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THE RESULTS ACT: STATUS OF PERFORMANCE BUDGETING PILOT PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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THE RESULTS ACT: STATUS OF PERFORMANCE BUDGETING PILOT PROGRAMS

THURSDAY, JULY 1, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 254, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn and Turner.

Staff present: J. Russell George, staff director/chief counsel; Matthew Ebert, policy advisor; Jane Cobb, professional staff member, Committee on Government Reform; Grant Newman, clerk; Justin Schlueter and John Phillips, interns; Faith Weiss, minority counsel; and Jean Gosa, minority staff assistant.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order. I should warn our witnesses, bear with us. We have a lot of votes coming up this afternoon so we will probably have to go into recess on a number of items. We have H.R. 10 before us later in the afternoon, and right now we have the Y2K litigation conference report that will be voted on soon.

For decades, widely publicized examples of waste, fraud and error in Federal programs eroded the American public's trust in Government. In 1993, Congress attempted to address this by enacting on a bipartisan basis the Government Performance Results Act, otherwise known as the Results Act. The act's goal is to improve the efficiency and accountability of Federal programs by shifting the focus of the Federal budget process from its longstanding concentration on Government spending to the results of its programs.

A key expectation of the Results Act is that Congress will gain a clearer understanding of what is being achieved in relation to what is being spent. To accomplish this, the act required that beginning in fiscal year 1999, agencies must prepare annual performance plans with goals covering the program activities in their budget requests. In addition, these plans must outline the funding level being applied to achieve each performance goal.

The General Accounting Office assessment of fiscal year 1999 performance plans found that most of the agencies it reviewed showed some progress in linking planning and budgeting structures and presentations. However, most of the plans did not explain how the funding would be allocated to achieve performance

goals. Much remains to be done if performance information is to be more useful for budgetary decisions and programmatic decisions, including the completion of another requirement of the Results Act: Performance budgeting pilot programs.

With the enactment of the Results Act when agencies make spending decisions, they are required to make closer and clearer linkages between the processes of allocating resources on the one hand and expected results to be achieved with those resources on the other. This management practice of aligning spending decisions with expected performance is commonly referred to as performance budgeting. The Results Act required that pilot programs be used to test performance budgeting in agency budget requests.

The act required the Office of Management and Budget to designate at least five agencies to conduct pilot programs in fiscal years 1998 and 1999. These agencies were expected to develop budgets that show how performance would change if the agency received more or less allocations than requested. The office of management and budget was to include these pilot performance budgets as an alternative presentation in the President's budget for fiscal year 1999. In addition, a report is required to be transmitted to Congress and the President no later than March 31, 2001.

The performance budgeting pilot programs were scheduled to start in fiscal year 1998 so that they would begin after agencies had sufficient experience in preparing strategic and performance plans. On May 20, 1997, the Office of Management and Budget announced that pilot programs would be delayed for at least 1 year. In September 1998, the Office of Management and Budget solicited agencies' voluntary participation for these pilot programs, but no agencies were selected. At present, the Office of Management and Budget has no definite plans for proceeding with the performance budgeting pilot programs, at least that this committee is aware.

Meanwhile the American public continues to lack confidence in the executive branch of the Federal Government because of the widespread waste and inefficiency in Federal programs. The Results Act represents a genuine attempt by Congress to restore this trust by ensuring accountability and effectiveness in Federal agencies and their programs. The Office of Management and Budget's continual delay in implementing the performance budgeting pilots called for by the Results Act greatly concerns us as well as the leadership in this chamber. We hope that experience to date with respect to the pilot designation does not suggest that some of the statutory requirements of the Results Act will simply be ignored.

On our first panel today, representatives from the Office of Management and Budget and the General Accounting Office, will discuss the delay and determine its implications for the implementation of the Results Act and performance budgeting in the Federal Government.

Our second panel includes witnesses from three Federal agencies that have made considerable progress in performance budgeting. They will describe the obstacles to overcome in the process, the lessons that have been learned and the future expectation of performance budgeting within their respective agency. I welcome our witnesses and look forward to their testimony.

I think this is one of the most important hearings we will be having this year and we will keep at it in terms of measurement of programs. New Zealand and Australia have done this 10 years ago. We should not be such a laggard. South Carolina, Minnesota, the State of Oregon have been doing it. Oregon in particular is the one ahead of everybody else. So the Federal Government certainly ought to catch up with Oregon, I would hope.

[The prepared statement of Hon. Stephen Horn follows:]

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Oversight Hearing on
The Results Act: Status of Performance Budgeting Pilot Programs

July 1, 1999

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)
Chairman, Subcommittee on Government Management, Information, and Technology

A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

For decades widely publicized examples of waste, fraud and error in Federal programs eroded the American public's trust in Government. In 1993, Congress attempted to address this by enacting the Government Performance and Results Act, otherwise known as "The Results Act." The Act's goal is to improve the efficiency and accountability of Federal programs by shifting the focus of the Federal budget process from its longstanding concentration on Government spending to the results of its programs.

A key expectation of the Results Act is that Congress will gain a clearer understanding of what is being achieved in relation to what is being spent. To accomplish this, the Act required that, beginning in fiscal year 1999, agencies must prepare annual performance plans with goals covering the program activities in their budget requests. In addition, these plans must outline the funding level being applied to achieve each performance goal.

The General Accounting Office assessment of fiscal year 1999 performance plans found that most of the agencies it reviewed showed some progress in linking planning with budgeting structures and presentations. However, most of the plans did not explain how the funding would be allocated to achieve performance goals. Much remains to be done if performance information is to be more useful for budgetary decisions, including the completion of another requirement of the Results Act: performance budgeting pilot programs.

With the enactment of the Results Act, when agencies make spending decisions, they are required to make closer and clearer linkages between the process of allocating resources and the expected results to be achieved with those resources. This management practice of aligning spending decisions with expected performance is commonly referred to as "performance budgeting." The Results Act required that pilot programs be used to test performance budgeting in agency budget requests.

The Act required the Office of Management and Budget to designate at least five agencies to conduct pilot programs in fiscal years 1998 and 1999. These agencies were expected to develop budgets that show how performance would change if the agency received more or less allocations than requested. The Office of Management and Budget was to include these pilot performance budgets as an alternative presentation in the President's budget for fiscal year 1999. In addition, a report is required to be transmitted to Congress and the President no later than March 31, 2001.

The performance budgeting pilot programs were scheduled to start in fiscal year 1998 so that they would begin after agencies had sufficient experience in preparing strategic and performance plans. On May 20, 1997, the Office of Management and Budget announced that the pilot projects would be delayed for at least one year. In September 1998, the Office of Management and Budget solicited agencies' voluntary participation for these pilot programs, but no agencies were selected. At present, the Office of Management and Budget has no definite plans for proceeding with the performance budgeting pilot programs.

Meanwhile, the American public continues to lack confidence in the Federal Government because of widespread waste and inefficiency in Federal programs. The Results Act represents a genuine attempt by Congress to restore this trust by ensuring accountability and effectiveness in Federal agencies and their programs. The Office of Management and Budget's continual delay in implementing the performance budgeting pilots called for by the Results Act greatly concerns us. We hope that experience to date with respect to the pilot designations does not suggest that some of the statutory requirements of the Results Act will simply be ignored.

On our first panel today, representatives from the Office of Management and Budget and the General Accounting Office will discuss the delay and determine its implications for the implementation of the Results Act and performance budgeting in the Federal Government.

Our second panel includes witnesses from three Federal Agencies that have made considerable progress in performance budgeting. They will describe the obstacles overcome in the process, lessons learned and the future expectation of performance budgeting within their respective agency.

I welcome our witnesses and look forward to their testimony.

Mr. HORN. We have on panel one the Honorable Deidre Lee, Acting Deputy Director for Management, Office of Management and Budget; Mr. Paul L. Posner, the Director for Budget Issues of the U.S. General Accounting Office, a part of the legislative branch; and he is accompanied by Mr. Christopher Mihm, the Acting Associate Director, Federal Management and Work Force Issues in the U.S. General Accounting Office.

You know the routine, ladies and gentlemen. Stand up, raise your right hands.

[Witnesses sworn.]

Mr. HORN. The clerk will note all three witnesses have affirmed.

We thank you very much for coming, and we will start with Ms. Lee on behalf of the administration.

STATEMENTS OF DEIDRE LEE, ACTING DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; AND PAUL L. POSNER, DIRECTOR, BUDGET ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY J. CHRISTOPHER MIHM, ACTING ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES

Ms. LEE. Good afternoon, Chairman Horn. I appear before you today to discuss the Government Performance and Results Act, commonly referred to as GPRA or the Results Act. It's a very difficult acronym. The Results Act of 1993 established a number of new major requirements for the executive branch with one overriding objective: To improve agency performance and get better program results for the taxpayers. This has been a high priority for the administration. The Results Act outlines several objectives. Key among them is to clearly present what results the taxpayers get for dollars spent. To accomplish that, the Results Act delineated several progressive steps including the concept of performance budgeting. There is quite a bit of background on GPRA and on the performance budgeting objectives in the GAO report dated April 12, 1999, which I know you are very familiar with. I have also briefly outlined the process in my testimony.

Therefore, in the interest of brevity and trying to stay within my 5 minute limit——

Mr. HORN. We won't limit you to the 5 minutes, folks. This is very important, so if you want to take some more time feel free.

Ms. LEE. Good, I won't talk so fast. In the interests of that, I will move on to accomplishments to date and future plans for performance budgeting pilots.

Accomplishments to date. Performance measurement pilot projects as required by GPRA were conducted during fiscal years 1994 through 1996; 28 departments and agencies were designated as performance measurement pilots. These performance measurement pilots successfully demonstrated that Federal agencies could prepare annual performance plans and annual program performance reports that met GPRA requirements. They also documented that the time spent on the pilots was indeed a learning process and helped lay the foundation for the full implementation of Government wide plans.

Following these pilots, we began to implement GPRA in earnest across the Government in 1997. We are now in the 3rd year; and

overall, the agencies have made very substantial progress. Over the past 2 years about 100 departments, independent agencies and Government corporations have prepared their initial strategic plan and two sets of annual performance plans. Within the next 15 months, these agencies will prepare an updated strategic plan, two more sets of annual performance plans and their first program report. All the while, the agencies have prepared annual budgets and, as they will tell you in the next panel, they are clearly involved in the performance budgeting-like process of plan, budget, results, report, and then integrate all of that.

Agencies continue to improve. As the GAO report indicates, the continued success of this program will to a great extent depend on its use and integration into the budget decisionmaking process both internal and external to the agencies.

Specifically, regarding performance budgeting pilots. The GPRA specified the the Director of OMB, after consultation with the agencies, would designate agencies or departments as performance budgeting pilots. The pilots would test whether agencies have adequate performance and financial information from which to calculate the effectivness of varying funding levels on several or more measures of performance. They would also determine whether agencies can define in advance the changes in performance resulting from various funding levels, and they would describe and display the performance information in a manner that would allow decisions to be based upon it. And the performance budgeting pilot would have OMB assess agency capabilities to perform a performance budget, including the cost, practicability and time needed for preparation. These pilots were to have been conducted in the fiscal year 1998–1999 with the report to Congress on the performance budgeting pilots by March 31, 2001.

Let me add that as well as performance budgeting pilot assessment, the report is to address the overall implementation of GPRA from 1997 through 2000 and provide a picture of what is working well in areas of change or improvement.

Mr. Chairman, as noted by the then Director of OMB, Franklin Raines, letter to this committee on May 20, 1997, the performance budgeting pilots were delayed. Our priority, then as it is today, was to bring about the successful implementation of GPRA throughout the executive branch. Agencies have devoted a great deal of time and effort to ensuring its strategic plans and annual plans were timely and useful.

As with the performance measurement pilots, a foundation was needed before the next steps. Challenges remain in performance budgeting foundation as cited by the GAO. Some agencies still need to clearly define their strategies, and the second set of strategic plans is in process with congressional consultation this fall and probably early next spring. Agencies still need to improve their capability to gather and use performance data—first reports due next spring—and they also need to have more accurate and allocable cost accounting systems. The FASBI standards are working, but they too had experienced several years of delay.

I am acknowledging that challenges for performance budgeting remain. However, during the fiscal year 2001 budget formulation process, which is now beginning, OMB will select agencies and pro-

grams or projects within those agencies for performance budgeting pilots. With the agencies, we will analyze these performance budgets to determine alternative levels of performance and the associated resources aligned with these performance levels. And we will report in the March 2001 GPRA report the results and recommendations stemming from performance budgeting pilots. Although later than originally anticipated, we believe this proposal is consistent with previous recommendations on Government performance and results, particularly in the relation to the need to set a foundation. We look forward to working with the agencies, the GAO, and the Congress in moving forward on this effort.

Mr. Chairman, the Results Act is bringing about a fundamental transformation in how we prepare budgets, make and manage programmatic decisions, and become more accountable to the American public for how we spend their tax dollars. Any great change is not accomplished overnight, but we have made a very good start. And from this solid beginning the path to a true and useful linkage of resources and performance can be realized in the months ahead and we intend to work very hard to bring about that linkage. Thank you.

Mr. HORN. We thank you for your statement. And as you know, we will go to the next witness and then we will have a dialog on this.

[The prepared statement of Ms. Lee follows:]

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

STATEMENT OF
DEIDRE A. LEE
ACTING DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
before the
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION,
AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES
July 1, 1999

Mr. Chairman, Congressman Turner, members of the Committee, I appreciate the opportunity to appear before you today. The Government Performance and Results Act (GPRA or the Results Act) established a number of new, major requirements for the Executive branch, with one overriding objective – to improve performance and get better program results for the taxpayers. This has been a high priority of this Administration.

The drafters of the Government Performance and Results Act of 1993, (commonly called GPRA or the Results Act) outlined several sequential steps for bringing about a better linkage between resources and results. So I believe it is useful to review both what these drafters envisioned, and the role that the Results Act would have in bringing about this linkage.

The Senate Committee Report outlines the objectives of performance budgeting. The first objective is to clearly present what we are getting for the money we are spending. The second objective is to show how those results change with an increase or decrease in funding. To reach these objectives, the Committee Report sketches a series of steps. The first step is for a

government-wide performance plan. The government-wide plan is developed from the agency annual performance plans. The second step is a set of two-year pilot projects which would link anticipated results to alternative spending levels. The third step is for OMB to report on the results of these pilots along with a recommendation of whether the entire budget should be cast as a performance budget.

In reality and in the law, it is a great leap from step one to steps two and three. This was understood by the drafters of the Results Act, who recognized that the lessons learned from the pilot projects should not directly lead to further implementation of performance budgeting as envisioned by the pilots. Indeed, a major thrust of the OMB report would be whether the performance budgeting is feasible or advisable government-wide.

We began implementing GPRA in earnest across the government in 1997. We are now in our third year, and, overall, the Federal agencies have made very substantial progress. Over the past two years, about 100 departments, independent agencies, and government corporations have prepared their initial strategic plan and two sets of annual performance plans. Within the next 15 months, these agencies will prepare an updated strategic plan, two more sets of annual performance plans, and their first program performance report. By September 2000, these agencies will have provided OMB or Congress with approximately 700 GPRA-required plans and reports.

As part of the President's budget, OMB has produced two government-wide performance plans. The third plan will be sent to Congress next February with the President's FY 2001 budget

transmittal.

Our progress in carrying out the Results Act is substantial and this progress will continue.

Let me turn to the second objective, which is showing how results change with increases and decreases in funding; and, to the second and third steps, the performance budgeting pilot projects and the OMB report on these pilot projects, which are related to this objective.

Agency budgets are showing how performance is affected by increases and decreases in funding levels. The annual performance plans sent to Congress generally show several years of performance information. For example, OMB is specifying that the FY 2001 performance plans include actual performance for fiscal year 1999, and performance goals for fiscal years 2000 and 2001, and encouraging agencies to include performance data for fiscal years 1996 through 1998, if it is relevant and available. The performance plans also provide information on the budgetary resources associated with the set of performance goals. The display of performance and related budget information in these plans is complemented, to a substantial degree, by the detail provided by the agencies in their Congressional justifications. Many justifications highlight the changes from year-to-year.

Let me now summarize the specification in GPRA regarding performance budgeting pilots. The Results Act calls for the Director of OMB, after consultation with the agencies, to designate at least five departments or agencies as performance budgeting pilots. These pilot projects would

cover a particular agency component or program. At least three of the pilot projects have to be chosen from the set of performance measurement pilot projects that were conducted during fiscal years 1994 through 1996. As you may recall, Mr. Chairman, 28 departments and agencies were designated as performance measurement pilots. These performance measurement pilots successfully demonstrated that Federal agencies could prepare annual performance plans and annual program performance reports that met GPRA requirements.

The performance budgeting pilots were to be conducted during fiscal years 1998 and 1999. The law anticipated that the President's Budget for FY 1999 would include, the performance budgets of the designated pilot projects. OMB is to send a report to Congress on the performance budgeting pilot projects by March 31, 2001. This report is to: assess the feasibility and advisability of including a performance budget as part of the President's budget; describe any difficulties encountered by the pilot projects; and recommend whether legislation requiring performance budgets should be proposed, and, if so, the general provisions of that legislation.

Let me add that GPRA requires that the March 2001 report examine government-wide implementation of GPRA from 1997 through 2000, and provide a picture of what is working well and identify any areas where change or further improvement is needed.

I have detailed the contents of the 2001 report because it addresses overall GPRA implementation, including the viability of performance budgeting. The contents of the report also underscore Congress' clear understanding that further legislation is required before the government

could proceed to preparing these performance budgets.

Let me turn to the current status of the performance budgeting pilots. On May 20, 1997, the then Director of OMB, Frank Raines wrote to the chair and ranking member of both this Committee and the Senate Committee on Governmental Affairs, indicating that OMB planned to delay the start of the performance budgeting pilot projects by one year. Our priority then, as it remains today, is to bring about the successful implementation of GPRA throughout the Executive branch. Calendar year 1997 marked the beginning of GPRA implementation. We and the agencies were devoting nearly all time and effort to ensuring that strategic plans were sent to Congress on time, and that both the strategic plans and annual performance plans would be useful documents that met the requirements of the statute.

We have had a series of discussions with the departments and agencies on how we might initiate these pilots.

During the Fiscal Year 2001 budget formulation process, which is now beginning, we will select agencies that will prepare as a pilot a performance budget for specific programs or areas. We will work with the agencies to have them prepare performance budget alternatives for selected programs or areas. We will analyze these performance budgets to determine alternative levels of performance and the associated resources aligned with these performance levels. We will report on the results of the pilots by March 2001, as required.

