

August 2001

**RESULTS-ORIENTED
BUDGET PRACTICES
IN FEDERAL
AGENCIES**



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HEADS OF DEPARTMENTS AND AGENCIES

This Request for Views on “Results-Oriented Agency Budget Practices” is our initial attempt to describe a framework for agency budget practices that can help guide an agency toward incorporating performance information into the budget process. Also included in this publication are challenges to implementing results-oriented budget practices that were identified by a panel of agency budget officials who reviewed the practices.

OMB Circular A-11 guidance for fiscal year 2003 budget formulation instructs certain agencies to develop performance-based budgets for selected programs. Although connections between specific performance and funding levels can be difficult to make, efforts to infuse performance information into budget deliberations has the potential to change the terms of debate from simple inputs to outputs and outcomes.

We are seeking comments on the framework to further refine it and better understand the challenges to implementation. The next phase of this work will involve identifying and sharing examples of agencies that have found innovative ways to implement these or related practices. We believe that sharing agency experiences can provide benchmarks for other agencies to use or adapt to their environment. With that in mind, we are also seeking examples of agencies that have implemented results-oriented budget practices and that can serve as a guide to others.

This Request for Views is located on the Internet on GAO’s Home Page (<http://www.gao.gov>) under “Other Publications.” To obtain additional copies see ordering information at the end of this publication.

Please address any comments or questions, by December 31, 2001, to views@gao.gov or to Denise Fantone, Assistant Director, Strategic Issues, at (202) 512-4997 or at the following address: U.S. General Accounting Office, 441 G Street, NW, Room 4062, Washington, DC 20548.

A handwritten signature in cursive script that reads "Paul L. Posner".

Paul L. Posner
Managing Director, Federal Budget
Strategic Issues

In the 1990s the Congress laid out a statutory and management framework that provides the foundation for strengthening government performance and accountability. The Government Performance and Results Act (GPRA), a major component of this framework, required agencies to establish missions, goals, and performance measures as well as clearer linkages between resources and results.¹ We recognize that, while many agencies have made significant progress in implementing GPRA, much remains to be done to better integrate and infuse performance information in management decision-making, including budgeting. This was made evident in a recent GAO survey in which we found that fewer than 50 percent of federal managers surveyed said they used performance information to a great or very great extent to set program priorities or allocate resources.²

To expand the use of performance information in budgeting, this year the President proposed a major initiative that involves:

- an emphasis on fully integrating budget and performance information;
- calculating the full cost of programs and activities; and
- increasing the quality, usefulness, and amount of performance information in the President's Budget.

As part of this initiative, OMB's spring planning guidance to Cabinet departments and selected major independent agencies included a list of outcomes and related outputs and required the departments and agencies to provide integrated budget and performance information for the listed outcomes and outputs in their fiscal year 2003 performance plans.³

¹ Other significant legislation includes the CFO Act and related legislation, which created a structure for more businesslike management and reporting of the government's finances, and the Clinger-Cohen and Paperwork Reduction Acts, which required agencies to take an orderly, planned approach to their information technology needs.

² *Managing for Results: Federal Managers' Views on Key Management Issues Vary Widely Across Agencies* (GAO-01-592, May 25, 2001).

³ Office of Management and Budget, Circular No. A-11, "Preparing and Submitting Budget Estimates" (July 17, 2001).

Efforts to more clearly link resources to results in federal agencies are not new, and we have had the opportunity to learn from previous efforts. Since 1950, the federal government has attempted several governmentwide initiatives designed to better align spending decisions with expected performance—what is commonly referred to as “performance budgeting.” GAO studied performance budgeting initiatives, such as Zero-Base Budgeting, Management by Objectives, and Planning-Programming-Budgeting-System, and found that performance budgeting should not be viewed in simplistic terms—that is, resource allocation cannot be mechanically linked to results. We concluded that the promise of any performance budgeting initiative lies in its potential to infuse performance information more explicitly into budgetary deliberations, thereby changing the terms of debate from simple inputs to outputs and outcomes.⁴

The purpose of this draft is to supplement the well-established legal and regulatory structure for federal budgeting⁵ by presenting an initial framework that describes the practices an agency could use to link performance information to the budget process—what we are calling “results-oriented” agency budget practices.⁶ Results-oriented agency budget practices are the activities, processes, and capacities that can help an agency to incorporate performance information into its internal budget deliberations and requests for funding and to identify opportunities to make better use of available resources to accomplish agency goals.

The next phase of our work in this area is to showcase successful applications of these practices. Therefore, we will be identifying agencies that have shown innovation in implementing one or more of these practices to share with the budget community.

⁴ *Performance Budgeting: Past Efforts Offer Insights for GPRA Implementation* (GAO/AIMD-97-46, March 27, 1997).

⁵ Title 31 of the *United States Code* provides the legal foundation for the federal budget process in the executive branch. OMB issues guidance to agencies to ensure compliance with these budget laws and to obtain the information it needs to formulate the President’s Budget.

⁶ In this draft, “agency” refers to a major subordinate organization within a department (usually identified as a bureau in the President’s Budget) and nondepartmental independent agencies.

Scope and Methodology

We developed an initial set of results-oriented agency budget practices by reviewing literature on performance management and budgeting and speaking to budget experts. Although some of the literature we reviewed focused on executive branch departments and agencies, much of it focused on the congressional budget process or on the budget processes of state and local governments and other countries. Where applicable, we adapted the information to describe how performance information could be used for budget formulation and implementation in federal agencies.⁷ We also drew on GAO reviews and other studies of agency budgeting. To supplement the literature we spoke to budget experts inside and outside of GAO about results-oriented agency budget practices.

