SECTION 225—"GETTING TO GREEN": THE PRESIDENT'S MANAGEMENT AGENDA INITIATIVE ON INTEGRATING BUDGET AND PERFORMANCE

Index for Section 225

225.1 The President's Management Agenda and the budget performance integration initiative.

Five major government-wide initiatives comprise the President's Management Agenda: Strategic Management of Human Capital; Competitive Sourcing; Improved Financial Performance; Expanded E-Government; and Budget and Performance integration. For each of these initiatives, OMB prepares a scorecard consisting of "green, yellow, and red lights" reflecting agency status and progress in meeting the standards for success for an individual initiative. In shorthand terms, the standards for success are collectively known as "Getting to Green".

The scorecard is included in the President's budget for all Cabinet departments and over ten independent agencies.

225.2 The standards for getting to green on budget performance integration.

Exhibit 225 describes the indicators that OMB will use in assessing agency status and progress in "Getting to Green" for the budget performance integration initiative. As the exhibit notes, these criteria and the approach used in getting to green may change with time.

INTEGRATING BUDGETING AND PERFORMANCE

Getting to Green

Introduction

The President identified five core strategic management initiatives to be implemented by agencies in the Executive Branch, collectively called the President's Management Agenda. The FY 2003 Budget provided a status report for all agencies using a reporting mechanism of red, yellow and green lights. Annually, in December, the Office of Management and Budget will assess the progress and status of agency efforts to meet the President's expectations for these initiatives. This paper focuses on how to achieve a green light on the budget and performance integration initiative part of the President's Management Agenda.

In 2001, OMB issued five criteria for determining whether the status of an agency regarding budget and performance integration was red, yellow, or green. To achieve a green rating, an agency would have to achieve each of the following.

A <u>Collaboration</u>: Integrated planning/evaluation and budget staff work with program managers to create an integrated plan/budget and to monitor and evaluate its implementation.

B. <u>Goals, objectives, and targets</u>: Streamlined, clear, integrated agency plan/budget sets forth outcome goals, output targets, and resources requested in the context of past results.

C. <u>Alignment</u>: Budget accounts, staff, and specifically program/activities are aligned to support achieving program targets.

D. <u>Full cost:</u> Full budgetary cost is charged to mission accounts and activities. Costs of outputs and programs is integrated with performance in budget requests and execution.

E. <u>Validation</u>: Agency has documented program effectiveness. Analyses show how program outputs and policies affect desired outcomes. Agency systematically applies performance to budget and can demonstrate how program results inform budget decisions.

An absolute given is full compliance with the performance measurement expectations of the Government Performance and Results Act (GPRA). Without measurable, outcome oriented goals supported by data driven indicators, it will be impossible to achieve complete integration of the budgeting and performance processes. Further, these goals must be consistent with the objectives of the authorizing statutes and Administration policy agenda.

This guidance identifies 16 concrete indicators to determine whether departments or agencies (hereafter department) have achieved a green light. This is not the only approach. However, if a department meets the conditions set out below, it will comply with the status expectations of OMB's green criteria. Other approaches should be vetted with the appropriate OMB branch to ensure a favorable result. To receive a status green, a department must clearly be able to prove attainment of the indicators. A yellow would be based on a defined path (plan) and demonstrated progress to complete the indicators described in this document with specific milestones. We recommend that other agreed-to approaches be documented in a Memorandum of Understanding between the department and the appropriate OMB branch.

It should be recognized that attainment of the sixteen concrete indicators is not a definitive end-point in this effort. While this approach may be effective today, the bar for (and the benefits of) integrating budget and performance will continue to rise and there are many inherent benefits of continuous improvement.

A. Collaboration

The first step emphasizes increased collaboration among planning/evaluation staff, budget staff, and program managers. This may involve organizational changes, but it should not be taken as a mandate to put planning/evaluation staff, budget staff, and program managers in the same organizational box. To facilitate coordination, a department should develop joint practices, communications processes, and sharing of common data between planning/evaluation staff, budget staff, and program managers. It is particularly important that program managers have access to the same data as budget and planning/evaluation staff.