We believe this approach is consistent with previous GAO recommendations on government performance and results. We look forward to working with them and the Congress in moving this effort forward.

Mr. Chairman, the Results Act can bring about a fundamental transformation in how we prepare our budgets, manage our programs, and become more accountable to the American public for how we spend their tax dollars. Any great change is not accomplished overnight, but we have made a good start. From this solid beginning, the path to a true and useful linkage of resources and performance can be realized in the months ahead, and we intend to work hard to bring about that linkage.

Mr. Chairman, that concludes my statement. I will be happy to answer any questions you may have.

Mr. HORN. Mr. Posner.

Mr. POSNER. Thank you, Mr. Chairman. I want to introduce Chris Mihm on my left who heads all of GAO's work on the Results Act, and two people behind me, Mike Curro and Laura Castro who have been instrumental in our own work in addressing the linkages between resources and results which, as you so aptly noted, is critical to both improving budgeting and improving the outcome and likelihood for successful transition to performance-based management at the Federal level.

What I thought I would talk about today is what is performance budgeting, how is it defined by the Results Act, why it is important, where are we at the Federal level and what is the agenda for the future.

Performance budgeting did not start with the Results Act. In the report that we did, we noted the checkered history of performance budgeting over the past 50 years at least from the Hoover Commission on through PPBS, ZBB, MBO and other acronyms too numerous to mention. In general, all of those initiatives tended to transform what the debate about resource allocations are all about, from the debate about activities and inputs to a debate about results and performance. Each one of them made some progress. I think the Results Act promises to capitalize on some of those earlier initiatives and really push this much more completely.

The point in each of these efforts was to more systematically address performance as part of resource allocations, not necessarily in a mechanical way where resources are adjusted every time performance goes up or goes down but to improve the way we conduct the conversation about resource allocation. That's clearly one of the main goals we are talking about here.

The other main goal is to ground performance planning in budgeting to ensure that whatever performance goals we articulate are firmly grounded in realistic assessment of what resources are available.

Against that general background, the Results Act has two approaches that attempt to solidify this relationship.

First, the performance plans and the annual plans that agencies define must cover the program and activities in the Federal budget itself on a comprehensive basis. OMB's A–11 guidance goes further and calls for transparency so that you know how much it is go going to take in resources to implement the goals in the plans. The point is to make the link between the goals in the performance terms and the budgets that agencies have articulated elsewhere.

The second form of the performance budgeting, is what you noted earlier, the performance budgeting pilots which were to take place in fiscal year 1998–1999 where OMB was to choose five pilots to show how performance varied based on funding levels and other kinds of variables that were described. And the intent was to pilot the resource linkage more systemically during the implementation initially of the Performance Act.

We have already talked about why this is important. I think that you could say that many of the previous reforms that we have undertaken, whether it is PPB, ZBB, or MBO, failed in part because of the failure to make the analysis and plans relevant to the conversation about resources. These initiatives were launched with

great fanfare, sometimes with unrealistic timeframes. I am reminded that under PPBS, agencies had 10 weeks to define the activities that we are giving them 7 years to define in Results Act terms. It ultimately ground to a halt when these were not really taken seriously in the resource allocation process.

So we learned from this and I think the designers of the Results Act learned very well that if we want to make performance stick in the Federal environment, we have to make it relevant to the one process that is most critical to the agencies and the Congress, and that's the budget and appropriations process.

Now, where are we in articulating this linkage? As the study that we have done for the Senate Governmental Affairs Committee that we published, as has been stated here before, the two forms of the linkage have been—we took a snapshot of them essentially in April and found the following: That the performance budgeting pilots themselves have not gone forward as of yet. We are heartened to hear that OMB is planning on moving ahead with some performance pilots in the budget area. I think that the barriers that OMB pointed to in the May 1997 letter were real and are still real. The cost accounting is still in its beginning stages at the Federal level. Performance baselines and other kinds of tools necessary to articulate and tighten this linkage are still in the developmental stages so this is still very much a work in progress.

Notwithstanding the performance budgeting pilots, our reviews show that nonetheless a far more basic but yet useful connection is in the process of being articulated by the agencies at the Federal level anyway. We think these constitute what we might call natural or grass-roots experiments and pilots in themselves that provide the foundation for moving ahead with this agenda of performance based-budgeting.

The point is that we found a variety of efforts under way by agencies to incorporate and link performance into the budget presentations and show the implications for the budget of their performance goals. This is the first, and I will say in a few minutes, necessary step but only the first step in the effort to really promote this linkage in a more robust way.

As straightforward as this seems, it's nonetheless a daunting challenge. When we look at our budget, we know that there is a tremendous disconnect between the way the budget accounts and program activities are presented and the way that the performance plans and goals are articulated. That's the fundamental challenge that we face. We have over 1,000 budget accounts that reflect a 200 year history of budgeting that have served very well the changing needs of appropriators. They have a variety of orientations from object classes to organization to function and programs. The program activities under them are over 3,000, and they also reflect a variety of different orientations. They very well serve Congress's control purposes and Congress's efforts to allocate resources among competing purposes.

The performance goals at agencies are more global. They are more articulated as the act contemplates in outcome terms. So there is a fundamental tension between the structures that we found familiar use in budgeting and structures we find necessary

to implement the results-oriented approach. Agencies have bridged this tension in three predominant ways.

A few agencies, are actually redefining the budget structures to accommodate an outcome or results-oriented perspective. You are going to hear from some of them on the next panel. Others have attempted to embed their performance results in their budget presentations themselves. Finally, the vast majority of agencies are developing a variety of informative and some noninformative crosswalks between these two structures at least at this stage of the process. And to reprise the results of our study of the 35 agencies, only 14 were able to for fiscal year 1999 translate their plan into bedget form. In other words, what they were able to do was both to identify the proposed funding level needed to implement the performance goals and describe specifically where that money could be found in the budget.

In my statement here on page 13, we have one illustration, the Nuclear Regulatory Commission. As you can see there, the NRC not only indicated they would need $211 million to achieve a nuclear reactor safety performance goal or target in its plan, but explained that it had been derived from a single program activity in its budget request. The point is the NRC plan indicates the estimated cost of a performance target and shows which goals would be affected by the budget activity structure that you see there. I have included in the appendix to the testimony several examples from their budget-planned presentations of how other agencies have articulated this linkage that is so critical.

In contrast to the 14 agencies, most of the other agencies we looked at, such as the Department of Veterans Affairs, did not identify the funding levels needed to achieve the goals.

Mr. HORN. If you wouldn't mind, let me declare a recess so I can make this vote. We will be in recess for 15 minutes and we will try to be back and pick it up on page 13. So relax. Thanks.

[Recess.]

Mr. HORN. Recess is ended and we will continue with Mr. Posner's testimony, and we are about on page 13 in the examples.

Mr. POSNER. As I was saying, I was contrasting the 14 agencies where you could tell how much money they were going to spend to support their performance goals and those where you couldn't, which were the majority.

The Department of Veterans Affairs is one example where they didn't identify the funding levels needed to achieve the performance goals. And many agencies had the problem where they had many goals linked to many program activities and the problem was they would show the link, but they would not apportion how much of the dollars from each of the activities were related to which goal. So you really didn't have a transparent kind of linkage there that we have all wanted to move to. We will note that the VA is considering changes in its budget structure to improve this relationship.

We have been looking at the 2000 plans for the same 35 agencies again for the Senate Governmental Affairs Committee. I would note that we have noted little change in the overall number of agencies that succeeded in relating resources to results. It appears that some progress is being made in presenting the performance consequences of budget decisions and that more fiscal plans in 2000

were associating funding levels with specific goals, but they weren't able to say which program activities in the budget were related to those goals.

What does the agenda look like here based on this study for the future? In our view, we were heartened to find that there was continual experimentation in this very difficult but important relationship. We believe that the approaches being developed by some of the agencies can provide a valuable foundation for further experimentation in this area. In light of the delay in the performance budgeting pilots, in fact, we recommended in our April 1999 report that the Director of OMB use these natural experiments, if you will, as the basis to push forward the agenda of linking resources and results.

We still think that this is relevant, that OMB should lead an effort to analyze which kinds of approaches make the most sense under different circumstances, should work with the agencies in a proactive way, perhaps through the CFOC council or the BOAC councils as they have so successfully in some other areas like financial management reform, to promote more knowledge about best practices in this area, to further promote the kinds of pilot projects which we think are important here and to provide some good evaluation as to what the effects of these presentations have been.

Let me conclude at this point by noting that we are really at the beginning of an important new stage for Results Act implementation and one that really will very well be critical in determining its ultimate success. It's important to note where we are and where we are not.

What we are really working on is improving the kinds of presentations so that we can better align performance information with budget information. This is a critical first step. We know that the absence of this first step will surely frustrate the efforts to link resources and results. However, having achieved this as we have in some cases is only the first step.

A few cautionary notes I think are in order here about the road that we still have left to travel. The first is we need to be clear about what our expectations are as I indicated earlier. What we want, I think, is to enhance the kind of budget debate we have to enhance the quality of budgeting itself to make it more performance based, but I don't think that we should expect to promote the kind of mechanical linkages where performance levels automatically in some way determine resource allocations. There are too many values that we care about like needs, equity, and a variety of other things to have a straightforward relationship as some might expect.

Another thing to just caution about is that performance-based budgeting won't take the politics out of budgeting, as I am sure you know, and necessarily shouldn't. In fact, I think that you could argue that performance-based budgeting will increase the stakes involved with budget decisions. It will increase the importance and the perceived importance of what we are making decisions about. As a result, this, I think, increases the importance of the rest of the GPRA Results Act implementation agenda because as the stakes increase, so does the potential for distorting measures and making decisions that may not be based on the right kinds of data.

So this means that it's more important than ever, in our view, to ensure that there is a validation and verification process in place on the performance goals and results that the agencies are reporting. It makes it more important than ever to ensure that the goals that are articulated in performance plans are balanced and reflect everything that is important that we care about in that agency to avoid the kind of distortions that we might see from a purely quantitative approach to the decisionmaking.

It makes it more important to move on with the cost accounting agenda that we just started this year. For the first time, agencies have articulated cost accounting responsibility segments. This is vital to comparing programs in like terms and the like. It's probably also important to think about how our budget structures could be ultimately better aligned with performance in the long run. These are sensitive relationships. Congress has many issues at stake in the appropriations process. But ultimately, as we have seen in the past, we would hope that as results become a more compelling way to make decisions, that ultimately the budget account structures and the program activity structures will change accordingly. We have noticed this has happened in the past. It wasn't too long ago that positions were described in the budget as line items, for example, in agency budget presentations 50 or 60 years ago. It no longer is the case. We note that the number of accounts has actually been reduced in the past 50 years. My colleague, Mike Curro, has done some pioneering studies of this. So we have moved a long way in our budget account structures, and we would hope that that would continue.

I think what this points to is that GPRA as an act was right in concept, that budgeting is vital, and the act was right in recognizing that it vitally rests on the successful completion of the rest of this agenda which is why performance budgeting was not introduced first, it was introduced last, it was deliberately piloted in a development process. The linkage of resource to results makes the implementation of this whole act important. As daunting as the challenges are, we have no choice but to pursue it if we want to improve both budgeting and performance in the Federal Government. Thank you.

Mr. HORN. Well, thank you. Mr. Mihm, do you have anything to add? That was a very eloquent statement you had, Mr. Posner.

[The prepared statement of Mr. Posner follows:]

United States General Accounting Office

GAO

Testimony

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PERFORMANCE BUDGETING

Initial Agency Experiences Provide a Foundation to Assess Future Directions

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GAO/T-AIMD/GGD-99-216

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to discuss how we can advance performance budgeting in the federal government. As you requested, I will discuss the postponement of the performance budgeting pilots that are required by the Government Performance and Results Act. I will also discuss some of the challenges that confront these pilots and any effort to more closely relate performance expectations and spending estimates. Despite these challenges, our recent and ongoing reviews of agencies' performance plans indicate that federal agencies are developing approaches called for by the Results Act to link performance plans and budget requests. These agency efforts deserve close attention and support, not only because of their contribution to the overall implementation of the act, but also because of their potential to inform our understanding of and expectations for performance budgeting within the federal government. But first, to set context for this discussion, I'd like to begin by briefly looking at how the concept and practice of performance budgeting has evolved in the federal government.

THE EVOLUTION OF PERFORMANCE BUDGETING

The concept of performance budgeting—essentially the process of linking budget levels to expected results, rather than to inputs or activities—has and will likely continue to evolve. Historically, within the federal government, performance budgeting has progressed from a relatively straightforward efficiency concept, as evidenced in recommendations from the first Hoover Commission, to the complex and mechanistic processes associated with such initiatives as the Planning-Programming-Budgeting

System (PPBS) and Zero-Base Budgeting (ZBB).[1] Similarly, foreign countries and state and local governments in this country are experimenting with a variety of approaches to more closely associate expected performance with requested funding levels, as part of their broader reform efforts to become more results-oriented.[2] These governments recognize that focusing on results involves defining clear missions and outcomes, measuring performance to gauge progress, and using performance information within decision processes. Performance budgeting is the general term used to refer to the infusion of performance information into resource allocation processes.

We have looked at the history of performance budgeting in the federal government and the experiences of state governments and believe that two general themes are suggested.[3]

- First, although the process of budgeting is inherently an exercise of political choice in which performance information can be one but not the only factor underlying ultimate decisions, many governments have recognized that systematic presentation of performance information alongside budget amounts will improve budget decision-making. In fact, the Results Act is based on a premise that budget decisions should be more clearly informed by performance.
- Second, no single definition of, or common approach to, performance budgeting can encompass the range of needs or interests of decisionmakers, or the variety of political institutions and organizational arrangements of modern governments. Thus performance budgeting is best seen as a process of adaptation rather than as an adoption of a specific process.

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[1]Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation (GAO/AIMD-97-46, March 27, 1997).
[2]See, for example, Budgeting for Results: Perspectives on Public Expenditure Management, prepared by the Organisation for Economic Co-operation and Development, 1995, and "The State of the States: Performance-Based Budgeting Requirements in 47 Out of 50," by Julia Melkers and Katherine Willoughby, Public Administration Review (January/February 1998, Vol. 58, No. 1).

In its overall structure, focus, and approach, the Results Act incorporates important lessons from previous federal efforts to connect plans with budgets. For example, past initiatives—such as ZBB in 1977—typically devised unique and often voluminous presentation formats unconnected to the structures used in congressional budget presentations. The Results Act requires an agency's annual performance plan to link directly to the presentation structures ("program activities"[4]) used in the President's budget submission for that agency. Also, past performance budgeting initiatives—such as PPBS in 1965—were typically implemented governmentwide within a single annual budget cycle. In contrast, the Results Act defines a phased and iterative implementation process that incorporates pilot tests and formal evaluation of key concepts, including performance budgeting.

The need to more closely link plans and budgets is of central importance to the Results Act. Improving agencies' performance budgeting capabilities is critical to meet a key expectation of the act—that decisionmakers understand what is being achieved in relation to what is being spent. Agencies cannot credibly set performance goals without understanding what resources are needed to achieve them. Correspondingly, these goals will be of little value to congressional appropriations decisions without a connection to the resources that agencies are requesting.

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[3]See GAO/AIMD-97-46, March 27, 1997 and Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD-93-41, February 17, 1993).
[4]The term "program activity" refers to the listings 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.

The Results Act actually defines two different approaches regarding performance budgeting. First, the act requires "each agency to prepare an annual performance plan covering each program activity set forth in the budget of such agency." The Congress intended this provision to establish a direct annual link between plans and budgets. To prevent voluminous presentations, agencies are permitted to aggregate, disaggregate, or consolidate the program activities in their budgets, so long as any major function or operation of the agency is not omitted or minimized. The Office of Management and Budget's (OMB) subsequent guidance regarding this provision of the act set forth an additional criterion: plans should display, generally by program activity, the funding level being applied to achieve performance goals.[5] In effect, OMB's guidance expected performance plans to indicate how amounts shown for program activities in an agency's budget request would be allocated to the performance goals displayed in the performance plan.[6] Testifying on the Results Act prior to its passage, the Director of OMB characterized this requirement of the act as a "limited—but very useful—form of performance budgeting . . . ."[7]

In addition to mandating a direct link between budget requests and performance plans, the Results Act also required that a second approach to performance budgeting be piloted. Specifically, the Director of 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

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[5]OMB Circular A-11, Sec. 220.9(e), June 23, 1997.
[6]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.
[7]Government Performance and Results Act of 1993, Committee on Governmental Affairs, United States Senate, S. Rpt. No. 103-58, p. 19 (1993).

would result from different budgeted amounts."[8] While the act required agencies to define goals consistent with the level of funding requested in the President's budget, these pilot projects would also show how performance would change if the agency received more or less than requested. OMB was to include the pilot performance budgets as an alternative presentation in the President's Budget for fiscal year 1999. Subsequently, the Director of OMB is required to report to the President and to the Congress no later than March 31, 2001, on the feasibility and advisability of including a performance budget as part of the President's Budget. This report is also to recommend whether legislation requiring performance budgets should be proposed. However, as I will discuss in this testimony, the performance budgeting pilots required by the Results Act have not begun.

PERFORMANCE BUDGETING EFFORTS FACE MANY CHALLENGES

While the Results Act's design incorporates important lessons learned from previous initiatives, many challenges remain. To a large extent, these challenges are inherent to a complex, political environment such as the federal government. For example, competing and at times conflicting goals, the variety of service delivery approaches, and the nature of federal budgetary commitments raise serious implementation concerns. Both the Congress and the executive branch must continue to explore what can be reasonably expected from performance budgeting.

Performance budgeting assumes that performance goals can be defined and that valid and reliable performance measures can be developed. However, as we have noted previously, reaching a reasonable level of consensus on clear and precise goals will

[8] 31 U.S.C. 1119(b).

almost certainly encounter political hurdles.[9] In addition, goal definition and measure development are particularly challenging in the complex operating environment of the federal government.

