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July 30, 1999

The Honorable Fred Thompson
Chairman
Committee on Governmental Affairs
United States Senate

Subject: Performance Budgeting: Fiscal Year 2000 Progress in Linking Plans With Budgets

Dear Mr. Chairman:

This correspondence updates our recent report on agencies' fiscal year 1999 experiences in linking plans and budgets under the Government Performance and Results Act of 1993 (the Results Act).¹ You requested that, using the fiscal year 2000 performance plans of the 35 agencies² reviewed in that report, we (1) identify agencies that allocated program activity³ funding to performance goals in their fiscal year 2000 performance plans and (2) discuss the progress agencies have shown in making these allocations. Allocating program activity funding to performance goals is a critical first step in defining the performance consequences of budgetary decisions.

To respond to your request, we applied the methodology used in our previous report⁴ to identify which of the 35 agencies in our review allocated program activity funding to performance goals. To gauge agencies' progress in meeting this important element of the Results Act, we assessed whether the 35 agency plans had shown progress in (1) defining relationships between program activities and performance goals and (2) presenting funding levels for sets of performance goals. Our assessment of agencies' progress on other elements of informative performance plans, such as performance goals or strategies to resolve mission-critical management problems and descriptions of efforts to verify and validate performance data, are included in a companion report to you.⁵ We provided a draft of this correspondence

¹Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans With Budgets (GAO/AIMD/GGD-99-67, April 12, 1999).

²See enclosure I for a list of these agencies and the methodology used to select them. In this report, we refer to a performance plan, whether of a department, agency, or bureau, as an "agency plan."

³The term "program activity" refers to the list of projects and activities in the appendix portion of the Budget of the United States Government. Subject to clearance by the Office of Management and Budget 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.

⁴GAO/AIMD/GGD-99-67, April 12, 1999.

⁵Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

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GAO/AIMD-99-239R Performance Budgeting

to the Office of Management and Budget (OMB) for comment. Enclosure I provides more details on our scope and methodology.

Results in Brief

Although the number of plans that clearly showed how program activity funding would be allocated to achieve performance rose only slightly between fiscal years 1999 and 2000 (from 14 to 15 of the 35 plans we reviewed), noteworthy progress in showing the performance consequences of budget decisions was made. Two agencies—the Federal Aviation Administration (FAA) and the Social Security Administration (SSA)—made such allocations for the first time in their fiscal year 2000 plans. Also, more agencies than last year (26 versus 20) moved beyond the act's requirement to link program activities and performance goals by indicating the funding levels needed to achieve performance, even if these agencies did not always clearly explain how those amounts were derived from the program activities in their budget requests. However, improvement within our sample of plans was mixed. For example, we continue to find no relationship between program activities and performance goals for 3 agencies, and 3 other agencies revised their plan presentations in ways that obscured the relationships that were made in fiscal year 1999.

Our recent report on agencies' fiscal year 1999 experiences in linking budgetary resources and performance goals described approaches used to show the performance consequences of budget decisions and the challenges that must be addressed for effective performance budgeting. That report recommended that OMB develop a constructive and practical agenda to clarify the relationship between budgetary resources and results, beginning with specific guidance for the preparation of agencies' fiscal year 2001 performance plans. In July 1999 testimony before the House Subcommittee on Government Management, Information, and Technology, OMB pledged to begin during the fiscal year 2001 budget formulation process the performance budgeting pilots called for by the Results Act. Also, in conjunction with its guidance for the fiscal year 2001 budget preparation process, the Director of OMB described a set of questions which OMB will discuss with agencies to ensure that the relationship between budget structure and performance goals is clear and direct. Although OMB's recent actions hold promise for reinforcing and advancing agency efforts to connect resources with results, we still encourage OMB—working with agencies—to formally analyze the approaches being developed in order to identify and share what is practical regarding performance budgeting within the federal government.

Background

The Results Act is a key component of a statutory framework that the Congress put in place during the 1990s to promote a new focus on results.⁶ Among its several purposes, the act is designed to improve congressional decision-making by providing information on the relative effectiveness and efficiency of federal programs and spending. That is, with regard to spending decisions, the act aims for a closer and clearer link between the process of allocating resources and the expected results to be achieved with those resources.

⁶For a fuller discussion of this framework, see Managing for Results: The Statutory Framework for Performance-Based Management and Accountability (GAO/GGD/AIMD-98-52, January 28, 1998).

