

GAO

Report to the Subcommittee on
Government Management, Finance, and
Accountability, Committee on
Government Reform, House of
Representatives

November 2006

**PRESIDENT'S
MANAGEMENT
AGENDA**

**Review of OMB's
Improved Financial
Performance
Scorecard Process**





Highlights of [GAO-07-95](#), a report to the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The President's Management Agenda (PMA) focuses attention on ensuring resources entrusted to the federal government are well managed and used wisely. The Office of Management and Budget (OMB) developed standards to measure success and a PMA scorecard that gives a "green", "yellow" or "red score" by agency. Green indicates success, yellow indicates mixed results, and red indicates unsatisfactory results. For the Improved Financial Performance Initiative, GAO was asked to (1) study and evaluate OMB's process and criteria for awarding a green score for current status and progress and (2) provide examples of how agency managers use financial data to better manage on a day-to-day basis. To fulfill these objectives, GAO interviewed OMB and agency officials and examined OMB and agency documentation relevant to OMB's scoring process.

What GAO Recommends

To help strengthen OMB's scoring process for the Improved Financial Performance Initiative, GAO made two recommendations for OMB to establish a process to more systematically document (1) the basis for all key decisions and judgments made in determining agency green scores and (2) the receipt and review and approval of Green Plans, including updates, used in the scoring process. OMB generally concurs with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-95.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda Calbom at (206) 287-4809 or calboml@gao.gov.

PRESIDENT'S MANAGEMENT AGENDA

Review of OMB's Improved Financial Performance Scorecard Process

What GAO Found

OMB has established a reasonable process for assessing and scoring agencies' current status and progress (two separate scores) under the Improved Financial Performance Initiative of the PMA. OMB's established scoring criteria address the fundamental aspects of sound financial management and are geared toward achievement of the goals envisioned in the Chief Financial Officers (CFO) Act. Seven of the nine current status scoring criteria (yellow criteria) are objective and verifiable using publicly available information. The remaining two green criteria are more subjective and require OMB to make judgments about whether agencies (1) currently produce accurate and timely financial information that is used by management to inform decision making and drive results in key areas of operations and (2) have acceptable plans (referred to as a Green Plans) to continuously expand the routine use of financial data in decision making in additional areas of operations. GAO found OMB's staff were actively engaged in the scoring process and met regularly with agency officials to discuss progress in meeting scoring criteria and to provide input into agencies' efforts to expand the use of financial data in their day-to-day management of key agency operations. GAO also found opportunities for OMB to enhance the process by better documenting its assessments of the more subjective green scoring criteria and by systematically tracking the receipt and approval of key documents used in the process.

Agency officials generally supported the scorecard process and stated that it has helped to focus top management's attention on financial management issues. The six agencies GAO visited (those with green scores as of September 30, 2004, as requested) provided examples on how they use financial data as well as performance data to make management decisions related to controlling costs, budgeting, allocation of resources, and management of contracts and grants. Agency officials told GAO that some of the examples or activities demonstrated to GAO were also previously demonstrated to OMB to show that the agency was using financial data to help inform management decision-making. OMB officials said they considered these and other examples in rendering the green scores. However, the documentation issues discussed above prevented GAO from specifically determining which examples were used by OMB in making these scoring decisions.

The Improved Financial Performance Initiative scorecard process has clearly been a catalyst to improve financial management and to encourage agency managers to use financial data to enhance decision making as envisioned under the CFO Act. Better documenting the key decisions would help strengthen what is already a useful management tool by helping ensure consistency and continuity in the process and would enhance the value of the process to external users.

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Abbreviations

BAJA	Budget Automation, Justification and Administration
CFO	Chief Financial Officer
DOE	Department of Energy
EBSA	Employee Benefits Security Administration
Education	Department of Education
EPA	Environmental Protection Agency
ETA	Employment and Training Administration
FFMIA	Federal Financial Management Improvement Act
FSA	Federal Student Aid
Labor	Department of Labor
NSF	National Science Foundation
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
ORBIT	OCFO Reporting and Business Intelligence Tool
OSRTI	Office of Superfund Remediation and Technology Innovation
PAR	performance and accountability report
PMA	President's Management Agenda
SSA	Social Security Administration

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United States Government Accountability Office
Washington, DC 20548

November 16, 2006

The Honorable Todd R. Platts
Chairman
The Honorable Edolphus Towns
Ranking Minority Member
Subcommittee on Government
Management, Finance, and Accountability
Committee on Government Reform
House of Representatives

In August 2001, the Bush administration launched the President's Management Agenda (PMA) with the stated purpose of focusing attention on ensuring that the resources entrusted to the federal government are well managed and wisely used. The PMA targets five management initiatives—strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration. The Office of Management and Budget (OMB) developed criteria to measure success and a PMA scorecard to track agency progress for each of the five initiatives. The scorecard employs a traffic light grading system to indicate both the agencies' current status in achieving the PMA goals and the periodic progress made by agencies for each of the five initiatives —"green" indicates success, "yellow" indicates mixed results, and "red" indicates unsatisfactory results. While the PMA is primarily intended to be an internal management tool to drive improvements for these five management initiatives, the resulting scores are publicly disseminated on OMB's Web site, in the annual *Financial Report of the United States Government*, and the annual *Budget of the United States Government*.