- Full or ultimate program outcome is typically not under the control of a single federal agency, complicating responsibility determinations and resource allocation decisions. In some cases, federal activities are but one—and often a small—component of total public and private sector interventions in a given program area; in other cases, intended results cut across the activities of several agencies.[10] In these situations, individual agency outcome measures could be incomplete and of limited value to budgetary deliberations.
- Increasingly—in program areas ranging from child welfare to environmental protection—state and local governments, contractors, and other third parties are the delivery agents for federally financed activities. The efforts of these nonfederal actors—and their objectives and concerns—are often critical factors in determining whether program results are achieved.
- Many federal activities, for example health and safety programs or research and development programs, achieve desired outcomes only over periods of many years. In such cases, relating these lengthy performance horizons to annual budget deliberations can raise special measurement questions.
- Finally, the predominance of entitlement spending within the federal budget, in which federal spending is a function of statutory eligibility determinations, can cloud efforts to hold agencies accountable for results. In these types of programs, attention is

[9] See GAO/AIMD-97-46, March 27, 1997, and The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven (GAO/GGD-97-109, June 2, 1997).
[10] See for example Combating Terrorism: Opportunities to Improve Domestic Preparedness Program Focus and Efficiency (GAO/NSIAD-99-3, November 12, 1998), Drug Treatment: Overview of Federal Programs (GAO/HEHS-98-237R, September 3, 1998), and Homelessness: Coordination and Evaluation of Programs Are Essential (GAO/RCED-99-49, February 26, 1999).

often shifted from outcomes (e.g., assuring a certain standard of living) to specific process standards (e.g., ensuring correct and prompt payments to individuals).

The high stakes involved in budgetary decisions further complicate the development and use of outcome measures. Introducing such measures into resource allocation processes before a reasonable level of consensus is achieved heightens the potential for bias toward favorable results.[11] Recognizing this potential, the Results Act requires agencies to build procedures for verifying and validating performance measures into their plans. However, improvements in the quality of verification and validation discussions in agencies' plans are needed if the Congress is to have needed assurance that agencies' performance data will be credible.[12]

In addition to developing and using nonfinancial outcome measures, performance budgeting also requires an ability to understand how costs are related to outcomes. Reliable cost information is essential for Results Act implementation and was called for by the Chief Financial Officers (CFO) Act of 1990. Cost accounting standards developed by the Federal Accounting Standards Advisory Board (FASAB)[13] require that agencies develop and implement cost accounting systems that can be used to relate the full costs of various programs and activities to performance outputs. Although these standards

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[11]Program evaluation is critical to understanding and isolating an agency's impact on outcomes. For a discussion of performance measurement challenges, see Managing for Results: Measuring Program Results That Are Under Limited Federal Control (GAO/GGD-99-16, December 11, 1998), Program Evaluation: Agencies Challenged by New Demand for Information on Program Results (GAO/GGD-98-53, April 24, 1998), and Managing for Results: Analytic Challenges in Measuring Performance (GAO/HEHS/GGD-97-138, May 30, 1997).

[12]Managing for Results: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans (GAO/GGD/AIMD-98-228, September 8, 1998).

[13]In October 1990, the nine member FASAB was established by the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States to consider and recommend accounting standards to address the financial and budgetary information needs of the Congress, executive agencies, and other users of federal financial information. Once FASAB recommends accounting standards, the Secretary of the Treasury, the Director of OMB, and the Comptroller

were originally to become effective for fiscal year 1997, the CFO Council—an interagency council of the CFOs of major agencies—requested the effective date be delayed for 2 years due to shortfalls in agencies' cost accounting systems. Ultimately, the effective date was extended by 1 year, to fiscal year 1998, but with a clear expectation that there would be no further delays.

Agencies recognize the importance of cost accounting and other financial management systems in allocating funding to performance, but developing the necessary tools to gather and analyze needed program and activity-level cost information will be a substantial undertaking. For the most part, agencies are just beginning this effort and are already experiencing difficulties. For example, our audit of the Internal Revenue Service's (IRS) fiscal year 1998 financial statements found that IRS does not consistently capture cost information in accordance with cost accounting standards.[14] Consequently, IRS was unable to reliably report cost-based performance measures. Similarly, the fiscal year 1998 audit of the Federal Aviation Administration's (FAA) financial statements found significant deficiencies in FAA's cost accounting systems. FAA does not expect to have a fully operational system until 2001.[15]

Finally, performance budgeting efforts will almost always disclose tensions between budgeting and planning structures. As I mentioned earlier, the Results Act requires agencies to link performance goals to their program activity structures, which form the basis for their budget requests. This requirement is aimed at assuring a simple, straightforward connection among goals, budgets, and performance information.

General decide whether to adopt the recommended standards. If they are adopted, the standards are published as Statements of Federal Financial Accounting Standards by OMB and GAO.

[14] Financial Audit: IRS' Fiscal Year 1998 Financial Statements (GAO/AIMD-99-75, March 1, 1999).

[15] Federal Aviation Administration: Financial Management Issues (GAO/T-AIMD-99-122, March 18, 1999).

However, achieving this link is dependent on the capacity of agencies' program activity structures to meet dual needs. These budget structures have evolved to help the Congress control and monitor agency activities and spending and, as such, are geared more to fostering accountability for inputs and outputs within the control of agencies.[16] On the other hand, performance plans need to be broad and wide-ranging if they are to articulate the missions and outcomes agencies seek to influence. Strategies for bringing budgeting and planning structures together must balance both sets of needs and values. For example, planning structures and presentations that bore no connection to budget structures and presentations hampered performance budgeting initiatives prior to the Results Act. In the fiscal year 1999 performance plans, agencies attempted to bring these structures and presentations together by (1) changing budget structures to more closely align them with goals in the performance plan, (2) using the budget justification to provide more details on goals contained in their performance plans, or (3) using crosswalks or tables to show relationships between planning and budgeting structures.

THE POSTPONEMENT OF PERFORMANCE BUDGETING PILOTS

Many of the challenges I have just described were evident in OMB's decision to delay the performance budgeting pilots required by the Results Act. The performance budgeting pilots were scheduled to start in fiscal year 1998—four years after initiation of the act's pilot projects for performance plans and reports—"so that they would begin only after agencies had sufficient experience in preparing strategic and performance plans, and several years of collecting performance data."[17] In this context, and indicating the importance of concentrating on governmentwide implementation in fiscal year 1998, the Director of OMB in his statutorily required May 1997 report on Results Act

[16]Budget Account Structure: A Descriptive Overview (GAO/AIMD-95-179, September 18, 1995).

implementation announced that the pilots would be delayed for at least a year. The Director stated that the performance budgeting pilots would require the ability to calculate the effects on performance of marginal changes in cost and funding. According to OMB, very few agencies had this capability, and the delay would give time for its development.

Subsequently in September 1998, OMB suggested possible formats and time frames for the pilots in a discussion paper sent to federal agencies. In this document, OMB noted that pilot projects would not be designated unless they could "fairly test the [Results Act's] concept of performance budgeting," which the discussion paper described as "the application of multi-variate or optimization analysis to budgeting." The paper described three analytical alternatives that could be tested, involving performance tradeoffs (1) in the same program with changes in program funding, (2) in the same program with no change in total program funding, or (3) in several programs with shifts in intra-agency funding between these programs. OMB solicited agencies' comments on the discussion paper and on their capability to produce the alternative budgets suggested in the committee report accompanying the Results Act. However, according to OMB, no agency volunteered to participate. In its discussion paper, OMB stated that "the absence of designated pilots or having fewer designations than required would be an indication of agency readiness to do performance budgeting, and would be discussed in the OMB report to Congress," which is required on March 31, 2001.

Agencies' reaction to the performance budgeting pilots reaffirms the challenges and tensions that performance budgeting will face within the federal government. Whether due to imprecise goal definitions, the absence of valid and reliable financial and

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[17]S. Rpt No. 103-58, p. 38.

nonfinancial performance information, uncertainty concerning the relationship between agency activities and desired outcomes, or a lack of priority attention, no federal agency was prepared to associate itself with pilot projects that appeared to mechanically link resources to results. Although not required to do so, OMB has not publicly communicated agencies' reactions to the discussion paper or agencies' reasons for declining to participate in the pilots. As a result, it has been over 2 years since OMB reported to the Congress on challenges facing these pilots, and more information is needed to determine not only the viability of the pilots but also the direction that federal performance budgeting efforts can and should take. In effect, an opportunity to better understand the specific challenges facing the Results Act's performance budgeting pilots has been missed.

OMB CAN TAKE STEPS TO ACHIEVE THE INTENT OF THE PILOT PROJECTS

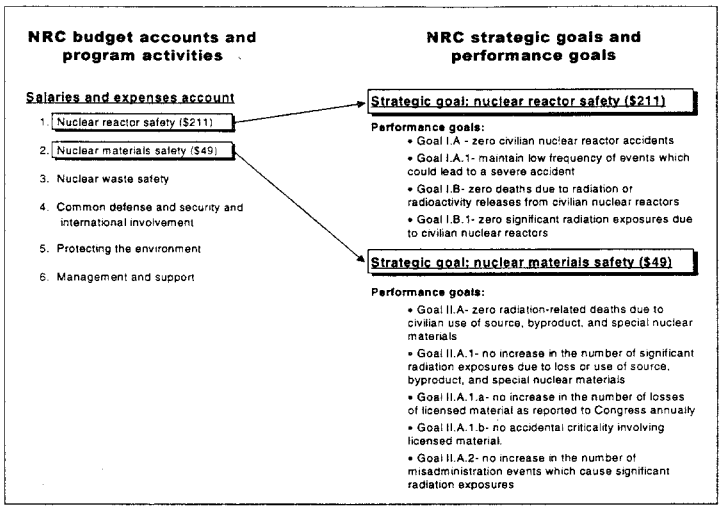
Despite the postponement of the performance budgeting pilots, our review of agencies' performance plans shows that some agencies have been able to develop approaches to make perhaps a more basic, but still useful, connection between proposed spending and expected performance. The experience of these agencies during the first two performance planning cycles under the Results Act can provide a valuable foundation for future efforts to more closely demonstrate the performance consequences of budgetary decisions.

In summary, we found that 30 of the 35 fiscal year 1999 agency performance plans we reviewed defined some relationship between program activities and performance goals,

as called for by the Results Act.[15] However, only 14 of these plans translated this relationship into budgetary terms by (1) identifying the proposed funding level needed to achieve a discrete set of performance goals and (2) describing how that funding had been derived from the program activities in the agencies' budget requests. Figure 1 illustrates the relationship between resources and results that was expressed by 1 of the 14 agencies—the Nuclear Regulatory Commission (NRC). As shown in this figure, NRC not only indicated that it would need $211 million to achieve the nuclear reactor safety performance targets described in its plan but also explained that the $211 million had been derived from a single program activity in its budget request. As a result, NRC's plan not only indicates the estimated cost of a given level of performance but also shows which goals would be primarily affected by changing the level of program activity funding from NRC's proposal.

[15] See GAO/AIMD/GGD-99-67, April 12, 1999. We could not determine linkages between program activities and performance goals for five agencies from the information provided in their performance plans.

Figure 1: The Nuclear Regulatory Commission Aligns Budget and Planning Structures to Create a Simple Relationship Between Program Activities and Performance Goals



Note: Dollars in millions.

Source: GAO analysis based on NRC's fiscal year 1999 performance plan and Budget of the United States Government Fiscal Year 1999—Appendix.

We also looked across these 35 plans to determine whether agencies and their plans shared common characteristics. We found that three approaches, either alone or in combination, were used more frequently by the 14 agencies that were able to relate resources to results.[19] These agencies more often (1) showed simple, clear relationships between program activities and performance goals, (2) fully integrated performance plans into congressional budget justifications, or (3) changed their budget program activity structures to reflect the goal structures in their performance plans.

NRC adopted each of these approaches. As figure 1 shows, NRC presented a simple one-to-many relationship between its program activities and its performance goals in its fiscal year 1999 performance plan.[20] The allocation of funding to performance goals in the NRC plan was essentially automatic because each of the agency's program activities generally aligns with a strategic goal and its supporting performance goals. This alignment was facilitated by NRC's decision to change its budget structure to align with its strategic goals, as shown in figure 1.[21] For the fiscal year 2000 performance plan, NRC maintains the relationships shown in figure 1 while fully integrating its performance plan and budget justification.[22] Information traditionally contained in a budget justification, such as descriptions of accounts and their funding, was combined with performance information such that the NRC budget justification and plan could not be separated. In contrast, other agencies, such as the Department of Veterans Affairs (VA), did not identify the funding levels needed to achieve performance goals and associated numerous program activities with numerous performance goals in their fiscal year 1999 performance plans—a "many-to-many" presentation that did not indicate the performance consequences of the agencies' budget requests. Like some other agencies, VA has noted that it is considering changes to its budget structure to improve its ability to relate resources and results.

Although they used some common approaches, the 14 agencies that connected budgetary resources to results represented a range of federal missions, including agencies providing services directly to the public (e.g., IRS), those principally involved in grant or loan

[19]In this review, we did not assess the quality of the goals presented in the plans or independently verify the funding levels associated with the goals.
[20]Figure I.2 in appendix I provides another illustration of a simple one-to-many relationship.
[21]As shown in figure I.3 in appendix I, the Environmental Protection Agency proposed an alignment of its program activities and strategic goals.
[22]Figure I.4 in appendix I provides an illustration of another agency that fully integrated its performance plan and budget justification.

making (e.g., the U.S. Agency for International Development), and some with principally a regulatory mission (e.g., NRC). Similarly, these agencies achieved linkages despite varying planning and budgeting structures. The relative complexity of these structures—measured in terms of the number and layers of goal structures, and the number of budget accounts and program activities and concentration of funding within those accounts—did not appear to be a significant factor in an agency's ability to relate proposed resources to expected results.

During our preliminary review of the fiscal year 2000 plans for the same 35 agencies, we have noted little change in the overall number of agencies clearly relating resources to results. But, it does appear that some progress is being made in presenting the performance consequences of budgetary decisions. For example, more fiscal year 2000 plans associated funding levels with specific performance goals, although in many cases these funding levels were not linked back to the program activities in agencies' budget requests.

The extent of agencies' progress in linking plans and budgets is not surprising; translating the use of agency resources into concrete and measurable results will be a continual challenge that will require both time and effort. However, based on our review of the first two cycles of performance planning under the Results Act, we believe that the approaches being developed by some agencies provide a valuable foundation for further experimentation in identifying useful methods to connect planning and budgeting structures. Some of these approaches—such as those used by NRC, the Administration for Children and Families, the Health Resources and Services Administration, and IRS—are illustrated in figure 1 and appendix I to this testimony.

In fact, agency efforts to link performance goals and program activity funding essentially constitute a first step toward achieving the intent of the performance budgeting pilots. As defined by the Congress, the original intent for the act's pilot projects was twofold: to allow OMB and agencies to develop experience and capabilities towards realizing the potential of performance budgeting, and to provide OMB with a basis for reporting to the Congress on next steps and needed changes. In addition to providing some practical experience with the concept of performance budgeting, agencies' fiscal year 1999 and 2000 performance plans also provide a baseline from which OMB could assess progress and determine what changes, if any, may be needed to the act and federal budget processes.

OMB is the lead agency for overseeing a framework of recently enacted reforms designed to improve the effectiveness and responsiveness of federal agencies.[23] Thus, OMB should be well-situated to assess (1) the practicality of performance budgeting pilots as currently defined in the law, (2) agency approaches and continuing challenges to linking budgetary resources and performance goals, and (3) options to encourage progress in subsequent planning and budgeting cycles.

In light of the delay of the performance budgeting pilots required by the Results Act and the experiences of agencies during the fiscal year 1999 performance planning and budgeting cycle, we recommended in April 1999 that the Director of OMB assess the approaches agencies used to link performance goals and program activities in the fiscal year 2000 performance plans. OMB's analysis, building on our review of fiscal year 1999 performance plans, should develop a better understanding of promising approaches and

[23]The Results Act: Observations on the Office of Management and Budget's July 1997 Draft Strategic Plan (GAO/AIMD/GGD-97-169R, August 21, 1997).

remaining challenges with respect to the concept of performance budgeting within the federal government. OMB's analysis should address, for example,

- the extent of agencies' progress in associating funding with specific or sets of performance goals,
- how linkages between budgetary resources and results can be made more useful to the Congress and to OMB,
- what types of pilot projects might be practical and beneficial, and
- when and how those pilot projects would take place.

On the basis of this analysis, we recommended that OMB work with agencies and the Congress to develop a constructive and practical agenda to further clarify the relationship between budgetary resources and results, beginning with specific guidance for the preparation of agencies' fiscal year 2001 plans. We further recommended that this analysis and the resulting agenda become the foundation for OMB's report to the Congress in March 2001, as currently required by the Results Act, on the feasibility and advisability of including a performance budget as part of the President's Budget and on any other needed changes to the requirements of the act.

In summary, Mr. Chairman, much can be learned from the initial efforts of some agencies to demonstrate the performance consequences of budget requests. Given the importance of performance budgeting to achieving the Results Act's full potential and the delay of performance budgeting pilots called for by the act, it is critical that promising approaches be explored and encouraged. The performance plans being developed under the Results Act show potential to inform the budget process and change the nature of its dialogue by more routinely introducing performance information into budgetary decision-making. To

be sure, many challenges will remain—from defining outcome goals to developing effective performance measures and reliable cost information.

At the same time, the Results Act and, in fact, any performance budgeting initiative cannot be expected to eliminate conflict inherent in the political process of resource allocation. The linkage of performance plans and budget requests does not guarantee that decisions will be made solely on the grounds of performance—nor should they be, there are other important criteria. However, the absence of meaningful links can inhibit the usefulness of performance information for resource allocation decisions. Only through continued experimentation and the mutual efforts of the Congress and the executive branch will the potential, and limits, for performance budgeting within the federal government be determined.