To test our initial findings from the literature and budget experts, we conducted a case study of budget formulation and implementation practices at the Small Business Administration.⁸ The case study helped us to refine the practices and begin to understand how the practices fit together as a framework.

Finally, to obtain an operational perspective on the framework, we invited input from a panel of senior agency budget officials who commented on the importance of the practices for achieving agency goals and the challenges to implementing those practices. The panel consisted of seven senior budget officials from a judgmentally selected sample of federal agencies. The panelists represented one commission, two independent agencies, and four agencies from three departments. For the panel discussion, we provided the panelists with a questionnaire and asked them to rate each practice in terms of how important it is to an agency in achieving the agency's goals and note if they thought the practice was difficult to carry out. We focused the panel discussion on areas where there was greater disagreement about the importance of a practice for helping to achieve agency goals or where the panelists believed a practice was difficult to

⁷ Budget formulation is the process of developing an agency's budget request for inclusion in the President's Budget and its supporting justifications for the Congress. Budget implementation is the process of developing operating plans for the upcoming fiscal year; implementing the plans by allocating, obligating, monitoring, and reallocating budgetary resources; and reporting on the resulting obligations and outlays.

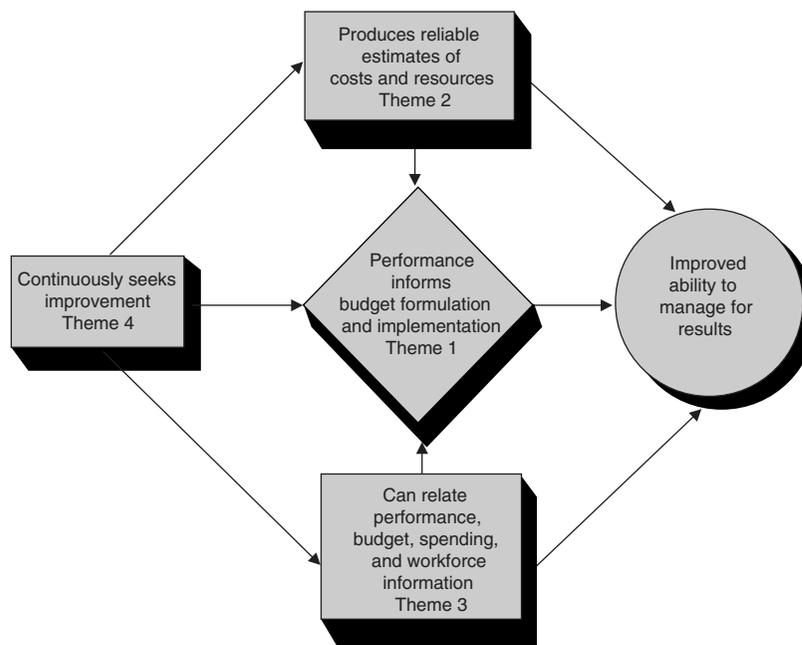
⁸ We conducted the case study as part of a larger review of performance and accountability at the agency. See *Major Management Challenges and Program Risks: Small Business Administration* (GAO-01-260, January 2001).

carry out. We revised the framework to reflect the panelists' operational perspective and described the practices in greater detail.

Framework for Results-Oriented Budget Practices in Federal Agencies

The framework is organized into four themes that emphasize different dimensions of results-oriented agency budget practices. The first theme focuses on the budget process and asserts that performance should inform agency decisions during budget formulation and implementation. Themes 2 and 3 focus on an agency's capacity to produce reliable budget estimates and to relate performance, budget, spending, and workforce information in a credible and useful manner. Theme 4 focuses on agency effectiveness and efficiency by emphasizing that an agency should continuously improve its programs and operations and seek approaches to maximize limited resources. Figure 1 depicts the framework for results-oriented agency budget practices.

Figure 1: Framework for Results-Oriented Agency Budget Practices



For each theme we lay out a series of agency practices—consisting of activities, processes, and capacities—that are intended to describe how an

agency could better inform its budget decision-making and find ways to make better use of available resources to accomplish agency goals.

We view the practices as desirable dimensions of budgeting that could be implemented in many different ways by agencies. The characteristics and circumstances that make organizations different from one another must be recognized when considering the applicability of the practices.

In appendix I, we provide a more detailed description of the practices. Where relevant we have also noted specific laws, regulations, or other guidance that relate to the practice and apply to federal agencies generally.

The framework does not reflect every aspect of the budget process. For example, there are other aspects of budget law and guidance, such as those related to fund control and accountability, that we treat as givens. Similarly, we assume that agencies will comply with appropriations and other laws and guidance and respond to OMB and department directions in formulating and implementing their budgets.

The practices do not include those aspects of the budget process that are the primary responsibility of the department, such as coordinating the preparation of budget requests within the department.⁹ The framework is oriented toward agency rather than department budget practices because there is a closer connection between performance and the day-to-day management of resources at the agency level. However, since agency budgets are the building blocks of departmental budgets, some aspects of the framework may also apply at the department level.

Finally, the framework is an attempt to describe the contribution that the budget function can make to an agency's capacity to manage for results. It is not intended to be a comprehensive treatment of all the management functions that contribute to agency results. Clearly, the budget function should work in concert with program management and other management functions, such as human capital management, accounting, procurement, and information technology management to achieve agency goals.

⁹ Formulation of an agency's budget request is an iterative process in which requested resources are subject to external scrutiny and change as the agency's request is first weighed against other department programs and priorities and the department's request is weighed against other executive branch priorities.

Results-Oriented Budget Practices and Panel Discussion

Overall the panel reacted positively to our efforts to develop a framework and generally agreed that the practices were important for achieving agency goals. In this section we list and briefly describe the practices for each of the themes. The panel also identified practices that were more difficult to implement and discussed the various challenges to implementation, which we summarize at the end of this section. The challenges are significant. Our subsequent work will focus on the progress agencies are making toward overcoming these challenges to better manage for results.