The goals of the Improved Financial Performance Initiative (the focus of this report) are consistent with the goals envisioned in the Chief Financial Officers (CFO) Act, which, among other things, are to improve agencies' financial management and provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch and Congress in the financing, management, and evaluation of federal programs. As of September 30, 2006, 8 of 26 agencies scored by OMB had a green current status score in the area of Improved Financial Performance and 24 of 26 agencies had green progress scores. To better understand the process and criteria by which OMB assesses agencies in the area of Improved Financial Performance, you requested

that we (1) study and evaluate OMB's process and criteria for awarding a green designation for current status and progress and (2) provide examples of how agency managers use financial data to better manage their agencies on a day-to-day basis for those agencies that had achieved a green current status score for the Improved Financial Performance Initiative, as of September 30, 2004. At that time, six agencies had green current status scores: the Departments of Education (Education), Energy (DOE),¹ and Labor (Labor); the Environmental Protection Agency (EPA); the National Science Foundation (NSF); and the Social Security Administration (SSA).

To address the first objective and obtain an understanding of the scoring process, we interviewed OMB and agency officials and reviewed relevant literature, including documents available on OMB's Web site and agency performance and accountability reports (PAR), which include audited financial statements. We reviewed OMB's published scorecard criteria and the reference guide OMB prepared to help agencies understand the green criteria and prepare for discussions and demonstrations with OMB on how the agencies were meeting the scoring criteria. Also, we independently assessed whether agencies had met the seven yellow current status scoring criteria. Initially, OMB would not provide us access to the key documents used in the scoring process because it considered these documents to be deliberative and predecisional. These documents, which are described in the background section of this report, included the agency quarterly scorecards, Proud to Be documents, and Green Plans. After OMB received a draft of our report for comment describing this initial scope limitation, OMB granted us access to review these documents on its premises but still would not provide us access to its written comments on agency plans or other communications, such as emails, relating to the scoring determinations. This particular restriction did not significantly limit our ability to fulfill the objectives of this review.

To address the second objective, we reviewed agency documents, including agency PARs. We interviewed agency officials and attended briefings by personnel of the six agencies in our review, at which officials demonstrated examples of how financial information was used to make decisions about their programs. However, we did not determine how

¹DOE's current status score was downgraded to red in December 2005 because it received a disclaimer of opinion on its fiscal year 2005 consolidated financial statements and was not in compliance with the Federal Financial Management Improvement Act (FFMIA). DOE's current status score remained red as of September 30, 2006.

widespread the use of these examples was throughout the agencies. We also did not verify that the use of the information ultimately resulted in better decisions or better-managed programs. We did not obtain information from the agencies that obtained a green current status score for Improved Financial Performance subsequent to September 30, 2004, including the Department of Commerce, the Department of State, the General Services Administration, and the Smithsonian Institution.

We performed our work in accordance with generally accepted government auditing standards. We conducted our initial work from April 2005 through March 2006. We updated our work from July 2006 through November 2006 after OMB provided us access to the agency quarterly scorecards, Green Plans, and Proud to Be documents.

Results in Brief

Overall, OMB has established reasonable scoring criteria and helpful guidance describing what agencies must do to achieve “green scores” for the Improved Financial Performance Initiative. OMB has also designed and implemented a quarterly scoring process to assess whether agencies have met these criteria and are making progress in expanding the routine use of financial data in management decision making in key areas of operations. OMB’s established scoring criteria address the fundamental aspects of sound financial management and require clean audit opinions, sound internal controls, compliance with applicable laws and regulations, and financial systems that are compliant with federal standards. Seven of the nine current status scoring criteria (i.e., the yellow or compliance criteria) relate to these aspects and are objective and verifiable using publicly available information. The remaining two green or results criteria are more subjective and require OMB’s staff to make judgments about whether the criteria have been satisfied. These two criteria require agencies to (1) demonstrate that they currently produce accurate and timely financial information that is used by management to inform decision making and drive results in key areas of operations and (2) have a plan (referred to as a Green Plan) to continuously expand the routine use of financial data in decision making in additional areas of operations. We found OMB’s staff were actively engaged in this scoring process and met regularly with agency officials to discuss progress in meeting the scoring criteria and to provide input into agencies’ data expansion efforts.

While OMB’s scoring process is reasonable and useful as an internal management tool, we did note some opportunities for OMB to enhance the process. Specifically, the factors supporting OMB’s key decisions and judgments relating to the more subjective green criteria were not fully

documented. Some of the factors were discussed in the documentation OMB made available for our review, but OMB officials had to provide us with additional verbal explanations in order for us to better understand the rationale for awarding the green scores. Further, the Green Plans and updates to these plans, which are key documents used in the scoring process, lacked evidence of OMB's review and approval. Also, there was no formalized process to track the receipt of Green Plans or subsequent updates. Consequently, it was difficult to readily identify the most current plan on file. To help ensure consistency and continuity in the scoring process over time and as the staff involved change, it would be advantageous to OMB to more systematically document these and other factors that are critical to these decisions.

Agency managers we contacted generally supported the Improved Financial Performance Initiative because it has helped to focus top management's attention on the financial management challenges confronting the agencies. Managers and staff at each of the six agencies we visited provided examples of how they were currently using financial as well as performance data to make management decisions related to controlling costs, budgeting, allocating resources, and managing contracts and grants. These activities, if performed routinely, provide management with valuable, decision-enhancing information. For example, Education's office of Federal Student Aid (FSA) developed an activity-based cost accounting system to better analyze and manage its costs. As a result, FSA reported to us that it had reduced the unit cost for loan consolidations from \$115 per unit to \$66 per unit over an 18-month period. Agency officials told us that some of the examples or activities demonstrated to us were also previously demonstrated to OMB to show that the agency was using financial data to help inform management decision making. However, because of the documentation issues discussed above, we were not able to determine specifically which example or examples formed the basis for OMB's green decisions.