Mr. Chairman, this concludes my statement this morning. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

Contact and Acknowledgments

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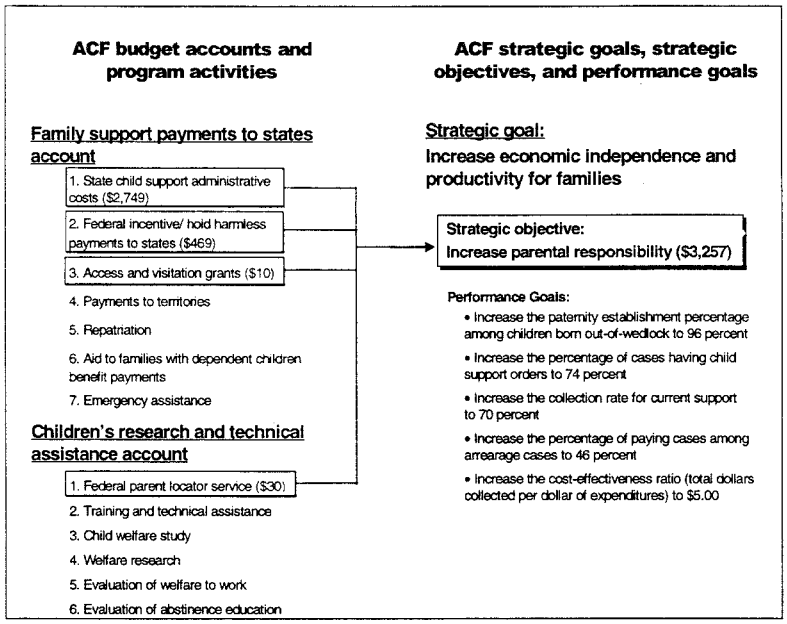
(935323)

Illustrations of Approaches Used to Connect Resources to Results in Agencies' Fiscal Year 1999 Performance Plans

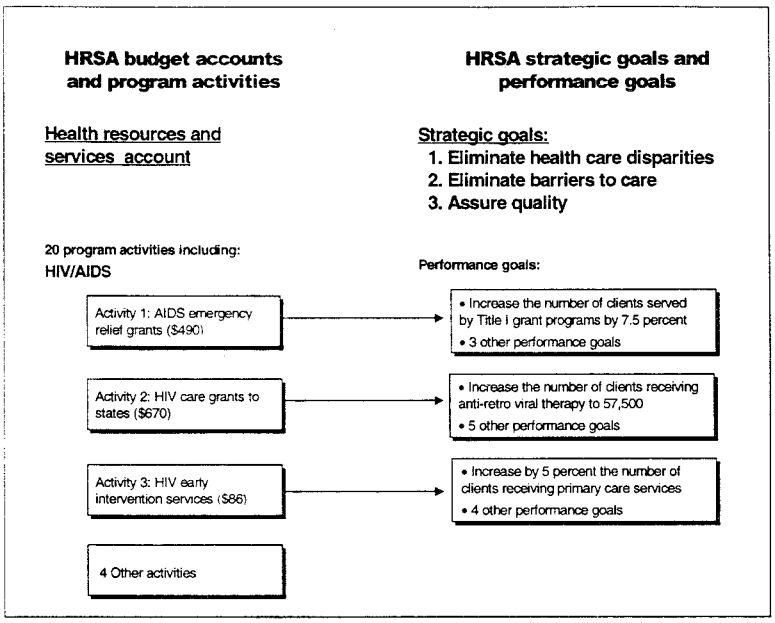
Figure I.1: The Administration for Children and Families Crosswalks Program Activities to Performance Goals



Note: Dollars in millions. Numbers may not add due to rounding.

Source: GAO analysis based on the Administration for Children and Families' fiscal year 1999 performance plan and Budget of the United States Government Fiscal Year 1999—Appendix.

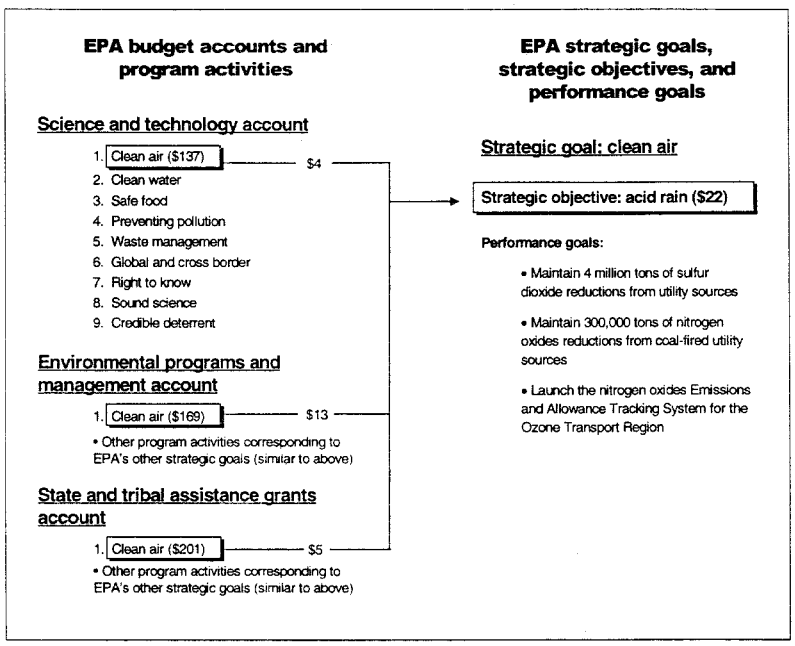
Figure I.2: The Health Resources and Services Administration Creates a Simple Relationship Between Program Activities and Performance Goals



Note: Dollars in millions.

Source: GAO analysis based on the Health Resources and Services Administration's fiscal year 1999 performance plan and Budget of the United States Government Fiscal Year 1999—Appendix.

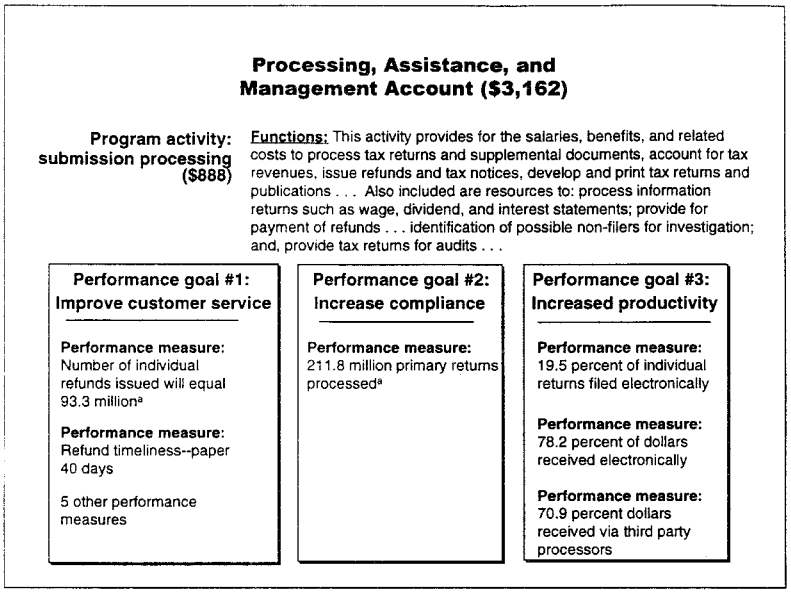
Figure I.3: The Environmental Protection Agency Proposed Aligning Budget and Planning Structures



Note: Dollars in millions.

Source: GAO analysis based on the Environmental Protection Agency's fiscal year 1999 performance plan and Budget of the United States Government Fiscal Year 1999—Appendix.

Figure I.4: IRS Integrates Its Budget Justification and Performance Plan



[a]IRS noted that this is a projection for budget purposes and is not used in the agency's business review.

Note: Dollars in millions.

Source: GAO analysis based on Internal Revenue Service's fiscal year 1999 performance plan.

Mr. HORN. Let me go to figure one just for a while before we start the usual questions. Here you have on the left-hand side the salaries and expenses account, fairly traditional. They took out of this the first two items, nuclear reactor safety—which makes sense—and nuclear materials safety. And then the next is nuclear waste safety which might not affect some of the personnel but might affect the neighborhood.

I would simply ask is this basically the chart that NRC has on terms of strategic goals and performance goals or is this the GAO interpretation of what they have?

Mr. POSNER. This is our analysis of that.

Mr. HORN. The question is very simple. Was there anything else here beside—let's take goal 1.A—zero civilian nuclear reactor accidents.

That often is going to be down the line and less—hopefully less likely. Is there another measure that one could think about there in terms of nuclear reactor safety? Would the accident, for example, if one forgot some of the safety clothes they wear for a day or something, and might have had some exposure, is that checkmarked under that accident? Is that basically an accident?

Mr. POSNER. Well, you are saying that that's an ambitious goal, if you will. I think there is some intermediate performance goals there.

Mr. HORN. Well, do you know for several years? I guess that is another thing I have got in my mind. When I look at that, if it's a nuclear accident and the employee didn't say much about it, the doctors didn't have it as a case, and something might happen to them 5, 10 years down the line that they did have an exposure. I was just wondering how you would deal with something like that. That's a negative performance goal.

Mr. POSNER. I don't know that in this context. I do know that that's a challenge that we face in measuring and tracking outcomes in general. Oftentimes we don't know for several years—at least—whether we have been successful.

Mr. HORN. Then the goal 1.A.1 is maintain low frequency of events which could lead to severe accident.

That probably can be done on a yearly—within a year's basis. Goal 1.B.—zero death due to radiation or radioactivity releases from civilian nuclear reactors.

Well, can you understand the deaths. The question is what do you tie it to if they have left the employment or whatever. How do we deal with that?

Mr. MIHM. The key thing here, Mr. Chairman, without speaking particularly to this example, the key thing that we have seen for goals that are results oriented that will take several years before we know whether or not we have met the goal or not is to have a good sense of the intermediate goals or the steps that you would use in order to measure progress. Often those are more output oriented in nature and then you can budget to those if you have a good sense of what your ultimate result is. For example, in science and R&D programs, in some of those programs, as people at the NSF have put it to me, are trying to create scientists that will discover the disease that we don't even know yet exists for the next 20 or 30 years.

How do you develop an annualized performance goal for those types of programs? Part of the answer here is to know what sort of scientific programs will lead you to those types of results and therefore you focus on making sure that you have those quality scientific programs in place. So you focus on intermediate goals—developing quality receives toward the longer term goals——

Mr. HORN. Well, that's, of course, difficult and this agency has great difficulties because this is something that you can't easily see if you have an exposure. You are in a traditional building trades, a contractor putting up a sky scraper, there is often a sign in almost every plant you go into, it's been 400 days since we have had an accident, let's say, on the assembly line or whatever it is.

You are pretty sure that you have caught most of those because you have Workers' Comp claims, you have all sorts of things. Sometimes a worker might be hiding something dumb they did because they just don't want to be thought of as being that dumb in a firm that doesn't have emissions popping out of a nuclear reactor. So, I am sort of fishing around here for the long run bit as we agreed, and how you really can measure this. Are there some cases where, let's say if you are an airline passenger. Some of us get a form every once in a while presumably on a random airplane basis, are you satisfied with the counter personnel, are you satisfied with the airplane personnel and all of this. Obviously, that is a satisfaction index. That makes a lot of sense to me. It is like a student evaluation of faculty. That makes a lot of sense to me. It didn't make much sense to the faculty, but it made a lot of sense to me. The fact is those are valid data, and they do make a difference and you can tell over a time line.

I am just wondering when you look at—this one is very difficult. But when you look at other agencies without nuclear emissions, what—do you have sort of a choice and a measurement operation that GAO has ever put out as possible ways to measure a program?

Mr. MIHM. We have done a number of products related to that. We have issued products that talk about the difficulty of measuring some of these larger results. We have issued some guidance to agencies on how to measure complex problems. We also have issued quite a number of products that talk about the other half of your equation, how do we know that the data we are getting is any good.

That's an area that we have put a lot of emphasis in our reviews of the annual performance plans. The Results Act require that the agencies talk about how they are going to verify and validate the performance information. Sadly, that's also consistently one of the weakest areas in annual performance plans, everything from absolute silence to how the agency is going to do it to plans that just aren't very clear.

The point, Mr. Chairman, that you are touching on is that if we don't have accurate information that we can be using to make decisions on, either in a budget context or nonresource allocation context, then the whole planning effort is really not worth its weight we don't have confidence in the results of the planning effort.

Mr. HORN. I would like a little exhibit in this record, without objection, of some of the choices that you have made over the years. If you could just excerpt those, 10, 20 pages, put it in the hearing at this point.

Mr. MIHM. We will work with the staff to get that to you.

Mr. HORN. Thank you. Ms. Lee, what does the delay of the pilots mean for the Government wide implementation of the Results Act? What does it mean, anything?

Ms. LEE. I think what it tells us, Mr. Chairman, is timing as Mr. Posner mentioned. There is a great deal of work to be done and we wanted to make sure that the foundation was laid, the agencies had begun the alignment of budgeting and resources and plans and measurement. We think it was logical to delay that time until we had a better structure. There still are going to be some challenges in those tradeoffs.

Mr. HORN. It seems there is confusion between the general concept of performance budgeting as envisioned by some of the authors of the Results Act back in 1993 and 1994 versus the specific language in the act that requires agency pilots to link varying levels of performance with different budgeted amounts. Can you sort of clarify this confusion for the record?

Ms. LEE. There are several options in some of the background in the literature, everything from taking a budget level and determining what different levels of performance you can get for that same budget amount versus different levels of performance for different budget level amounts versus cost agency or even intraagency tradeoffs among—requirements and budget responsibilities. So what we need to do from a piloting standpoint is look at these and say how can we test those theories in various ways.

Mr. HORN. Can we agree on a general definition of performance budgeting as envisioned by GPRA that would include the type of performance budgeting required for the pilots? Is that pretty clear for everybody, the pilots, are they singing from the same hymnal of what they mean by performance budgeting?

Ms. LEE. I think we all agree that there needs to be a linkage between plan, expected results and the various varying results or budget levels. I think that's the theory. But that is not to say specifically that every one will be the same. I think that we will see variance across the pilots.

Mr. HORN. Is there an aim to get this variance? I'm not against variance. I just am wondering if in, say, a small agency, a medium size agency, a large agency just for the sake of it, that's one typology. The question would be, can you have performance budgeting in that relationship or is it just the simple things that we are doing. I remember when we had one of these hearings, I thought, good heavens, that's not so difficult. We have got to do this so let's dump this on this poor soul or that poor soul volunteered was sort of my feeling. What do you think about that in terms of definition of performance budgeting?

Ms. LEE. What we try to do is consult with the agencies and try to make sure that we have got somebody that is willing to step up and work on this. Again, a solid definition of what we would like to do is get the pilot that looks at both small, medium, and large agencies, but also looks at those other tradeoffs. I don't think we want to just align it by agency size but we actually want to dig a little deeper and say can we find someone who can do the tradeoffs between resources and results or who can even do cross pro-

grammatic tradeoffs. When we select those, I would think that they would all look really quite different.

Mr. HORN. Now, these pilot programs are in some stage of being undertaken, or are they?

Ms. LEE. We are in discussions with the agencies to say——

Mr. HORN. In other words, they haven't started?

Ms. LEE. They have not started with them.

Mr. HORN. It seems to me as they are started down the line that you might ask at the end of the first year if you don't submit that one to us, did they ever get rid of anything? Did they ever say this is a stupid program? That would be a Federal Government first, I realize.

Ms. LEE. I think we are actually seeing some of that in GPRA when people have to align dollars are goals. Even if it is not performance budgeting, they have to actually sit there and say I have these resources, what is my expected result. And we are beginning to see a little bit of that tension deliver results as people need to articulate the outcomes of various programs.

Mr. HORN. In your testimony you stated, Ms. Lee, that you would select the agencies that will prepare a performance budget pilot during the fiscal year 2001, 1 year really away from us. Budget formulation process, that's under way now I think.

As you said, it's now beginning. At what point during this process of the budget—which usually you are wrestling with three budgets at a time—will the agencies actually be selected? Are we talking about August or are we talking about November? When you are going to select them?

Ms. LEE. We are going to do that within the next several months. We wanted to go through a consultation process with the agencies. If we have a ready willing volunteer early, that would certainly be selected. In the meantime, there is going to be a little work and discussion going on to determine exactly who the candidates are.

Mr. HORN. There would be few cynics that say, yes, I remember zero-based budgeting. Nothing ever happened to that either. So they will all say where did this goofy idea come from? It was a bipartisan Congress that submitted that goofy idea into law. We think it's pretty good.

Ms. LEE. There are some agencies as we discussed that are really making some progress. Perhaps they would be willing to illustrate the progress they have made.

Mr. HORN. Well, we hope so that—that would be the closeout optimistic panel, I am sure.

You agree with GAO's recommendation that you should assess agencies' linkages between plans and budgets to determine an agenda for future performance-budgeting efforts? Do you pretty much buy what they have said on this?

Ms. LEE. Yes, I do.

Mr. HORN. Well, what are you and your program examiners doing to ensure that the agencies' performance plans meet the criteria you set out in the A–11 guidance on performance planning? That is GAO testimony on page 4.

Ms. LEE. I was just telling Mr. Posner at the recess that we have actually taken this report and distributed it among the Resource Management Offices. This is very informative, very illustrative par-

ticularly in some of the illustrations where it shows the alignment. We have actually distributed that already to resource managers and said, yes, start thinking about this as we go into the next set of strategic plans and the next set of performance plans, and as we work with the agencies to further develop those.

Mr. HORN. I am glad you say that because I hope that you will stress to them that we are serious here, not only in this subcommittee but also increasingly in authorization committees and also the subcommittees on appropriations. In the first testimony on the update of this legislation several years ago, I suggested to the majority leader, and whoever was majority leader will do the same, we ought to create a war room in his suite where we put up the strategic goals, and where we really watch this stuff.

He is taking it seriously. I am taking it seriously. Believe me, by the time we are done all the appropriators will take it seriously. Sometimes last year they didn't. They were in the usual rush to try to get the job done. It's very difficult for people here as well as in the executive branch sometimes to find something different that they might think about rather than the routine that they have been in and it's so comfortable after a while.

So what I am saying is we have a number of places around here where it won't be too comfortable, and we hope they will take it seriously. If it's good government, we ought to be for good government. It just seems to me that the satisfaction index is one way to get at these things. I think the State of Oregon, somebody ought to go out there and see how they do it.

They have been doing this for years. They actually get rid of things, and they also improve things when something is worthwhile. And the citizens agree with that idea. I think that's a worthwhile model that the Federal Government could look at. I realize we are in a town somewhat like the New York Times, that if they haven't printed it or you haven't done it, it hasn't happened. They are wrong. It happens all over the world. It is just somebody's judgment as to what is printed. It is to someone's judgment in this town that, my heavens, we have to do something new around here? The answer is yes. When the leadership is pretty serious about it, I think it's a good idea to move right along on some of these things.

When you issued your September 1998 discussion paper, what formats and timeframes did you recommend for the pilot programs?

Ms. LEE. In September 1998, at that point were hoping to make 2000 budget. But as you know, we are now aiming for the 2001 budget.

Mr. HORN. What type of comments did you get back from the agencies?

Ms. LEE. We didn't have any outright volunteers.

Mr. HORN. Well, did you have any comments?

Ms. LEE. Yes, we did. Because of the complexity, we need a little bit more time here. Some things that actually we have covered here, we need a little more time to work on this piece or we are still working on an alliance, cost accounting comments and things along those lines. There also was some concern on the agencies' part that said basically, does this put me in a spotlight that perhaps I don't want to be in.

Mr. HORN. Well, maybe that will put them in a spotlight that would allow us to give them some extra money. Could we dangle that out there?

Ms. LEE. That tends to be an incentive.

Mr. HORN. Slowly but surely, $1 a carrot, but I would think of that and what OMB could do creatively to say, hey, for your trouble and if you do a good job, we are prepared to give this or that program some more budget authority.

In your testimony, Mr. Posner, you indicated that the GAO did not assess the quality of the goals presented in agency performance plans or independently verify the funding levels associated with these goals.