The concept of linking performance information with the budget is commonly known as performance budgeting. The Results Act addresses two aspects of performance budgeting. First, the act requires an agency's annual performance plan to cover each program activity in the President's budget request for that agency.⁷ This establishes a basic foundation for performance budgeting. OMB's guidance regarding this provision of the act set forth an additional criterion: plans should display, generally by program activity, the funding level to be applied to achieve performance goals.⁸ That is, OMB expected performance plans to show how amounts from the agency's budget request would be allocated to the performance goals displayed in the plan. Subsequently, in its guidance on fiscal year 2000 plans, OMB noted that it expected to see "significant progress in associating funding with specific performance goals or sets of goals" in agencies' plans.

In addition to mandating a link between budget requests and performance plans, the act also required that pilot projects be used to test a specific application of performance budgeting. OMB, in consultation with the head of each agency, was required to designate for fiscal years 1998 and 1999 at least five agencies to prepare budgets that "present, for one or more of the major functions and operations of the agency, the varying levels of performance, including outcome-related performance, that would result from different budgeted amounts."⁹ However, due to agencies' difficulties in developing performance measurement and cost accounting systems, OMB has yet to initiate these pilots.¹⁰

Little Change in Number of Agencies Allocating Program Activity Funding to Performance Goals

Of the 35 plans we reviewed, the number of agencies allocating program activity funding to performance goals rose from 14 in fiscal year 1999 to 15 in fiscal year 2000. This net increase resulted from two agencies—the Federal Aviation Administration (FAA) and the Social Security Administration (SSA)—allocating program activity funding to performance goals for the first time in fiscal year 2000 and from one agency—the Federal Bureau of Investigation (FBI)—changing its performance plan structure so that program activity funding was not being allocated consistently and clearly to performance goals.

⁷The Results Act 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.

⁸Preparation and Submission of Budget Estimates, Circular A-11, Sec. 220.9(e), June 23, 1997.

⁹31 U.S.C. 1119(b).

¹⁰For additional discussion of the performance budgeting pilots, see Performance Budgeting: Initial Agency Experiences Provide A Foundation to Assess Future Directions (GAO/T-AIMD/GGD-99-216, July 1, 1999).

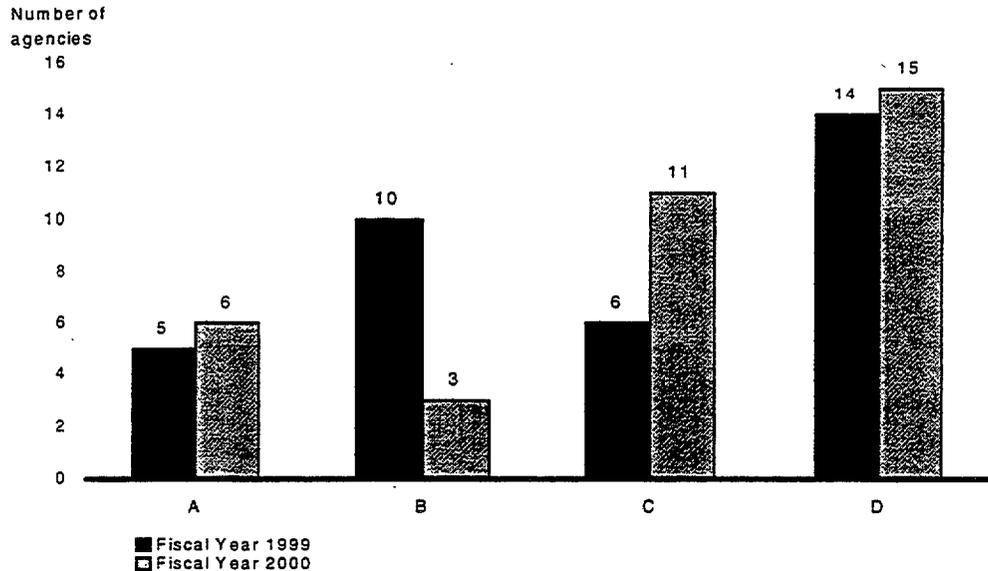
Figure 1: Agencies Allocating Program Activity Funding to Performance Goals in Fiscal Year 2000 Performance Plans

