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GEORGE MASON UNIVERSITY

January 30, 2004

The Honorable Todd Russell Platts, Chairman
Subcommittee on Government Efficiency and Financial Management
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for inviting me to testify before your committee on February 4, 2004. I commend you on your timely consideration of the opinions of field experts on the topic of performance budgeting, and use of the Office of Management and Budget's Program Assessment Rating Tool.

Enclosed is my written testimony. I look forward to Wednesday's hearing.

Thank you again.

Sincerely,



Maurice P. McTigue
Distinguished Visiting Scholar
George Mason University

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Enclosure



TESTIMONY

From

**The Hon. Maurice P. McTigue, Q.S.O.
Distinguished Visiting Scholar
Mercatus Center at George Mason University**

Before the

**Subcommittee on Government Efficiency and Financial
Management**

**Committee on Government Reform
United States House of Representatives**

February 4, 2004

On

**“Performance Budgeting and the Use of the Office of
Management and Budget’s Program Assessment Rating Tool”**

Mr. Chairman, I am honored to have been invited to testify before you on the General Accounting Office’s (GAO) consideration of the Office of Management and Budget’s (OMB) use of the Performance Assessment Rating Tool (PART.)

Mr. Chairman, in my testimony today I will repeat some of the comments I made before this committee at your hearing on the Government Performance and Results Act (GPRA) on April 1, 2003. My reason for doing this is to emphasize my concern that there

is a tendency to presume that the role of GPRA is finished. In my view, this is a very wrong presumption because all of the accountability and managerial reforms being undertaken in the American government today are built on the foundation created by GPRA; any weakening of that foundation would have disastrous consequences for all of the subsequent reforms.

It is my strongly held view that any consideration of this accountability reform process should always review the process in the context of the total reform. Failure to do this creates a very real risk, in that consideration of procedures in isolation will distort the reform and have it driven by processes rather than principles.

For the same reasons I strongly believe that it is wrong to try and codify processes. Codifying it presumes that the process has now reached a level of excellence that will never be improved upon. However, it is acceptable to codify into law that which the process seeks to achieve. For example: require an assessment of activities' impact on outcomes and require comparison of activities addressing the same outcome, then use this information to inform budget decisions.

The passing of the Government Performance and Results Act in 1993 was a farsighted undertaking by Congress, designed to dramatically improve the honesty and integrity of accountability in the federal government. For the first time, government organizations were required by statute to produce evidence of their performance in terms of the quantity of benefit their programs had brought to the American people. In fact, this may have been a first in the world, as I know of no other government that at that time required such accountability by statute.

However it is also important to recognize the magnitude of this change for government organizations. Previously, they had never regularly gathered information on the impact their programs had on the American public except for sporadic evaluations, which at best captured only a single snapshot at a given point in time. Now questions of what to measure and how to measure it must be addressed. Counting how many people

you feed is relatively simple but measuring by how much you diminished hunger is an entirely different undertaking. In the case of the State Department, for example, measuring the success of democratization or diplomacy are both real challenges.

First, let me point out that when Congress passed GPRA in 1993, it required that the Act not apply to government agencies until *six years later*, as the first year of compliance throughout the government was Fiscal Year 1999. Consequently, as of today, we (Congress and the public) have received results information on only four fiscal years.

With four years information and experience it is possible to draw some conclusions, but it would still be premature to pass judgment on the Act's efficacy or lack thereof.

- First, agencies' familiarity with the requirements of the Act has improved enormously as has the attention paid to GPRA by senior agency executives.
- Second, the first round of Strategic Plans prepared in 1997 were woefully inadequate in nearly all respects. However the newest Strategic Plans appearing now are a vast improvement on their predecessors.
- Third, agencies are much more competent at managing to outcomes.
- Fourth, measures in original plans were developed in many cases by capturing the quantity of activity carried out but gave little indication of the public benefits produced.
- Fifth, currently measures of performance against outcomes are improving but still have a long way to go in some organizations. Linking costs to outcomes was virtually non-existent in the early years, yet now we are seeing some agencies making progress on activity-based costing and linking costs to units of success.