Does this imply that the status of performance budgeting in Federal agencies is actually worst than depicted in your recent report?

Mr. POSNER. No, we just looked at the linkage itself. In this particular study, we didn't look at the quality of the goals or the underlying data, but we are doing that in other studies that we have been working on with the Congress across the board, really.

Mr. HORN. Well, obviously, our worry is are you gauging agency progress on unreliable data?

Mr. POSNER. That's one reason why we put that caveat in there. We couldn't vouch for the data itself so we put the footnote in that we didn't verify the funding levels associated with that at that time. I think this is an area that does—the whole area as, I indicated, earlier of verifying not only the funding levels but, just as important, the underlying performance results that are achieved is going to be an emerging challenge.

Mr. HORN. It's like Y2K reporting, it's self-reported data. That has a lot of problem sometimes.

Mr. MIHM. Mr. Chairman, just to add on to that, to keep working the Y2K analogy, the self-reported data is pretty bad now. It becomes a nightmare in the case of GPRA when we have the performance reports. In other words, there is an action forcing event when the bad reports or bad promises will come home to roost in agencies. That's why we have become quite adamant in focusing on verification and validation in the plans. It undermines the usefulness of the plans now. It will be a real nightmare for agencies that haven't done a good job of this when it comes time to put together the reports for next March.

Mr. HORN. There is a day of reckoning, you are saying somehow, somewhere. OMB states in its testimony that agency budgets are showing how performance is affected by increases and decreases in funding levels. They also state that agency performance plans provide information on the budgetary resources associated with the set of performance goals.

Is this a fair characterization of the status of Federal agency performance plans?

Mr. POSNER. Well, again, from our study, about less than half of the agencies are associating performance plans with budgeted levels, but the rest have a long way to go in that regard.

Mr. HORN. Well in your testimony, you noted little change in the overall number of agencies clearly relating resources to results between fiscal years 1999 and 2000. How do you account for this lack of improvement?

Mr. POSNER. Well, we are still in the throes of analyzing that ourselves. We would have liked to have seen greater progress. One thing is it just shows how formidable the barriers are to executing this kind of linkage because of the disparate nature of budget activity structures and program planning structures. We also think that this could be aided and hurried along by some of the kinds of things that we talked about earlier here, some more concerted effort among agencies to learn from one another and that kind of thing.

Mr. HORN. In your testimony, you recommended that OMB conduct analysis that addresses what types of pilot projects might be practical and beneficial and when and how these projects would take place. What specific recommendations can you offer to OMB to expedite this analysis?

Mr. POSNER. I think this really is the kind of thing that we think calls for somewhat more of a proactive leadership role as their part Governmentwide councils, of agency leaders and managers may be a useful strategy for leadership in this regard to identify some of these best practices. And frankly, I think it also calls for involvement of the program examiners in OMB. They have quite a bit of background and knowledge on these agencies and budgets and they need to—if they haven't already to gain a stake in analyzing these plans. And helping OMB figure out where the opportunities really lie.

Mr. HORN. Any other comment you want to make, Ms. Lee?

Ms. LEE. Chairman Horn, the emphasis on Government Performance and Results Act has been presented several times to the President's management council which, as you know, is the deputy secretaries.

I believe last month or the month before, a couple of agencies came through and discuss, as we do this first report, how agencies are working on their next strategic plan. They laid out their schedule for consultation with Congress. They also thought about how do we write these performance plans and doing a little testing internally. So it is going on, but it is a difficult task.

Mr. HORN. Well that's good news that the Deputy Secretary's undersecretaries are taking this seriously. That's the only way it is ever going to get done, is the chief operating officers of these agencies doing it. The poor secretaries running around the country and the world in planes to tell what the mission is. Somebody has got to stay at home and make sure that this tough, dull, drudgery—which is crucial to outcomes—is done.

Ms. LEE. We are trying to tell them it's exciting.

Mr. HORN. Well, you are a much more positive personality than a legislative personality. We hope you are right. Let it be exciting, let it be done. The next time you come here, you are going to have all of those select models prepared. And how long is it going to take them, one budget cycle to do it? And then see what happens?

Ms. LEE. I think we will use the budget cycle and see what happens and then say do we repeat this? Do we have enough information? Where do we go from there?

Mr. HORN. We look forward to that. Anything that the General Accounting Office wants to say on this subject?

Mr. POSNER. We have said our piece.

Mr. HORN. Well, you have done a good job, all three of you. Thanks for coming.

We now go to panel two, the Honorable Sallyanne Harper, Chief Financial Officer of the Environmental Protection Agency, the Honorable Olivia Golden, Assistant Secretary, Administration for Children and Families, Department of Health and Human Services, and Mr. Jesse L. Funches, the Chief Financial Officer of the Nuclear Regulatory Commission.

OK. If you would stand up and all of those who are going to feed you information also stand up and raise your right hands. We have three witnesses and five feeders.

[Witnesses sworn.]

Mr. HORN. The three witnesses have affirmed and so have the five others with them, and the clerk will get all of the names and make sure that they are in the hearing record.

So we will now start with the Honorable Sallyanne Harper, Chief Financial Officer, Environmental Protection Agency. Thank you for coming.

STATEMENTS OF SALLYANNE HARPER, CHIEF FINANCIAL OFFICER, ENVIRONMENTAL PROTECTION AGENCY; OLIVIA A. GOLDEN, ASSISTANT SECRETARY, ADMINISTRATION FOR CHILDREN AND FAMILIES, DEPARTMENT OF HEALTH AND HUMAN SERVICES; AND JESSE L. FUNCHES, CHIEF FINANCIAL OFFICER, NUCLEAR REGULATORY COMMISSION

Ms. HARPER. Thank you, Mr. Chairman.

I appreciate this opportunity to appear before the subcommittee to discuss EPA's efforts to align planning and budgeting and to manage for results. I particularly appreciate your interest in these reforms and hope that EPA's experience will help illustrate both the benefits and the challenges we face in performance budgeting. With the subcommittee's permission I would like to submit my written statement for the record.

Mr. HORN. They are automatically in the record. Maybe you were not here. Once we introduce you, they all go in the record. You are free to give us a summary and then we will have more time for a dialog.

Ms. HARPER. Thank you, Mr. Chairman.

Mr. HORN. So don't read it. We have read it.

Ms. HARPER. We are very proud to have been the first agency to succeed in fully integrating our budget request with our annual performance plan. EPA has benefited substantially from the structure, visibility, and credibility provided by the Results Act. It has been a unique and exciting challenge for me to oversee EPA's implementation of the Results Act because it fully supports our focus on environmental outcomes and sound management of public resources.

The basis for many of EPA's performance budgeting accomplishments has been our strategic plan and its architecture of 10 long-term strategic goals supported by a range of objectives representing major steps toward those goals achievements. The architecture captures EPA's many complex and interrelated mandates in a relatively simple structure and paves the way for linking planning with budgeting. EPA's new budget structure matches the architec-

ture of our Results Act's goals and objectives. Consistent with GPRA requirements, we implemented changes in the fiscal year 1999 budget development cycle that identify fiscal year 1999 activities as incremental steps toward our longer term objectives.

These incremental steps were embodied in the annual performance goals and measures that made up our first annual performance plan under the Results Act. In other words, EPA specified what it intended to accomplish in fiscal year 1999 with the requested resources at a level of specificity we had never attained in the past.

We also have modified our financial structures to reflect the 10-goal architecture. This was a massive undertaking and we are very pleased to report that we have succeeded in putting the necessary financial processes in place to support cost accounting in time for the initial implementation in fiscal year 1999. We acknowledge the need to discuss results and costs with comparable precision. To that end, we are working to improve annual performance goals and measures, making clear the connections between what we accomplish in a single year and what we hope to accomplish over the longer term.

One promising effort is EPA's National Environmental Performance Partnership system [NEPPS], which aims to strengthen our ability, combined with that of our State partners, to improve environmental results. EPA's annual performance plan contains core performance measures, those that we have negotiated with our partner States so that both NEPPS and the Results Act processes reinforce each other.

We will summarize our 1999 accomplishments in our first annual performance report to Congress in March 2000. The information we developed through our accountability process will be a principal input to both future planning as well as budgeting cycles.

There are some challenges that remain. We have not yet completed our first full year's learning experience under the Results Act. We must find ways to portray environmental results that are the product of many efforts, including those of State partners, other agencies and other stakeholders. We need to work to ensure the validity and the reliability of our performance data. Finally, many of the environmental results we aim for may become apparent only over long periods of time; and their full costs, including all funding sources, will be difficult to assess.

In closing, I would like to reaffirm EPA's support for performance budgeting and the full range of Results Act activities that support it. We count on your continued support as we tackle the challenges that I have described to you as well as others that are bound to appear along the way.

I thank you for the opportunity to discuss these important issues with you today.

Mr. HORN. Well, thank you.

[The prepared statement of Ms. Harper follows:]

STATEMENT OF SALLYANNE HARPER
CHIEF FINANCIAL OFFICER
U.S. ENVIRONMENTAL PROTECTION AGENCY
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

JULY 1, 1999

Mr. Chairman and Members of the Subcommittee:

I am Sallyanne Harper, Chief Financial Officer of the Environmental Protection Agency (EPA). Let me begin by thanking you for the opportunity to appear before the Subcommittee to discuss our efforts at EPA to align planning and budgeting, and to manage for results. I appreciate the Subcommittee's interest in these reforms, and I hope that EPA's experience will help illustrate the benefits and challenges of performance budgeting. We were gratified to learn that GAO has described EPA's efforts to connect resources and results as "positive and significant," and we are committed to building on our early successes in the future.

Background

As you know, GAO has pointed out a number of areas where EPA is in the vanguard of agencies engaged in establishing performance budgeting systems. We are very proud to have been the *first* agency to succeed in fully integrating our budget request with our Annual Performance Plan. Some background information may help to explain the progress we have made so far. EPA has benefitted substantially from the structure, visibility, and credibility provided by the Government Performance and Results Act (GPRA). This legislation supports the integration of several key management processes in ways that are complementary to some of

the Agency's own approaches. In 1995, Administrator Carol Browner commissioned an internal task force of senior managers to examine and recommend improvements in EPA's planning, budgeting, and accountability processes. This task force recommended that these processes needed to be more closely integrated in order to obtain better environmental results for the American people, as well as to improve the way we do business. The task force also recognized some organizational barriers to this integration, and further recommended that planning, budgeting, and accountability functions be restructured into the newly-created Office of the Chief Financial Officer. It has been a unique and exciting challenge for me to oversee the development of EPA's planning, budgeting, and accountability functions into a single process, focusing on environmental outcomes and sound management of public resources.

Accomplishments

The basis for many of EPA's performance budgeting accomplishments to date is our Strategic Plan, which was submitted to Congress in September 1997 in compliance with GPRA. The Strategic Plan is the result of many months of intensive deliberation across the Agency, aided by the views of our partners and stakeholders and coordinated by my office. It outlines our best assessment of the results we would like our work to have achieved in five years' time. The Plan is structured around a framework, or "architecture," of 10 long-term strategic goals that point to the accomplishment of our mission: to protect human health and to safeguard the natural environment–air, water, and land–upon which life depends. Each strategic goal is supported by a range of objectives representing major steps toward goal achievement. The strength of this architecture lies in its inclusiveness, which earns it a broad consensus of support across the

Agency. Although EPA figures among the smaller agencies in terms of resources, our mandates are many, complex, and interrelated. To have captured the variety of our responsibilities within a relatively simple architecture was a real achievement and did much to pave the way for subsequent efforts, including the linking of planning with budgeting.

With the Strategic Plan architecture in place, EPA was able to take its first steps towards budget restructuring. GAO's report identifies some challenges that have beset performance budgeting initiatives in the past, including instances where agencies began by layering new budget formats on existing ones. The results of such efforts–and I am sure you have seen some–were cumbersome documents that tended to shed little light on the connections between resources and results. Agencies had many years' experience invested in the use of program elements in budgeting, and it was very difficult to begin working with a structure based on outcomes, rather than outputs. EPA opted for maximum clarity in its new budget structure, no mean feat given our multiple-account structure, which combines operating accounts with trust funds, and our new goal architecture. Consistent with GPRA requirements, we implemented changes in the FY 1999 budget development cycle that promoted a focus on our long-term environmental goals and identified FY 1999 activities as incremental steps towards them. These incremental steps were embodied in the annual performance goals and measures that made up our first Annual Performance Plan under GPRA. EPA's FY 1999 budget request marked the Agency's first effort to align its resource request completely with its performance goals and objectives. In other words, EPA specified what it intended to accomplish in FY 1999 with the requested resources–at a level of specificity we had never attained in the past.

GAO noted that EPA was one of only 2 agencies to link planning structure and budget accounts, and one of only 3 agencies that made substantial changes to program activity structures within their budgets. Building on that first success, we are equally proud of our FY 2000 request. EPA has made considerable progress in linking annual budgets and annual goals to the longer-term environmental results outlined in our Strategic Plan. I think the groundwork we have laid over the past few years will prove invaluable for developing future budget requests in a similar manner, focusing on the achievement of results that are meaningful to the public.

The organizational structure of the Office of the Chief Financial Officer also facilitated the next logical steps in promoting performance budgeting. As CFO, I am, of course, responsible for the integrity of EPA's financial systems and services, and I am pleased to tell you that our audited financial statements for FY 1997 received–for the first time in the Agency's history–an unqualified, or "clean," opinion. My office assures Agency compliance with all applicable standards for government accounting, including the Federal Accounting Standards Advisory Board (FASAB) standards for managerial cost accounting.

While one side of the performance budgeting coin shows the Agency's *intended* results for a *requested* level of resources, the other side must portray *actual* results obtained for *actual* resources expended. At EPA, we take pride in our role as stewards of the environment while embracing our responsibilities with respect to the public trust. We must be able to demonstrate accurately the full costs of our efforts in environmental and public health protection so that we can connect sound financial information with the results of our work.

Our plan was to modify EPA's financial structures to reflect the same 10-goal architecture, with its long-term objectives, that we had already applied to planning and budgeting. We were fortunate to have made certain modifications in past years that allowed for the accommodation of new information related to the architecture, enabling us to capture costs on a goal-by-goal, objective-by-objective, basis. Still, this was a massive undertaking, involving intensive outreach to the resource management community throughout the Agency, development and dissemination of substantial new guidance, and anticipation of management needs for financial information. We are very pleased to report that EPA succeeded in putting the necessary financial structure and processes in place to support cost accounting in time for initial implementation in FY 1999. This first year's results will be instructive to all of us, and we expect to enhance our ability to assess the full costs of our efforts in future years.

EPA also acknowledges the need to refine our results information along with our cost information, so that we can discuss both with comparable precision. To that end, we are working very hard to improve the goals and measures through which we focus on annual results. We want to be sure to aim for outcomes that support the highest environmental quality for all, and to make clear the connections between what we accomplish in a single year, and what we hope to accomplish in the longer term. One effort that promises continued progress is EPA's work with our state partners in environmental protection. Through the National Environmental Performance Partnership System (NEPPS), EPA and the states set out in 1995 to improve our combined ability to protect public health and the environment and to reinvent our working relationship by fostering better joint State-EPA priority setting, focusing scarce resources on

highest priorities, and tailoring the amount and type of EPA oversight to individual states' performance. The primary goal of NEPPS was, and is, to improve environmental results. NEPPS has also set the stage for intensive consultations with the states on how environmental results should be measured, and what set of "core performance measures" (CPMs) would reflect results more effectively. Consistent with those ongoing consultations and our commitment to minimize state and industry reporting burden, EPA's Annual Performance Plans under GPRA contain no new state reporting requirements that were not already negotiated as part of the development of the CPMs. They do contain, however, all measures that we have negotiated with the states and that are appropriate to measurement of annual progress. In short, the NEPPS and GPRA processes reinforce each other. We believe the work we are doing with the states in this area will help to sharpen our focus on meaningful and measurable improvements in environmental quality across the country.

Having reached the third-quarter mark in our first year of implementing an Annual Performance Plan under GPRA, we are now looking towards the point when we will summarize the year's accomplishments in our first Annual Performance Report, which we will submit to Congress in March 2000. This Report represents in many ways the culmination of the efforts I have described. EPA closes the planning-budgeting-accountability loop with an accountability process for performance reporting. This process is in place and is supported by a system that follows, once again, EPA's strategic architecture of goals and objectives. Our approach to accountability has been fully informed by consultation across the Agency and with our partners, and our Annual Performance Report for FY 1999 will reflect the ideas of that extended group.

Moreover, the information we develop through our accountability process will be a principal input to future planning and budgeting cycles, ensuring that we plan with a purpose: to select the best routes towards our goals and objectives, addressing any management weaknesses or mid-course corrections as the need arises. I believe EPA is well positioned for the work we will need to do in coming years to tell the story of environmental protection in this country and demonstrate to the public the good value that our programs represent.

Challenges

Performance budgeting has also presented EPA with some real challenges, and we are committed to meeting them. I would like to outline for you briefly some of the most important ones.

First of all, we acknowledge that EPA has yet to complete a full year's experience within the structures we have created under GPRA. While we are optimistic about the approaches we have selected, we are learning as we go along and will not have the best perspective on our work until we have completed a full cycle of planning, budgeting, and accountability. In some respects, we are evaluating our efforts on a real-time basis and attempting to fine-tune when feasible. Some frustration with the pace of change may be inevitable, as we strive for smoother transitions, better integration of other processes, and consensus on the most effective and efficient ways to implement new processes.

Second, it is clear that environmental results are the product of an extended network of actors, within which EPA serves as leader, monitor, advisor, resource provider, co-regulator, and guide. Revising the architecture on which all of our performance budgeting efforts are based and developing more realistic and useful performance measures will require the commitment and collaboration of all EPA partners and stakeholders. We are eager to continue the work we have begun with states, tribes, local government, other federal agencies, environmental associations, industry groups, and the Congress and OMB to set a good course for the future of environmental and public health protection. The task ahead of us is, nonetheless, formidable, especially as EPA learns to achieve a workable balance among our many roles.

Third, EPA needs to meet the information challenge in order to succeed in performance budgeting. We know that the performance information we collect must be results-oriented, credible, and useful; it needs to support measurement of progress towards our strategic goals and objectives. The range of information we use is as important as its consistency and accuracy. GAO correctly points out the challenges that agencies face in using program evaluation and other techniques to ensure the validity and reliability of performance data. By establishing a new information office that brings together major Agency functions for data collection and data access, EPA expects to resolve some of the most pressing problems in a coordinated way over the next several years.

