From GPRA to PART : A Continuing Evolution

The federal government has made steady, bipartisan progress toward performance-based budgeting. Whether initiated by the president or Congress, performance-based budgeting means that money will be allocated not just on the basis of perceived needs and policy priorities, but also according to the federal government's ability to address those needs and priorities effectively. Program proponents will have to demonstrate that the particular programs actually accomplish their stated goals more effectively than alternative approaches.

The Clinton administration's initiative to "reinvent government" was inspired by experience suggesting that government served the public more effectively when it focused on the ends rather than the means.[6] With heavily bipartisan sponsorship, the Government Performance and Results Act passed the Senate by voice vote, passed the House without objection, and was signed by President Clinton in 1993. GPRA followed the Chief Financial Officers Act of 1990 which, in conjunction with the Government Management Reform Act of 1994, mandated that agencies file financial reports and have them audited using uniform accounting standards. GPRA filled a gap by mandating that agencies disclose performance measures and outcomes as well as costs. GPRA was, however, just a first step, and much has happened to improve accountability for outcomes since then.

GPRA implementation

After passage of the Government Performance and Results Act in 1993, federal agencies developed strategic plans, performance plans, and performance reports to explain what they are trying to accomplish, identify performance measures, and report on their results. Full-scale implementation of the Act commenced in 1997; the first full cycle of reporting was completed for fiscal 1999. Congress has specified additional reporting requirements since then. The Reports Consolidation Act allowed agencies to issue combined performance and accountability reports (i.e., financial statements) beginning in fiscal 2002. These consolidated reports contain both performance information and audited financial statements, thus facilitating the integration of performance information with cost information to inform authorization and appropriations decisions. All of the agencies evaluated by the Mercatus Center issued performance and accountability reports.

The Reports Consolidation Act requires performance and accountability reports to include a transmittal letter from the agency head "containing, in addition to any other content, an assessment by the agency head of the completeness and reliability of the performance and financial data used in the report." This assessment must describe any material inadequacies in the data and what the agency is doing to resolve them.[7] A "material" inadequacy is one that could cause the reader to make a different assessment if the information was adequate. Similar to the requirement imposed on the chief executive officers of publicly-held companies by the Securities and Exchange Commission, the purpose of this requirement is to ensure that the quality of the underlying data is a management priority, and the deficiencies are acknowledged and corrected as quickly as possible. The Act also requires the reports to include a statement by the agency's inspector general of the most serious management and performance challenges facing the agency and a brief assessment of the agency's progress in addressing them.

[6] David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Addison-Wesley, 1992).

[7] 31 USC Sec. 3516(e).

The purpose of agency performance reports is to give policymakers and the American people relevant, accurate and timely information that will let them assess the extent to which agencies are producing tangible public benefits. In line with expectations under the legislation, agencies published their first reports in spring 2000 (for fiscal 1999) and subsequent reports each spring since then. The Office of Management and Budget has gradually accelerated the deadlines, with the goal of making performance and financial information available to decision-makers and the public on a timelier basis. Fiscal 2005 reports were due to Congress by November 15, 2005, six weeks after the end of the fiscal year. This is the same deadline agencies faced for their fiscal 2004 reports.

Program Assessment Rating Tool

The executive branch has also started to move toward performance-based budgeting. The Office of Management and Budget's Program Assessment Rating Tool assesses the design, management, and performance of programs that agencies implement. PART seeks to use performance information to guide the program management, design, and budget decisions.

OMB and agencies have now evaluated the performance of 80 percent of federal programs. They plan to complete evaluation of the remaining programs by the end of 2006. Evaluations are available to the public at www.expectmore.gov. Readers can click to links that provide deeper levels of detail underlying the evaluations, funding for each program, and plans for improving performance. Reasonable people can disagree with specific evaluations or the administration's budget decisions based on the evaluations. Nevertheless, the scope of the information provided, and the explicit link to management and budget decisions is a tremendous step forward for accountability and performance-based budgeting.

Our evaluations vs. PART evaluations

One aspect of PART ratings sheds light on the quality of performance measurement for individual programs. If a program lacks sufficient measures or data to evaluate whether it is accomplishing intended results, it receives a rating of "Results Not Demonstrated." This does not mean that the program has failed to produce results; it means that the available information is not good enough to permit evaluation of results or cost-effectiveness. In effect, "Results Not Demonstrated" is similar to financial audit that renders a "disclaimer," wherein the auditor cannot find sufficient competent evidence to verify items in the financial statements.

A "Results Not Demonstrated" rating for a program can also be somewhat analogous to a low score in the public benefits section of this Scorecard. Our public benefits criteria examine whether a report expresses goals and measures as outcomes, demonstrates how the agency's actions have affected the outcomes, and links outcomes to costs to permit an evaluation of cost-effectiveness. PART seeks to develop similar measures and data. OMB data on PART ratings and budget authority for programs can be used to calculate the number of programs and percent of the federal budget for which OMB believes performance information is insufficient. This calculation is analogous to our calculation of the percent of the budget covered by reports that received poor scores on our public benefits criteria.

