activities in the agency's budget.

To assess the extent to which performance planning and financial statements were related, we reviewed the statement of net cost from the fiscal year 1999 and 2000 audited financial statements for the 24 agencies covered by the Chief Financial Officers Act of 1990 (CFO Act), as amended. The statement of net cost, a required component of the annual financial statement, is expected under OMB's guidance to present the net cost of operations based on the missions and outputs described in the agency's performance plan and budget structure. Fiscal year 1999 was the first year for which agencies could provide both performance reports under GPRA and audited financial statements under the CFO Act; fiscal year 2000 statements were reviewed to indicate progress made by the agencies and also to assess the nature of the linkages.

[2]See appendix I for a list of these agencies and the methodology used to select them. As of August 15, 2001, 3 of these 35 agencies—the Department of Agriculture's Food and Nutrition Service and the departments of Defense and Education—had not released fiscal year 2002 performance plans and were therefore not considered in our assessment of fiscal year 2002 plans. In this report, we refer to a performance plan, whether of a department, agency, or bureau, as an "agency plan."

[3]The term "program activity" refers to the list of projects and activities shown for each account in the appendix to the *Budget of the United States Government*. Subject to OMB clearance and generally resulting from negotiations between agencies and appropriations subcommittees, program activity structures are intended to provide a meaningful representation of the operations financed by a specific budget account.

Appendix I provides additional details on our scope and methodology.

Results in Brief

Over the first 4 years of agency efforts to implement GPRA, we have observed that agencies continue to tighten the required linkage between their performance plans and budget requests. Of the agencies we reviewed over this period, all but three met the basic requirement of the act to define a linkage between their performance plans and the program activities in their budget requests, and most of the agencies in our review had moved beyond this basic requirement to indicate some level of funding associated with expected performance described in the plan. Most importantly, more agencies each year—almost 75 percent in fiscal year 2002 compared to 40 percent in fiscal year 1999—were able to show a direct link between expected performance and requested program activity funding levels—the first step in defining the performance consequences of budgetary decisions. However, we have also observed that the nature of these linkages varies considerably. Most of the agencies in our review associated funding requests with higher, more general levels of expected performance, rather than the more detailed "performance goals or sets of performance goals" suggested in OMB guidance.

Similarly, agencies' initial efforts to link performance plans to their statements of net cost are encouraging and improving, but some presentations were more informative than others. 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. However, a variety of approaches were used to present this information, ranging from broad linkages of overall agency costs to general goals to more specific descriptions of component organization costs by strategic objective.

OMB's recent initiatives and guidance to agencies are consistent with and reinforce our observations that agencies have made progress in achieving the goals of GPRA and the CFO Act but that additional effort is needed to clearly describe the relationship between performance expectations, requested funding, and consumed resources. The uneven extent and pace of development described in this report should be seen as a reflection of the mission complexity and variety of operating environments across federal agencies. Describing the planned and actual use of resources in terms of measurable results remains an essential action that will continue to require time, adaptation, and effort on the part of all agencies.

Background

Both GPRA and the CFO Act are key components of a statutory framework that the Congress put in place during the 1990s to promote a new focus on results and improved management.[4] Among their complementary purposes, both acts seek to improve congressional decision-making by providing information on the relative effectiveness and efficiency of federal programs and spending, and to help federal managers improve service delivery by providing them with information about program results, cost, and service quality.

Among its major purposes, GPRA aims for a closer and clearer linkage between requested resources and expected results. The general concept of linking performance information with budget requests is commonly known as performance budgeting.[5] GPRA establishes a basic foundation for performance budgeting by requiring that an agency's annual performance plan cover each program activity in the President's budget request for that agency. GPRA does not specify any level of detail or required components needed to achieve this coverage. Further, the act recognizes that agencies' program activity structures are often inconsistent across budget accounts for the purposes of the act and thus gives agencies the flexibility to consolidate, aggregate, or disaggregate program activities, so long as no major function or operation of the agency is omitted or minimized.

[4]*Managing for Results: The Statutory Framework for Performance-Based Management and Accountability* (GAO/GGD/AIMD-98-52, Jan. 28, 1998).

[5]In this report, the term "performance budgeting" refers generally to the process of linking expected results to budgets, but not to any particular approach. For a discussion of past federal initiatives and the evolution of the concept and techniques of performance budgeting in the federal government, see *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation* (GAO/AIMD-97-46, Mar. 27, 1997).

OMB's original guidance regarding this provision of the act set forth an additional criterion: Plans should display, generally by GPRA program activity, the funding level to be applied to achieve performance goals. OMB defined the term "GPRA program activity" to mean that which results from the agency's consolidating, aggregating, or disaggregating the program activities shown in the President's budget submission. That is, OMB expected agency performance plans to show how amounts from the agency's budget request would be allocated to the performance goals displayed in the plan. In subsequent guidance for fiscal years 2000 and 2001, OMB stated that "agencies should show significant further progress in associating funding with specific performance goals or sets of goals." As part of its preparation for the President's fiscal year 2002 budget, OMB tasked each agency to develop integrated performance plans and budgets. Agencies were asked to assess their own progress on such issues as the method of presentation of plans and budgets; the extent of alignment between performance objectives, budget accounts, and program activity structures; and the precision of funding allocations made to each of the plan's objectives. Consistent with our recommendations in April 1999,[6] OMB stated its intent to use this information as a baseline for further discussions on efforts to improve the relationship between performance planning and budgets.

The CFO Act, as amended, sought to remedy the government's lack of timely, reliable, useful, and consistent financial information. Twenty-four agencies are required to prepare financial statements annually, and have them audited. The statements include, among other required presentations, a statement of net cost. Audited financial statements are intended to improve accountability over government operations, and the statement of net cost, in particular, is intended to provide timely and reliable cost information to (1) help ensure that resources are spent efficiently to achieve expected results and (2) compare alternative courses of action. OMB guidance further states that statements of net cost should both reflect an agency's major programs classified by the missions and outputs described in its strategic and annual performance plans prepared under GPRA and be consistent with managerial cost accounting standards.[7]

[6]GAO/AIMD/GGD-99-67, Apr. 12, 1999.

[7]Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, July 31, 1995. Agencies were expected to comply with this standard beginning with fiscal year 1998.

In March 2000, federal agencies issued their first performance reports under GPRA, summarizing and discussing performance results for fiscal year 1999. Thus, fiscal year 1999 offered the first opportunity to link annual performance planning and reporting under GPRA with annual audited financial statements under the CFO Act. OMB's guidance to agencies on the preparation of annual performance reports did not define a specific format.[8] However, in its form and content guidance for financial statements, OMB clarified the importance and manner of linking performance report information with financial statements.[9] The guidance stated that performance information in the annual financial statement's narrative overview should be consistent with information previously included in the agency's plans and budget documents and should be linked to the programs presented in the statement of net cost.

Across the departments and agencies of the federal government, performance plans, budget presentations, and cost accounting structures can vary considerably, depending on the missions, organizational arrangements, and other specific operating characteristics of the entity. GPRA does not require a standard format or establish expectations or limitations on an agency's number of performance goals and objectives, but it does generally describe a three-level performance planning architecture. An agency's strategic and annual performance plans are expected to include

- general goals, which define, typically in outcome terms, how an agency will carry out its mission over an extended period;
- strategic (or general) objectives, which describe a more specific level of accomplishment within a specific general goal to help assess whether a general goal was or is being achieved; and
- annual performance goals, which define a target level of performance expressed as a tangible, measurable objective, in outcome or output terms.

[8]*Preparation and Submission of Budget Estimates*, OMB Circular A-11, Sec. 232.1 and 232.3, July 1999.

[9]*Form and Content of Agency Financial Statements*, OMB Bulletin No. 97-01, Oct. 16, 1996.

The federal budget structure is similarly diverse. The current account structure was not created as a single integrated framework, but rather developed over time to reflect the many roles it has been asked to play and to address the diverse needs of its many users.[10] However, annual budget presentations can be generally described as providing funding information (1) on an agency basis, (2) by budget account within the agency, and (3) for separate program activities funded within a specific budget account.

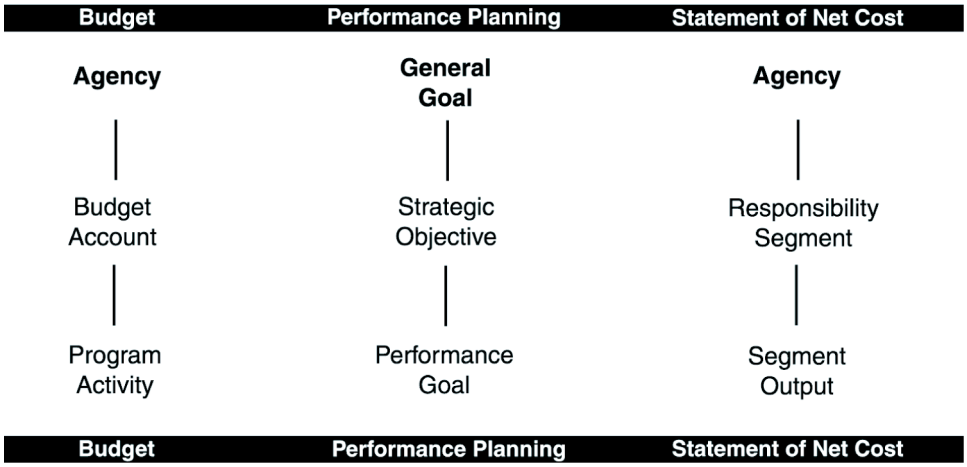
Finally, cost accounting information, to be useful, must rely on consistent and uniform terminology for concepts, practices, and techniques but also must allow agencies sufficient flexibility to reflect their unique operating environments and to meet the needs of different user groups. Toward this end, the managerial cost accounting standard describes a common but generalized structure applicable to all federal agencies to capture the cost of operations at three levels:

- on an entitywide (or agency) basis;
- by responsibility segment, defined as a component of the reporting entity that is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services; and
- by segment outputs, that is, the cost centers associated with the separate types of outputs produced within each responsibility segment.