Theme 1: Performance Informs Budget Formulation and Implementation

The first theme focuses on the budget process and asserts that performance should inform agency resource decisions during budget formulation and implementation. Infusing performance information into budgetary deliberations may improve the agency's ability to manage for results by increasing the likelihood that resource allocation decisions will reflect performance concerns. For example, performance information should be used to support claims for resources, to evaluate those claims, and to make decisions on tradeoffs between competing needs.

For both budget formulation and implementation, Theme 1 practices emphasize communication and feedback between agency management and its program and other offices about the resources needed to achieve agency performance goals and objectives. During budget formulation, agency management should provide context in the form of general guidance to program managers on proposed agency goals,¹⁰ existing performance issues, and resource constraints.

¹⁰ Hereafter, "program managers" refers to officials responsible for program areas as well as support services.

Theme 1: Performance Informs Budget Formulation and Implementation

For budget formulation, agency management:

- provides general guidance to program officials on agency goals, performance issues, and resource constraints;
- requests input from program officials on the relative priority of new and existing programs and proposed changes to funding levels based on a review of changes in costs, performance issues, and other relevant factors;
- uses the input on relative priorities, changes in costs, performance issues, and other factors to weigh competing needs and decide funding levels for existing and new programs; communicates management's decisions to program officials; and provides an opportunity to appeal the decisions;
- coordinates with other entities to achieve common goals and avoid duplication;
- justifies its budget request both within the agency and externally (e.g., with the department, the Congress, OMB) in terms of how requested funds will contribute to the accomplishment of agency goals; and
- informs its staff of departmental, OMB, and congressional actions on the budget request and obtains feedback from program officials on the implications of those actions for agency goals.

For budget implementation, agency management:

- provides guidance to program officials on changes in agency goals, performance issues, and resource constraints;
- requests updated information from program officials on the relative priority of new and existing programs and proposed changes to funding levels based on a review of changes in costs, performance issues, and other relevant factors;
- uses the input on relative priorities, changes in costs, performance issues, and other factors to weigh competing needs and decide existing and new program funding levels; communicates its decisions about funding allocations; and provides an opportunity to appeal the decisions;
- allocates funding in a timely manner;
- routinely monitors performance, spending, and budgetary resources and adjusts allocations as necessary to maximize performance against goals;
- uses input from program officials on how changes in funding allocations will affect performance; and
- coordinates program requests for postappropriations budget changes, requests input from program officials on the implications of those changes for agency goals, and communicates the results.

Because program managers are in a position to understand the performance implications of different funding levels, management should obtain their input on desired funding levels based, in part, on how the funding addresses current and potential performance gaps and the relative priorities of their activities. Agency management should then use this information to evaluate competing needs and to determine funding levels to request and provide program managers an opportunity to appeal its decisions.

In formulating the budget request, agency management should also seek input from outside the agency on issues affecting the agency's performance. For example, the agency should coordinate with other entities with similar or complementary goals. The agency should justify its budget request in terms of how requested funding levels contribute to achieving agency goals and should inform staff of budgetary actions so that agency management can elicit feedback on performance issues. Similarly, when requesting postappropriations budget changes, the agency should communicate the results to program managers and determine the implications, if any, for achieving agency goals.

During budget implementation an agency needs to reconcile appropriated funds and congressional priorities with its earlier budget request and current operating needs. For example, agency management should update its guidance on program goals, performance issues, or resource constraints to reflect significant changes since the formulation of the budget. An agency may need to revisit the priorities established during budget formulation to make informed decisions about how to allocate funding that may be more or less than requested. Similar to formulation, agency management should then use this information to evaluate competing needs and determine final program funding levels.

To help managers meet their goals, after appropriations are enacted, the agency should allocate in a timely manner funds needed for program operations. To keep performance on track, the agency should routinely monitor performance, spending, and available resources and make adjustments as needed after obtaining input from program managers on the performance implications.

Theme 2: Produces Reliable Estimates of Costs and Resources

In contrast to Theme 1, which is keyed to the annual budget cycle, the next two themes address an agency's capacity to produce quality information for decisionmakers during the budget process. An agency's costs and budgetary resources will change from year to year based on a variety of factors. Often, agencies must grapple with the challenge of achieving performance goals with flat or declining budgetary resources and increasing costs. Theme 2 practices focus on providing decisionmakers with reliable estimates of program costs and budgetary resources to build credible requests for the resources an agency needs to achieve its goals.

Theme 2 : Produces Reliable Estimates of Costs and Resources

Agency management:

- bases its budget estimates on reasonable assumptions about factors affecting program costs or budgetary resources;
- looks back to assess the accuracy of previous estimates and, if necessary, makes appropriate adjustments to its estimating methods;
- considers how its policy, program, and funding decisions may affect spending or budgetary resources for other programs within the agency; and
- considers the short- and long-term funding implications of its program or policy decisions.

The practices in this theme are premised on the notion that agencies that base their budget estimates on the most up-to-date and reasonable assumptions will be better equipped to make tradeoffs between covering cost increases and meeting other programmatic needs. Those that ignore persistent differences between estimated and actual costs or budgetary resources will face greater uncertainty and have less time to plan for potential funding imbalances. Furthermore, agencies that make an effort to identify how funding decisions that affect one area of spending or budgetary resources might also affect other areas will have more

information with which to address unanticipated funding or performance issues that may arise. In addition, decisionmakers need good cost estimates to assess the affordability and desirability of policy and program options that may have long-term cost implications.