To help strengthen OMB's scoring process for the Improved Financial Performance Initiative, we recommend that the Director of OMB direct the Office of Federal Financial Management to establish a process to more systematically document

- the basis for all key decisions and judgments made in determining agency green scores and
- the receipt and review and approval of Green Plans, including updates used in the scoring process.

We provided a draft of this report for comment to the Director of OMB. We also provided applicable sections of the draft report to officials of Education, DOE, Labor, EPA, NSF, and SSA. In comments on a draft of this report, OMB stated that it generally concurs with these recommendations and outlined steps it is taking in response to our recommendations.

Background

In August 2001, the President launched a Management Reform Agenda to “address the most apparent deficiencies for which the opportunity to improve performance is the greatest.” OMB, in conjunction with the President’s Management Council, developed standards for success in each of five governmentwide initiatives. The five governmentwide initiatives include strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.

OMB utilizes an Executive Branch Management Scorecard to track results toward achieving the goals of the PMA. The scorecard, issued quarterly, employs a traffic light grading system. Scores for each of the five initiatives are given for both “current status” and “progress.” Initial scores were developed in 2001 for 26 executive agencies, including 23 of the 24 CFO Act agencies, the U.S. Army Corps of Engineers, the Smithsonian Institution, and OMB itself.² The first current status scorecard was issued by OMB on September 30, 2001, while progress scores were first issued on June 30, 2002. See appendix I for the September 30, 2006, OMB scorecard.

There are separate current status criteria for each of the five governmentwide initiatives. Scores for “current status” are based on the scorecard standards for success developed by OMB with input from the President’s Management Council³ and experts throughout government and

²The Department of Homeland Security was added to the scorecard after it was established on January 24, 2003, and the Federal Emergency Management Agency was deleted from the scorecard after becoming a part of the Department of Homeland Security effective March 1, 2003.

³The President’s Management Council advises and assists the President in ensuring that government reform is implemented throughout the executive branch. The Council’s functions include improving overall executive branch management; coordinating management-related efforts to improve government; ensuring the adoption of new management practices in agencies; and identifying examples of, and providing mechanisms for, interagency exchange of information about best management practices.

academe. According to OMB, these standards have been refined based on continued experience implementing the PMA. For all five governmentwide initiatives, OMB assesses an agency's "progress" on a case-by-case basis against the deliverables and time lines established for each initiative. The green, yellow, and red score criteria range from successfully implementing plans to plans being in serious jeopardy of failure absent significant management intervention.

This report, as requested, focuses on the Improved Financial Performance Initiative, which OMB has described as a management tool. Under this initiative, agencies are expected to implement integrated financial and performance systems that routinely produce information that is timely, useful, and reliable to facilitate better performance measurement and decision making. This should help achieve the goals that Congress established in the CFO Act, including

- provide for improvement, in each agency of the federal government, of systems of accounting, financial management, and internal controls to ensure the issuance of reliable financial information and to deter fraud, waste, and abuse of government resources and
- provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the government and Congress in the financing, management, and evaluation of federal programs.

Agency quarterly scorecards; corrective action plans; Green Plans, including updates; annual Proud to Be documents; and the annual PAR plus some additional documentation are used by OMB in the scoring process for the Improved Financial Performance Initiative. The following summarizes the content of these documents and describes how they relate to one another.

The agency quarterly scorecards have three columns and are prepared using a standardized template. The first column shows the current status color score and a checklist that shows whether an agency has met each of the green and yellow criteria. The second column shows the progress color score and some of the factors for the score, including actions taken and actions planned to expand the use of financial data in day-to-day operations. The third column provides space for general comments, including comments on the status of efforts to prepare or update the agency Green Plans, matters relating to individual initiatives, and in some cases explanations for changes to agency's scores.

An agency is required to file a corrective action plan when it has a material weakness or has received a current status red score. Corrective action plans state how an agency plans to correct its financial management deficiencies. Filing the corrective action plan may enable an agency to obtain a green score for progress.⁴

The Green Plan is a living document that an agency will periodically update and expand. It acts as the agreement between OMB and the agency on the agency's near- and long-term areas of focus and what key actions and goals will be tracked on the quarterly agency scorecard. Green Plans must be approved by OMB. Beginning in fiscal year 2005, for current status, if an agency has a yellow score, and therefore is working toward a green score, or had a green score, it is required to provide OMB a Green Plan.

Agencies submit the Proud to Be document to OMB in June following a standardized template. It documents the goals an agency would be proud to achieve during the next 12 months. There is a section for each PMA initiative (all five management areas), which gives the status for the Standards for Success (scoring criteria) and lists key milestones. For the Improved Financial Management sections the following information is included: (1) checklists for green and yellow standards, (2) key milestones for the last quarter of the current fiscal year and the first three quarters of the next fiscal year and also ongoing items, and (3) key results that the agency would be proud to achieve. These milestones cover initiatives included in the agency Green Plans.

The PAR is completed each November and, among other things, contains an agency's annual financial statements and the related independent auditor's report on those statements. It also includes the auditors report on internal controls and compliance with laws and regulations. The PAR is the principle support for whether the yellow criteria have been met.