Figure 1 depicts these generalized planning, budgeting, and cost accounting structures. Although these terms are not necessarily analogous and will change in specific circumstances—for example one agency may refer to its top-level goals as "business lines" while another may use the term "strategic goals"—the model can provide a useful comparative structure across unique agency adaptations. We use it as such in this report. Nevertheless, while this model can be useful in graphically portraying approaches and relationships across agencies, it is important to emphasize that each structure is independent and somewhat stylistic and becomes informative only when adapted to a specific agency context.

[10]For additional discussion of this issue, see *Budget Account Structure*: *A Descriptive Overview* (GAO/AIMD-95-179, Sept. 18, 1995).

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



Source: GAO.

Progress Made Linking Plans With Budgets but Nature of Linkages Could Be Improved

The agencies in our review continued to show the capacity for meeting a basic requirement of GPRA: to "prepare an annual performance plan covering each program activity set forth in the budget." In addition, these agencies continued to show progress in translating these plan-budget linkages into budgetary terms, thus indicating the performance consequences of their budget proposals. For example, nearly 75 percent of the agencies we reviewed for fiscal year 2002, compared to 40 percent in fiscal year 1999, were able to associate some level of their performance plans with a specific allocation of requested funding. Our review also showed, however, that there was substantial variation in the manner—and therefore the resulting informative value—in which these linkages were being achieved. For example, some agencies related general goals to entire budget accounts while others were able to associate sets of performance goals with GPRA program activities.

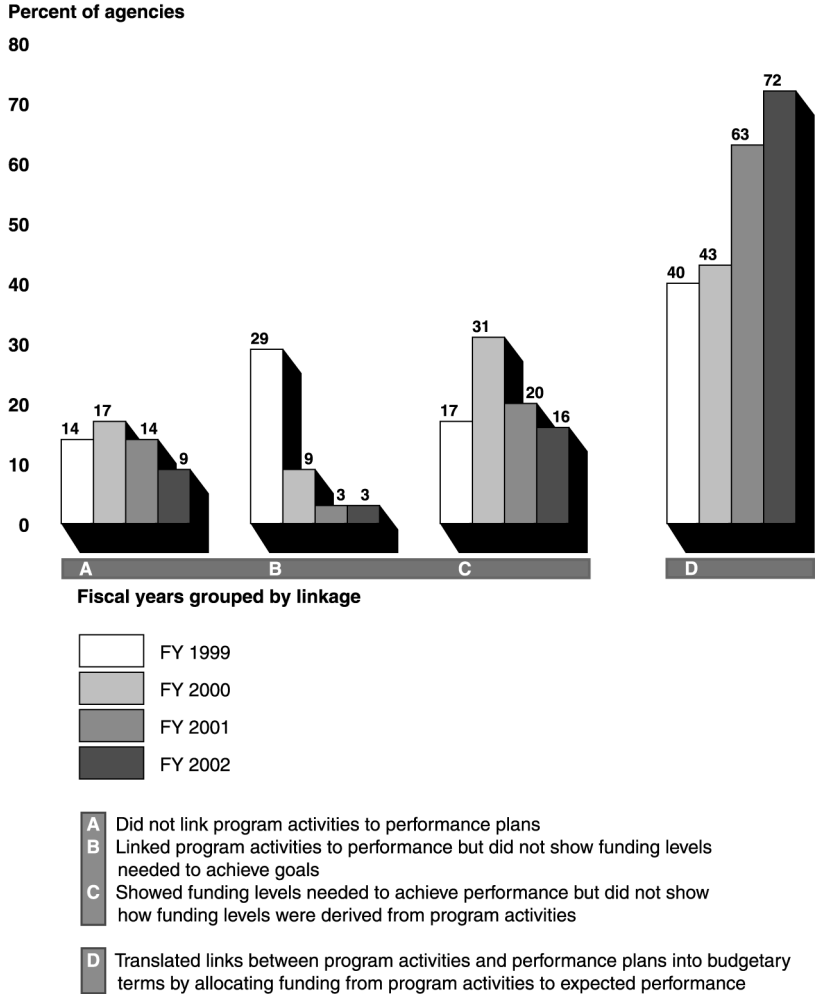
Continued Improvement in Connecting Resources to Results

Over the 4-year period of our review, fewer agency plans failed to show how their performance goals covered the program activities in their budget requests, and more agency plans clearly indicated proposed funding allocations linked to performance expectations. Figure 2 summarizes our assessments for fiscal years 1999 through 2002 while table 1 indicates our assessments by agency for fiscal year 2002. Figure 2 is displayed in percentage terms because, for fiscal year 2002, our universe of agencies changed from 35 to 32. As of August 15, 2001, the departments of Defense and Education, and the Food and Nutrition Service of the Department of Agriculture had not released fiscal year 2002 plans.[11]

Figure 2 can be characterized as follows. *Fewer* agencies failed to show a link between plans and budgets (group A); *fewer* agencies showed a link but did not show funding information (group B); and *fewer* agencies showed a link and indicated funding information, but did not show how the funds were derived from the budget request (group C). Thus, over the 4-year period in our review, *more* agencies established links between their performance plans and their budgets and translated those links into budgetary terms (group D).

[11]With respect to their fiscal year 2001 plans, these agencies were assessed as follows: Defense, group A; Education and Food and Nutrition Service, group D.

Figure 2: Agencies Show Progress in Linking Plans and Budgets, Fiscal Years 1999 Through 2002



Source: GAO analysis.

Note: For fiscal years 1999 through 2001 our universe was 35 agency plans; for fiscal year 2002, 32 agency plans. For more information, see appendix I, "Scope and Methodology."

Group A in table 1 and figure 2 indicates agency plans for fiscal year 2002 that did not portray a clear link between the plan's goals and the budget's program activities. It is worth noting that the agency composition of this group has changed substantially over time as agencies experimented with different presentation methods for their plans.[12] Also, although no linkage between the plan's performance goals and the budget's program activities was described in these agency plans, the 2002 performance plans for each agency in group A did include general funding estimates.[13]

[12]Two agencies moved out of this group in fiscal year 2000 (Social Security Administration and National Institutes of Health) and three moved in (the Department of Commerce, the Federal Bureau of Investigation, and the Federal Highway Administration). In fiscal year 2001, the Federal Highway Administration and the Rural Housing Administration moved out, but the Department of State moved in. Lastly, in fiscal year 2002, the Federal Bureau of Investigation and the Immigration and Naturalization Service moved out, while the Internal Revenue Service move in.

Specific agency circumstances can also affect the manner and extent of linkage presented in the performance plan. For example, IRS is in the midst of an agencywide modernization effort, as required by the Revenue Restructuring Act of 1998. As part of this effort, IRS reorganized and also implemented a new strategic planning and budget process that included a new mission statement and goal structure. While IRS did not show a clear link in its performance plan between these new goals and its fiscal year 2002 budget submission, we noted that the IRS Oversight Board did make this link in its independent budget submission.

[13]For example, the Department of Commerce chose to present a departmentwide plan, which included funding estimates for strategic objectives but did not indicate how the performance goals or the funding estimates were related to program activities. As described in appendix I, we accepted the agency's definition of what constituted its annual plan and thus did not consider Commerce's subordinate bureau plans because these plans were not specifically included as component parts of the department's plan. Some of these plans, however, did provide useful linkages. See *Observations on the Fiscal Year 1999 Annual Program Performance Report and Fiscal Years 2000 and 2001 Annual Performance Plans for Selected Science Agencies Within the Department of Commerce* (GGD-00-197R, Sept. 25, 2000).

Table 1: Agency Status in Linking Plans and Budgets, Fiscal Year 2002

A: No link between program activities and performance goals	B: Linked program activities to performance goals	C: Linked program activities to performance goals; showed funding levels needed to achieve goals	D: Linked program activities to performance goals, showed funding levels needed to achieve goals, and allocated funding from program activities to performance goals
• Commerce	• Occupational Safety and Health Administration	• Federal Emergency Management Agency	• Administration for Children and Families
• Internal Revenue Service		• Forest Service	• Agency for International Development
• State		• General Services Administration	• Bureau of Indian Affairs
		• National Institutes of Health	• Bureau of Land Management
		• Department of Veterans Affairs	• Customs Service
			• Employment Training Administration
			• Energy
			• Environmental Protection Agency
			• Federal Aviation Administration
			• Federal Bureau of Investigation
			• Federal Highway Administration
			• Federal Prison System
			• Health Resources and Service Administration
			• Housing and Urban Development
			• Immigration and Naturalization Service
			• National Park Service
			• National Aeronautical and Space Administration
			• National Science Foundation
			• Nuclear Regulatory Commission
			• Office of Personnel Management
			• Rural Housing Service
			• Small Business Administration
			• Social Security Administration

Note: Column letters correspond to group letters in figure 2.