Achieving organization integration can be accomplished through training courses, rotating staff, and other means. For departments that have semi-autonomous organizations, such as the Departments of the Interior and Transportation, these collaborative changes can present a challenge, as some components may be more eager to implement change than others. These departments should consult with OMB to develop a strategy to improve collaboration on a department-wide level and should reach an understanding with OMB on what level of achievement constitutes success for this indicator.

Internal Revenue Service Approach to Organizational Collaboration

An example of an agency working to improve collaboration within its budget process is the Internal Revenue Service (IRS). The IRS' Chief Financial Officer (CFO) proposed a reorganization study designed to enhance communication within the CFO organization (for instance between budget staff, planning/evaluation staff, and accounting staff) and between the CFO organization and program managers throughout the IRS. The reorganization requires planning, evaluation, and budget staff to work collaboratively on teams to meet the needs of program managers. The reorganization also envisions a communications officer in the CFO organization that would be able to discover and address communication difficulties within the CFO organization.

Concrete Indicators for Collaboration:

1. The department is implementing an organizational plan for communication and integration of processes across key staff components. The plan should address a long-term strategy for organizing staff to support integration, and how the department is achieving integration in terms of processes and

communication. Implementation of this plan is assigned to a senior policy executive, such as the Chief Operating Officer or the Chief Financial Officer, and success of implementation is documented.

2. The department conducts an annual planning meeting before developing the budget request to ensure that past results and future performance goals influence budget formulation decisions. During this planning session: (1) the overall goals of the department are reiterated and outcome and output targets are discussed for each budget year; (2) the department identifies the program actions (including fiscal year milestones) to achieve goals; and, (3) the funding necessary to achieve the short-term goals and make progress toward achieving the longer-term goals is determined. Documentation of the impact of this planning meeting on departmental resource allocations and performance related actions is prepared, e.g., there is a list of resource allocation actions taken based on performance information.