Now enter the Office of Management and Budget with its Performance Assessment Rating Tool (PART.) At this stage of the process this is a very appropriate reform because unless the results information required and produced by GPRA is used to influence budget decision-making, GPRA has been just a paper exercise.

However it is also important that some basic principles surrounding the PART process be understood, accepted and used as a basis for the development and implementation of PART.

- First, the Performance Assessment Rating process is aptly titled a “tool.” That title captures the recognition that this is a mechanism designed to produce a result. It is the result or the consequence of using the tool that is important, not the tool itself. The tool will and should mature in its design and application over time and through experience. Nothing should be done to hamper this process of evolution.
- Second, the creation of the PART process is purposely designed to identify the efficacy of programs. Properly applied, PART will more accurately define and quantify the public benefit that flows from a particular program. However PART only addresses the historic performance of that particular program, and perhaps can help define future expectations from that activity.
- Third, the PART process has only limited value unless it is fully integrated into a greater plan of improving efficacy and efficiency across government as a whole. This requires that the results of the assessment of individual programs should not be considered in isolation, but should now be used to compare the results of both similar and dissimilar programs focusing on the same outcome.
- Fourth, the information from the third point above now becomes an integral part of the construction of “performance budgets”. A performance budget is one where decisions are driven by incentives to maximize progress on specific outcomes by electing to fund those activities that have demonstrated superior performance histories.
- Fifth, PART is an evaluation or assessment tool; it should not be used to replace other important procedures in the reform. If weaknesses in the goals or strategies of programs are detected through the use of PART, it should require amendments to strategic plans and annual plans but PART should not become a replacement for these essential activities.

Drawing on my experience as an elected Member of Parliament and a Cabinet Minister involved in the introduction of similar procedures in the government of my native country of New Zealand, combined with my experience of the last six years here working with agencies of the United States government, I would say GPRA is potentially the most powerful tool for bringing about productive change and meaningful accountability that has been introduced in the U.S. in the last 50 years.

What should be the next steps, and how can the federal government – Congress and the Executive branch together – maximize the incentives for results-based accountability this reform is capable of producing?

The Evolution of Accountability Reform in the United States

There are multiple distinct stages to the evolution of this Reform:

The first is the planning stage, carried out in 1997, which required preparation of long-term strategic plans for government agencies. The purpose here was to identify all government activity and identify the priority of each of those activities - hence the use of the word “strategic.” In fact, these initial plans were little more than a reiteration of all the activity currently undertaken by the agency without any setting of strategic priorities. Although goals and measures were identified and included in the plans, they related almost exclusively to activities and said little or nothing about the public benefit that would flow from these activities.

The latest iterations of those plans in most cases are a vast improvement on their predecessors. Now we are starting to see a focus on the mission of the organization reflected in the goals of the organization and their programs as tools used to achieve these goals. Unfortunately there is still little evidence of real strategic thinking or of priority setting. However progress is being made.

The second stage is implementation – putting the strategic plan to work – which commenced with fiscal year 1999. The novelty of this stage is that for the first time agencies were required to measure the results of their efforts in terms of *outcomes*. Initially this process was clearly posing major problems both in the technical difficulty of measuring things that are difficult to measure, but also in getting senior management to recognize that this process was important to the future of their organization. Gradually meaningful results information is beginning to appear.

The turning point for widespread acceptance in agencies that this process was important and that non-compliance would have consequences was the introduction of the President’s Management Agenda (PMA). The commitment to performance budgeting in the PMA finally started to get managers’ attention. Now that budget requests to OMB

must be accompanied by evidence of last year's performance, the realization that poor performance could jeopardize budget allocations led to greater ownership of performance. Appropriate performance information spread up and down through organizations. I estimate that it would likely be fiscal year 2006 before this process has matured to the point where quality outcome information is available across government.