Source: GAO analysis.

Groups B, C, and D in table 1 and figure 2 include those agencies that, at a minimum, indicated how their performance plans covered the program activities in their budgets—the basic requirement established by GPRA. Groups C and D include agencies that went beyond this basic requirement to also provide funding information. Group C shows agencies that

described a plan-budget linkage and also requested funding levels to achieve expected performance. Group D indicates those agencies that not only developed the required linkage and provided an estimate of funding associated with expected performance, but also clearly indicated how that funding was derived or allocated from the program activities of their budget requests—the first step in defining the performance consequences of a budget decision. As shown in figure 2, there has been steady improvement in associating funding information with expected performance (group C plus group D)—from 57 percent of the agency plans in our review in fiscal year 1999 to nearly 90 percent in fiscal year 2002. More importantly, nearly 75 percent of the agency plans for fiscal year 2002, compared to 40 percent of the fiscal year 1999 plans, translated the linkages between expected performance and budget program activities into budgetary terms by allocating funding from their program activities to elements of the performance plans (group D).

The Department of Housing and Urban Development (HUD) provides an example of the progression depicted in figure 2. Figures 3 and 4 show the approaches used by HUD in its last three performance plans. In fiscal years 2000 and 2001, HUD used the same basic format in a summary table to link its general goals to its budget accounts and program activities; figure 3 depicts selected examples from each plan for comparison. In the fiscal year 2000 plan, total requested funding for each account or activity was indicated but was arrayed by general goal by the use of an "x" rather than a specific dollar allocation. In the fiscal year 2001 performance plan, HUD replaced the simple "x" marks with funding estimates derived from its fiscal year 2001 budget request. By using this approach, HUD was able not only to show the linkage of its general goals to its budget request but also to indicate more clearly the allocation—and thus the performance consequences—of its fiscal year 2001 budget request. Subsequently, in its fiscal year 2002 plan, the agency removed these summary charts and, in the body of the plan, linked its budget request by account or program activity to each of its five general goals. Figure 4 is an excerpt of one page from the plan.

Figure 3: Change in HUD's Presentation of Performance Plan-Budget Linkages, Fiscal Years 2000 and 2001

Fiscal Year 2000 Performance Plan

Selected examples of accounts or program activities	Budget request	General Goals				
		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

Selected examples of accounts or program activities	Budget request	General Goals				
		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	--	--	--	--

Note: Dollars in millions.

Source: GAO analysis.

Figure 4: 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

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/ FY 2001 BA total does not include supplemental appropriations.
d/ Includes programs that do not receive a discretionary appropriation.
e/ Other staff include the Real Estate Assessment Center (REAC) and the Office of Multifamily Housing Assistance Restructuring (OMHAR).

Source: HUD's fiscal year 2002 performance plan.

While the approaches portrayed in figures 3 and 4 show steady progress in developing clearer linkages, it should be noted that HUD linked the highest levels of the HUD performance plan— general goals—to program activities. Linking funding allocations to more specific performance goals or sets of performance goals, as called for under OMB guidance, would make the presentations still more informative. HUD's 2002 strategic plan recognizes this and notes, "In the following years, HUD will further link our budget with the strategic planning and performance measurement processes." HUD has already attempted to extend linkages to the strategic objective level. For example, in its fiscal year 2000 and 2001 plans, HUD used "x" marks to describe the linkages between its budget program activities and the strategic objectives within each general goal. In the fiscal year 2002 plan, HUD replaced these "x" marks and showed funding allocations by strategic objective, although we have reported that the presentation could be improved.[14]

Agencies Have Developed Many Ways to Link Plans and Budgets

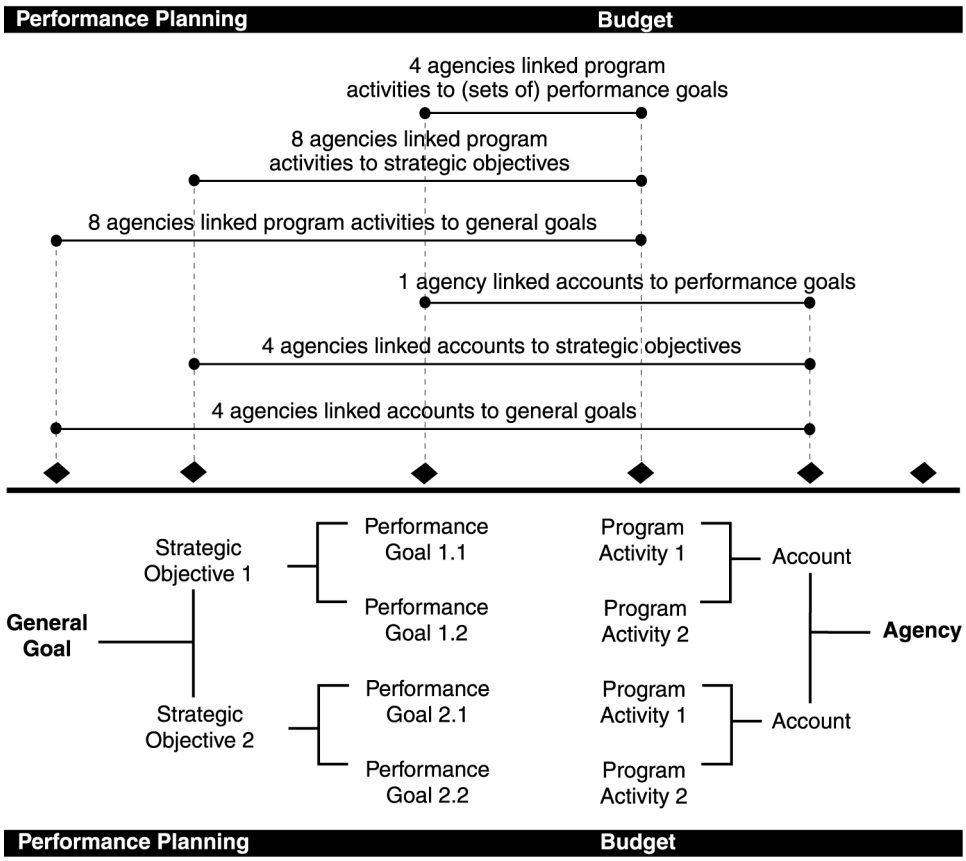
The HUD example demonstrates that, notwithstanding the progress agencies have made in associating plans and budgets, there remain many challenges in achieving presentations that are sufficiently clear and precise to be useful and informative. Agencies are taking advantage of the flexibility available to them under GPRA to establish plan-budget linkages, and it is unlikely, given the nature of missions and operating environments, that any one approach will fit all circumstances. Nevertheless, it is clear that some associations are more informative than others in clarifying the performance consequences of budgetary decisions.

Our assessment indicates that during these first years of GPRA implementation, agencies have developed many methods to link their plans with their budgets. Figure 5 portrays the variety of associations used by agencies to develop performance plans that covered the program activities in their budget request. Overall, agencies have associated higher or more general levels of their performance plans with lower or more specific levels of their budget structures. Of the 29 agencies in our review that linked their plans and budgets (groups B, C, and D in table 1), only 5 established connections at the performance goal level—the most specific goal level in the plans. The remaining 24 agencies were evenly split between links to

[14]For further information, see *Department of Housing and Urban Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges* (GAO-01-833, July 6, 2001).

general goals and strategic objectives. Conversely, none of the 29 agencies established links to agencywide budget totals—the most general level in a budget presentation—and only nine defined links at the next level, budget accounts. The remaining 20 agencies established connections to budget program activities—the more detailed level of the budget presentations. The following examples demonstrate more specifically some of the associations portrayed in figure 5.

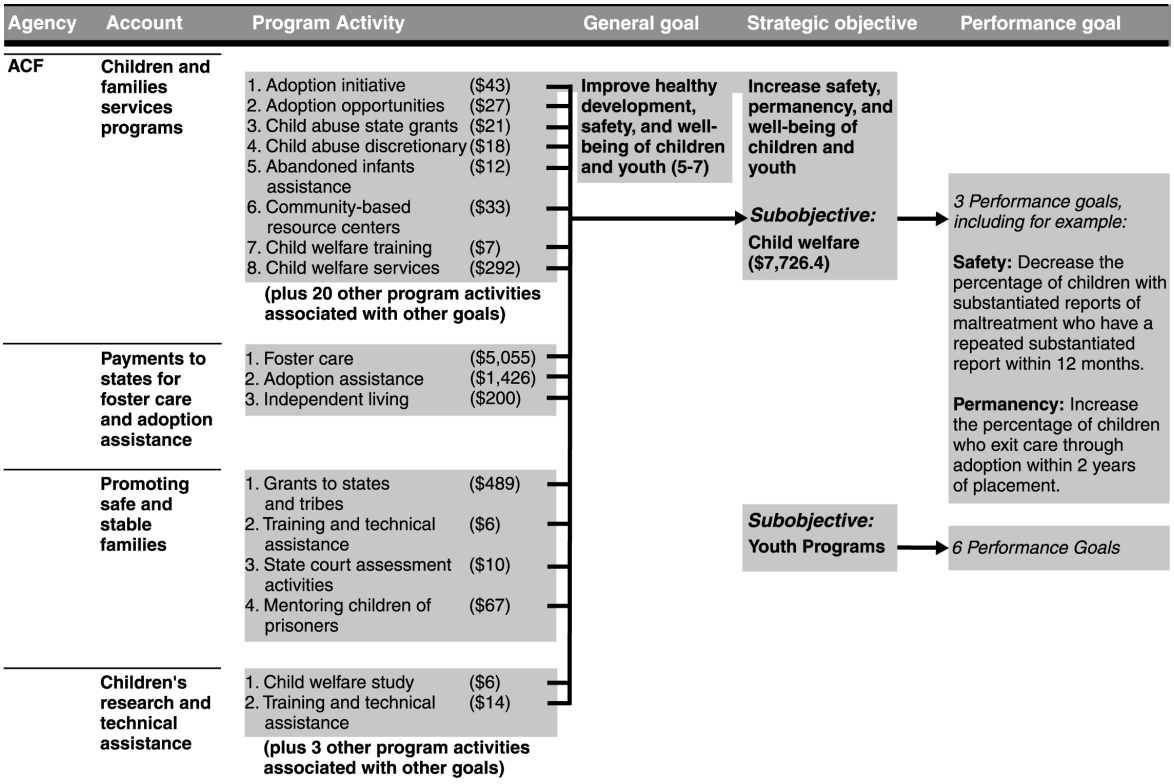
Figure 5: Agencies Used Multiple Approaches to Link Plans and Budgets



Source: GAO analysis of fiscal year 2002 performance plans.