Fourth, our experience tells us that significant changes in the environment often become manifest only over long periods of time. The results of EPA's efforts, in concert with those of

our partners, may not be clearly distinguishable as annual outcomes in the environment. We have taken on the challenge of turning our sights from outputs to outcomes, but we continue to find that the incremental effects of our work are very difficult to describe as the outcome of a single year's efforts. We are confident that EPA's work today makes possible the environmental quality that we will all enjoy in years to come. What we must do is find ways to measure the impact of today's actions on tomorrow's environment.

Finally, EPA needs to think through the connections we establish between costs and results. To translate the use of Agency resources into measurable results is a multi-faceted challenge, since a given year's outcomes are the result of several years' efforts, and for certain resources, the ultimate results will not be apparent for some time. Another problem that is particular to EPA is the difficulty we will have in establishing how funding from other levels of government contributes to environmental results. In addition to EPA's grant support of state, tribal, and local environmental programs, agencies across the country also dedicate their own resources to this work. The issue of ascribing certain results to specific funding sources is vexing and unlikely to be easily resolved.

Summary

In closing, I would like to reaffirm EPA's support for performance budgeting and the full range of GPRA activities that support it. My colleagues at all levels at EPA join me in our collective commitment to a clean environment, and we affirm that the Agency's mission can only be accomplished through fiscal responsibility and good management. We are pleased to be

recognized for our successes thus far and hope that our experiences can be helpful to colleagues across the government, as we all strive to serve the public effectively and efficiently. We count on your continued support as we tackle the challenges that I have described to you, as well as other challenges that are bound to appear along the way. Thank you for the opportunity to discuss these important issues with you today.

Mr. HORN. This is a question that probably should be put to your chief information officer. The State of California's EPA several years ago, maybe 6 years ago, had a very interesting development in computing where they worked with business, and they set the joint codes and definitions between the agency and the business and most of their filing, was electronic. And, I just wondered to what degree, while it stays in my brain, that EPA has done that because I mentioned it to some of your assistant directors since I sit on their review committee, Water Resources and Environment; and I just wondered if they are doing any of that?

Ms. HARPER. Mr. Chairman, I am pleased to report that they are. I am sure that our chief information officer can provide more detail for the record, but one of the programs that we feel would be ultimately quite successful in following California's example is our one-stop reporting program. We are trying to synchronize with those who report in to us one place where they bring in all of their data rather than to our separate stovepipe elements, which we ask sometimes for the same data in completely different formats or slightly different variations.

The administrator is also establishing, and it should be in early September of this year, a consolidation of our entire information function at EPA into a new information office, one of its primary goals is to do exactly what the State of California has been so successful in doing.

Mr. HORN. I am delighted to hear that. I know that you have a very fine leadership there. That is just a good thing to do and I think everybody is the better for it. I am glad to hear about it. If you can just put a little exhibit at this point in the record without objection, we will do that.

Ms. HARPER. Thank you.

[The information referred to follows:]

Insert Page #9

Reinventing Environmental Information (REI)

In July 1997, the Environmental Protection Agency's (EPA) Administrator directed the Agency to advance and accelerate efforts to reinvent environmental information by adopting formal data standards, providing universal access to electronic reporting, reengineering the Agency's national data systems, and to achieve this in cooperation with the States. To implement this new direction, EPA commits to the following:

- *Data Standards*—EPA will issue interim standards for six key data types by the end of Fiscal Year (FY) 1999 and incorporate these standards in all EPA national systems by the end of FY 2003. Data standards establish a common language among users of environmental information.

- *Electronic Reporting*—All parties reporting to EPA shall have voluntary access to electronic reporting by the end of FY 2003.

- *State Partnership*—REI must be implemented in partnership with States if it is to succeed. The One Stop program and the State/EPA Information Management Work Group provide opportunities for EPA and States to set goals for improving and sharing information and agree on policies and programs to achieve these goals.

- *Systems Reengineering*—EPA national data systems shall incorporate all data standards and provide access to electronic reporting by the end of FY 2003.

FY 1999 is a pivotal year for REI. Efforts in FY 1998 have focused on developing pieces of the infrastructure necessary to reinvent information management at EPA. As completion of this infrastructure draws near, the focus of REI will shift toward implementation in the EPA systems and States. Whereas most FY 1998 tasks were performed by REI teams working independently, the project teams must now work closely together to ensure that their pieces are integrated to support Agency-wide REI goals. The FY 1999 commitments and FY 1998 accomplishments are described briefly below:

- *Data Standards*—The data standards program is on schedule to finalize standards and business rules in Calendar Year 1999, and begin implementation in National and State systems. Currently, two final standards and business rules have been finalized, (date (Y2K), and Standard Industrial Code/North American Industrial Classification System (SIC/NAICS)); and four interim standards have been approved (Facility Identification Initiative (FII), Latitude/Longitude, Biological Taxonomy, and Chemical ID).

- *Electronic Reporting*—The electronic reporting (ER) group will complete Electronic Data Interchange (EDI) standards development in FY 1999 and move toward implementation by resolving core legal policy issues. The ER group will also begin pilot tests of Internet and digital signature technologies and work through specification and pilot tests of Agency electronic reporting infrastructure components.

- *State Partnership*—One Stop continues to award grants to additional States, and is taking a larger role in coordinating State involvement in the development and implementation of various REI commitments. Through FY 1998, a total of 21 One Stop grants have been awarded to participating States. EPA awarded four new One Stop grants in FY 1999 (California, Michigan, Virginia and Nebraska). EPA's goal is to invite all States to join One Stop by FY 2003. The focus in FY 1999 is to provide technical assistance to States and conduct a number of pilot projects in selected One Stop States to "test-implement" aspects of the REI program.

- *Systems Reengineering*—Systems reengineering coordination efforts will shift toward beginning implementation of data standards; providing a forum for systems managers to discuss key issues, such as electronic reporting; and working closely with States to coordinate reengineering/modernization activities.

EPA's New Information Office

In 1998, EPA's Administrator made the decision to fundamentally realign information management and policy at EPA. Based on the advice of senior managers, she elected to establish a new office at the national program manager level, dedicated solely to information management. She commissioned a senior management team to design the structure of the new office, and then established a transition office to carry out the organizational work to establish the new office. The new information office will bring together information policy, information content management, and information technology into one organization with one management point of accountability.

EPA's new information office will be an innovative center of excellence that advances the creation, management, and use of information as a strategic resource to enhance public health and environmental protection. EPA's new information office will support the Agency's mission of protecting public health and the environment by integrating quality environmental information to make it useful for informing decisions, improving information management, documenting performance, and measuring success. The new office will strengthen information partnerships by increasing their extent and effectiveness, including leveraging information technology investments, to meet the needs of our varied information managers and customers. This starts with States and tribes, and extends to other federal, local, international agencies, and private organizations. The new office, working with EPA's many different internal and external stakeholders and partners, will establish and oversee information-related policies and procedures that reflect their concerns. EPA will realign its information technology investments to meet the greatest needs and opportunities and maximize return on investment, adjusted for risk.

Among its goals, the new office will strive to improve the quality of EPA's data and information, provide greater integration of environmental information, and reduce the information collection burden imposed on regulated entities and EPA's partners, the states and tribes. EPA looks to electronic reporting methods as one important approach toward meeting these objectives, and, in general, EPA is striving to learn from information technology best practices identified from other Federal agencies, States, industry, and elsewhere.

In the work to establish the new office, EPA has taken care not to disrupt the ongoing work to assure Y2K compliance and successful operations as we enter the new millennium. EPA also has established a number of early action projects that are receiving increased attention during the transition process to assure their progress is not delayed by the transition to the new office.

The organizational design for the new office is complete, and senior management officials have been designated. In August 1999, EPA intends to complete the selection of management personnel for the new office. In September 1999, EPA plans to finalize staff assignments for the office. EPA expects the new information office to be operational at the beginning of the new fiscal year.

Mr. HORN. We now go to the second witness, the Honorable Olivia A. Golden, Assistant Secretary, Administration for Children and Families, Department of Health and Human Services. We are glad to have you here.

Ms. GOLDEN. Thank you, Mr. Chairman. I am Olivia Golden, Assistant Secretary for Children and Families at HHS, and I want to say how much I appreciate your invitation to speak with you today on the topic of performance budgeting under the Government Performance and Results Act of 1993.

The Administration for Children and Families [ACF] is the lead agency in the Department for programs serving America's children, youth, and families. Our programs are at the heart of the Federal effort to strengthen families and give all children a chance to succeed. ACF is responsible for almost 50 Federal programs, including Temporary Assistance for Needy Families or welfare reform, child support enforcement, Head Start, child care, and child welfare and adoption services.

Our partners in delivering these services are the State, territories, local and tribal governments, other Federal agencies, and the private sector.

We are pleased with the recognition we have received for our work, particularly our consensus building with our partners and our approach to linking performance measures to the budget. There were several critical steps that we took early on to lay the groundwork for implementing the Results Act.

In 1994, shortly after the enactment of the Results Act, the Office of Child Support Enforcement and the Office of Refugee Resettlement became our Results Act pilots. At the same time, we initiated an agency wide process to define the vision, values, and goals of ACF. In 1995, we released our first report card on achieving success for children and families based on the goals we identified.

Over the next 2 years, a number of senior staff members, including myself, taught more than 20 2-day partnership collaboration sessions with our staff, including how to work differently with our partners and how to focus on results. And to encourage cross-organization learning, we asked our early Results Act pilots to present their successes and failures to our whole senior staff.

We have continued to build on these efforts, and our current performance plan includes agreed upon measurable outcomes for all of the ACF programs. These activities occurred in a legislative environment that also has supported a focus on results. For example, the Child Support Performance and Incentive Act of 1998 established a performance-based incentive system that will reward States on the basis of their performance on 5 results measures.

The Adoption and Safe Families Act created the adoption incentive program under which States will receive incentive funds tied to their success in increasing the number of children adopted from the foster care system. This new program is the first in child welfare to tie outcomes to funding, and we look forward to making the first payments later this summer.

GAO has called useful the way ACF's plan displayed goals and related program activities, and has used our budget linkage approach as one example of how to consolidate program activities and relate them to performance goals.

In our fiscal year 2000 performance plan presented to Congress with the fiscal year 2000 President's budget, ACF created a table to crosswalk our four strategic goals and 10 objectives to over 60 program activities and line items. The plan provided a narrative about program context and strategies along with the program's performance measures, goals and targets and information on data sources, validation and verification.

Over the past several years, ACF has experienced increasing demands resulting from newly enacted programs in changing statutory requirements while working in an environment of decreasing staff and tight budgets. Our Results Act plan has been a key tool to help us manage our resources more effectively and focus our financial investments on our goals and priorities.

I believe that we have learned many important lessons from our experiences to date. First the performance measures must include measures of outcomes and results. Process measures provide an important piece of the overall picture, especially where research shows that they are linked to outcomes but they should not standalone.

Second, it is both difficult and critically important to develop outcome measures through consensus with partners.

Third, it is not possible to create in a short period of time a mature set of performance goals and data collection strategies. It takes considerable time to bring partners to the table, develop shared priorities and goals, and address weaknesses in data collection and the shortcomings of the available measures.

Fourth, establishing measurable goals and outcomes leads to opportunities for cross-program collaboration and new program initiatives.

And fifth, performance measurement is one of a number of tools along with research and evaluation that can help us, over time, do a better job of taking results into account in difficult budgetary choices.

In conclusion, ACF is firmly committed to the principles of performance measurement and the utility of the Results Act. We believe that performance measures are most effective when developed through a collaborative process with partners and that investments in data collection, as you have seen several times today are an important element of success. Results measurement can produce information that will inform the budget process and it can motivate Federal, State, local and community partners to work together to improve results for children.

Thank you and I would be pleased to answer any questions.

Mr. HORN. Well, thank you. That was a very helpful statement, especially on the lessons learned. We can all benefit from that.

[The prepared statement of Ms. Golden follows:]

TESTIMONY OF

OLIVIA GOLDEN
ASSISTANT SECRETARY FOR CHILDREN AND FAMILIES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY
UNITED STATES HOUSE OF REPRESENTATIVES

JULY 1, 1999

Mr. Chairman and Members of the Subcommittee, I am Olivia Golden, Assistant Secretary for Children and Families in the Department of Health and Human Services, (HHS). Thank you for inviting me to speak with you today on the topic of performance budgeting under the Government Performance and Results Act of 1993.

Overview of ACF's Mission and Approach

The Administration for Children and Families is the lead agency in the Department for programs serving America's children, youth, and families. Our programs are at the heart of the Federal effort to strengthen families and give all children a decent chance to succeed. Our mission is to lead the nation in improving the economic and social well-being of families, individuals, children, and communities.

ACF is responsible for almost 50 federal programs, including: Temporary Assistance for Needy Families (the new welfare reform block grant), child support enforcement, Head Start, child care, and child welfare and adoption services. Other programs address the needs of Native Americans, refugees, runaway and homeless youth, victims of domestic violence, and individuals with developmental disabilities. Our partners in helping us achieve positive outcomes for these vulnerable populations are the States, territories, local and tribal governments, other federal agencies, and the private sector.

This diversity of programs, target populations, levels of government, and range of partners makes our efforts to establish performance goals and outcome measures extremely challenging. However, when we began changing the way we measure the success of programs, we were also undertaking a major shift in the way we do business with our partners. Our changing role with States and grantees allowed us to re-examine the culture of our agency in ways that accelerated major reforms in many of our programs. In order to focus on results, we simultaneously worked on correcting our performance information, and strengthened our partnerships with States and grantees through the development of agreed-upon goals, measures and targets.

Implementation of GPRA

Let me describe our experience in developing performance measures and linking these measures to our budget and some of the lessons we have learned. We are pleased with the recognition we have received for our work, particularly our consultations and consensus-building with our partners around developing these measures, and our approach to linking performance measures to the budget.

There were several critical steps that we took early on to lay the groundwork for implementing the Government Performance and Results Act (GPRA). In 1994, shortly after the enactment of GPRA, the Office of Child Support Enforcement and the Office of Refugee Resettlement became GPRA pilots. At the same time, we initiated an agency-wide process involving all of our staff in defining the vision, values and goals of the Administration for Children and Families. In 1995, we released our first report card, Achieving Success for Children and Families, based on the

goals we identified. That report card included goals for our major programs, identified data sources, and provided us with initial baselines and trend data that we would later use in talking with our partners at the State and local level about identifying achievable targets.

Over the next two years, a number of senior staff members, including myself, taught more than twenty two-day partnership collaboration sessions in both our central and regional offices. The course included the basics of how to work differently and more collaboratively with our partners, how to focus on results, and how to reach consensus on common achievable targets.

In order to continue to focus on a collaborative approach to achieve common goals, a Performance Measurement work-group was established consisting of 25 staff representing both central and regional offices. Their charge was to create a culture within ACF that focused on results by providing technical assistance, sharing lessons learned across programs, and beginning the work of identifying specific performance measures in certain major programs.

This group hosted a 3-day conference in 1996, which included 100 staff from Central Office, 100 staff from the Regional Offices, and 50 of our partners at the State and local level. I am convinced that these early efforts paid off in an increased ability to collaborate with our partners in our ongoing efforts to identify realistic and achievable performance targets for ACF programs.

We have identified four common crosscutting goals for ACF, which provide the framework for building program objectives, outcome measures, and achievable targets. These goals are:

(1) to increase economic independence and productivity for families;
(2) to improve the healthy development, safety and well-being of children and youth;
(3) to increase the health and prosperity of communities and tribes; and ,
(4) to build a results-oriented organization.

Development of Performance Measures with Partners

I would like to discuss briefly the approaches we used, and are continuing to use, in working with our partners to identify agreed-upon measures and annual targets. We have committed ourselves, wherever possible, to establishing and achieving measurable results that will make a difference in the lives of people and their communities. I am a firm believer that not one size fits all. Each of our programs has different funding mechanisms, unique legislative requirements, various types of partners, and different data collection systems. It was imperative that we create a variety of models for establishing partnership relationships and methods of consultation.

To encourage cross-organization learning, we asked our early GPRA pilots for child support and refugee assistance to present their successes and failures to our senior staff. These presentations served as a valuable learning tool. We also received excellent technical assistance from a variety of sources within the Department of Health and Human Services. We have continued to exchange best practices across programs and to embrace the principles of a learning organization.

These efforts led to the development of our first GPRA performance plan. We have continued to build on those efforts, and our current performance plan includes agreed-upon measurable outcomes for all ACF programs.

These activities occurred in a legislative environment that also has supported a focus on results, in part through enactment of statutory bonus provisions based on performance. For example, the Child Support Performance and Incentive Act of 1998 put in place a performance-based incentive system that will reward States, beginning in FY 2000, on the basis of their performance on five measures: paternity establishment, orders obtained, collection of current support, collection of past due support, and cost effectiveness.

In addition, the Adoption and Safe Families Act (ASFA) created the Adoption Incentive program, under which States will receive incentive funds tied to their success in increasing the number of children adopted from the foster care system. This new program is the first of its kind in child welfare to tie outcomes to funding and we look forward to making the first payments under this program later this summer. The ASFA also directed the Secretary of HHS to consult with governors, State legislatures, and State and local public officials responsible for administering child welfare programs in order to develop a set of outcome measures that can be used to assess the performance of States in operating child protection and child welfare programs.

The TANF statute also contains a high performance bonus provision which rewards States that are most successful in achieving the purposes of the TANF program. ACF worked extensively with representatives of the National Governors' Association, the American Public Human Services Association, and States in developing the measures for high performance bonus awards in FY 1999 and FY 2000. We expect to publish a Notice of Proposed Rulemaking shortly and solicit public comment on the measures to be used in future years. Further, the TANF statute contains a bonus to reward the top five States with the largest decrease in their ratio of nonmarital births to total births, provided that these States also show a decrease in their abortion rate relative to 1995. Final regulations have been published following extensive consultations and the qualifying States are expected to be announced later in the fiscal year.

ACF and Performance Budgeting

In its analysis of the HHS FY 1999 Performance Plan, GAO called "useful" the way ACF's plan displayed goals and related program activities. It also used our budget linkage approach as an example of how to consolidate program activities before relating them to performance goals in its report on "Initial Experiences under the Results Act in Linking Plans with Budgets". This approach enabled us to link budget categories and accounts to the specific activities in a variety of ways.

The ACF budget structure is a program-based account structure that allows us to assign amounts to the agency's strategic goals based on the activities of the program line item. In budget justifications, the narrative discusses which strategic goals each budget line item supports. Where there are performance goals or measures, these are included in the narratives.

In the FY 2000 Performance Plan, presented to Congress with the FY 2000 President's Budget, ACF created a table to link and crosswalk the goals and objectives to over 60 program activities and line items. The plan provided a narrative about program context, strategies, resources, external influences, interagency coordination, tactical approaches, and information collection issues, along with the program's associated performance measures, goals, and targets and information on data sources, validation, and verification.