• Department of Energy	• Administration for Children and Families
• Customs Service	• Employment and Training Administration
• Environmental Protection Agency	• Federal Aviation Administration
• Food and Nutrition Service	• Health Resources and Services Administration
• Internal Revenue Service	• National Aeronautics and Space Administration
• Nuclear Regulatory Commission	• Office of Personnel Management
• Small Business Administration	• Social Security Administration
• U.S. Agency for International Development	

Some Progress Was Made in Showing the Performance Consequences of Budget Decisions

Although there was little change in the number of agency plans in our review that clearly showed how program activity funding in their budget requests was allocated to performance goals, more agencies generally indicated the budgetary implications of their fiscal year 2000 performance plans. Notwithstanding a slight increase in the number of agencies that showed no relationships between their plans and budgets (from 5 in fiscal year 1999 to 6 in fiscal year 2000), more agencies (from 20 in fiscal year 1999 to 26 in fiscal year 2000) presented funding levels for fiscal year 2000 performance goals. Figure 2 shows the year-to-year change in the status of agency efforts to connect resources to results for the 35 performance plans in our review.

Figure 2: Agencies' Status in Connecting Resources and Results in Fiscal Years 1999 and 2000



- A - Did not link program activities to performance goals
- B - Linked program activities to performance goals but did not show funding levels needed to achieve performance goals
- C - Showed funding levels needed to achieve performance goals but did not show how funding levels were derived from the links made between program activities and performance goals
- D - Translated links between program activities and performance goals into budgetary terms by allocating funding from program activities to performance goals

A basic requirement of the Results Act is that agencies clearly link performance goals to the program activities in their budget request. Six of the agency plans in our review did not make this basic connection, representing a slight increase from the fiscal year 1999 plans. (See column group A in figure 2). Three agencies—the Department of Defense, the Rural Housing Service, and the Immigration and Naturalization Service—did not describe this link in either their fiscal year 1999 or 2000 plans, and three other agencies—the Department of Commerce, FBI, and the Federal Highway Administration—changed their fiscal year 2000 plan presentations in a way that obscured relationships that had been shown in their 1999 plans.¹¹ For example, in its fiscal year 1999 plan, Commerce related its performance goals and program activities but did not show how program activity funding would be allocated to performance goals. In its fiscal year 2000 plan, Commerce presents funding information for its goals but does not indicate (1) which program activities are associated with these goals or (2) how these funding levels were derived from the program activities in its budget request.

In contrast, 29 of the 35 plans reviewed met the act's basic requirement to link program activities and performance goals and also made varying progress toward presenting the performance consequences of budget decisions. Three of these agencies—the Department of Housing and Urban Development, the General Services Administration, and the Occupational Safety and Health Administration—defined a relationship between program activities and

¹¹GAO/GGD/AIMD-99-215 provides a more complete assessment of these plans' strengths and weaknesses.

performance goals but did not consistently identify funding levels associated with achieving those goals; this represents a decrease from 10 agencies in fiscal year 1999. (See column group B in figure 2). The remaining 26 plans—almost three-quarters of the plans we reviewed, compared to 20 in fiscal year 1999—now have met the Act's requirement to link program activities and performance goals and also progressed to indicate funding levels needed to achieve expected performance.

- As discussed above, 15 agencies followed OMB's guidance that plans should display by program activity the funding needed to achieve performance goals. These agencies associated funding levels with performance goals and also showed how those funding levels had been derived from the program activities in their budget requests. (See column group D in figure 2.)
- The remaining 11 agency plans met the act's requirement to link expected performance with budget program activities but did not describe how funding levels shown in their plans had been derived from their budgets. That is, these plans provided some indication of the funding levels needed to achieve performance but are not as useful for resource allocation decisions as they could be because these plans did not clearly show how the funding levels related to program activities in the agency's budget request. (See column group C in figure 2.)

Although a few agencies discussed in their fiscal year 2000 performance plans the possibility of changing their budget account structures to facilitate closer links between resources and results, none of the agencies we reviewed proposed significant changes.¹² However, the Department of Veterans Affairs (VA) and the National Park Service (NPS) recognized disconnection between their planning and budgeting structures and suggested possible solutions.