The Administration for Children and Families (ACF), within the Department of Health and Human Services, is an example of an agency that linked allocations of requested program activity funding to sets of performance goals in its fiscal year 2002 performance plan. As shown in figure 6, ACF aggregated and consolidated program activities from multiple budget accounts and linked the associated funding information to sets of performance goals, which it referred to as "subobjectives," such as child welfare and youth programs.

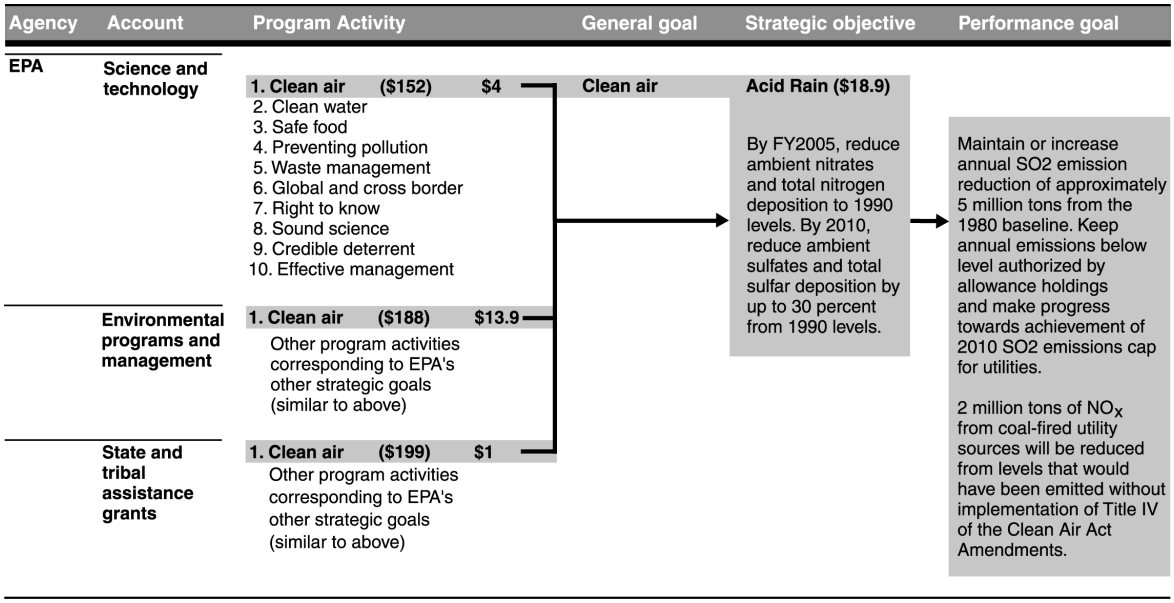
Figure 6: ACF Used Aggregation and Consolidation to Link Program Activities to Sets of Performance Goals



Note: Dollars in millions.
Source: GAO analysis of ACF fiscal year 2002 performance plan.

Figure 7 presents a different approach. The Environmental Protection Agency (EPA) linked strategic objectives to its program activities. The EPA presentation is aided by its decision to define for each of its budget accounts a uniform program activity structure—10 activities, as shown under the Science and Technology budget account in figure 7. These 10 activities, which correspond to EPA's general goal structure, are applied, as appropriate, across each of its budget accounts. Figure 7 portrays how EPA is able to consolidate and allocate funding from multiple budget accounts using the "clean air" program activity—and general goal—to the strategic objective "acid rain."

Figure 7: EPA Consolidated Funding Allocations by Strategic Objective



Note: Dollars in millions.
Source: GAO analysis of EPA fiscal year 2002 performance plan.

The Nuclear Regulatory Commission (NRC) is an example of an agency that linked program activities to general goals. Like EPA, NRC defined a program activity structure that is identical to its general goals, thus creating a direct linkage and allocation of its funding request. However, unlike EPA, the NRC plan defines only two performance planning levels—

general goals and performance goals. For each program activity, the plan includes more specific funding information on related "program areas"—in effect, disaggregated or subprogram activities. The plan includes specific requested funding allocations for each program activity and subprogram activity as shown in figure 8. Within each general goal, the plan crosswalks each subprogram activity to one or more of the performance goals.

Figure 8: NRC Linked Program Activities and Funding Allocations by General Goal

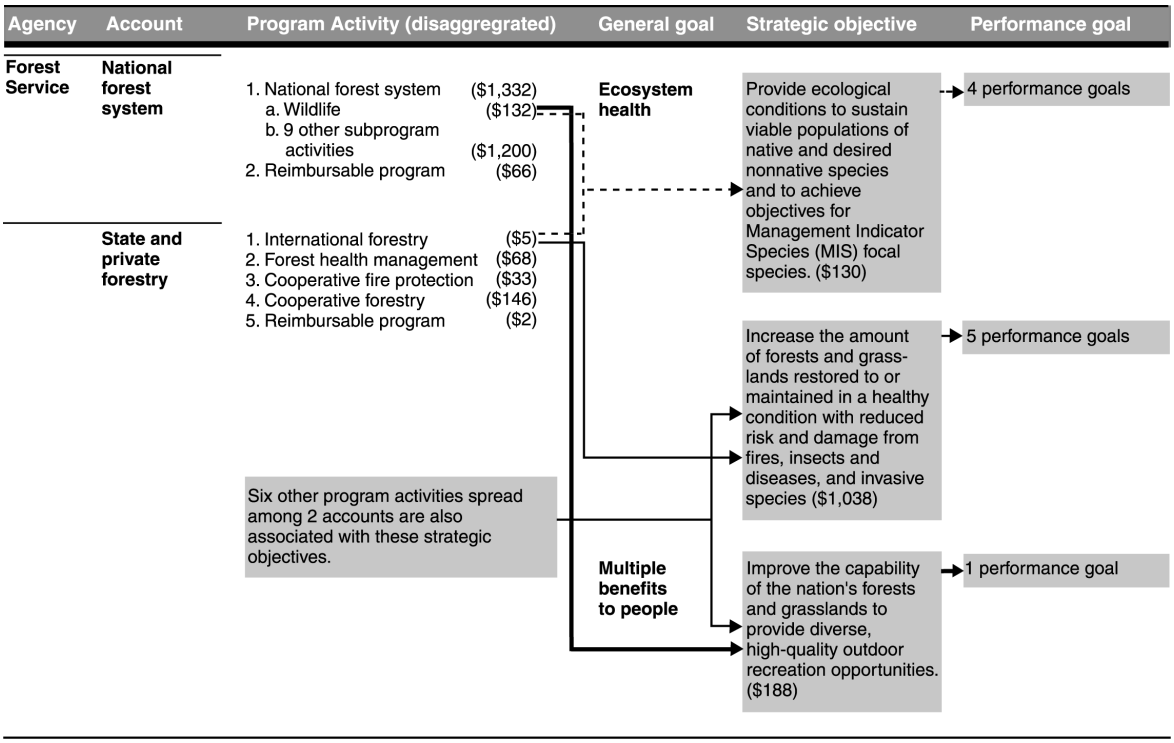
Agency	Account	Program Activity		General goal	Strategic objective	Performance goal
NRC	Salaries and Expenses	**1. Nuclear reactor safety program area**	**($231.4)**	**Nuclear reactor safety ($231.4)**	→	Maintain safety, protection of the environment, and the common defense and security. Increase public confidence. Make NRC activities and decisions more effective, efficient, and realistic. Reduce unnecessary regulatory burden on stakeholders.
		Reactor licensing	($57.8)			
		Reactor license renewal	($15.7)			
		Reactor inspection and performance assessment	($74.3)			
		Reactor incident response	($6)			
		Reactor safety research	($58.7)			
		Reactor technical training	($9.2)			
		Reactor enforcement actions	($1.7)			
		Reactor investigations	($4.1)			
		Reactor legal advice	($2.6)			
		Reactor adjudication	($1.4)			
		2. Nuclear materials safety program area				
		3. Nuclear waste safety program area				
		4. International nuclear safety support program area				
		5. Management and support program area				

Note: Dollars in millions.
Source: GAO analysis of NRC fiscal year 2002 performance plan.