Theme 3: Can Relate Performance, Budget, Spending, and Workforce Information

Theme 3 practices address an agency's capacity to relate performance, budget, spending, and workforce information. This capacity can facilitate the implementation of Theme 1 practices that involve incorporating performance information into budget decisions, such as requesting program manager input on program performance and funding needs or monitoring program performance and spending and making adjustments to address performance gaps.

Results-oriented budgeting implies that an agency has the capacity to relate its budget to its goals. At a minimum, GPRA requires an agency's performance plan to cover each program activity in the President's budget request for that agency. To meet this requirement and to make progress toward the goal of integrating agency performance plans and budget requests, OMB guidance states that agencies should display, by GPRA program activity, the funding being applied to achieve the performance goals and indicators for that activity. OMB may also request agencies to provide a crosswalk between performance goals and the specific budget accounts funding those goals.

Theme 3 : Can Relate Performance, Budget, Spending, and Workforce Information

Agency management:

- can relate its budget structure to its goals;
- can relate budget, workforce, accounting, and performance information; and
- can account for both the direct and indirect costs of its programs and associated goals.

OMB encourages agencies to consider changes to their budget account structure that would lead to more thematic or functional presentations of both budget and performance information. An alternative to altering the budget structure is to use cost accounting concepts to capture how appropriated funds are spent according to agency goals. For example, an agency could define its goals as cost objects and distribute the agency's direct and indirect administrative and program costs against those cost objects through such methods as direct time charging or other valid cost allocation methods.

An extension of an agency's capacity to relate its budget structure to its goals is the capacity to relate and use budget, accounting, workforce, and performance information to formulate and implement the budget. The ability to relate accounting to budget information is fundamental to maintaining control of and accountability for appropriated funds. The capacity to relate performance to budget and accounting information entails establishing a predictable and verifiable relationship between programs, goals, performance indicators, budgets, and spending and being able to report this information in an integrated manner for use by management. Furthermore, information on the agency's workforce, such as the number of new hires and separations and salary and benefit levels, is critical to estimating and managing the cost of the workforce.

Theme 4: Continuously Seeks Improvement

Theme 4 practices suggest that agency management should not assume the status quo in the approach it takes to achieving the agency's goals from one budget cycle to the next. The budget process can provide an opportunity for the agency to review evaluations of its programs and operating methods to help improve results.

One method agency management should use to identify opportunities to improve performance is to analyze the full costs of its programs, defined in context, including unit costs where appropriate. For example, when combined with effectiveness measures, unit cost measures can help managers see tradeoffs between competing needs by highlighting the relative costs and benefits produced by different operating units.

Agency management should also identify potential alternative sources of funding, if appropriate. For instance, agencies that provide direct services either to segments of the public or to other agencies could consider proposing legislation that would give them authority to charge fees to pay for those services.

Finally, agency management should use information about program effectiveness and efficiency, such as program evaluations or benchmarking studies, to challenge existing operating procedures and methods of program delivery and to identify alternatives that may accomplish agency goals more efficiently and effectively.

Theme 4 : Continuously Seeks Improvement

Agency management:

- uses information on program effectiveness, such as program evaluations, to determine if programs are producing desired results with resources provided and identifies alternative approaches that could accomplish agency goals more effectively and efficiently.
- analyzes the direct, indirect, and, if possible, unit costs of activities to identify opportunities to improve effectiveness and efficiency; and
- considers the performance and implications of alternative budgetary resources.

**Panel Discussion of
Challenges to
Implementation**

A key challenge cited by the panel of senior agency budget officials was the difficulty of incorporating agency goals into budgetary decisions given the tight time constraints of the annual budget cycle. The panelists also cited challenges to using performance information for budget decision-making. For example, performance information may not be timely or may not be relevant to new initiatives or goals being proposed. In addition, the panelists spoke of the difficulty of relating performance, budget, spending, and workforce information because goal and performance information does not mesh well with agency budget and accounting information and information systems that could help relate this information are not always available. A detailed list of challenges cited by the panelists appears in appendix II.

Next Steps

The next phase of our work will look at how agencies have found innovative ways to address these challenges and implement results-oriented agency budget practices. By sharing examples from these agencies, other agencies may adapt and apply elements of those practices that, ultimately, may improve their ability to manage for results.

Results-Oriented Agency Budget Practices

Theme 1: Performance Informs Budget Formulation and Implementation^a

Practices ^b	Description
For budget formulation, agency management:	
1.a. Provides general guidance to program officials on agency goals, performance issues, and resource constraints.	<p>The agency issues to program managers written guidance on budget formulation (sometimes called a “spring planning call” or “budget call”) that sets the reporting requirements and funding targets for program-level budget formulation activities.</p> <p>The guidance contains the major factors program managers need to consider as they prepare their requests for resources. Major factors should include the agency’s goals for the formulation year, performance issues, and funding targets that will constrain program proposals for increased spending.</p>
1.b. Requests input from program officials on the relative priority of new and existing programs and proposed changes to funding levels based on a review of changed costs, performance issues, and other relevant factors.	<p>The input should provide information on requested funding levels for each activity. It should also indicate the relative priority of the activities for accomplishing agency goals so that lower-priority activities can be weighed against other on-going or new funding proposals. Estimates should reflect:</p> <ul style="list-style-type: none"> • Annualization of personnel costs: The annual cost of existing staff, including the annualized cost of staff hired during the current fiscal year. • Annualization of other recurring costs: Of funding provided for the current year—the annual cost of recurring items, such as rent or ongoing contractual services, in the budget formulation year. • Reductions for one-time costs: Of funding provided for the current year—the amount of reductions for items that were one time or time limited in nature, such as new office equipment, higher than normal travel costs, or terminated or completed contracts. • Reasonable assumptions: See practice 2.a. • Performance issues: How actual performance has compared to goals. The input should describe the reasons for performance that exceeded or fell short of goals and whether and how additional budgetary resources might influence performance against proposed goals. • Statutory or other relevant changes: Estimates of costs to implement new legislation or guidance contained in appropriations committee reports.
<p>Related Guidance: OMB Circular A-11, Sec. 30.</p>	