The third stage is disclosure; it is at this point that the effectiveness of government activity in producing clear public benefits should become transparent. At the Mercatus Center at George Mason University, we have conducted an analysis of the quality of the Annual Performance Reports of the Chief Financial Officer's Act Agencies, in each of the four fiscal years reported to date, and we are currently analyzing year five. We do this because we believe the quality of the reporting and the completeness of disclosure is crucial to the success of changing government accountability from accounting for money spent to accounting for public benefits produced.

The fourth stage is the utilization of the information produced by GPRA. Unless the results information agencies produce is used to make future management and resource allocation decisions, then GPRA becomes only a paper exercise. Progress here had been disappointing until the President introduced his Management Agenda. This initiative has totally changed the landscape and major progress is now being made.

OMB's development and utilization of their Program Assessment and Rating Tool has certainly captured the attention of agencies across the Federal Government. This is a major step forward and should be applauded. However, it is also important to remember that it is a tool, that it can probably be improved significantly over time and that its purpose is to give better information to decision-makers so that precious dollars are only invested in those programs that are likely to achieve the desired outcome. OMB also deserves to be congratulated for making the PART process and its findings open and transparent to all so the efficacy and appropriateness of the application of the PART can be analyzed.

I would describe the PMA as the second wave of change. The first wave of change was the requirement to capture and disclose information on performance achievements. The second wave of change is the PMA because it now produces consequences for good and poor performance. Good performance, or success in achieving public benefit goals, is rewarded with either the retention of budget allocations or with a budget increase. Poor performance, or failure to achieve goals is punished by loss of part or all of the budget allocation. This is a marked change from historic practices where poor performance was often rewarded with more money in the mistaken belief that more money would cure the problem. On the other hand, achieving or exceeding goals was often punished by the loss of funds. Clearly this historic practice set all the wrong incentives while at the same time denying the public a benefit it sorely needed.

It is my opinion that GPRA and the PMA are not independent stand-alone initiatives but are mutually dependent interacting initiatives, each of which would each fail in the absence of the other.

Congress and The Administration

The actions taken by these two bodies can create powerful incentives that could change the entire culture of government agencies. Congress and the administration must demonstrate that results information will be a major influence in future decision-making. The administration is sending a powerful message by explicitly considering performance information as they develop the government's budget. Congress should cite the prior fiscal year's results as major factors in appropriation decisions.

Mr. Chairman, I applaud the interest and insight this committee brings to these important reform initiatives. I also applaud your recognition that this process of reform is still a work in progress and your commitment to play a leadership role in ensuring that progress continues to be made.

Accountability Processes

Traditionally Congress and the Administration have used an accountability process based upon assessing the performance of individual departments or agencies. We would recommend that in a results-oriented accountability environment, a better approach would be to select particular outcomes, (clean air, increased literacy rates, or reduced juvenile crime, for example) and then examine all activities designed to impact that outcome.

The benefit of this approach is that decisions are informed by results information related to *all* government activities that contribute to a particular outcome. Information is not restricted to what one agency knows; rather decision-makers may take into account information from any agency that addresses the outcome.

The process of comparing programs across outcomes creates competition for what would effectively be a common pool of money. The best providers would, and should, get the major share of the resource. Such competition would create strong incentives to continually improve performance by discovering innovative and creative ways of maximizing program achievement. It is the absence of these incentives that is currently limiting progress in much of government.

Finally, the ability to be able to make comparative assessments of different activities that address a common goal provides a unique new opportunity to assess opportunity costs. Once decision-makers have information on the various performance levels of different programs it is a relatively simple exercise to look at what level of public benefit could be produced if the existing resources were redeployed to the most effective programs. This exercise then tells decision-makers what the public benefit cost, or in other terms, the opportunity cost, of the status quo allocation is.

I trust this testimony, Mr. Chairman, will be helpful to the Committee in its deliberations on the progress and potential of the accountability reform currently being implemented across the federal government.

Testimony respectfully submitted by:

A handwritten signature in black ink that reads "Maurice P. McTigue." The signature is written in a cursive style with a large, looping initial 'M' and a period at the end.

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