According to an OMB official, the specific documentation maintained by OMB to support the Improved Financial Performance scores varies by agency and can include but is not limited to the following:

⁴See Implementation Guide for OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, Internal Control over Financial Reporting, 41-45 (July 2005), for detailed guidance regarding corrective action plans.

-
- agency quarterly scorecard;
 - the Green Plan (beginning first quarter fiscal year 2005);
 - Proud to Be document;
 - PAR (also includes the major management challenges used by OMB to see if agency plans are dealing with these challenges);
 - corrective action plans (submitted by an agency if there is a material weaknesses in its financial performance);
 - reports on Anti-Deficiency Act violations;⁵
 - written OMB questions and the agency's responses; and
 - briefing documentation, including slides and system screen prints.

OMB Has a Reasonably Designed Scorecard Process, but Documentation of the Process Could Be Enhanced

OMB has developed reasonable scoring criteria and helpful guidance describing what agencies must do to achieve "green scores" for the Improved Financial Performance Initiative. OMB has also designed and implemented a quarterly scoring process to assess whether agencies have met these criteria and are making progress in expanding the routine use of financial data in management decision making in key areas of operations. Implementation of OMB's scoring process has clearly been a catalyst to improve financial management and to encourage agency managers to use financial data to enhance decision making as envisioned under the CFO Act. While OMB's scoring process is reasonable and useful as an internal management tool, based on the six agencies we reviewed, we noted some opportunities for OMB to enhance its documentation of the scoring process.

OMB Has Reasonable Scoring Criteria and Helpful Guidance for Developing Green Plans

OMB has developed reasonable scoring criteria for the Improved Financial Performance Initiative. Separate criteria exist for the current status and progress scores. There are seven yellow (or compliance) criteria and two additional green (or results) criteria that must be satisfied to receive a green current status score. The seven yellow criteria address the fundamental aspects of sound financial management and require clean audit opinions, sound internal controls, compliance with laws and regulations, and financial systems that comply with federal standards. Most of the yellow criteria are assessed annually and are verifiable using the agencies' annual PARs. OMB considers meeting the yellow criteria as a proxy for having timely, reliable financial information. The two additional

⁵The Anti-Deficiency Act generally prohibits agencies from making obligations and expenditures in excess of the appropriations or apportionments of appropriations made to them. 31 U.S.C. §§ 1341, 1342, 1349-51, 1511-1519.

green criteria are more subjective and require OMB to make judgments about whether the agencies have met the criteria. These green criteria require agencies to (1) demonstrate that they currently produce accurate and timely financial information that is used by management to inform decision making and drive results in key areas of operations and (2) have plans (i.e., the Green Plans) to expand the routine use of financial information in decision-making in additional areas of operations.

According to an OMB official, the progress scores depend on agencies' success in implementing the Green Plan initiatives or corrective actions needed to address identified financial management weaknesses (when an agency has not achieved a green current status score) within established milestones. Based on OMB's criteria, if an agency is successfully implementing its plans within expected time frames, the agency will receive a green progress score. Conversely, if an agency's plans are not likely to achieve the objectives or if there are significant slippages in meeting the milestones, the agency would receive a yellow or possibly even a red progress score.

Current status and progress criteria in effect as of the December 31, 2005, scorecard, when the last change was made to the scoring criteria, are as shown in figure 1.

Figure 1: Improved Financial Performance Initiative Scorecard Criteria

Current status criteria as of 12/31/05		
Green	Yellow	Red
<p>Agency:</p> <ul style="list-style-type: none"> Meets all Yellow Standards for Success; Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations; AND Is implementing a plan to continuously expand the scope of its routine data used to inform management of decision-making in additional areas of operations 	<p>Agency:</p> <ul style="list-style-type: none"> Receives an unqualified opinion on its annual financial statements; Meets financial statement reporting deadlines; Reports in its audited annual financial statement that its systems are in compliance with the Federal Financial Management Improvement Act (FFMIA)^a; Has no chronic or significant Anti-Deficiency Act violations; Has no repeat material auditor-reported internal control weaknesses; Has no material non-compliance with laws or regulations; AND Has no repeat material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems. 	<p>Agency:</p> <ul style="list-style-type: none"> Receives an opinion other than unqualified on its annual financial statements; Does not meet financial reporting deadlines; Cannot report in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act; Commits chronic or significant Anti-Deficiency Act violations; Has repeat material auditor-reported internal control weaknesses; Is in material non-compliance with laws or regulations; OR Has repeat material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.
Progress score criteria as of 12/31/05		
Green	Yellow	Red
Implementation is proceeding according to plans agreed upon with the agency.	Some slippage or other issues requiring adjustment by agency in order to achieve initiative objectives on a timely basis.	Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.

Source: OMB.

^aAlthough OMB guidance calls for auditors to provide negative assurance when reporting on an agency system's FFMIA compliance, as stated in GAO, Financial Management: Improvements Under Way but Serious Financial Systems Problems Persist, [GAO-06-970](#) (Washington, D.C.: Sept. 26, 2006), we believe that a statement of positive assurance is a statutory requirement under FFMIA. In addition, negative assurance may provide the false impression that the agencies' systems substantially comply with the requirements of FFMIA. FFMIA is set forth at 31 U.S.C. § 3512 note.