Appendix I
Results-Oriented Agency Budget Practices

(Continued From Previous Page)

Practices	Description
1.c. Uses the input on relative priorities, changing costs, performance, and other factors to weigh competing needs and decide funding levels for existing and new programs; communicates management's decisions to program officials; and provides an opportunity to appeal the decisions.	<p>The agency collects program managers' input on priorities and proposed funding levels and uses the input to make judgments about the funding levels to be requested in submissions to the department (if applicable), OMB, and the Congress. Ideally, an agency might rank the competing needs based on their relative contributions to achieving goals. Note that formulation of an agency's budget request is an iterative process in which requested resources are subject to external scrutiny and change as the agency's request is first weighed against other department programs and priorities and the department's request is weighed against other executive branch priorities. Therefore, input obtained from program officials is considered a first step and many other levels of review and decision-making occur before final decisions are made.</p> <p>After collecting and considering program input and making decisions based on the input, the agency communicates in writing its decisions about the funding levels being requested for each program. The agency then allows program officials to provide feedback about the impact of funding increases or reductions on the performance of their programs and to appeal management's decisions.</p>
1.d. Coordinates with other entities to achieve common goals and avoid duplication.	<p>As part of its planning processes, an agency should consider the environment in which it operates, identify other key players that contribute to accomplishing the agency's mission and goals, and satisfy itself that the agency is not duplicating the efforts of others or missing opportunities to improve performance through cooperation. In formulating its budget request, the agency should incorporate the results of this analysis by allocating resources to areas where performance can be improved through cooperation with other entities and away from activities that duplicate the efforts of others.</p>
1.e. Justifies its budget request both within the agency and externally (e.g., with the department, the Congress, OMB) in terms of how requested funds will contribute to the accomplishment of agency goals.	<p>The agency prepares budget justification documents, both for internal and external review, that demonstrate how the agency's funding requests relate to the accomplishment of its goals. The justification documents should demonstrate how the agency's funding request would help the agency accomplish the goals in its annual performance plan. The goals in the annual performance plan and the agency's budget justification should be consistent. The agency should also be prepared to discuss the performance implications of funding levels that differ from the request.</p> <p>GPRA requires an agency's performance plan to cover each program activity in the President's budget request for that agency. To meet this requirement, an agency's performance plan should demonstrate how all of its budgetary resources by program activity are associated with the goals in its annual performance plan. However, an agency's budget account and program activity structure does not always neatly crosswalk to the goals in its annual performance plan. Therefore, GPRA 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.^c</p>

Related guidance: OMB Circular A-11, Secs. 51, 220.

Appendix I
Results-Oriented Agency Budget Practices

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Practices	Description
1.f. Informs its staff of departmental, OMB, and congressional actions on the budget request and obtains feedback from program officials on the implications of those actions for agency goals.	The agency should continuously monitor departmental, OMB, and congressional actions on the budget request and communicate those actions to staff. For example, agencies can provide timely information by e-mail or through an internal Web site. The agency should also seek input from program officials on the implications of those actions for accomplishing the goals in the agency's performance plan. For example, to begin contingency planning as soon as possible, an agency might wish to seek input from program officials on actions on the budget request that have significant resource implications, such as those that will require the implementation of a new program or significant staff reductions.
For budget implementation, agency management:	
1.g. Provides guidance to program officials on changes in agency goals, performance issues, and resource constraints.	Between the time an agency formulates its budget request and the time it implements its budget, many operating assumptions may have changed. For example, there may be legislative changes to programs, new performance issues, or changes in cost assumptions, such as those for rent or health insurance. As the agency prepares to implement its budget, it should issue written guidance to program officials on known or anticipated changes in the agency's goals, performance issues, and resource constraints since formulation. For example, if anticipated resources are less than requested to achieve the goals in the annual performance plan, the agency should highlight the potential performance gap and begin to address the issue as part of the performance management and budgeting process. Similarly, updated performance information could provide information on where performance is leading or lagging and be useful in planning resource allocation.

Appendix I
Results-Oriented Agency Budget Practices

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Practices	Description
<p>1.h. Requests updated information from program officials on the relative priority of new and existing programs and proposed changes to funding levels based on a review of changed costs, performance issues, and other relevant factors.</p>	<p>The agency issues written guidance to program managers requesting their input on their funding needs. The agency could set funding targets that impose a reasonable limit on what programs can request. By seeking input from program managers the agency does not assume that all programs will automatically be funded at a maintenance level. The input should provide information on requested funding levels for each activity. It should also indicate the relative priority of the activities for accomplishing agency goals so that lower-priority activities can be weighed against other on-going or new funding proposals. Although we list virtually the same factors here as for formulation (see practice 1.b), the emphasis should be on significant changes in the factors that may affect priority for funding. Estimates should reflect:</p> <ul style="list-style-type: none"> • Annualization of personnel costs: The annual cost of existing staff, including the annualized cost of staff hired during the current fiscal year. • Annualization of other recurring costs: Of funding provided for the current year—the annual cost of recurring items, such as rent or ongoing contractual services, in the budget formulation year. • Reductions for one-time costs: Of funding provided for the current year—the amount of reductions for items that were one time or time limited in nature, such as new office equipment, higher than normal travel costs, or terminated or completed contracts. • Reasonable assumptions: See practice 2.a. • Changes in performance issues: How program performance compared to goals for the most recent year available. The input should describe the reasons for performance that exceeded or fell short of goals, and whether and how additional budgetary resources might influence performance against proposed goals. • Statutory or other relevant changes: Estimates of costs to implement new legislation or guidance contained in appropriations committee reports.
<p>1.i. Uses the input on performance, goals, and other factors to weigh competing needs and decide existing and new program funding levels; communicates its decisions about funding allocations; and provides an opportunity to appeal the decisions.</p>	<p>Because many changes in operating conditions and resource constraints can occur between budget formulation and implementation, an agency will generally need to rethink its priorities and reweigh competing needs to determine the level of funding to be allocated to each program area. Therefore, the agency should consider program managers' input on proposed funding levels needed to maintain current services and address new program needs and should use the input to make judgments about the funding levels to be allocated.</p> <p>Prior to making final allocations, the agency communicates in writing its decisions about the funding levels being allocated to each program. The agency's budget process allows program officials to provide feedback about the impact of funding increases or reductions and to appeal management's decisions.</p>