Figure 9 portrays an agency that clearly indicated in its plan requested funding levels at the strategic objective level, and broadly associated budget accounts, program activities, and disaggregated program activities

with these strategic objectives, but did not clearly indicate how or where the requested funding was allocated. This is an example of an agency assessed as belonging in table 1 as group C, rather than group D. As shown in figure 9, the Forest Service associated multiple budget accounts, program activities, and subprogram activities with multiple strategic objectives, and it was not clear how the funding information shown in the performance plan was derived from the budget request.

Figure 9: Forest Service Linked Multiple Budget Accounts With Multiple Strategic Objectives



Note: Dollars in millions.
Source: GAO analysis of Forest Service fiscal year 2002 performance plan.

Each of the above examples portrays methods used by agencies to achieve GPRA's required linkage between performance plans and budgets. However, as discussed above, most agencies in our review tied funding estimates from their budget requests to the higher level general goals or

strategic objectives in their performance plans rather than the more specific performance goals or sets of goals expected under OMB guidance. Thus, although there have been improvements since fiscal year 1999 in structurally relating performance expectations to requested budgetary resources, there is substantial variation in the nature of those relationships and resulting differences in how informative and useful the linkages may be. Nevertheless, the fact that some agencies have been able to achieve more informative presentations, and the general progress that has been made since 1999, indicate that potential exists for achieving an important goal of GPRA: to demonstrate the performance consequences of budget decisions.

Efforts to Link Plans to Cost Statements Are Encouraging but Improvements Are Needed

Similar to the findings in our assessment of plan-budget linkages, agency efforts to more clearly associate results with resources consumed have improved from the fiscal year 1999 financial statements to those for fiscal year 2000. For example, 13 of the 24 agencies required to prepare financial statements used some element of their performance planning structure in structuring their statement of net cost, compared to 10 of 24 in 1999.[15] Table 2 lists those agencies that reflected their performance planning structure in their statements of net cost. Also similar to the findings in our assessment of plan-budget linkages, the usefulness of these presentations varied significantly, with most agencies linking costs to the highest levels of their goal structure. (See figure 10.)

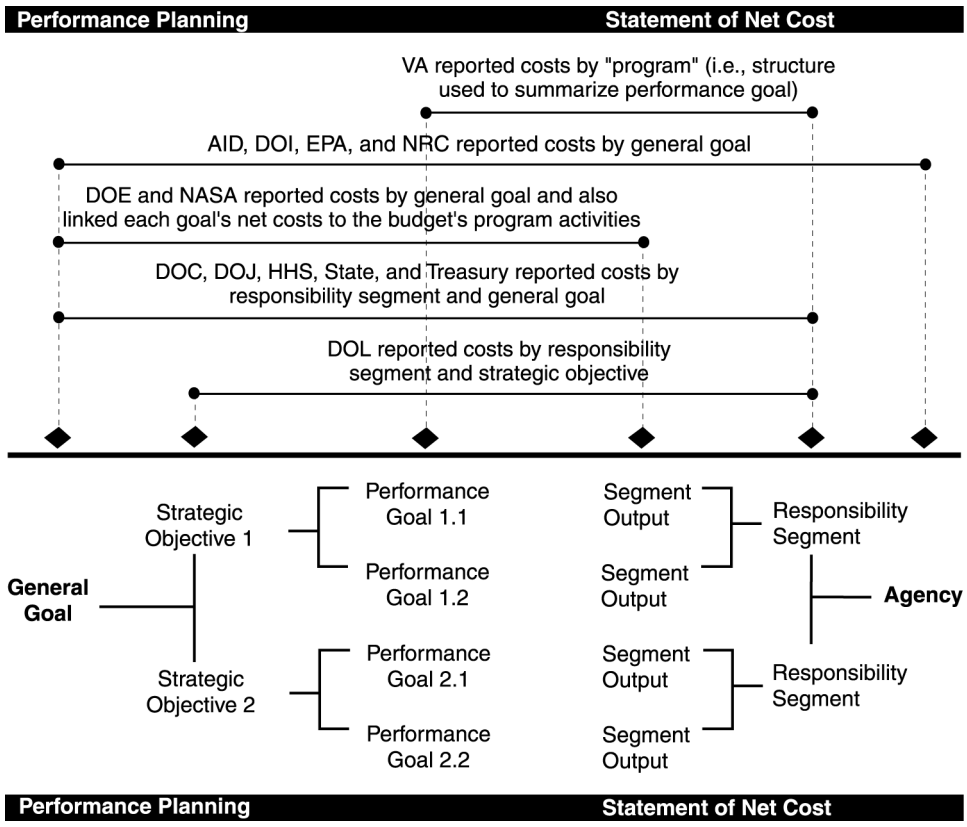
[15]Those agencies that did not use a structure based on their performance plans generally used traditional accounting-based presentations that captured costs for either the agency in total or for separate organizational components ("responsibility segments"). Typically, this structure displayed the net cost of operations as governmental and intragovernmental program costs less earned revenues plus nonproduction costs.

Table 2: Agencies That Linked Performance Plans With Net Cost Statements, Fiscal Years 1999 and 2000

Fiscal Year 1999 Statements of Net Cost	Fiscal Year 2000 Statements of Net Cost
• Department of Commerce	• Department of Commerce
• Department of Energy	• Department of Energy
• Department of Justice	• Department of Health and Human Services
• Department of Labor	• Department of the Interior
• Department of State	• Department of Justice
• Department of the Treasury	• Department of Labor
• Department of Veterans Affairs	• Department of State
• National Aeronautical and Space Administration	• Department of the Treasury
• Nuclear Regulatory Commission	• Department of Veterans Affairs
• U.S. Agency for International Development	• Environmental Protection Agency
	• National Aeronautical and Space Administration
	• Nuclear Regulatory Commission
	• U.S. Agency for International Development

Source: GAO analysis of fiscal years 1999 and 2000 financial statements.

Figure 10: Agencies Used Multiple Approaches to Link Plans and Net Cost Statements.



Source: GAO analysis of fiscal year 2000 financial statements.

Note: Agencies portrayed are: Department of Commerce (DOC), Department of Energy (DOE), Department of Health and Human Services (HHS), Department of the Interior (DOI), Department of Justice (DOJ), Department of Labor (DOL), Department of State (State), Department of the Treasury (Treasury), Department of Veterans Affairs (VA), Environmental Protection Agency (EPA), National Aeronautical and Space Administration (NASA), Nuclear Regulatory Commission (NRC), and U.S. Agency for International Development (AID).

Figure 11 shows the Department of Veterans Affairs (VA) statement of net cost from its fiscal year 2000 financial statements. VA structured its statement of net cost around its "programs," such as medical care, compensation, and education. In its performance plan, VA defined these "programs" as the GPRA program activities created by aggregating, disaggregating, or consolidating the program activities in its budget request and then linked its annual performance goals to this program structure. Thus, by showing the net cost of operations for the department against the

same structure used to summarize its annual performance goals and measures, VA was able to establish a direct link between results achieved and resources consumed.

Figure 11: VA Reported Net Cost by Program Area

FY 2000 CONSOLIDATED FINANCIAL STATEMENTS — U.S. DEPARTMENT OF VETERANS AFFAIRS

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF NET COST
(DOLLARS IN MILLIONS)

YEARS ENDED SEPTEMBER 30,	2000	1999
NET PROGRAM COSTS (NOTE 19)		
Medical Care	$ 19,072	$ 17,573
Medical Education	782	830
Medical Research	718	650
Compensation	19,584	18,520
Pension	3,161	3,249
Education	1,084	944
Vocational Rehabilitation and Employment	496	509
Loan Guaranty	(423)	1,251
Insurance	100	71
Burial	253	224
NET PROGRAM COSTS BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITIES*	44,827	43,821
Changes in Veterans Benefits Actuarial Liabilities (Note 13)		
Compensation	62,600	(94,127)
Burial	(100)	(822)
SUBTOTAL	62,500	(94,949)
NET NON-VA PROGRAM COSTS	(17)	10
NET COST OF OPERATIONS (NOTE 19)	$ 107,310	$ (51,118)

*The 2000 and 1999 changes in Veterans Benefit liabilities were reclassified in order not to distort the program cost being reported in the compensation and burial activities.

Source: VA fiscal year 2000 financial statements.

Figure 12 excerpts the statement of net cost from the NRC fiscal year 2000 financial statements. In this approach, the net cost of operations was shown for each NRC general goal. As discussed above, the NRC fiscal year 2002 performance plan defined only two performance levels—strategic (general) goals and performance goals. In addition, NRC defined a structure in which its program activities were identical to its general goals, so it became straightforward to display requested budget amounts by goal. By structuring its statement of net cost around the same general goals, NRC was able to create a clear link between performance and requested funding, and between resources consumed and results.[16]

[16]Because the statement of net cost is prepared on an accrual basis while budget estimates for program activities are developed on an obligations basis, the reported figures will likely not match, but they will present a planned versus actual perspective linked to the same goal structure.