Over the past several years, ACF has experienced increasing demands resulting from newly enacted programs and changing statutory requirements, while working in an environment of decreasing staff and tight budgetary constraints. Our GPRA plan has been one key tool to help manage our resources more effectively, eliminate conflicting priorities, and focus our financial investments on our goals and priorities. Most recently, in order to assure that we link our financial investments to our critical priorities, I have challenged my leadership team to focus on the priorities within the overall GPRA plan and develop recommendations for the most efficient and effective utilization of the ACF workforce to accomplish these priority results.

Lessons Learned

I believe that we have learned many important lessons from our experiences to date:

- The performance measures must include measures of outcomes and results. Process measures provide an important piece of the overall picture, especially where research shows they are linked to outcomes, but they should not stand alone.
- It is both difficult and critically important to develop outcome measures through consensus with partners. We have found that focussing together on our shared accountability for results is extremely powerful.
- It is not possible to create in a short period of time a mature set of performance goals and data collection strategies for each new or revised program. It usually takes considerable time to bring partners to the table, develop shared priorities and goals, and address weaknesses in data collection and the shortcomings of available measures.
- Measuring outcomes involves some risk and uncertainty for all participants in the process and results often cannot be attributed to a particular budget year.
- The lack of readily available information and the restrictions on data collection inhibit performance measurement. Making new investments in data collection and information systems are a key priority.
- Establishing measurable goals and outcomes often leads to opportunities for cross-program collaboration and new program initiatives.
- By linking our performance measures with our budget categories, we are better able to understand the relationship between budgetary resources and results.
- Performance measurement is one of a number of tools, along with research and evaluation, that can help us over time do a better job of taking results into account in making difficult budgetary choices.

Conclusion

ACF is firmly committed to the principles of performance management and the utility of GPRA. We believe that such a commitment must be agency and program-wide. We also believe that performance measures are most effective when developed through a collaborative process with partners leading to agreed-upon measures and that investments in data collection are an important element of success. Results measurement can produce information that will inform the budget process, especially when combined with other important sources of information, and it can motivate Federal, State, local and community partners to work together to improve results for children.

I hope that my testimony has described both the challenges and the benefits of applying the concept of performance measurement to performance budgeting and other aspects of program management.

Thank you for the opportunity to share our experiences. I will be pleased to answer any questions.

Mr. HORN. Mr. Funches, we are delighted to have you here. You are the Chief Financial Officer for the Nuclear Regulatory Commission, a very important agency.

Mr. FUNCHES. Thank you, Mr. Chairman. On behalf of the Nuclear Regulatory Commission, I welcome the opportunity to testify today on our successes and continued progress toward implementation of the Government Performance and Results Act. My specific focus today will be in the area of performance budgeting.

NRC's progress in implementing the performance budgeting has been recognized by the General Accounting Office as positive and significant.

Let me first note that a major factor in our success has been the strong support exhibited by the Commission for transitioning the agency to a more performance-based organization. Key to reaching this goal was the initiation of the NRC's strategic assessment and rebaselining initiative in 1995. This internal effort provided a solid, reliable foundation on which to develop the NRC's first strategic plan and subsequent performance plan.

We have found that few areas are more crucial to implementing GPRA than the implementation of an integrated planning budgeting, and performance management process. We are implementing such a process. The result has been the establishment of one, a sensible, reliable process for defining goals and establishing strategic direction; two, cost effective strategies for achieving these goals; three, and the ability to determine the resources needed to achieve the goals, and last, the ability to measure and assess our progress and overall performance. A recent contract evaluation of our process found that it is sound, and it has been a catalyst in improving integrated planning and budgeting.

Thus far, we have used this process to produce the NRC's fiscal year 1999 performance plan and fiscal year 2000 performance plan and budget. We are also applying this process in revising our strategic plan.

A key strategy that we have used to transition to a more performance-based agency is to integrate the various components of planning and budgeting.

We agree with GAO's findings that the following three approaches facilitate linking budget requests to anticipated results. First, change the program structure to reflect goal structures. Second, there should be a simple, clear relationship between the program activities and performance goals. Third, the performance plan should be fully integrated with the congressional budget justification.

The NRC's fiscal year 1999 performance plan encompassed two of the three approaches.

First, the NRC substantially changed its program activity structure to be consistent with its planning structures. We identified strategic arenas which comprised our major mission responsibilities. Funding for programs was identified for each strategic arena which corresponded to a specific strategic goal and associated performance goals and measures. This represented our initial steps to transition from an organizational budget which emphasized individual office outputs to a more performance-based budget that emphasizes mission-related outcomes.

With respect to the second approach of establishing a simple relationship between program activities and performance goals, we created such a relationship by linking a single program activity with multiple performance goals. We did not fully integrate performance information with the budget justification in our initial performance plan in fiscal year 1999, but we have for fiscal year 2000 where we combined the performance plan and the budget. This improvement contributed to the integration of planning and budgeting. At the same time, we were able to communicate a more complete picture of what actions the agency was planning to take and the resources needed to get the job done.

During the past 18 months, we have taken additional actions to support our continued conversion to a more performance-based organization.

Improving the use of outcomes and deciding which programs to pursue and subsequently allocate our resources continues to be an agency priority. We are not able to create a direct mathematical relationship to calculate incremental change in outcomes relative to an incremental change in resources. However, we were able to evaluate activities relative contributions to performance outcomes. To date, an application of this concept has been in our Office of Nuclear Reactor Regulation which is responsible for oversight of nuclear reactors.

Proposed and existing work were evaluated in terms of how they leveraged the outcomes. By linking key activities and specific performance goals and then judging the relative contributions to the outcomes, we identified new initiatives that need to be undertaken, determine work that could be eliminated without impacting outcomes, and identify work that should be continued.

We are currently revising our strategic plan. Our goal is to identify performance goals that more directly relate to what the agency wants to achieve and how the agency will be managed. We will identify key strategies for achieving these performance goals, and identify performance measures that demonstrate our progress in achieving each performance goal. The challenge, especially for a regulatory agency like the NRC, is to find the right balance between information related to our own performance and operation, and information on the industry we regulate. Inherent in that challenge is the need to verify and validate, on a sound sampling and auditing basis, information generated by the industry we regulate and by ourselves.

The NRC intends to continue to provide Congress with an integrated budget and performance plan. We are currently examining how best to integrate performance reporting with the performance plan and budget.

In conclusion, we are making progress in performance budgeting. However, we recognize we are not where we need to be. We need to evolve to a point where we are able to clearly articulate that we are doing the right work, and we are doing it right. The transition to a performance-based organization is an iterative process that requires our continued attention to manage toward outcomes.

Thank you for the opportunity to summarize the status of our performance budgeting efforts. This concludes my remarks, and I am pleased to answer any questions you might have.

Mr. HORN. Thank you very much.

[The prepared statement of Mr. Funches follows:]

STATEMENT SUBMITTED

BY THE

UNITED STATES NUCLEAR REGULATORY COMMISSION

TO THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

COMMITTEE ON GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

CONCERNING

PERFORMANCE BUDGETING BY FEDERAL GOVERNMENT AGENCIES

PRESENTED BY

JESSE L. FUNCHES

CHIEF FINANCIAL OFFICER

SUBMITTED: JULY 1, 1999

INTRODUCTION

Mr. Chairman and members of the Subcommittee, on behalf of the Nuclear Regulatory Commission, I welcome the opportunity to testify today on our successes and continued progress towards implementation of the Government Performance and Results Act (GPRA). My specific focus is in the area of performance budgeting. NRC's progress has been recognized by the General Accounting Office (GAO) as positive and significant. I am pleased to provide you with a description of our efforts to date, as well as, address some important challenges for future consideration. Let me first note that a major factor in our success has been the strong support exhibited by the Commission for transitioning the agency to a more performance based organization. Their support has been valuable in moving forward.

The foundation of NRC's effort to implement GPRA is the recent implementation of an integrated planning, budgeting, and performance management (PBPM) process in which "programs follow policy and dollars follow programs". The result has been the establishment of: (1) a sensible, reliable process for defining agency goals and establishing strategic direction; (2) cost effective strategies for achieving those goals; (3) the ability to determine the resources needed to achieve the goals; and (4) the ability to measure and assess our progress and overall performance. (A graphic that depicts the components of the PBPM process is provided at the end of my testimony.) A recent contractor evaluation of the NRC's PBPM process found this process is sound and that it has been the catalyst for improving our integrated planning process, consistent with the intent of GPRA. Thus far, we have applied this process to produce the NRC's FY 1999 Performance Plan and its FY 2000 Performance Plan and budget. We are also applying this approach in revising our Strategic Plan.

FY 1999 and FY 2000 Budget and Performance Plan

A key strategy that we have used to transition to a more performance based agency is to integrate the various components of planning and budgeting. The recently issued GAO report (GAO/AIMD/GGD-99-67) on performance budgeting recognized our progress in FY 1999 in linking our allocated funding to our strategic goals. We also agree with GAO's findings that the following three approaches facilitate linking budget requests to anticipated results: (1) change program structures to reflect goal structures; (2) show simple, clear relationships between program activities and performance goals; and (3) fully integrate performance plans into Congressional budget justifications.

The FY 1999 performance plan, the first NRC performance plan, encompassed two of the three approaches. First, the NRC substantially changed its program activity structures to be consistent with its planning structures. During development of our strategic plan, we identified strategic arenas which comprised our major mission responsibilities. Funding for programs was identified for each strategic arena which corresponded to a specific strategic goal and associated performance measures. This represented our initial steps to transition from an organizational budget that emphasizes individual office outputs to a more performance based budget that emphasizes agency-wide programs and integration of office activities that support specific mission accomplishments.

With respect to the second approach of establishing a simple relationship between program activities and performance goals, we created a relationship by linking a single program activity with multiple performance goals. Using the "one-to-many" approach, NRC linked all of its program activities to its strategic goals.

We did not fully integrate performance information with the budget justification in NRC's FY 1999 performance plan, but we have for FY 2000 where we combined the performance plan and the budget. This improvement contributed to the integration of planning and budgeting functions within the NRC. At the same time, this communicated a more complete picture to our stakeholders of what actions the agency was planning to take and the resources needed to get the job done. Consistent with GAO's observations on the FY 2000 Performance Plan, NRC had improved its discussion of its strategies and resources to achieve its goals, and agency programs were aligned with specific strategies to achieve specific strategic goals and associated performance measures. However, we did not establish the relationship of agency programs and activities to performance goals in the plan. We are improving this area as part of the FY 2001 budget and performance plan.

While it is clear the NRC is moving in the right direction, we recognize that we are not yet where we need to be. We need to evolve into an organization that establishes the optimum mix of efficiencies and effectiveness by being able to clearly articulate that we are doing the right work and we are doing it right. I will now discuss some of the more significant undertakings during the past year, since completing our integrated FY 2000 budget and performance plan.

FY 2001 Budget and Performance Plan

During the past 18 months, the NRC has taken additional actions to support our continued conversion to a more performance-based organization. We used a contractor to help us focus on the planning and budget components of the PBPM process. The results are being included in the FY 2001 Budget and Performance Plan to be submitted to Congress early next year.

Improving the use of outcomes in deciding which programs to pursue and subsequently in allocating resources has been an agency priority. While we are not able to create a direct mathematical relationship to calculate the change in outcomes relative to an incremental change in resources, we were able to rank activities relative to their contributions to performance outcomes. To date, an application of this process has been in our Office of Nuclear Reactor Regulation, which is responsible for oversight of nuclear reactors. Implementation of this process included identifying desired outcomes. The degree of change associated with the desired outcomes was established to facilitate a clearer understanding of how much work is required to meet desired outcomes. Proposed and existing work were evaluated in terms of how they leveraged the outcomes. This enabled identification of the activities and initiatives with the highest positive impact on desired outcomes, leading to a better understanding of contributions to outcome goals. By linking key activities and specific performance goals and then judging the relative contributions to the outcomes of various activities, our budget process included substantive discussions about outcomes, and how activities could be used to leverage those outcomes necessary to achieve our performance goals. We used this approach to identify new initiatives, determine work that could be eliminated without impacting outcomes, and identify work that should be continued because of its contribution to outcomes.

We are currently revising our strategic plan. Our goal is to revise the strategic plan by identifying performance goals that more directly relate to what the agency wants to achieve and how the agency will be managed, identifying key strategies for achieving each performance goal, and identifying performance measures that demonstrate our progress in achieving each performance goal. The challenge, especially for a regulatory agency like the NRC, is to find the right balance between information related to our own performance and operations, and

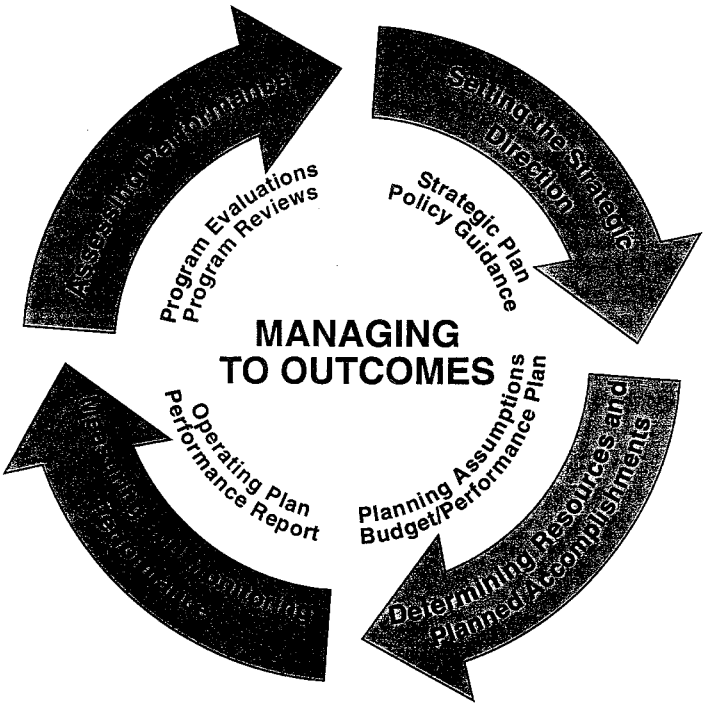
information on the industry we regulate that will ultimately guide management decisions for needed changes and adjustments. Inherent in that challenge is the need to verify and validate, on a sound sampling and auditing basis, information generated by the industry we regulate and by ourselves to make sure that we are collecting accurate and complete information.

The NRC intends to continue to provide Congress with an integrated budget and performance plan. We will continue to use the concepts associated with performance budgeting to help make informed choices. GPRA requires that the FY 1999 Performance Report be submitted to Congress 6 months after the end of the fiscal year. The Office of Management and Budget's initial draft guidance allows the agencies to choose from several reporting options: a stand alone report; combining the report with the Accountability Report; combining the report with the Performance Plan; or combining the report with the Congressional budget request. We are currently reviewing these options to determine how best to integrate performance reporting with performance planning and budgeting.

CONCLUSION

In conclusion, we are making progress in performance budgeting and have experienced some valuable lessons. The transition to a performance based organization is an iterative process that requires our continued attention to managing towards outcomes. This transition will continue during the next 3-5 years. We look forward to working with the Congress including this Subcommittee, the Office of Management and Budget, and the General Accounting Office, in the year ahead. Thank you for the opportunity to summarize the status of our performance budgeting efforts. I would be happy to answer your questions at this time.

NRC'S PLANNING, BUDGETING, AND PERFORMANCE MANAGEMENT PROCESS



Mr. HORN. All three of you have given us helpful statements. Does that mean all three of you want to be a model? You are part way there it seems to me in really grappling with some of these problems.

While you are thinking on that, I am going to yield time to my ranking member, and we are delighted to have him here. He takes a great interest in these projects, and Mr. Turner of Texas for questioning the panel.

Mr. TURNER. Thank you, Mr. Chairman. I am a strong supporter of performance budgeting because we embarked on that in Texas when I was a member of the legislature there some years ago, and I think it has proven to be very helpful. It is a very difficult system to implement and sometimes the relationships between funding and performance and outcomes are difficult to refine and make meaningful, but one of the things that I would like to inquire of each of you because obviously, even though I didn't see any of you raise your hands on volunteering to be a pilot, it does seem that you have taken the matter seriously.

I would just like to know a little about your own experiences with your own staff about the attitudes that exist in your agency toward performance budgeting. Is it viewed as a pain that somehow you have to go through the paperwork and show all of this on paper so it looks good or is there—is there some significant commitment and significant belief in the validity of performance budgeting? Any of you can begin. Ms. Harper.

Ms. HARPER. Congressman Turner, I would be delighted to start. EPA has never treated performance budgeting as a paper exercise. We had initiated our move toward performance budgeting as a result of a very critical study by NAPA on how we set priorities to get environmental results. The Administrator, Carol Browner, took that study very seriously and established a senior leadership team of her top career officials of the agency to respond to this and assess how we were going to change.

The net result of it was that we went through a major reorganization. We formed a new Office of the Chief Financial Officer. We put planning with it as well as budgeting, accountability financial management and services, and an analysis function to focus solely on bringing up performance budgeting in the agency. This is our first full year of implementation with our 1999 budget. In actuality, the Deputy Administrator just finished meeting in May with each of our goal leaders each of the goals that we have got to assess their progress against both their annual performance goals and measures as well as their long-term. How are we doing against the long-term strategic plan? Where are our data gaps? Where are our performance gaps? How does this reflect in terms of what we have budgeted, and where we are going?

So I believe that at EPA there is top political support for this, and the career leadership has endorsed this fully and take it quite seriously.

Ms. GOLDEN. Congressman Turner, what I am very excited about, at the Administration for Children and Families, is that not only have ACF staff invested in performance and end results but also our partners in State and local government have made these investments. And I think the reason is that a focus on results has

contributed today to results for children which is the reason people are in the business. The example I wanted to give you is an example where we had a pilot in the area of child support for our work on child support enforcement and paternity establishment and work with fathers.

We are very proud of the overall result that 1.5 million paternities were established in 1998. It has tripled the number in 1992, and it is well above our GPRA target for 1999. That happened because when you get a very vivid focus on a result, people really do buy into it and think about it.

What happened with us, I think, initially was the early anxiety among our staff about how our State and local partners would react to measurements. I am sure you can imagine, people were worried if they talked to Texas and said, we are going to need you to reach this number and it is going to be pretty public and pretty vivid. There was lots of worry about how that would play out. We focused both on our staff and our partners from the beginning. What we found is that you really have to, in our kind of work—where everything depends on local and State governments—focus on both those things; and then you can get very strong buy in.