Appendix I
Results-Oriented Agency Budget Practices

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Practices	Description
1.j. Allocates funding in a timely manner.	<p>To maximize performance, after appropriations are signed into law, the agency should allocate in a timely manner funds needed for program operations. Advance planning, by enabling an agency to make final funding decisions quickly once funds have been appropriated, is the key to success in this area.</p> <ul style="list-style-type: none"> • Preparing preliminary operating plans based on appropriations actions: As far in advance of the new fiscal year as practical the agency should ask program officials to prepare preliminary operating plans based on preliminary decisions about funding allocations for the upcoming fiscal year. Because final funding outcomes are uncertain at this point, the agency should base its plans on the most likely budget outcome and reserve a portion of the funding to make final adjustments. • Adjusting the plans when final appropriations actions take place: After funds have been appropriated, warranted, and apportioned, the agency should quickly determine final funding allocations based on information from the preliminary operating plans. • Allocating appropriated funds as soon as possible thereafter: The agency should be prepared to quickly inform program officials of final funding decisions and enter the funding allocations into the agency's financial management system. • Finalize operating plans to be used for monitoring purposes: Program officials submit final operating plans based on the final allocations.
1.k. Routinely monitors performance, spending, and budgetary resources and adjusts allocations as necessary to maximize performance against goals.	<p>The agency has processes in place to collect, analyze, reconcile, and report periodically during the fiscal year information on performance, spending, and budgetary resources against plans so that management has credible, up-to-date information for monitoring and decision-making. Such monitoring should form the basis for decisions that address performance gaps by looking for root causes and, if necessary, adjusting funding allocations to rectify performance problems. In addition, the agency should maximize available resources by tracking the availability of unobligated balances and monitoring the status of obligations so funds can be deobligated when they are no longer needed for a given transaction. There should also be some indication that program managers are reconciling accounting transactions on at least a monthly basis.</p> <p style="text-align: center;">Related guidance: OMB Circular A-34, Secs. 30, 80.</p>
1.l. Uses input from program officials on how changes in funding allocations will affect performance.	<p>The agency makes decisions about changes in funding allocations based in part on input from program officials on how the changes will affect performance. For example, the agency should evaluate requests for mid-year increases in funding in terms of their contribution to the agency's performance. Similarly, decisions to reduce a funding allocation midyear to address other funding priorities should use information on how the reduction will affect program performance and, if appropriate, revise performance targets to reflect reduced funding.</p>
1.m. Coordinates program requests for postappropriations budget changes, requests input from program officials on the implications of those changes for agency goals, and communicates the results.	<p>During the fiscal year, an agency may seek supplemental appropriations. If the agency decides or is required to go forward with a request, a number of steps need to be taken. OMB's Circular A-11 provides guidance on the materials that must be submitted. The agency obtains input from program officials about the effect of proposed budget changes on achieving agency goals and communicates this information in its request for funding changes. As decisions are made, the agency communicates the information to program officials.</p> <p style="text-align: center;">Related guidance: OMB Circular A-11, Sec. 110.</p>

Appendix I
Results-Oriented Agency Budget Practices

^aIn general, the themes and practices are supported in law, such as sections of titles 5, 31, and 44 of the *United States Code*. They are also supported by *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, Nov. 1999); and Office of Management and Budget circulars A-11 “Preparing and Submitting Budget Estimates” (July 17, 2001), A-34 “Instruction on Budget Execution” (November 3, 2000), A-123 “Management Accountability and Control” (June 21, 1995), and A-127 “Financial Management Systems” (July 23, 1993). Specific guidance is noted following the practices.

^bFor all practices, we assume that agencies will comply with appropriations and other laws and guidance and respond to OMB and department directions in formulating and implementing their budgets.

^cFor a more detailed discussion and examples see *Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans With Budgets* (GAO/AIMD/GGD-99-67, April 12, 1999).