Figure 12: NRC Associated Net Cost With General Goals

Principal Financial Statements (continued)

STATEMENT OF NET COST
For the year ended September 30, 2000
(in dollars)

Nuclear Reactor Safety		
Intragovernmental	$103,796,213	
With the public	226,621,251	
Total	330,417,464	
Less earned revenue	390,400,624	
Net cost of Nuclear Reactor Safety		$(59,983,160)
Nuclear Materials Safety		
Intragovernmental	27,707,063	
With the public	73,502,935	
Total	101,209,998	
Less earned revenue	55,011,902	
Net cost of Nuclear Materials Safety		46,198,096
Nuclear Waste Safety		
Intragovernmental	14,856,560	
With the public	48,319,530	
Total	63,176,090	
Less earned revenue	14,547,764	
Net cost of Nuclear Waste Safety		48,628,326
International Nuclear Safety Support		
Intragovernmental	7,892,108	
With the public	8,033,704	
Total	15,925,812	
Less earned revenue	3,077,698	
Net cost of International Nuclear Safety Support		12,848,114
Net Cost of Operations (Note 12)		$ 47,691,376

The accompanying notes to the principal statements are an integral part of this statement.

Source: NRC fiscal year 2000 financial statement.

The Department of Energy (DOE) took an approach similar to NRC's, but then went a step further. First, like NRC, DOE used its consolidated statement of net cost to report summary, agencywide cost information for each of its "business line goals"—the general goals for the agency. Second, DOE then used separate notes to the consolidated statement to present the net cost for each business line goal and its associated budget program activities. The separate notes report net cost of operations for a specific general goal using the program activity structure in the DOE budget request. Figure 13 displays the consolidated statement and figure 14 presents one example of a separate note dealing with the business line goal "NNSA and other National Security Activities."

Figure 13: DOE Associated Net Cost With General Goals

Consolidated Financial Statements

Consolidated Statements of Net Cost
For the Years Ended September 30, 2000 and 1999

	(in millions)	
	2000	1999
Costs		
Energy Resources		
Program Costs	$5,317	$4,938
Earned Revenues	(3,815)	(3,238)
Net Cost of Energy Resources Programs	$1,502	$1,700
NNSA and Other National Security Activities		
Program Costs	$5,824	$5,391
Earned Revenues	-	(6)
Net Cost of NNSA and Other National Security Activities	$5,824	$5,385
Environmental Quality		
Program Costs	$2,283	$750
Earned Revenues	(459)	(303)
Net Cost of Environmental Quality Programs	$1,824	$447
Science		
Program Costs	$2,673	$2,633
Earned Revenues	(7)	(9)
Net Cost of Science Programs	$2,666	$2,624
Other Programs		
Program Costs	$2,414	$2,372
Earned Revenues	(2,184)	(2,159)
Net Cost of Other Programs	$230	$213
Costs Not Assigned to Programs	$11,136	$21,722
Net Cost of Operations	$23,182	$32,091

Source: DOE fiscal year 2000 financial statement.

Figure 14: DOE Used Subordinate Schedules to Report Costs for Each General Goal Against Related Program Activities From Its Budget

19. Supporting Schedule of Net Cost for NNSA and Other National Security Activities *(in millions)*

	FY 2000		FY 1999	
Stockpile stewardship		$ 1,818		$ 1,789
Stockpile management		1,737		1,837
Secure transportation asset		436		73
Nonproliferation and verification research and development		224		239
Arms control and nonproliferation		269		253
Nuclear safeguards and security		119		105
Fissile materials disposition		130		110
International nuclear safety and HEU transparency		111		94
Naval reactors		693		638
Emergency management/preparedness		27		35
Emergency response		78		91
Uranium programs - downblend of HEU at Portsmouth		5		20
Worker and community transition		52		50
Intelligence		35		38
Counterintelligence		35		13
Cerro Grande fire activities		55		-
Russian origin uranium sales				
Cost of sales	-		5	
Less earned revenues	-		(6)	
		-		(1)
Total net costs for NNSA and other national security activities		**$ 5,824**		**$ 5,385**

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Source: DOE fiscal year 2000 financial statement.

Finally, figures 15 and 16 excerpt the statement of net cost from the Department of Treasury fiscal year 2000 financial statements. Treasury reported net cost of operations on its consolidated statement for each of three program areas—the three "missions" or general goals in its performance plan (see figure 15). Treasury noted that the complexity of its organizational structure required this approach, with supporting schedules used to report the net cost of each program area (general goal) by bureau. In figure 16, the subordinate schedule for the three program areas are shown. Because Treasury's annual performance plan is also organized by bureau ("responsibility segment"), this approach allowed them to associate net costs not only with general goals but also with each bureau—and therefore each bureau's strategic objectives.

Figure 15: Treasury Showed Net Cost by General Goal in Its Consolidated Statement

Consolidated Statement of Net Cost
For the Year Ended September 30, 2000
(In Millions)

	Combined	Elimination	Consolidated
Costs:			
Program A - Economic: Promote Prosperous and Stable American and World Economies			
Intragovernmental Costs			
Production	$209	-$7	$202
With the Public			
Production	$3,854	$0	$3,854
Total	$4,063	($7)	$4,056
Less Earned Revenues	$2,138	($832)	$1,306
Net Program A Costs	**$1,925**	**$825**	**$2,750**
Program B - Financial: Manage the Governments Finances			
Intragovernmental Costs			
Production	$6,187	($2,271)	$3,916
With the Public			
Production	$9,700	$0	$9,700
Nonproduction	$10	$0	$10
Total	$15,897	($2,271)	$13,626
Less Earned Revenues	$7,928	($107)	$7,821
Net Program B Costs	**$7,969**	**($2,164)**	**$5,805**
Program C - Law Enforcement: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug Free America			
Intragovernmental Costs			
Production	$915	($193)	$722
With the Public			
Production	$2,437	$0	$2,437
Total	$3,352	($193)	$3,159
Less Earned Revenues	$177	($92)	$85
Net Program C Costs	**$3,175**	**($101)**	**$3,074**
Costs Not Assigned to Programs:			
Intragovernmental	$165	($46)	$119
With the Public	$819	$0	$819
Total	$984	($46)	$938
Less Earned Revenues Not Assigned to Programs	$603	($462)	$141
NET COST OF TREASURY OPERATIONS	**$13,450**	**($1,024)**	**$12,426**
FEDERAL DEBT INTEREST	$366,496	($1,068)	$365,428
LESS INTEREST REVENUE FROM LOANS	$12,132	($2,068)	$10,064
NET FEDERAL DEBT INTEREST COSTS	$354,364	$1,000	$355,364
FEDERAL DEBT BUYBACK LOSS	$5,519	$0	$5,519
OTHER FEDERAL COSTS	$8,403	$0	$8,403
NET COST OF TREASURY OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS	**$381,736**	**($24)**	**$381,712**

Note: The Combined Statement of Financing does not include intra-agency eliminations
Note 20 provides additional cost information by Treasury reporting component.

The accompanying notes are an integral part of these statements

Financial Statements

Source: Department of Treasury fiscal year 2000 financial statement.

Figure 16: Treasury Used Subordinate Schedules to Report Net Cost by General Goal and Responsibility Segment

Economic: Promote Prosperous and Stable American and World Economies

	Program/Costs				
Suborganization	Intra-Governmental	With the Public	Total Costs	Earned Revenues	Net/Total Program Costs
Alcohol, Tobacco and Firearms	$6	$51	$57	$0	$57
Bureau of the Public Debt	2	14	16	0	16
Community Development Financial Institutions Fund	6	100	106	1	105
Departmental Offices	9	36	45	0	45
Exchange Stabilization Fund	6	1,878	1,884	1,592	292
Office of the Comptroller of the Currency	55	334	389	402	(13)
Office of Thrift Supervision	15	146	161	143	18
Treasury International Assistance Programs	110	1,295	1,405	0	1,405
Total	$209	$3,854	$4,063	$2,138	$1,925

Financial: Manage the Government's Finances

Suborganization	Intra-Governmental	With the Public	Total Costs	Earned Revenues	Net/Total Program Costs
Alcohol, Tobacco and Firearms	$7	$62	$69	$1	$68
Bureau of Engraving and Printing	59	412	471	476	(5)
Bureau of the Public Debt	60	253	313	9	304
Customs Service	692	1,000	1,692	126	1,566
Departmental Offices	3	23	26	0	26
Federal Financing Bank	3,437	0	3,437	3,371	66
Financial Management Service	143	312	455	87	368
Internal Revenue Service	1,718	6,588	8,306	155	8,151
Mint	68	1,060	1,128	3,703	(2,575)
Total	$6,187	$9,710	$15,897	$7,928	$7,969

Law Enforcement: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug-Free America

Suborganization	Intra-Governmental	With the Public	Total Costs	Earned Revenues	Net/Total Program Costs
Alcohol, Tobacco and Firearms	$45	$419	$464	$18	$446
Customs Service	357	611	968	65	903
Departmental Offices	54	9	63	0	63
Federal Law Enforcement Training Center	19	102	121	28	93
Financial Crimes Enforcement Network	7	21	28	0	28
Internal Revenue Service	93	535	628	56	572
Secret Service	254	695	949	10	939
Treasury Forfeiture Fund	86	45	131	0	131
Total	$915	$2,437	$3,352	$177	$3,175

Notes

Source: Department of Treasury fiscal year 2000 financial statement.