The Improved Financial Performance Initiative current status criteria have evolved over the years, while the progress criteria have remained substantially the same. The following are key changes that OMB has made to the current status criteria:

- As of September 30, 2004, the yellow criteria were amended to require an unqualified opinion on the agency's financial statements. For fiscal

years 2001 through 2003, the yellow criteria required only an opinion on the financial statements.⁶

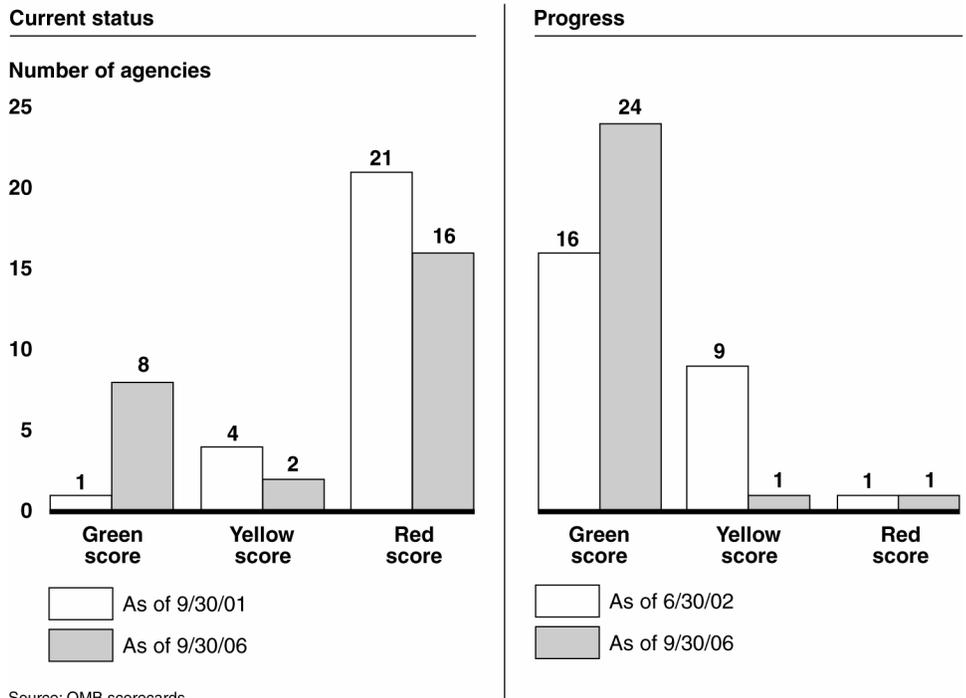
- For the first quarter of fiscal year 2006, the yellow criteria for internal control weaknesses and the Federal Managers' Financial Integrity Act⁷ were changed from "no material weaknesses" to "no repeat material weaknesses." According to an OMB official, the criteria were revised to incorporate the December 21, 2004, revision to OMB Circular No. A-123, *Management's Responsibility for Internal Control*, effective in fiscal year 2006. This official added that agencies can report material weaknesses pursuant to OMB Circular No. A-123 without fear of their green current status score for Improved Financial Performance being negatively affected.
- For the first quarter of fiscal year 2006, the words "and timely" were added to the second green criterion, which now reads "currently produces accurate and timely financial information."

A summary of the initial and September 30, 2006, quarterly current status and progress scores for the Improved Financial Performance Initiative for the 26 government agencies scored by OMB is shown in figure 2.

⁶For example, a qualified opinion would have been acceptable under the previous criteria but not under the current criteria. A qualified opinion relates to a nonpervasive departure from generally accepted accounting principles or a nonpervasive scope limitation.

⁷31 U.S.C. § 3512 (c), (d).

Figure 2: Current Status Scores and Progress Scores for Improved Financial Performance Initiative



Source: OMB scorecards.

Table 1 shows when the six agencies we reviewed first received a green score for current status and progress for the Improved Financial Performance Initiative.

Table 1: Dates When Agencies Received Their Current Status and Progress Green Scores

Agency	Current status—date agency received first green score	Progress—date agency received first green score
National Science Foundation	9/30/2001	6/30/2002
Environmental Protection Agency	6/30/2003	9/30/2002
Social Security Administration	6/30/2003	6/30/2002
Department of Education	12/31/2003	12/31/2002
Department of Energy	6/30/2004	6/30/2002
Department of Labor	9/30/2004	6/30/2002

Source: OMB scorecards.

Since receiving its Improved Financial Performance Initiative green scores for current status and progress, each agency included in our review, except for DOE and Labor, has maintained its quarterly green scores through September 30, 2006. DOE received a red current status score for the Improved Financial Performance Initiative as of December 31, 2005. DOE received the red score because the agency received a disclaimer of opinion from its auditor on its fiscal year 2005 consolidated financial statements, meaning that the auditor was unable to express an opinion, and was not in compliance with FFMIA. DOE implemented a new financial accounting system in April 2005 and adopted a new chart of accounts. Because of various issues with the system, DOE was unable to provide accurate financial data and could not always provide supporting documents required for the audit. This limited the scope of the auditor's work. DOE continued to receive a red current status score through September 30, 2006.

DOE received a yellow progress score for the Improved Financial Performance Initiative as of March 31, 2005. This score returned to green as of June 30, 2006. Additionally, Labor's progress score slipped from green to yellow as of March 31, 2006, but rebounded the next quarter. For both agencies, the quarterly agency scorecards provided explanations for the change in these progress scores.