PARTed programs account for about $1.47 trillion in fiscal 2005 spending, compared to total non-interest expenditures of about $2.45 trillion.[8] Thus, programs representing about three-fifths of federal expenditures have been PARTed at least once. About 25 percent of PARTed programs, accounting for about 10 percent of PARTed spending, received a "Results Not Demonstrated" rating in their most recent PART evaluation.[9]

A "Results Not Demonstrated" rating might be analogous to a total score of 8 or below on our four public benefits criteria. This is the score a report would receive if it averaged a 2, "fails to meet expectations," on each of the four criteria. A score of 8 or below on the public benefits criteria suggests that disclosure and documentation of outcomes and cost-effectiveness is substantially incomplete. Five agencies, representing $1.87 billion in federal spending in fiscal 2005, scored 8 or below on the public benefits section. Thus, reports with substantially incomplete disclosure of outcomes and cost-effectiveness account for about 75 percent of federal non-interest spending.

One might argue that this comparison is somewhat misleading if PART's "Results Not Demonstrated" rating primarily indicates the absence of information on outcomes rather than absence of information on cost-effectiveness. Only one of our public benefits criteria, linkage of results to cost (criterion 8), addresses cost-effectiveness information. Criteria 5-7 address outcome goals and outcome measurement. Five agencies, representing 54 percent of non-interest spending, received a score of 2 on each of criteria 5-7.[10] This is still substantially higher than the percentage of programs and budget that received "Results Not Demonstrated" ratings under PART.

Why the difference?

Several factors might explain this large difference between our assessment and OMB's assessment of the quality of outcome information. Perhaps OMB is more lenient in its view of what constitutes adequate results information. In addition, our research team and OMB are examining measures at different levels of aggregation. An agency could have quite good outcome information for some of its large programs and yet still score poorly on our public benefits criteria if many strategic goals and performance measures are not outcome-oriented.

It is also worth noting that OMB has not yet PARTed programs accounting for about $1 trillion in federal spending. If some of the larger remaining programs receive a "Results Not Demonstrated" rating in the future, then the percentage of the budget with "Results Not Demonstrated" PART ratings could move much

[8] These two figures are somewhat different measures of federal spending. Spending on PART programs is fiscal 2005 budget authority. Our measure of non-interest expenditures is agencies' fiscal 2005 net cost of operations.

[9] Total PARTed programs had budget authority of $1.47 billion in fiscal 2005. Programs whose most recent PART rating was Results Not Demonstrated had budget authority of approximately $144 billion in fiscal 2005. As of February 2006, 194 out of 793 PARTed programs had Results Not Demonstrated as their most recent PART rating. See Eileen Norcross and Kyle McKenzie, "Analysis of the Office of Management and Budget's FY07 Performance Assessment Rating Tool," available at http://www.government accountability.org/PART2007.

[10] No agency received a 1 on criteria 5-7.

closer to the percentage of the budget that, in our assessment, is covered by substantially incomplete disclosure of outcomes in the Performance and Accountability Reports. Identifying the right explanation will have to wait until substantially all of the federal budget has undergone PART analysis.

For now, low ratings on our public benefits criteria (8 or less) and "Results Not Demonstrated" ratings in PART reveal significant shortcomings with evidence intended to back up statements about accomplishment. Many of the early financial audits gave agencies "disclaimers." Hopefully, as agencies gain experience with disclosure, they will continually improve their ability to provide concrete evidence on accomplishments.

Toward Comprehensive Accountability

Performance and Accountability Reports include information on agencies' outcomes and expenditures. But expenditures are only one way that federal agencies achieve outcomes. The federal government also affects resource allocation in the economy through tax policy and regulation. The performance sections of agency reports likely include the effects of regulation, but the financial section includes neither the costs of tax expenditures nor the full costs of regulation. Comprehensive accountability requires a full accounting of the costs and consequences of tax and regulatory policies, as well as on-budget spending.

Tax Expenditures

In addition to on-budget spending, the federal government also seeks to influence outcomes through various targeted tax policies that reduce revenues, such as the exclusion of employer-provided health insurance from income, the home mortgage interest deduction, and the child tax credit. Agencies do not report directly on the outcomes associated with these "tax expenditures."[11] The Office of Management and Budget and Treasury Department are currently developing data sources and methods for performance measurement of tax expenditures.[12]

Some tax expenditures are quite substantial compared to related federal spending. Deductibility of home mortgage interest, for example, cost $62 billion in fiscal 2005—more than HUD's entire $40 billion net cost of operations. Exclusion of pension and retirement savings contributions and earnings (such as corporate government and corporate pensions, 403bs, and IRAs) cost $102 billion, equal to nearly one-fifth of the Social Security Administration's expenditures. Favored tax treatment for medical insurance and medical expenses cost $129 billion – equal to more than 20 percent of HHS expenditures. Good information on outcomes would help policymakers determine whether favored tax treatment or direct federal expenditures most effectively accomplish various public goals, such as promoting homeownership, retirement security, and economic growth.