As these examples illustrate, agencies are making progress in presenting their cost of operations in performance terms. While it is unlikely that a single approach to relating performance and financial reporting will fit the variety of organizational contexts, missions, performance planning, and financial management structures present—and developing—in federal agencies, some presentations are more informative than others.[17] Moreover, even the most meaningful linkages between performance results and resources consumed are only as good as the underlying data. As we have reported, agencies must first address long-standing problems within their financial systems in order to ensure confidence in the completeness and accuracy of annual financial statements, including the required statement of net cost.[18]

Recent Initiatives by OMB

During the last 2 years, OMB completed performance budgeting pilots required under GPRA and has continued to revise and sharpen its guidance to federal agencies on linking plans, budgets, and financial reporting. An important development is OMB's announcement of the administration's intention to more completely integrate information about cost and performance during its annual budget review process. The administration also has proposed a new initiative—the Managerial Flexibility Act—to better link budget and management decisions to performance by showing the full cost of program operations with the output produced in that year. Each of these efforts is consistent with and reinforces the basic observations in this report—that although agencies have shown progress in their efforts to achieve the goals of GPRA and the CFO Act, continued attention is needed to clearly show the relationship between performance expectations and budgetary resources, and between performance results and resources consumed.

[17]It should also be noted that the above discussion only addresses the extent of linkage between the statement of net cost and performance planning structures. It does not comment, directly or indirectly, on the quality of financial management within an agency or the adequacy of its financial reporting or managerial cost accounting processes.

[18]See *Financial Management: FFMIA Implementation Critical for Federal Accountability* (GAO-02-29, Oct.1, 2001); *U.S. Government Financial Statements: FY 2000 Reporting Underscores the Need to Accelerate Federal Financial Management Reform* (GAO-01-570T, Mar. 30, 2001); and *Financial Management: Agencies Face Many Challenges in Meeting the Goals of the Federal Financial Management Improvement Act* (GAO/T-AIMD-00-178, June 6, 2000).

OMB Performance Budgeting Pilots Useful, but Challenges Remain

GPRA required OMB to report on the feasibility and advisability of including a performance budget as part of the President's budget, and on whether legislation requiring performance budgets should be proposed. The act defined a performance budget as that which presents varying levels of performance resulting from different budgeted amounts. OMB initially deferred these pilots—originally to be designated in fiscal years 1998 and 1999—to give federal agencies time to develop the capability of calculating the effects of marginal changes in cost or funding on performance. When begun in August 1999, OMB designed the pilots as case studies prepared by OMB staff to demonstrate how performance information could be used to compare alternatives and to develop funding recommendations for incorporation into the President's fiscal year 2001 budget submission.

On January 18, 2001, OMB reported the results of five performance budgeting pilots that explored agencies' capabilities of more formally assessing the effects of different funding levels on performance goals. OMB selected the pilots[19] to reflect a cross section of federal functions and capabilities so that a representative range of measurement and reporting issues could be explored. In its report, OMB concluded that legislative changes were not needed. OMB reported that the pilots demonstrated that assuring further performance measurement improvements and steadily expanding the scope and quality of performance measures is paramount, and that the existing statute provides sufficient latitude for such improvement.

The pilots also highlighted other issues that have and will continue to challenge efforts to more closely link desired performance with annual budget requests. For example, for those activities where output performance was of principal interest (e.g., military recruitment, continuing disability reviews, and premarket reviews and inspections), OMB observed that agency information was generally available and useful in developing a funding request. However, where outcome performance was of greater interest, OMB noted that "recommending a particular funding level is not the primary focus of the analysis or decision making process." Rather, "the focus is on how funds will be allocated among different uses to achieve program goals and what criteria are used to make

[19]The pilots included (1) the Food and Drug Administration, (2) military recruitment programs at the Department of Defense, (3) diplomatic security programs at the Department of State, (4) severely distressed housing programs at HUD, and (5) continuing disability reviews in the Social Security Administration.

allocation decisions." For example, OMB observed that the HUD severely distressed housing program

> is a "buy-by-the-pound" program. Provide an appropriation and HUD can approximate how many units can be removed and replaced in relation to the funding level, because per unit demolition, construction and voucher costs are readily available and simple to quantify. However, since the program is assessed on whether it achieves broader outcomes—such as creating stable, economically integrated communities—that do not correlate directly with funding levels, the Administration cannot systematically budget for the results it wants to see.

Overall, OMB concluded that the pilots raised several key challenges regarding performance budgeting at the federal level including, for example, the following:

- In many instances, measuring the effects of marginal, annual budget changes on performance is not precise or meaningful.
- While continuing to change from an almost total reliance on output measures to outcome measures, it will be much more difficult to associate specific resource levels with those outcomes, particularly over short periods of time.
- Establishing clear linkages between funding and outcomes will vary by the nature of the program and the number of external factors.
- Delays in the availability of performance data, sometimes caused by agencies' reliance on non-federal program partners for data collection, will continue to present synchronization problems during budget formulation.

Continued Refinement of Guidance to Agencies

OMB has continued to sharpen and clarify its guidance to agencies regarding the alignment of performance planning, budget formulation, and financial reporting. Both the fiscal year 2002 and 2003 budget guidance included more specific expectations about the extent of linkage between performance planning and budget formulation. Also, in September 2001, OMB issued revised form and content guidance for financial statements that was intended to achieve better integration between execution, financial reporting, and performance reporting.

As described above, OMB's guidance for the President's fiscal year 2002 budget process called for agencies to prepare an integrated performance plan and budget, in which the plan would display the amount budgeted for each GPRA program activity. If an agency was unable to develop this presentation, it was expected to provide to OMB a timetable that would describe the steps to be taken to develop the capability of aligning plans and budgets. Subsequently, in July 2001, OMB clarified this guidance for the fiscal year 2003 budget process.[20] While noting that agencies had made progress in aligning plans and budgets, OMB instructed agencies that the fiscal year 2003 performance plan "should describe the culminating steps and schedule for completing a full alignment of resources with performance." OMB noted that this alignment could be phased, with budget information initially linked to general goals and strategic objectives and subsequent annual plans providing greater detail "until a budget amount can be shown for each GPRA program activity."

Also, in September 2001, OMB issued revised guidance on the form and content of agency financial statements. While the revised guidance did not substantially change the statement of net cost, it does significantly alter expectations regarding performance and financial reporting. Beginning with the fiscal year 2002 reporting cycle, agencies are expected to issue a single "performance and accountability report." This report is intended to integrate what are typically stand-alone financial reports under the CFO Act and stand-alone performance reports under GPRA into a single, consolidated report, now permanently authorized by the Reports Consolidation Act of 2000 (P.L.106-531). The performance and accountability report is expected to provide to the Congress and the public a comprehensive and integrated picture of each agency's performance. In addition, OMB has accelerated reporting dates. For example, fiscal year 2000 reports were generally due at the end of March; but under this revised guidance, fiscal year 2001 reports will be due by the end of February 2002, and fiscal year 2002 reports by February 1, 2003. OMB expects that consolidated and accelerated reporting will provide more timely and reliable information to measure and affect performance.

[20]*Preparation and Submission of Budget Estimates*, OMB Circular A-11, Jul, 2001, Sec. 220.8(d).

The President's Management Agenda

Lastly, as announced in the Fiscal Year 2002 Budget, OMB released in August 2001 the President's Management Agenda, which by focusing on 14 targeted areas—5 governmentwide goals and 9 program initiatives—seeks to improve the management and performance of the federal government. One of the governmentwide goals, Budget and Performance Integration, seeks to capitalize on the progress made by agencies and to operationalize the revised guidance described above.

According to the President's Management Agenda, as part of the fiscal year 2003 budget process, OMB plans to formally integrate performance reviews with its budget decisions and "to begin to produce performance-based budgets starting with the 2003 Budget submission." OMB expects to "work with agencies to select objectives for a few important programs, assess what programs do to achieve these objectives, how much that costs, and how effectiveness could be improved." These actions are expected to produce near-term results such as shifting resources among programs devoted to similar goals to emphasize those that are most effective, budgeting for the full costs of retirement and health care programs, and, over time, to allow nonperforming activities to be reformed or terminated. Also, because this goal is part of a broader agenda, OMB expects other long-term results. For example, control over resources used and accountability for results by program managers will be mutually reinforced by the interaction of this goal with the President's strategic management of the human capital goal, which increases staff and responsibility at the "front line" of service delivery and links rewards to performance.

Concluding Observations

Aligning performance goals with all key management activities—budgeting, financial management, human capital management, capital acquisition, and information technology management—is an essential step in the implementation of GPRA.[21] While alignment is not sufficient to guarantee results-based accountability, it is a necessary action to achieve

[21]See also *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, Sept. 2000), *Executive Guide: Creating Value Through World-class Financial Management* (GAO/AIMD-00-134, Apr. 2000), *Executive Guide: Leading Practices in Capital Decision-Making* (GAO/AIMD-99-32, Dec. 1998), *Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology* (GAO/AIMD-94-115, May 1994), and *Executive Guide: Measuring Performance and Demonstrating Results of Information Technology Investments* (GAO/AIMD-98-89, Mar.1998).

two key purposes of the act—to improve congressional decision-making and to help federal managers improve service delivery by providing them with information on program results. Clearer and closer alignment between an agency's performance goals and objectives and its key management activities is an important and practical means to emphasize and reinforce results-based accountability in the oversight and day-to-day management of programs.