B. Objectives, Goals, and Targets

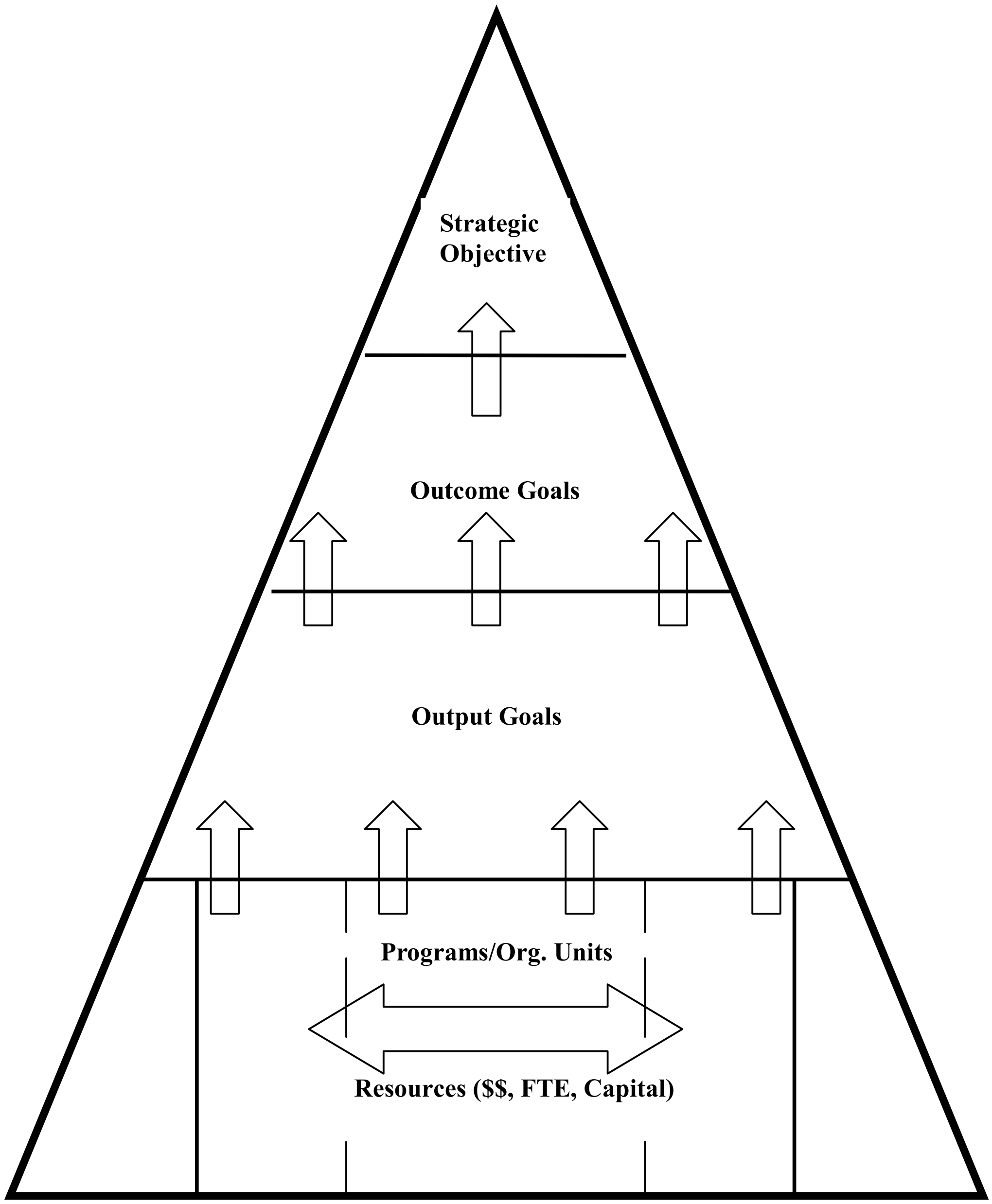
A performance-based budget must be built on a strategic plan that identifies broad strategic objectives and long-term outcome goals. These strategic objectives should reflect the basic mission of the department and should be broad enough to remain relatively constant even as a department's portfolio of programs changes.

Outcome goal(s) should be linked to output target(s) and defined in a manner that support strategic objectives and the department's mission. An outcome goal should help determine success in carrying out the mission and achieving the objectives. An output goal should measure what the program directly produces. Resources and organizational effort should be linked directly to outputs, and the resources and outputs being summed to outcomes.

Evaluations can also examine how organizational efforts and management actions contributed to outcome and output achievement. The department's strategic plan, annual GPRA performance plan, and GPRA performance report document the use of evaluations as a key element in a department's performance measurement system.

Connecting Strategic Objectives, Outcome and Output Goals: A Fully Integrated Goal Structure

The pyramid below illustrates the relationship between strategic, outcome, and output goals. Each strategic goal has at least one related outcome goal which has at least one (and usually many) related output goals, for instance one of the Department of Transportation's strategic goals is safety, its outcome goal is to reduce commercial aviation accidents by 80 percent by 2007 and output goal is to complete implementation of technology to avoid runway incursions.


Strategic
Objective
Outcome Goals
Output Goals
Programs/Org. Units
Resources ($$, FTE, Capital)

With a solid performance structure in place, a department can begin work on integrating this performance structure into its budget, tying resources requested to output targets and tying output targets to outcome goals. A performance-based budget should provide executive and legislative branch decision makers with the cost of improved performance, allowing them to make resource allocation choices on a government-wide level.

Concrete Indicators for Objectives, Goals, and Targets:

1. The department has documented that the outcome goals are acceptable to the Secretary, OMB, and Congress.

2. The department has collaborated with OMB to identify measures that permit comparison of departmental performance with similar measures (Federal and non-Federal) as part of the department budget request.

3. A regular CFO Report is produced (monthly, if possible, or quarterly, at least) that tracks progress toward performance goals during program implementation and budget execution and links each outcome goal with output goals (see box above and attached example of FAA CFO Report). This report should be discussed regularly with top management of the department (see discussion below under E).