- VA's fiscal year 2000 performance plan presented funding levels needed to achieve the performance goals associated with broad programs, such as medical care. However, the plan did not explain how the program activities in VA's budget request were allocated to each of these programs, indicating only that many program activities related to many programs. In its plan, VA states that it is implementing an activity-based costing system and working with OMB on examining the agency's budget account structure in order to, among other things, clarify the relationship between resources and results.
- Similarly, NPS' fiscal year 2000 plan noted that its performance goals might cut across several program activities because these activities typically focus on means and strategies rather than the agency's mission.¹³ In recognition of this difference in orientation, NPS created "GPRA program activities" for its performance plan by aggregating, consolidating, or disaggregating program activities in its budget request. While the plan showed funding levels for the GPRA program activities and performance goals, the plan was not as useful for budget decision-making as it could be because the plan did not show how those funding levels had been derived from NPS' budget program activities.

¹²In contrast, three agencies in our review proposed account structure changes in their fiscal year 1999 performance plans.

¹³For a discussion of Results Act implementation challenges facing NPS, see *National Park Service: Efforts to Link Resources to Results Suggest Insights for Other Agencies* (GAO/AIMD-98-113, April 10, 1998).

An Agenda for Improving the Linkage of Resources to Results Is Still Needed

The fiscal year 1999 performance planning and budgeting cycle produced useful experiments in connecting planning and budgeting structures that continued with the fiscal year 2000 plans. Collectively, these plans constitute first steps toward achieving closer links between resources and results and provide a baseline to assess future progress and to determine what changes, if any, may be needed to the act and to federal budget processes.

Nevertheless, as we have previously reported, challenges in performance planning and measurement and deficiencies in cost accounting systems continue to confront federal agencies.¹⁴ In 1997, OMB cited these problems as the reasons why performance budgeting pilot projects required by the act were not initiated. In 1998, OMB solicited agencies' comments on these pilots but no agency volunteered to participate.

Recent OMB statements indicate renewed commitment toward progress in this essential area of Results Act implementation.

- In July 1999 testimony before the House Subcommittee on Government Management, Information, and Technology, OMB's Acting Deputy Director for Management stated that performance budgeting pilot agencies would be selected during the fiscal year 2001 budget formulation process. OMB intends to work with these pilot agencies to have them prepare performance budgets for selected programs or areas and will analyze these budgets to determine alternative levels of performance and associated resource needs.
- Although OMB's July 1999 guidance for preparing fiscal year 2001 performance plans is essentially unchanged from its fiscal year 2000 guidance with regard to plan-budget relationships, OMB has supplemented this guidance with a list of questions that it intends to ask this year in reviewing agencies' budget submissions.¹⁵ Several of these questions focus on links between plans and budgets. For example, OMB states that it will ask whether there is clear evidence that agency budget proposals are aligned with performance goals, whether the performance plans and budget justifications are meaningfully integrated, and whether the agency has systems for tracking the budgetary resources needed to achieve specific goals. Further, in the memorandum transmitting these questions and guidance, the Director of OMB states that some agencies can clarify the relationship between their budget structures and performance goals through budget restructuring and encourages such proposals to achieve alignment.

OMB's actions are generally consistent with the intent of our previous recommendations and hold promise for reinforcing and advancing agency efforts to better connect resources to results. In April 1999, we recommended that OMB analyze fiscal year 2000 performance plans to address what types of pilot projects might be practical and beneficial, and to determine when and how those pilots would take place.¹⁶ OMB has not yet detailed how the pilot projects will be selected or conducted, but initiating the pilot projects should prove useful in determining what can realistically be expected and achieved regarding performance

¹⁴GAO/AIMD/GGD-99-67, April 12, 1999, and T-AIMD/GGD-99-216, July 1, 1999.

¹⁵OMB Circular A-11, Preparing and Submitting Budget Estimates, July 12, 1999.

¹⁶GAO/AIMD/GGD-99-67, April 12, 1999.

budgeting within the federal government. We also recommended that OMB develop a constructive and practical agenda to clarify the relationship between budgetary resources and expected results, beginning with the fiscal year 2001 plans. OMB's recent statements and the list of questions it intends to address during this year's budget submission reviews indicate that OMB intends to emphasize and pursue clearer links between planning, performance measurement, and budgeting.

We are hopeful that OMB's policy statements will spur further improvement in agencies' efforts to connect resources to results. However, as we have noted, significant challenges to performance budgeting in the federal government remain and will demand sustained attention and careful analysis. Accordingly, we continue to encourage OMB—either on its own or through its leadership of governmentwide councils—to formally analyze the approaches that agencies are developing to link performance plans and budget requests in order to identify and share what is practical and possible with regard to performance budgeting. This type of formal assessment could provide valuable guidance based on observed practices among agencies. It could also offer an essential foundation for OMB's report to the Congress in March 2001 on the feasibility and advisability of including a performance budget as part of the President's budget and promote a fundamental goal of the Results Act—that performance plans help the Congress and the public understand what is being achieved in relation to what is being spent.