In July 2005, OMB issued a reference guide, entitled *Achieving Green in Financial Performance*, to help agencies understand the green current status criteria and what is required to prepare an acceptable Green Plan to satisfy these criteria. Agency officials told us that the guidance was helpful to them. Specifically the guidance provides the following information. First, it explains what is required to meet the green current status criteria for (1) producing accurate timely financial information used by management to inform decision making and drive results in key areas of operations and (2) implementing a plan to continuously expand the scope of its routine data used to inform management decision making in additional crucial areas of operations. Second, it lists three primary areas of information and related detailed components of these areas for each initiative in the agencies' Green Plans that must be approved by OMB to satisfy the green criteria. These areas are

- financial (or business) goals that are critical to management,
- how data are used strategically to achieve the goals, and
- how success is measured (e.g., reduce cost, increase efficiency) to provide evidence that the desired goal is being achieved.

Third, the guidance gives agencies some general assistance concerning discussions with OMB, including demonstrations and describing how the criteria are being met. Finally, the guidance provides examples of initiatives accepted by OMB under the green criteria. According to an OMB official, the guidance is currently being revised and will include additional examples of initiatives accepted by OMB in determining green scores.

The useful guidance provided to agencies for implementing the Improved Financial Performance Initiative, combined with the specific criteria established by OMB, result in a reasonably designed scorecard process for this PMA initiative.

Enhanced Documentation Would Benefit the Overall Scoring Process

While OMB's scoring process is reasonably designed and useful as a management tool, we noted some opportunities for OMB to enhance its documentation of the process for determining green scores and to help ensure consistency and continuity of the process over time and as the staff involved changes. Specifically,

- key factors supporting OMB's green designations were not fully documented;
- there was little evidence that the Green Plans and updates to these plans, which are key documents used in the scoring process, had been reviewed and approved by OMB; and
- there was no formalized process to track the receipt of Green Plans or subsequent updates.

As discussed earlier, to obtain and maintain a green current status score, an agency must satisfy OMB's seven yellow criteria plus two additional green criteria. We were able to independently assess whether the six agencies in our review had met OMB's generally objective yellow criteria as of September 30, 2004, and December 31, 2005. This was done using publicly available agency PARs that included agency audit reports and information from OMB on when they received agency interim financial reports. However, for the other green current status criteria as well as the progress score criteria, which are more subjective, we could not tell from the documentation made available to us by OMB the basis for their overall agency assessments or key decisions or judgments made during the scorecard process. For example we could not determine which initiatives were used by OMB to satisfy the green score criteria for agencies in our review. OMB officials discussed with us factors they considered in determining if agencies satisfied the green current status criteria, and

these explanations seemed reasonable. We found that OMB staff have been actively engaged in the scoring process and meet regularly with the agencies to discuss the agencies' progress in meeting the scoring criteria and to provide input into agencies' data expansion efforts. According to an OMB official, OMB uses emails to provide agencies written comments on agency Green Plans in addition to comments provided during meetings with agencies, but these communications were not made available to GAO for review. However, this OMB official also stated, they do not document specifically how an agency satisfied the green current status or progress criteria including what key activities or initiatives for using financial data for decision-making purposes were involved.

In addition, we could not discern how OMB evaluates and determines the sufficiency of individual initiatives or activities, in relation to key operations of the agency as a whole, when awarding a green current status score. OMB's green current status criteria include implementing the Green Plan to continuously expand the scope of an agency's routine data use to inform management decision making. According to OMB's Green Plan guidance, this requires agencies to provide evidence that information is actively being used to help them achieve results in key areas of operations. An OMB official stated that OMB personnel have reviewed agency Green Plans and are satisfied that the plans meet the criteria for covering certain levels of operations. However, the levels of operations that were required to satisfy the criteria were not defined. In addition, the official stated that there is no written documentation or explanation of how an agency has covered a certain level of operations and therefore was justified in receiving a green current status score. Documenting these types of key assessments would help ensure consistency and continuity in OMB's process for awarding the green scores. This documentation would be particularly important when changes are made in OMB staff involved in the scoring process.

During our review, we also found that OMB could not readily identify the most current Green Plans or updates to the Green Plans for the six agencies in our review. For example, we were given access to a Green Plan for each of the six agencies and were told by an OMB official that they were the current plans. We later saw more recent Green Plans for two of the six agencies. We were subsequently given access to updates to Green Plans for three of these agencies. However, it was unclear whether these were the current updates or if there were any other updates, and two Green Plans were marked "DRAFT." Further, the plans that were provided to us by OMB lacked evidence of any review or approval by OMB.

An OMB official acknowledged that OMB had no systematic way of tracking Green Plans, including identifying what is the current agency Green Plan. This official added that the only way OMB personnel have for tracking Green Plans or updates to Green Plans is their written analysis of Green Plans or updates that are provided to agencies but were not available to us. A systematic method for tracking Green Plans and documenting the review of the plans would help ensure that OMB personnel can readily identify the most current Green Plan on file and whether the plan has been approved by OMB.

Agency-Provided Examples Describing the Use of Financial Data to Manage Programs

Officials in the six government agencies we contacted generally supported the scorecard process saying it helped to focus top-level management attention on financial management issues. Managers and staff at each of the six agencies we visited provided examples of how their respective offices were using financial as well as performance data to make management decisions involving controlling costs, preparing budgets, allocating resources, and managing contracts and grants. They also demonstrated some of the system capabilities that facilitated using financial data in the management decision-making process, including some of the automated mechanisms used to disseminate data to staff and managers in a timely manner. These officials said that many of the examples provided to us were also provided to OMB for the quarterly scoring process. However, because of previously discussed documentation limitations, we were not able to determine specifically which example or examples formed the basis for OMB's green decisions.