Now, I think the next step which may be a topic we want to come back to is that we have buy in. We have data that is improving year by year, but we also have lots of data gaps we need to continue to fill for the future, and I think that maintaining buy in requires that you keep working on credible data so people don't get worried that they will get measured for the wrong things. They have to feel good that they will be measured for the right things.

Mr. FUNCHES. At NRC, I would say it is definitely not an effort to produce a report or produce a plan that is not being used. From the beginning, we had strong support by our commission which is the head of our agency. They had a very strong interest in it with the idea that it would improve management. It would improve the allocation of resources within the agency. We have an executive council comprised of the executive director for operations who is responsible for all programs, the chief information officer, and myself; and we all participated very heavily in the establishment of the goals. And we meet often to talk about where we are in implementing our plan and measurement process.

We have now moved to the next level and one of the largest offices have implemented and have become very excited about it. They see that it is a way of making decisions, bringing rationale to the decisions by looking at the outcomes they want to achieve. We are transitioning this to the different levels of staff by using different planning techniques.

One of the items that we will have is an operating plan which will be at a lower level than our performance plan which is at the agencywide level. But again, we will focus on the outcomes.

So, I think, we have a lot of excitement within the agency, and a lot of interest in doing it. And, in fact, while recognizing that GPRA was there, we would have started something very similar to this independent of the GPRA.

Mr. TURNER. It takes not only a commitment at each agency for it to be meaningful, but the people on the other end at OMB that are putting together the President's budget, the appropriators, and

the Congress, I think they have to have a clear understanding of performance budgeting and its limitations. Sometimes things reflect inaccurately on what is really happening, and we have to understand that.

But I guess I would like to ask each of you has your experience in performance budgeting thus far seemed to have impacted either the OMB in drawing up the President's budget or have you seen it impact the appropriators and Congress to really ultimately make this successful those who are deciding how the money is allocated and spent in the Congress and the office of the President, those people have to use this data. And I would like to ask you if you have seen any tangible examples of an appropriation decision having been based upon some of the performance-based indicators that you have generated?

Ms. HARPER. Congressman Turner, for EPA we have found that at least our budget examiners have not been shy about engaging in the Results Act discussions during the budget preparation period.

As you may know, internally there are a number of hearings that take place as we prepare for a budget submission, and each of our program managers participates with OMB and a panel of OMB examiners during each of those hearings. During each of those hearings there was extensive discussion. What are the performance results? What does this mean in terms of what you are proposing to us? How does this differ from last year? And how does it track? It is difficult to trace how that will impact decisions sometimes. We know that it is raised. We know that OMB is focused on it when we get inquiries back, but it is hard right now so early in the process to understand how that translates into final budgetary decisions. It is difficult.

The appropriation committee staff that we deal with on VA–HUD are extremely knowledgeable about the agency. They have worked the agency budget for many, many years. The transition to the new budget structure, which is aligned with our goals and objectives, as well as our new finance and accounting process that was match our Results Act structure, is difficult for them because they are worried about losing the tracking capability built over time.

They know our programs extremely well, and in the new architecture they want to make sure that they have not lost pieces of program information. To facilitate the transition, we have provided crosswalks back to the old budget structures that we have had and engaged in extensive discussions. That said, in our report language consistently over the last 2 years, on both the House and the Senate side from the Appropriation Subcommittees, there have been extensive notes on our GPRA implementation. The subcommittee requested information or what was going well and what was not and areas that we needed to focus on. So it is certainly taken very seriously. It hasn't been a flawless presentation on the agency's part to the subcommittee in terms of being able to walk them through the changes in the structure.

Ms. GOLDEN. I agree completely that it is very important that both within the administration and the Congress, the results information gets taken seriously, and we are part way there. There are a couple of examples in my testimony where we are very pleased

that as a result of bipartisan work between the administration and the Congress, in the area of adoption and in the area of child support, we have been able to work out incentive strategies where dollars go to States in a way that is driven by results. We are well on our way to our goal of doubling the number of adoptions from the child welfare system by fiscal year 2002. And incentive legislation is not the only reason, there are other reasons for focusing on results besides the budget, there is the issue of leadership and technical assistance.

Another example would be in the Head Start program where we have made major investments in research and data collections so that we can do both what we want to do and what the Results Act requires—which is really to look at a sample of programs and talk about the results for children. I do think that the fact that we are doing that and are serious about it, helped us last year in achieving the full amount of the President's request for Head Start, and I certainly hope it will this year as well. We obviously don't know the answer yet.

Mr. FUNCHES. I would say definitely that the appropriating committees are very aware of outcome-based budgeting that we are looking at. We do have discussion with them about the outcomes. Likewise with our OMB analysts, there are questions about outcomes. I can give you a couple of examples that may help illustrate the types of discussions that we are having.

Nuclear power reactors are licensed for 40 years. One of the issues that is very important for the nuclear industry and for the country is the renewal of those licenses. During the past year, there has been a lot of discussion about what outcome do we want and how do we know if we are successful. Ultimately we came to the conclusion that one of the keys was the time that it would take to renew such a license. We interacted with the appropriators, et cetera. We came up with a time, and I think, that this definitely supported getting adequate resources to meet those time lines in terms of the outcome goal of having a review completed. So far, I am pleased to say that we are meeting the outcome goal that we have set.

During the past year we have also made the effort to reform our regulatory processes, in order to address concerns which have been expressed. We worked with the Congress in trying to determine the outcomes that we want as a result of this. We now provide Congress with a report that talks about the outcomes. It is very consistent. They have been looking at it, and I am sure that we it will be an input to their decision on the appropriation bill this year.

Mr. TURNER. Well, I am impressed to see that there seems to be a sensitivity not only within the agencies but on the part of OMB and the appropriators and the staff of the appropriators to trying to make it work.

I am one who—through our experience in Texas, I came to understand that it is really—over a period of years of applying it, have seen that it becomes meaningful. In fact, in the earlier stages, it can be very misleading. And there are always going to be decisions made that won't solely be based upon performance measures. But over time, as you refine the data collection and the methodol-

ogy, then you begin to get comparisons 1 year to the next to the next, and then I think it becomes a very useful tool.

So I am pleased to see all of you have embraced it, and I think positive attitude about it is essential to being sure that it actually ends up working. Thank you, Mr. Chairman.

Mr. HORN. Well, you are quite welcome. That is a very good exchange. Some of these questions might be duplicative of Mr. Turner, but just for the record, do you feel it is necessary to have a second comment period with OMB before establishing the pilot programs? All three of you seem to be pretty far advanced in terms of looking at the performance in relationship to the budget? What is your feeling on this?

Ms. HARPER. Mr. Chairman, I think that it is necessary to have a second comment period with OMB. One of the dilemmas that we face, I would say probably all three of us, is that we have taken our lead and gone on, and I would say that there might be some concern about whether diverting attention to one portion of the agency's implementation in terms of setting up a pilot might detract from the critical mass we need to keep the whole of it moving. At least for EPA, it is the entire agency that is moving forward with performance budgeting.

We have under taken it across the entire agency already. And the pilots call for components of an ongoing to look at the different levels of budget and the expected results, which, I think, is actually a very valuable exercise; but since we chose to go with the whole restructuring, I wonder if that might not be the best way for us right now. Budget restructuring is a massive undertaking. It is a very big change for our programs, for our State partners and for us on the fiscal side.

Mr. HORN. Well, I can understand that. We had that in the university when we were way ahead of everybody else, pretty soon they had a system that said, hey, everybody else has to do it; but we didn't want to do some little piece of it when you are already doing the whole works, so I can appreciate your situation.

Ms. Golden.

Ms. GOLDEN. I think the biggest issue for us is that we have made this process that we are enormously proud of. I told you about some of the results that we have forward in child support, adoption, and some of the other areas, but for us there are big next steps in terms of data collection, verification, data investments, and also working with our partners as we go through each step. Just to take the example of child support where I told you about the progress on paternities and 80 percent increase of collections, we are very proud of those; but as we move into the next step which is implementation of the bipartisan legislation, I mentioned where the incentives are going to go to States, we are having to work with States, very closely on their data systems. And some of the interpretations of performance budgeting I don't think any of us would want to be in a situation where we were telling Texas or California that they didn't get dollars because their data just was not up to speed. We would much rather be developing information systems and data collection systems for the States and local governments to provide us with information. And so we need to make sure that

that comes along as we make each step, and I think that is the big lesson that we have learned.

Mr. HORN. That is very good. Now, were you in Massachusetts when the Debt Collection Improvement Act went on the books, the Federal one at all?

Ms. GOLDEN. I believe I was here. What year was that?

Mr. HORN. This would have been 1996.

Ms. GOLDEN. No, I was in Washington.

Mr. HORN. I just wondered because Commissioner Adams happened to phone me up the day it took effect. He said you made my day. I said, What do you mean?

He said I am going to be able to collect a lot of money with that act.

Ms. GOLDEN. That is correct.

Mr. HORN. And that was an act that Mrs. Maloney and I put in the omnibus bill that year, and it was really drafted by many of the Chief Financial Officers in the Federal Government. So I was just curious how you thought that was working because he felt that he could bring millions home of deadbeat dads' payments.

Ms. GOLDEN. I know that this is not the subject of the hearing so I won't take too long, but I do think, the numbers on collections for 1998 are $14.4 billion which is an 80 percent increase over 1992. I think that it has happened for many reasons. It has happened because of a bipartisan commitment that involved investment in computer systems. It has happened because I think the part that is tied to the Results Act has been really important in focusing our efforts on outcomes. And then I also believe—that is partly why I mentioned the paternity establishment result here—that part of what we need to do is ensure that fathers are connected to their children and to their families.

Part of this is about making sure that both parents are part of the child's upbringing, and I think that the extraordinary increases in father's voluntarily acknowledging paternity early, which people thought couldn't be done, are a really important part of what we have accomplished. So I do want to say thank you to the Members of Congress from both parties who have really had a sustained commitment to that set of issues.

Mr. HORN. The Debt Collection Act of 1996 does permit the agency to put some of the money back in for better computing things. I don't know if you have taken advantage of that within HHS or not. Right now I don't have in my mind where they had debts.

As I understand it, when the agency discussions occurred with OMB in September 1998, three specific approaches to performance budgeting were suggested from what the GAO informs us. What approach, if any, do you prefer? Do you have any thoughts, Ms. Harper, on that? Were you in that meeting?

Ms. HARPER. Actually, Mr. Chairman, I don't have any thoughts on that. I don't recall which of the three approaches EPA supported or spoke to.

Mr. HORN. How about you, Secretary Golden?

Ms. GOLDEN. I think we have been focusing most on that first step that GAO described which is making sure that you can really see what results you get for the dollars; we have been focusing beyond that not only on how the Results Act plays out on the budget

side but how it plays out on the management and the leadership side. So I think we have been focusing across those areas rather than looking into those particular three approaches.

Mr. HORN. Mr. Funches.

Mr. FUNCHES. We have been doing the same thing. What we have focused on is trying to look at how we can evaluate our activities in terms of leveraging against the outcomes as opposed to trying to figure out the incremental pieces. I think we have come up with some methods to do that. I was not in the meeting with OMB and GAO when they looked at the different approaches, but we have focused on trying to look at how we can examine the relative merits of the different activities as measured against the outcome, recognizing some of the activities that we do will support more than one outcome.

Mr. HORN. Did you have a chance to look at figure 1 of the GAO testimony.

Mr. FUNCHES. Yes, I did.

Mr. HORN. Is that fairly accurate as to what you would like to do?

Mr. FUNCHES. You are absolutely correct, the top goal that we talk about is a very long-term goal that you measure over time.

What we did was to create what we call some intermediate goals. In the second level goal, we are trying to say we can't wait until there is a death or an accident. What we want to do is look at intermediate measures which give us an indication that something might happen.

The second tier goal, which looks at the increases or changes in probability of an accident, is what we created to give us an indication on a yearly basis whether we were on a trend in the wrong direction. But you are absolutely right, many of the outcomes that we have cannot be measured immediately. They are long-term outcomes, and what we try to do is create something that will give us an indication that things were going in the wrong direction.

Mr. HORN. I see we are about to have a vote. I think we have 5 more minutes. I have a few more questions.

I would be curious as to your plans succeeding in aligning programs and activities and strategic goals and objectives and that is very impressive. How does this affect the day-to-day management of the agency? Is this just an exercise for Chief Financial Officers and Assistant Secretaries or do your colleagues—we will do it the same way that we have been doing it for 20 years?

Ms. HARPER. I think that the introduction of cost accounting, Mr. Chairman, has very much helped to bolster the fact that this is a paper exercise, because we aligned our budget structure under our Results Act structure, of goals and objectives. That is how we are budgeting. It is also how we are doing our accounting. Cost accounting means that we are collecting our costs against the goals and objective also, so on a real time basis we have an understanding, and the program managers do as well, of what they are spending against the new Results Act structure.

As I mentioned to Congressman Turner, the deputy administrator just finished meeting with each of the program managers as part of a midyear review on where they were in their performance against their annual and longterm performance goals and their

measures, and so it is something that we are deeply engaged in as a management process within the agency and with our State partners. We have included in our annual performance goals and measures core performance measures that were negotiated with our State partners, and we also monitor them.

Mr. HORN. Go ahead.

Ms. GOLDEN. To me, the focus on results is central and the reason it is important is not because of paper, it is because that is the way you leverage change for children and families. It is especially important to us because our world is so complicated. That is for our dollars to lead to a change in a child's life, it passes through a State agency, perhaps a nonprofit, and so being focused and clear about results is a way of making that happen. And that is the reason that you said earlier something about the secretaries are traveling on planes and their deputies need to focus.

I actually try to talk about results in my travels when I talk to people, as well as here because I do think that the reason we have accomplished those results in child support, Head Start, the doubling of adoptions is because of being able to crystallize some clear results indicators and I think that the challenges, as I was saying to Congressman Turner, is for our partners and for our staff, once you raise the stakes, once you make it really important, the quality of the data and the measurement becomes especially important so we have to keep improving that.

And the one thing that I wanted to tell you because I know you have highlighted Oregon which has, in fact, done many impressive things, is that we are very proud that the measurement strategy we developed for Head Start—the sample of programs, and the assessment both of programs and of children. They have been looking for a good way to look at outcomes in early childhood, and we expect that they will be adopting what we have developed and so we are very pleased to have that working relationship.

Mr. FUNCHES. I think it is very important for us to move forward on what we use internally. And I am pleased to say that our program managers are very excited about it, and they are using it. So our vision is that it become part of our day to day management approach.

Mr. HORN. The General Accounting Office discussed the performance to the performance budgeting of agency compliance with cost accounting standards as set forth in the FASAB, otherwise known as the Federal Accounting Standards Appeals Board. Can you comment on this assertion and tell us where you think your agency is with regard to accommodating and complying with the Federal Accounting Standards Appeals Board?

Ms. HARPER. Mr. Chairman, EPA initiated cost accounting this year, at the start of fiscal year 1999. We are also doing our cost accounting in accordance with our Results Act structure that is aligned with our budget structure and our accounting structure. It has been difficult. We have not had difficulty in terms of the mechanics of it because we were able to handle that, but having the agency understand that this is how they need to accommodate their costs has taken a lot of time and effort. I am pleased to report that we seem to be making good progress. I am anxious to see how

we fare at the end of the year. We are close. Three quarters of the year is done. And we seem to be on track.

Mr. HORN. How about you?

Mr. FUNCHES. We are not where we would like to be. We are able to get some costs. We are putting in a new labor cost distribution system, including a cost accounting system. We expect the labor cost distribution system to be up in the February timeframe. We are not where we would like to be. It is very important and a key element. We will get another piece of the performance report and marriage of outcomes and costs. But it is an important thing that we are focusing on.

Mr. HORN. One quick question for the two Chief Financial Officers. Are you part of the chief administrator of your agency's cabinet when she calls people together?

Mr. FUNCHES. Yes, sir. As I mentioned before, we have an executive council at the Nuclear Regulatory Commission?

Mr. HORN. So the answer is yes?

Ms. HARPER. Yes.

Mr. HORN. There will be some questions on both sides. Because of the vote we don't have the time to ask any more questions and you have all given excellent testimony. We appreciate that.

I want to thank the following people that are related to this hearing. I don't see our staff director, Russell George, and chief counsel. On my immediate left, your right, is Matthew Ebert, policy adviser for a good part of this panel and Jane Cobb was involved with that for the full committee, and Mr. John Phillips, an intern worked very hard on this, Bonnie Heald, our director of communications, Grant Newman, our clerk, Justin Schlueter, another intern, and Lauren Leften, intern. You can see we use a lot of free labor from colleges during the summer months.

And Faith Weiss who is not an intern, minority counsel, and we will be sorry to see her leave. And staff assistant for the minority is Jean Gosa and the court reporters are Randy Sandefer and Doreen Dotzler, and with that we thank all of you and we are adjourned.

[Whereupon, at 4:15 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Jim Turner follows:]

OPENING STATEMENT OF THE HONORABLE JIM TURNER
GMIT HEARING ON PERFORMANCE BUDGETING
JULY 1, 1999

I would like to thank the Chairman for holding this important hearing on performance budgeting. The witnesses assembled today should help us understand how performance budgeting is being used in the federal government, and how it can be improved.

Implementing the requirements of the Government Performance and Results Act (GPRA) requires sustained and concerted efforts by federal agencies. Federal employees are being asked to devise meaningful performance measurements and goals for their activities and to assure that these measures and goals are achieved. The GPRA requires new levels of communication and coordination within agencies and across agencies in the federal government. It demands creative dialogue between Members of Congress, their staff, and federal agencies.

But this is a necessary task. When fully implemented by federal agencies, GPRA will provide the opportunity for the American people to review the annual goals of federal agencies and how well they are achieving those goals.

Possibly the most important part of GPRA is the requirement that agencies link their performance goals with the funding anticipated to achieve those goals. This linkage is called "performance budgeting" and is the subject of our hearing today. Performance budgeting demonstrates how much it costs to achieve certain performance levels. We want our government to be run as efficiently and

effectively as possible. Performance budgeting can help.

Agencies are beginning to provide information each year as part of their annual performance plans showing how their program activities link to their performance goals and measures and their budgetary accounts. In this way, the public and Congress will be able to easily see how much it costs to achieve each goal; and how well the agencies are achieving those goals.

The Texas government has produced performance budgeting information for years. This information was useful to the state legislature and the public.

It is disappointing to see that federal agencies are not exploring more sophisticated performance budgeting -- as would have been required under the performance budgeting pilots -- but it is fairly early in the GPRA implementation process. I am glad to see that some federal agencies are on the road to being able to produce solid performance budgeting information.

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