4. Departments document the utilization of individual performance agreements with program managers to hold them accountable for achieving agreed upon performance goals.

C. Alignment

To achieve a green, a department budget must reflect the connection between the department's overall goals and the specific budget request. In addition, the budget request needs to specify what will be gained from funding a program or project specifically in terms of output measures.

Aligning Budget Costs to Goals: HUD's Evolutionary Strategy

The Department of Housing and Urban Development (HUD) is an example of a department that has made yearly progress towards a performance-based budget. In its FY 2000 Annual Performance Plan, HUD was unable to link specific costs to performance targets and instead only identified which strategic goals would be impacted by each of its program activities. In its FY 2001 Annual Performance Plan, HUD allocated costs of each program to each of its GPRA goals, but did not show the total funding spent on each goal. In its FY 2002 Annual Performance Plan, HUD showed the total cost associated with each of its GPRA goals, including a breakdown that showed how much of this funding was derived from each budget account and program activity.

Although there are several ways to achieve a connection between overall goals and specific budget requests, a department that can demonstrate all of the following indicators satisfies the requirements for alignment.

Concrete Indicators for Alignment:

1. The department has identified major outcome goals. The department has also identified and determined which program areas contribute to each goal. (There may be areas that contribute to more than one outcome goal.)

2. The department has identified how much cost is attributed to each of the output goals associated with the outcome goals identified in 1. In cases where a major program area contributes to more than one outcome goal, the department has established ground rules for attributing costs to the output goals associated with a particular outcome goal. Documentation should identify not only the total costs attributable to each goal but also the marginal costs attributable to increments of performance. (If a department does not have sufficient data, a survey could be done on how much time and costs are split between different goals. If no survey data is available, then an approximation can be used with the expressed commitment to develop this information in the future.)

Aligning Budget Costs to Goals: The Coast Guard Approach

The U.S. Coast Guard uses patrol boats for both safety and homeland security purposes. Trying to split the time and costs of one boat between two efforts is difficult. However, the Coast Guard has identified through historic data what share of a sailor's time is spent on each effort. This was done by a quick survey on the time spent on search and rescue efforts versus law enforcement efforts. This is not a perfect approach, but it does allow some understanding of how one expense contributes to two outcome goals.

1. The department has aligned specific outcome goals with its strategic objectives. With costs being identified for output goals, and summed for all output goals associated with an outcome goal, this alignment will allow the budget to identify total resources for a strategic objective.

2. The department's budget request displays the linkage and association between outputs, outcomes, and strategic objectives, and the budget resources for these goals and objectives. The request identifies the output and outcome performance levels that would result from spending the resources requested.

D. Full Cost

This area focuses on capturing full budgetary cost and matching these costs with output and outcome goals. The department should have financial and budgetary systems that allow it to track the full costs of a program and the output and outcome goals for that program. (The concept and process for allocating full cost to programs will be applied uniformly throughout the federal government allowing departments to produce consistent cost information.)

Departments should develop a process that calculates full costs and allocates these costs to program outputs and outcomes. (See the definition of full cost in the attached Definitions of Key Terms and Concepts.) A department should first determine whether this allocation process could be done using its current accounting systems. For some departments, new accounting systems may need to be put in place to do this calculation and allocation. Where the department's calculation and allocation capacity is limited, interim steps that can be taken to determine the full costs of an output goal. As an example, a department could develop a procedure for splitting overhead and capital costs between outputs.

While the ideal approach for improving a department's capacity to allocate full costs to performance increments would be to redesign the budget account structure into a performance based structure, the need for Congress to concur with such a restructuring may make this an impractical step in the near term.

In the absence of a restructured set of budget accounts, the Department should work closely with OMB on developing informational displays that would appear in budget requests, and which will present the full costs of outputs, with these costs being summed for associated outcomes and strategic objectives.

Concrete Indicators for Full Cost:

1. The Department has a consistent, transparent set of documented program cost and performance outcome attribution procedures that can be used to allocate or attribute costs fully throughout a performance structure. The department is able to attribute costs in budget formulation, execution and reporting.