The following are highlights of some of the examples provided to us by the six agencies.

- EPA officials in the Office of the Chief Financial Officer (OCFO) demonstrated to us the Web-based OCFO Reporting and Business Intelligence Tool (ORBIT), which according to EPA officials, integrates financial, administrative, and program performance information to assist agency managers in making decisions about their programs and operations. One of ORBIT's features is a Management Dashboard, which provides users with a quick view of EPA's financial and budgetary status and presents information in a series of charts and graphs called analytics to alert managers to situations out of normal ranges. For example, the appropriation utilization alerts analytics alerts a user with a red light if more than 50 percent of an annual appropriation has been obligated early in a fiscal year.

-
- NSF officials told us that data in grantee financial reports, submitted to NSF through FastLane, a real-time Web-based system, showed that approximately 10 percent of NSF's grantees reported a cash balance at the end of each reporting quarter. This means that grantees had either up to a 10-day cash reserve, which NSF permits, or in some cases over the 10-day reserve which NSF considers to be excess cash. NSF officials added that monitoring procedures, which they implemented during fiscal year 2005, produced a recovery of over \$3.2 million in excess cash held by grantees and a 33 percent decrease in the number of grantees reporting cash on hand.
 - A DOE Office of Environmental Management official described to us how its Web-based Budget Automation, Justification, and Administration (BAJA) tool automatically generates and facilitates changes to its annual Congressional Budget Submission. Using BAJA, the effects of data changes automatically flow throughout the document, making the process much quicker and more reliable than the old manual process.
 - An SSA official described to us how he used workload information from SSA's Unified Measurement System and other financial information, such as real-time budget allocation and expenditure data, to reallocate workloads (i.e., claims to be processed) among two different field offices to better match the available staff resources. He told us that in past years, SSA managers did not have the allocation tools that are currently available. The availability of current budget allocation and spending data enabled him to consider the estimated costs of moving staff versus moving the work.
 - Officials from Labor's Employee Benefits Security Administration (EBSA) told us how they use obligation data from DOLAR\$ (Labor's core accounting system) and unit cost data from CAM (Labor's cost accounting system)⁸ to allocate funding resources and otherwise manage their business in situations where EBSA is uncertain about the amount of funding it will have for a year when the amount of its annual appropriation is not known until later in the fiscal year. Using the DOLAR\$ and CAM data for equivalent prior periods and adjusting for mandatory cost increases (e.g., payroll and rent), EBSA managers told us that they (1) determine the amount of program costs that EBSA can

⁸For more information on CAM, see GAO, *Managerial Cost Accounting Practices: Leadership and Internal Controls Are Key to Successful Implementation*, [GAO-05-1013R](#) (Washington, D.C.: Sept. 2, 2005).

afford to finance within the constraints of that funding level; (2) assess whether special or extraordinary measures, like a hiring freeze, furloughs, or reducing or eliminating certain commitments, are needed to remain within that funding level; and (3) then target resources to achieve the program's objectives.

- Officials from Education's FSA office told us they developed an activity-based cost accounting system to better manage FSA's costs. According to the FSA officials, they used unit cost information developed from the cost system as a tool to renegotiate and consolidate several contracts relating to the administration of FSA's direct loan program and reduced FSA's unit cost for loan consolidations from \$115 per unit to \$66 per unit, over a period of 18 months.
- Labor's Employment and Training Administration (ETA) officials described to us how they used financial information to help manage construction contracts for the \$1.4 billion Job Corps program. ETA officials showed us an example of a report that contains contractor information, such as company name, contact person, narrative of the scope of work, and planned and actual schedule dates, along with financial information such as budget, authorized spending, and contract modification amounts. ETA officials said they use this report to track costs and schedule data in order to make decisions related to the contracts during monthly meetings between the contractor and Job Corps management.
- EPA officials in the Office of Superfund Remediation and Technology Innovation (OSRTI) demonstrated to us the Web-based system called Superfund eFacts, which extracts information from a database containing general program information on Superfund sites across the nation and also contains financial information from EPA's Integrated Financial Management System. OSRTI staff showed us eFact's ability to drill down to detailed financial information, such as obligation amounts related to a site, by clicking on charts and spreadsheets from a listing of Superfund sites. EPA officials told us the information in the charts is updated nightly and that prior to the implementation of eFacts, managers could only get hard copy reports on an ad hoc basis from a contractor and that the program and financial information in eFacts allows for information to get to managers much faster than in the past, saving time and money.

Conclusions

The PMA has generally been viewed positively by agencies because of the attention it has brought to long-standing management deficiencies, including financial management. OMB has established reasonable scoring criteria and helpful guidance for the Improved Financial Performance Initiative and designed a reasonable scoring process to assess whether agencies have met these criteria and are making progress in expanding the routine use of financial data in management decision making in key areas of operations. The scorecard process has clearly been a catalyst to improve financial management and to encourage agency managers to use financial data to enhance decision making as envisioned under the CFO Act. Better documenting the key decisions would strengthen what is already a useful internal management tool by helping ensure consistency and continuity in the process and would enhance the value of the process to external users.