With respect to the management activities discussed in this report, aligning performance plans with both budgeting and financial management offers different but complementary perspectives. Linking plans with budgets offers the potential for more clearly infusing performance information into separate budgetary decisions, both in the Congress and in agency management. Certainly, congressional budget decisions are and will remain an exercise in political choice, in which performance can be one, but not necessarily the only, factor underlying decisions. But clearer and closer association between expected performance and budgetary requests can more explicitly inform budget discussions and focus them—both in the Congress and in agencies—on expected results, rather than on inputs or transactions solely.[22] Linking performance goals with cost information addresses a related but different question: How much has been spent for what was achieved? Clearer and closer alignment between performance results and the reported net cost of agency operations can assist management by relating total resources consumed with actual results achieved. In sum, the closer the linkage between an agency's performance goals, its budget presentation, and its statement of net cost, then the greater the reinforcement of performance management throughout the agency and the greater the reliability of budgetary and financial data associated with the performance plans.

Our assessments indicate that progress has been made. Agencies are developing approaches to better link performance plans with budget presentations and financial reporting. Progress has been demonstrated 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. Progress can also be seen in agencies' initial efforts to link annual performance reporting with annual audited financial statements. Agencies

[22]GAO/AIMD-97-46, Mar. 27, 1997.

have developed approaches that allow them to better describe their net cost of operations in performance terms.

But our assessment of the nature of the resulting associations also suggests that additional effort will be needed. Most of the alignments we have observed, as shown in figures 5 and 10, were at relatively high levels of performance planning—general goals or strategic objectives—rather than the more detailed "performance goal or sets of goals" target defined in OMB guidance. As OMB has noted in its most recent guidance, additional refinement is needed. For critical management functions to successfully emphasize, support, and reinforce the introduction of results-based accountability throughout agencies, they will need to address performance goals and measures that are meaningful to managers.

To be sure, GPRA and the entire management agenda prompted by the statutory reforms of the 1990s present many daunting challenges to agencies. As we have noted,[23] the finding of progress made by agencies in these initial years of implementation must be tempered by recognition of the continuing performance management demands, such as needed improvements in

- developing and articulating a clear sense of intended results,
- ensuring that daily operations contribute to results,
- coordinating crosscutting programs,
- building the capacity to gather and use performance information, and
- addressing mission-critical management problems.

[23]*Managing for Results: Using GPRA to Assist Oversight and Decisionmaking* (GAO-01-872T, June 19, 2001), *Major Management Challenges and Program Risks: A Governmentwide Perspective* (GAO-01-241, Jan. 2001), *Managing for Results: Continuing Challenges to Effective GPRA Implementation* (GAO/T-GGD-00-178, July 20, 2000), and *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans* (GAO/GGD/AIMD-99-215, July 20, 1999).

The approaches being developed by federal agencies to more clearly associate performance expectations, budgetary requests, and financial reporting demonstrate the kind of unique adaptations that will be needed to ensure sustained success. The uneven extent and pace of development revealed in our assessments should not be surprising given the mission complexity and variety of operating environments across federal agencies, and OMB's enhanced efforts to incorporate performance information into its budget reviews should further stimulate all agencies' interests. As we have previously reported,[24] the concept of performance budgeting has and will likely continue to evolve, and no single definition or approach can be expected to encompass the range of needs and changing interests of federal decisionmakers. Governmentwide guidance is clearly necessary to prompt continued progress, and such guidance should continue to encourage agencies to develop their own unique approaches to linking resources and results consistent with their different environments and performance management challenges. Ultimately, the need to translate the planned and actual use of resources into concrete and measurable results remains an essential step in achieving a more results-oriented government, and the heterogeneity of the federal government suggests that sustained efforts and attention will be the hallmark of long-term success.

Agency Comments

We provided a draft of this report to the Director of OMB on November 8, 2001. On December 7, 2001, a senior OMB official told us that OMB would not be providing written comments on the draft. However, this official noted that OMB found the report to be useful, well done, and constructive. The official said that the agency progress described in this report was consistent with and supportive of initiatives which the Administration intends to announce in the forthcoming budget submission to further promote budgeting and managing for results within the federal government.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Chairman, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member of the House Committee on Governmental

[24]GAO/AIMD-97-46, Mar. 27, 1997.

Reform; other appropriate congressional committees; and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please contact me on (202) 512-9573 or Michael J. Curro, Assistant Director, on (202) 512-2991 if you or your staff have any questions. Major contributors to this report included Jacqueline M. Nowicki and Trevor J. Thomson.

Sincerely yours,

Paul L. Posner

Paul L. Posner
Managing Director, Strategic Issues (Federal Budget Analysis)

Scope and Methodology

Scope

To meet our objectives regarding the linkage between performance plans and budgets, we limited our review to the performance plans from the same 35 departments and agencies that we studied in our initial assessments of agency experience in linking performance plans and budget requests.[25] However, as of August 15, 2001, 3 of these 35 agencies—the Department of Agriculture's Food and Nutrition Service and the Departments of Defense and Education—had not released fiscal year 2002 performance plans and were therefore not considered in our assessment of fiscal year 2002 plans. Also, we generally focused on bureau-level plans for each department when the department specifically identified such plans as components of the departmentwide plan. In those cases, we limited our review to the three largest bureaus with discretionary spending over $1 billion, or, if none of the bureaus in the department had discretionary spending over $1 billion, to the two largest bureaus.[26]

To meet our objectives regarding the linkages between performance plans and statements of net cost, we reviewed the fiscal year 1999 and 2000 statements of net cost—a required component of the annual financial statements—to identify the reporting structure selected by the agency to report the net cost of its operations. We limited this review to the 24 departments and independent agencies represented in table 2—those required to prepare annual financial statements under the CFO Act. Table 3 lists all of the agencies covered in our review.

[25]GAO/AIMD/GGD-99-67, Apr. 12, 1999, and GAO/AIMD-99-239R, July 30, 1999.

[26]Discretionary spending was used as an indicator of a bureau's relevancy to appropriators because discretionary funding is affected by appropriations actions.

Table 3: Performance Plans Reviewed

Departmentwide Plans
• Department of Commerce
• Department of Defense
• Department of Education
• Department of Energy
• Department of Housing and Urban Development
• Department of State
• Department of Veterans Affairs

Bureau-Level Plans
Department of Agriculture
• Food and Nutrition Service
• Forest Service
• Rural Housing Service
Department of Health and Human Services
• Administration for Children and Families
• Health Resources and Services Administration
• National Institutes of Health
Department of the Interior
• Bureau of Indian Affairs
• Bureau of Land Management
• National Park Service
Department of Justice
• Federal Prison System
• Federal Bureau of Investigation
• Immigration and Naturalization Service
Department of Labor
• Employment and Training Administration
• Occupational Safety and Health Administration
Department of the Treasury
• Customs Service
• Internal Revenue Service
Department of Transportation
• Federal Aviation Administration
• Federal Highway Administration

Independent Agency Plans
• Environmental Protection Agency
• Federal Emergency Management Agency
• General Services Administration
• National Aeronautics and Space Administration
• National Science Foundation
• Nuclear Regulatory Commission
• Office of Personnel Management
• Small Business Administration
• Social Security Administration
• U.S. Agency for International Development

Source: GAO.

Methodology

In our initial review of agencies' experiences in linking performance goals and budget requests, we developed a methodology for assessing the plans on a variety of different dimensions and characteristics.[27] In this review, we used three of those characteristics.

- Program activities were linked to goals – We identified agencies that either (1) linked program activities—directly, or by aggregation, disaggregation, or consolidation—to some level of their performance planning structure or (2) did not specify this linkage.
- Plans associated dollars with goals – We identified agencies that either (1) associated an amount of funding with some level of their performance planning structure or (2) did not identify funding with any aspect of their planning structure.
- Funding was allocated to a discrete set of goals and/or measures – We identified agencies that either (1) displayed how requested funding for program activities—directly, or by aggregation, disaggregation, or consolidation—was allocated among specific or a unique set of performance goals or measures or (2) did not indicate an allocation of requested program activity funding.

To assess the nature of linkages between performance plans and agency budgets, we reviewed each plan to determine the level of the performance planning structure that was used to establish a linkage with the budget's program activities. Generally, consistent with expectations in GPRA, agency performance plans are organized in a hierarchy of goals. Figure 1 in the body of this report presents a generalized portrayal of this hierarchy.

To assess the extent and nature of linkages between agency performance plans and annual financial statements, we compared the statement of net cost reporting structure to the entities' performance plan to determine if there was correspondence between the two and, if so, the specific level of the performance planning structure that was used to establish a linkage.

To ensure consistency and accuracy in the analysis of both performance plans and statements of net cost, two staff members independently reviewed the performance plans and financial statements and developed an assessment on each characteristic. Differences in assessments were

[27]See GAO/AIMD/GGD-99-67, Apr. 12, 1999, appendix I.

resolved by having a third staff member jointly reevaluate the separate assessments to identify and resolve differences.

The following qualifications apply to this analysis.

- The agencies in our review were not randomly selected. The results of this study cannot be extrapolated to agencies and departments not included in our population.
- Our analysis focused on the linkages described between performance plans, budget submissions, and financial reports. We did not assess the appropriateness of the goal structure or of individual performance goals and measures.[28] We also did not independently verify requested funding amounts allocated to performance goals.
- Although we did not verify the information contained in the agencies' statements of net cost, independent auditors, as part of the annual financial audit, reviewed the information reported in these statements.

We requested comments on a draft of this report from the Director of OMB and incorporated comments as appropriate. We conducted this review from April through August 2001 in accordance with generally accepted government auditing standards.

[28]Additional information on our assessments of agency performance plans can be found at the GAO web site (*http://www.gao.gov*) on the "GAO Reports" page under "Special Collections" and "Reports and Plans About GAO."

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