[11] "Tax expenditures" are not explicitly mentioned in GPRA, but the report on GPRA from the Senate Governmental Affairs Committee indicates that the committee expected the Office of Management and Budget to take the lead in assessing the outcomes associated with them:

> To increase significantly the oversight and analysis of tax expenditures, the Committee believes that the annual overall Federal Government performance plans should include a schedule for periodically assessing the effects of specific tax expenditures in achieving performance goals. (This schedule would be in addition to the primary content of the overall plan - the program performance goals tied to the direct expenditure of funds.) The Committee expects that annual performance reports would subsequently be used to report on these tax expenditure assessments. These assessments should consider the relationship and interactions between spending programs and related tax expenditures. The Committee hopes that such reports will foster a greater sense of responsibility for tax expenditures with a direct bearing on substantial missions and goals. *See* S. Rep. No. 103-58, pp. 27-28.

[12] Data are to come from a panel sample that follows the same group of income tax filers over at least ten years, starting in fiscal 1999. The proposed budget for 2007 contains an insightful discussion of how one might define outcomes for various types of tax expenditures. See *Budget of the United States Government, Fiscal Year 2007*, Analytical Perspectives, pp. 299-302.

The *Budget of the United States Government* contains estimates of each tax expenditure. The chapter containing these estimates cautions that adding up the estimates of various tax expenditures may not create an accurate picture of their size or effects, since a simple summation ignores economic incentive effects and interactions by which the size or existence of one tax expenditure may affect the size of others.[13] Though inexact, adding up the estimates does suit our purpose of providing a rough estimate of the amount of resource allocation the federal government accomplishes through tax expenditures. Tax expenditures totaled $777 billion in fiscal 2005.[14] The tax expenditure chapter of the budget indicates that data and analysis are not yet good enough to assess outcomes. Therefore, tax expenditures represent a very large additional avenue of federal resource allocation for which disclosure of outcomes is currently poor.

Regulation

A final way the federal government seeks to achieve outcomes is through regulation. Regulation compels or influences consumers, businesses, and other levels of government to expend resources in various ways. The costs of regulation are substantial, often far exceeding the expenditures the agencies incur to promulgate and enforce them. The most recent estimate suggests that compliance with federal regulations costs approximately $1.1 trillion—nearly half as large as the $2.45 trillion in non-interest federal spending.[15] Many of the outcomes associated with regulation are documented in agencies' performance and accountability reports, but costs borne by consumers, businesses, and other levels of government are not. An agency that engages in a lot of regulation but relatively little spending might nevertheless direct substantial social resources toward achievement of the outcomes for which it is responsible.

Total

The sum of non-interest spending, tax expenditures, and regulatory costs totaled $4.3 trillion in fiscal 2005. That's equal to 34 percent of U.S. gross domestic product in calendar 2005.[16] Tax expenditures and regulatory costs together are equal to 40 percent of the $2.45 trillion in non-interest spending. Nevertheless, tax expenditures and regulatory costs appear nowhere in agencies' Performance and Accountability Reports. As a result, federal accountability would have serious deficiencies even if every agency achieved a high score on

[13] *Budget of the United States Government, Fiscal Year 2007*, Analytical Perspectives, p. 286.

[14] *Budget of the United States Government, Fiscal Year 2007*, Analytical Perspectives, Table 19-1.

[15] W. Mark Crain, "The Impact of Regulatory Costs on Small Firms," Report Prepared for the Office of Advocacy, U.S. Small Business Administration, RFP No. SBHQ-03-M- 0522 (Sept. 2005), p. 1, available at http://www.sba.gov/advo/research/rs264tot.pdf.

[16] Gross domestic product figure is from 2006 *Economic Report of the President*, Appendix B-1, at http://a257.g.akamaitech.net/7/257/2422/15feb20061000/www.gpoaccess.gov/eop/2006/B1.xls.

this Scorecard. The federal government needs to take the following steps to achieve comprehensive accountability for the outcomes that occur when the federal government directs resources:

- Significantly improve the quality of the Performance and Accountability Reports.

- Produce an analysis of outcomes created by tax expenditures to complement the cost figures already reported in the budget.

- Develop accurate estimates of the costs of regulation that could supplement the expenditure and outcome data in agency Performance and Accountability Reports.

Only when all three of these steps are achieved will citizens have access to comprehensive information on the costs and consequences of federal activities that allocate resources. That does not mean that all of this information must necessarily appear in agencies' Performance and Accountability Reports. Indeed, the Senate Government Affairs Committee's report on GPRA appears to give the Office of Management and Budget responsibility for evaluating the costs and results of tax expenditures.[17] OMB also has a well-established initiative to evaluate the costs and benefits of major federal regulations, although it tends to focus on newer regulations rather than providing a comprehensive accounting for all existing regulations.[18]

Comprehensive disclosure of the costs society incurs and the outcomes that occur when the federal government allocates resources will require that some entity in the federal government take responsibility for integrating information from these diverse sources. Effective accountability requires that both the executive branch and Congress actually use performance information to make budget decisions.

[17] See note 11 above.

[18] See, e.g., OMB, Office of Information and Regulatory Affairs, *Validating Regulatory Analysis: 2005 report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities* (December 2005) available at http://www.whitehouse.gov/omb/inforeg/2005_cb/final_2005_cb_report.pdf.