Recommendations for Executive Action

To help ensure consistency and continuity in the Improved Financial Performance Initiative scoring process over time and as the staff changes, we recommend that the Director of OMB direct the Office of Federal Financial Management to take the following two actions:

- establish a process to more systematically document the basis for all key decisions and judgments made in determining agency green scores, and
 - establish a process to document the receipt and review and approval of Green Plans, including updates used in the scoring process.
- Agency Comments and Our Evaluation

Agency Comments and Our Evaluation

In written comments on a draft of this report, OMB's Controller stated she generally concurs with our recommendations and outlined steps OMB is taking in response to these recommendations. We also discussed technical comments with OMB officials, which we have incorporated in the final report as appropriate. OMB's written comments are reproduced in appendix II.

We are sending copies of this report to the Director of the Office of Management and Budget; the Secretaries of Education, Energy, and Labor; the Administrator, Environmental Protection Agency; the Director, National Science Foundation; the Commissioner of Social Security; and other interested parties. Copies will be made available to others upon

request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (206) 287-4809 or calboml@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are acknowledged in appendix III.



Linda Calbom
Director, Financial Management and Assurance,
and Western Regional Director

Appendix I: September 30, 2006, Executive Branch Management Scorecard

Agencies	Current Status as of 9/30/06					Progress in Implementing the President's Management Agenda				
	Human Capital	Competitive Sourcing	Financial Performance	E-Gov	Budget/Performance Integration	Human Capital	Competitive Sourcing	Financial Performance	E-Gov	Budget/Performance Integration
Agriculture	G	G ↑	R	R ↓	Y	Y	G	G	Y	G
Commerce	Y	Y	G	Y	G ↑	G	G	G	G	G
Defense	Y	Y ↑	R	R	Y	G	Y	G	R	G
Education	Y	G	G	G	G ↑	G	G	G	G	G
Energy	G	G ↑	R	Y	G	G	G	G	G	Y
EPA	Y	G	G	G ↑	Y	G	G	G	G	G
HHS	G	G	R	R ↓	Y	G	G	G	Y	G
DHS	Y	Y	R	R	Y	G	R	R	G	G
HUD	Y	Y	R	G	Y	G	Y	G	G	G
Interior	G	G	R	Y ↑	Y	G	R	G	R	G
Justice	G	Y	R	Y ↑	G	G	G	G	R	G
Labor	G	G	G	G	G	G	G	G	G	G
State	G	G ↑	G	G ↑	G	G	G	G	G	Y
DOT	G	G	R	G ↑↑	G	G	Y	G	Y	G
Treasury	G	G	R	Y	Y	G	Y	G	Y	Y
VA	G	R	R	R	R	G	R	G	Y	Y
AID	Y	R	Y	Y	G	G	G	G	G	Y
Corps	G	Y	R	R	R	G	Y	G	Y	G
GSA	Y	G	R	Y	G ↑	G	Y	G	G	G
NASA	G	G	R	R ↓	G	G	G	Y	R	G
NSF	G	R	G	G	G	G	R	G	G	G
OMB	Y	R	R	Y	R	G	G	G	G	G
OPM	G	G	Y	R	Y	G	G	G	R	G
SBA	Y	G	R	G ↑↑	G	G	G	G	G	G
Smithsonian	Y	R	G	Y	G ↑	G	Y	G	G	G
SSA	G	G ↑	G	Y ↓	G	G	G	G	R	G

G Green score
Y Yellow score
R Red score
↑ Change in status (up) since 6/30/06
↓ Change in status (down) since 6/30/06

Source: OMB.

Appendix II: Comments from the Office of Management and Budget



THE CONTROLLER

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

NOV 14 2006

Ms. Linda Calbom
Director
Financial Management and Assurance and Western Region
Government Accountability Office
Washington, DC 20548

Dear Ms. Calbom:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft report entitled "Review of OMB's Improved Financial Performance Scorecard Process," GAO-07-95.

The Office of Management and Budget (OMB) agrees with GAO's assessment that the Improved Financial Performance initiative under President's Management Agenda (PMA) has been a catalyst for improving financial management in the Federal Government. The initiative has focused top agency management on financial management issues and has been a driver of many of the financial management achievements over the past several years including accelerating financial reporting and reducing the number of material weaknesses reported government-wide. The Improved Financial Performance initiative has also called more attention to the critical role that the Chief Financial Officers have in providing accurate and timely financial information to program managers to enhance decision making.

OMB generally concurs with your recommendations that key decisions and important steps in the scoring process could be more systematically documented. We are already taking steps to improve this process including:

- Developing a tracking system for agency green plans and supporting materials, and
- Preparing summaries of all "approved" Green Plan initiatives, which clarify both what initiatives have been approved as well as how each initiative meets the Green Plan criteria.

Finally, personnel from the agencies have been actively engaged in the PMA process and the overall improvement of financial management practices government-wide. GAO's recognition of their efforts is appreciated.

**Appendix II: Comments from the Office of
Management and Budget**

Again, we want to thank GAO for the opportunity to comment on this draft report. We look forward to our continuing work in improving financial performance.

Sincerely,



Linda Combs
Controller

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Linda Calbom, (206) 287-4809 or calboml@gao.gov

Acknowledgments

Staff members who made key contributions to this report include Phil McIntyre, Assistant Director; Donald Campbell; Richard Cambosos; Lisa Cyre; Abe Dymond; and Diane Morris.

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