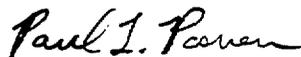
Agency Comments

On July 14, 1999, we provided a draft of this letter to the Director of OMB for review and comment. On July 20, 1999, a senior OMB official told us that OMB had no comments.

As agreed with your office, unless you publicly announce the contents of this letter earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to Senator Joseph Lieberman, the Ranking Minority Member of your committee; other appropriate congressional committees; and The Honorable Jacob Lew, Director, Office of Management and Budget. Copies will be made available to others on request.

Please contact me at (202) 512-9573 if you or your staff have any questions concerning this letter. Michael J. Curro, Laura E. Castro, and Toni J. Wehman were major contributors to this letter.

Sincerely yours,



Paul L. Posner
Director, Budget Issues

Enclosure

Scope and Methodology

To address our objectives, we reviewed the fiscal year 2000 performance plans of 35 departments and agencies covered by the Chief Financial Officers (CFO) Act. These agencies were originally selected for review in our previous report on agencies' initial experiences in linking performance plans and budget requests.¹⁷ In our original selection of these agencies, we generally focused on bureau-level plans for each department but limited our review to the three largest bureaus with discretionary spending over \$1 billion and/or the two largest bureaus.¹⁸ Figure I.1 lists the agencies whose fiscal year 2000 plans we reviewed.

¹⁷GAO/AIMD/GGD-99-67, April 12, 1999.

¹⁸Discretionary spending levels were used as an indication of the bureau's relevancy to appropriators since discretionary funding is affected by appropriations actions.

Enclosure 1

Figure I.1: 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

In our review of agencies' first-year experiences in linking performance goals and budget requests,¹⁹ we developed and applied a methodology to assess the plans on several different characteristics.

¹⁹GAO/AIMD/GGD-99-67, April 12, 1999.

Three of those characteristics were assessed again for the fiscal year 2000 plans to respond to this request. Following is a list of those characteristics and the methodology for assessing them.²⁰

Program Activities Are Linked To Goals – We identified agencies that either (1) linked program activities to some planning structure (e.g., strategic or performance goal) in their performance plans or (2) did not link program activities to any planning structure.

Plan Associated Dollars With Goals – We identified agencies that either (1) associated dollars with some planning structure in their performance plans or (2) did not associate dollars with any planning structure.

Funding Allocated To A Discrete Set of Goals and/or Measures – Plans that allocated program activities to a discrete set of performance goals and/or measures generally showed how program activities and their requested funding were allocated among individual or a unique set²¹ of performance goals/measures (plans met this criteria even if only discretionary funding was allocated).

We reviewed each of the 35 fiscal year 2000 performance plans for the agencies shown in Figure I.1 and classified the plan on each of the above characteristics. To ensure consistency in judgments, two staff members independently reviewed the plans and the assessment on each characteristic. Differences in judgments were addressed by having staff members jointly reevaluate the coding of the characteristic to resolve the difference.

The following qualifications apply to our analysis.

- Although the results of our analyses apply to the plans we reviewed, our plan selection procedures preclude generalizing the results to agency plans not included in our population.
- Our analysis focused on links between performance goals and program activities in performance plans. We did not assess other elements of the performance plan, such as the quality of the goals presented in the plan. We also did not independently verify the funding amounts that agencies allocated to performance goals, nor systematically assess other documents, such as agency budget justifications.

We requested comments on a draft of this report from the Director of OMB or his designee and incorporated OMB's comments as appropriate. We conducted our work from May through July 1999 in accordance with generally accepted government auditing standards.

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²⁰The methodology for assessing these characteristics is essentially that used in our review of the fiscal year 1999 plans. The methodology notes that, for two of the characteristics, we collapsed categories that were used in the 1999 review (i.e., we categorized agencies into a "none" or "all other" category). Otherwise, the methodology is the same as that of our previous review.

²¹The set of goals ranged in size and scope. For example, some of these plans presented allocations of funding to strategic goals or objectives, which represent discrete sets of performance goals.

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