Theme 2: Produces Reliable Estimates of Costs and Resources

Practices	Description
Agency management:	
2.a. Bases its budget estimates on reasonable assumptions about factors affecting program costs or budgetary resources.	<p>OMB Circular A-11 provides agencies with guidance on certain basic assumptions about costs to be used in preparing budget requests. For example, while agencies may consider the effects of inflation on their costs, budget requests must stay within the budget planning guidance levels provided by OMB. Regardless of these requirements, however, an agency’s costs and budgetary resources change from year to year based on a variety of factors, and agencies must grapple with the challenge of achieving performance goals while finding funding for programs with increasing costs or declining resources. Agencies that base their budget estimates on the most up-to-date and appropriate assumptions will be better equipped to make tradeoffs between covering these cost increases and other programmatic needs. An agency should thoroughly explore the factors that are most likely to affect program costs and budgetary resources, such as inflation, personnel costs, and program demand. An agency that provides direct services should be concerned about estimating the demand for that service and should use appropriate assumptions about demographic and economic changes.</p> <p>Related guidance: OMB Circular A-11, Secs. 30, 32.</p>
2.b. Looks back to assess the accuracy of previous estimates and, if necessary, makes appropriate adjustments to its estimating methods.	<p>Agencies employ a variety of models and other estimating techniques to forecast costs and budgetary resources for budget formulation and implementation. Agencies should be concerned about the accuracy of these models and techniques because inaccurate forecasts can result in higher-than-planned program costs or funding shortages that can affect the agency’s ability to achieve performance goals. To improve the accuracy of its cost or resource forecast, the agency should periodically examine its estimating methods and, if necessary, make changes. For example, persistent variations between planned and actual spending or budgetary resources should be assessed.</p> <p>The agency should also review information from audited financial statements not covered in traditional budget presentations. For example, an agency should consider factoring in the cost of addressing significant accrued liabilities, such as the cost of accrued, unfunded annual leave for eligible retirees.</p> <p>Related guidance: OMB Circular A-34, Sec. 30.</p>

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Results-Oriented Agency Budget Practices**

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Practices	Description
2.c. Considers how its policy, program, and funding decisions may affect spending or budgetary resources for other programs within the agency.	The agency should not view individual funding, program, or policy decisions in isolation because they can have ramifications for estimates of the performance, costs, or budgetary resources of other agency programs. For example, technology investments may create savings in a variety of programs.
2.d. Considers the short- and long-term funding implications of its program and policy decisions.	<p>When assessing the affordability and desirability of policy and program options, the agency should consider the long-term cost implications of these options while determining how much funding to request in the short term. According to OMB Circular A-11, agency budget requests for acquisition of capital assets must propose full funding to cover the full costs of the project or a useful segment of the project.</p> <p>Failure to provide decisionmakers with adequate information about long-term cost implications may lead to decisions that are based upon incomplete or misleading information, potentially increasing costs or creating inefficiencies.</p> <p>Related guidance: OMB Circular A-11, Sec. 31.4.</p>

Theme 3: Can Relate Performance, Budget, Spending, and Workforce Information

Practices	Description
The Agency:	
3.a. Can relate its budget structure to its goals.	<p>GPRA requires an agency's performance plan to cover each program activity in the President's budget request for that agency. To meet this requirement, an agency should have a credible method of relating obligations to goals. However, an agency's budget account and program activity structure do not always neatly crosswalk to the goals in its annual performance plan. To demonstrate the relationship between budget program activities and goals, an agency may have to consolidate, aggregate, or disaggregate program activities.^a</p> <p>There are several approaches available that provide credible methods for relating obligations to goals. For example, an agency could define its goals as cost objects and accumulate obligations against those cost objects through such methods as direct time charging or other valid cost allocation methods.</p> <p>Related guidance: OMB Circular A-11, Secs. 71, 220; OMB Circular A-123.</p>

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Results-Oriented Agency Budget Practices

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Practices	Description
3.b. Can relate budget, workforce, accounting, and performance information.	<p>For budget formulation and implementation, the agency can relate budget, workforce, accounting, and performance information to support decision-making. For example:</p> <ul style="list-style-type: none">• Budget reports may show information on program obligations or outlays and their associated goals or performance measures.• Accounting information can be rolled up to support budget information. The agency's accounting system data on spending ties directly to actual budget spending and can be used during budget formulation or implementation.• Data from the agency's standard general ledger can be crosswalked to the agency's SF-133 Report on Budget Execution and Budgetary Resources and the actual year column of the Program and Financing Schedule in the President's Budget.• Financial and performance systems use uniform terminology and coding and avoid duplicating data entry and the use of supplementary systems. The agency's budget information systems are linked to performance information so that reports do not require multiple data entry and agency management can readily view information on obligations, outlays, and budgetary resources related to performance. For example, staffing reports link fiscal and performance data. <p>Related guidance: OMB circulars A-11, Sec. 220; A-34, Sec. 50; and A-127, Sec. 7. Treasury Financial Manual Standard General Ledger Supplement.</p>
3.c. Can account for both the direct and indirect costs of its programs and associated goals.	<p>The agency has an information system that breaks out spending information into both direct (e.g., program staff, benefits, rent, contracts, or grants) and indirect costs (e.g., overhead services such as accounting or human resources staff or agencywide information technology systems) for the agency's programs and associated goals.</p> <p>Related guidance: Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," July 31, 1995.</p>

^aFor a more detailed discussion and examples see *Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans With Budgets* (GAO/AIMD/GGD-99-67, April 12, 1999).

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Results-Oriented Agency Budget Practices