2. The department can readily document alignment of cost centers in the department's financial accounting system to programs or performance centers. Align or re-describe program activities (in the Program and Financing Schedule) within each appropriation account in performance terms instead of activity or functional terms.

3. The Department has a plan to address material weaknesses that GAO, OMB and/or the departmental IG have identified, with the understanding that some weaknesses will take longer to resolve than others.

Full Budgetary Costing: Example from FAA

The Federal Aviation Administration (FAA) made structural changes to two of its budget accounts: Facilities & Equipment and Research, Engineering & Development. Specifically, FAA changed its Program and Financing Schedule from a program basis to performance goal basis showing the requested allocation for each performance goal. To accomplish this, FAA grouped each investment project under a broad performance goal and a more specific performance indicator. This structure will allow FAA to determine the effectiveness of its investments in achieving performance goals, both in the budget-year and in the long run.

E. Validation

The area covers departmental documentation of program effectiveness, and use of this data to inform budget decisions. Documenting program effectiveness includes more than capturing data on performance measures. Other studies, including benefit-cost studies, evidence-based logic models, and benchmarking studies (inter-agency or intra-agency comparisons of program with similar goals) should be used to supplement performance data for determinations of program effectiveness. Individual and organizational accountability, formally documented, can be a key driver in changing program performance. It is important that performance data be captured during program implementation and be monitored throughout the course of budget execution by departmental leadership and by program managers.

Departments should also document how data on program effectiveness informs its planning and budget decisions. For example, if a department identifies an under-performing program, efforts should be made to improve the effectiveness of the program, or potentially shift program resources to other programs where these will be used more effectively and efficiently.

Several agencies, including the Veterans Health Administration, the Department of Transportation, and the Office of Student Financial Assistance have used performance agreements to enhance managerial accountability. Fulfillment of performance agreements can be a basis for monetary awards or other positive incentives.

Concrete Indicators for Validation:

1. The department conducts regular meetings to discuss the monthly CFO report (described under B. above) and any related program/management reviews. These meetings are at a high-level and discuss program effectiveness and success in meeting output and outcome goals. Also, these meetings identify opportunities to identify strategies for improving program efficiency.

2. The department has a strategy to improve its methods of capturing program effectiveness. This includes improving the quality of departmental performance plans and reports or undertaking complementary analyses, including program evaluations, benefit-cost studies, evidence-based logic models, and benchmarking studies.

3. The department has established, in collaboration with OMB, a process for reviewing the effectiveness of specific program using standard methodologies.

Definitions of Key Terms and Concepts
In this Paper

Full budgetary cost means:

The annual cost, on a budgetary basis of measurement, of all resources used by an agency, its components (e.g., executive direction, any program, or any support provider), or its outputs. Full budgetary cost includes salaries and expenses, the full accruing cost of the employer share of retiree benefits, the accruing cost of hazardous substance cleanup, annual capital usage charges and rent, and the cost of all support goods and services used, as well as grants, transfers, credit subsidies, and other program benefit payments. Although the basis of measurement is budgetary, the coverage of resources included should be no less comprehensive than full cost under Federal cost accounting standards.

Costs of increments of change in performance levels means:

The differential full costs of various levels of performance, including effectiveness, from year to year. (Higher levels of performance effectiveness can result from working smarter within the same constant-dollar program cost; or, by finding what works best and providing additional resources to expand the scale of the program.)

Unit cost or Cost of outputs means:

The full cost of each increment or segment of programmatic output. An example might be the full budgetary cost of providing a benefit check to an eligible recipient.

Programs or Program Activities means:

The list of agency programs and activities appearing in the Program and Financing schedules of the Budget Appendix.

Outcome and output goals means:

The performance goals (with quantified or measurable target levels) found in department performance plans. Department strategic plans contain general goals and strategic objectives, which provide the overall framework for annual goals in performance plans. Additional goals may be found in bureau-level performance or budget documents.