Theme 4: Continuously Seeks Improvement

Practices	Description
Agency management:	
4.a. Uses information on program effectiveness, such as program evaluations, to determine if programs are producing desired results with resources provided and identifies alternative approaches that could accomplish agency goals more effectively and efficiently.	<p>GPRAs call for agencies to describe the program evaluations used to establish or revise general goals and objectives and to provide a schedule of future program evaluations. In addition to agency-sponsored evaluations, external assessments by auditors, academics, industry, clients, public interest groups, and others can provide information on the relative effectiveness and efficiency of agency programs. Program evaluations provide agency management an important tool for informing decisions about the tradeoffs between new and existing programs when formulating or implementing the agency's budget.</p> <p>Furthermore, agency management should seek to improve agency performance and reduce costs by exploring alternative approaches to accomplishing agency goals. To determine whether alternative approaches to the agency's work provide greater value, the agency could, for example: network with other agencies or their budget offices, benchmark state-of-the-art practices in organizations with similar missions or service delivery mechanisms, and track reforms that could bring about efficiencies if implemented.</p> <p>Related guidance: OMB Circular A-11, Sec. 210.</p>
4.b. Analyzes the direct, indirect, and, if possible, unit costs of activities to identify opportunities to improve effectiveness and efficiency.	<p>The agency tracks the direct, indirect, and, if possible, unit costs of its activities and uses this information to compare the cost of its activities to appropriate benchmarks and to bring about improvements in efficiency over time. Agency management uses this analysis to inform decision-making during budget formulation and implementation.</p> <p>Related guidance: OMB Circular A-11, Sec. 30.</p>
4.c. Considers the performance and implications of alternative budgetary resources.	<p>The agency explores alternative budgetary resources to accomplish agency goals more effectively and efficiently. For example, agencies that provide direct services either to segments of the public or to other agencies could consider proposing legislation that would give them authority to charge fees (offsetting collections) to pay for the services.</p>

Challenges to Implementing Results-Oriented Agency Budget Practices

We asked the panel of senior agency budget officials to identify practices that would be difficult to implement and to discuss some of the challenges to implementation. The panelists cited general challenges to linking the planning and budgeting processes as well as specific challenges to using performance information in the budget process; reallocating funds to address performance issues; relating budget, performance, and other information; and examining and improving current operations. The following describes the challenges discussed by the panel.

Linking Planning and Budgeting Processes

- **Budgeting and planning have different time horizons:** The budget process focuses on obtaining funding for the upcoming fiscal year. In contrast, strategic planning has a long-term horizon and establishes goals that can take multiple years to accomplish.
- **Time pressures can drive budgeting:** Without top management commitment to results, the budget process, given its tight time constraints, may proceed on its own track and may not result in budget decisions aligned with strategic goals.
- **Budget environment is not always flexible:** Agencies operate in an environment where allocations may be restricted by amount or activity so as to limit flexibility in shifting resources to achieve results.

Using Performance Information to Request and Allocate Resources

- **Budgets are not usually structured around goals:** Performance information does not mesh well with most agency budget and accounting structures because budgets usually are structured around organizations, functions, or programs instead of goals and objectives.
- **Changing budget structures is costly and may inhibit tracking costs from year to year:** Adopting a budget structure that is keyed to agency goals implies that the budget structure would need to change over time to reflect changing goals. However, the structure of an agency's budget needs to remain relatively stable to track costs consistently from one year to the next and to avoid ad hoc agency reporting or costly changes to financial systems.
- **Input from program officials can be inhibited:** In an agency where management is accustomed to making decisions in a top-down manner, decisions may not reflect input from program officials or other staff offices and may instead reflect management priorities unrelated to program performance goals.
- **Expectation gaps may be created:** Obtaining input from program managers on their funding priorities related to performance may create

expectation gaps because an agency must weigh the input and make tradeoffs that reflect agencywide, rather than program-level, priorities.

- **Performance information may not be relevant to new initiatives:** Changes in top management's priorities or agency goals can reduce the relevance of prior performance information for budget decisions.
- **Performance information may not be timely:** For example, an agency formulating its budget for fiscal year 2003 must submit its request to OMB by September 2001. As of that date, the last full year of performance information is fiscal year 2000—three years behind.

Reallocating Funds to Address Performance Issues

- **Lack of outcome information:** The lack of good information on the relationship between funding and outcomes makes it difficult to assess whether funds are allocated or reallocated effectively—in turn making it difficult to determine whether changes in funding allocations will make a difference in performance.
- **Reprogramming restrictions:** Some agencies have reprogramming restrictions that may inhibit aligning resources to goals.
- **Cultural resistance to reallocations:** There may be a cultural resistance to reallocating program funds to address performance issues elsewhere in the agency.

Relating Budget, Spending, Workforce, and Performance Information

- **Ad hoc approaches often used:** The agencies represented at the panel generally have not chosen to integrate performance information with budget and spending data, and when they have, they have used ad hoc approaches.
- **Crosswalks of limited use:** Some found that building crosswalks between budget accounts and agency goals was of limited use to the agency and appropriators because funding decisions were keyed to the functions or organizations in the budget instead of agency goals.
- **Planning and budget functions not integrated:** Agencies that have not integrated their planning and budget functions may have difficulty aligning budget and planning information and providing integrated guidance to program managers or other staff offices on performance and budgeting issues.
- **Information systems not always available:** For example, budget officials are accustomed to producing timely and useful information on spending against plans, but performance information reports are more sporadic and not easily linked to spending information.

- **Cost of information systems may be prohibitive:** The expense of developing and implementing new information systems might be prohibitive because funding for information technology initiatives is difficult to obtain.
- **Indirect costs are difficult to attribute to goals:** It can be difficult to attribute indirect costs, such as information technology or rent, to agency goals.
- **Quality of agency estimates not always basis for decision-making:** It may not be useful to try to perfect spending estimates, particularly for budget formulation, because the department or OMB can reduce funding regardless of the quality of the estimates.

Examining and Improving Effectiveness and Efficiency of Operations

- **Agencies may lack capacity for program evaluations:** Agencies may lack the capacity and resources to perform their own program evaluations because such evaluations can be costly and time consuming and agencies lack staff to do them.
- **Alternative revenue sources may be unavailable:** The availability of alternative revenue sources may be limited for some agencies because they are restricted by statute from charging fees and have difficulty persuading the Congress to adopt user fees.
- **Difficult to evaluate programs implemented by third parties:** Agencies, such as regulatory agencies, that rely in part on third parties to accomplish their goals may have more difficulty evaluating the effectiveness of funds spent because the agency has limited control over the actions of the third parties.

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