

February 2005

# PERFORMANCE BUDGETING

## Efforts to Restructure Budgets to Better Align Resources with Performance



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-05-117SP](#)

## Why GAO Did This Study

Efforts to better align and integrate budget and performance information raises many issues, including the question of budget structure—should appropriations accounts or congressional budget justifications or both be restructured to tighten the link between resources and performance? If so, how and to what extent? The administration elevated attention to this issue by including budget restructuring as part of the President's Management Agenda in 2001.

To provide an overview of the various budget restructuring efforts underway in the federal government, GAO: (1) summarized steps taken by the Office of Management and Budget (OMB) and nine selected agencies to better align their budgets with performance and to better capture the cost of performance in the budget; (2) discussed the potential implications of these efforts for congressional oversight and executive branch managerial flexibility and accountability; (3) described the experiences and implementation challenges associated with these efforts; and (4) identified lessons learned that can provide insights useful in considering current and future budget restructuring efforts.

## What GAO Recommends

This staff study does not contain recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-05-117SP](http://www.gao.gov/cgi-bin/getrpt?GAO-05-117SP).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving at (202) 512-9142 or [irvings@gao.gov](mailto:irvings@gao.gov).

# PERFORMANCE BUDGETING

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### What GAO Found

Budget restructuring—changes to the congressional budget justifications and in some cases appropriations accounts to better align budget resources with programs and performance—has the potential to help reframe budget choices and is one tool among many that can advance results-oriented management. The administration has pursued budget restructuring, requiring agencies to submit a “performance budget” beginning with fiscal year 2005. Agencies took a variety of approaches, and these different approaches have different implications for agency management and congressional oversight.

The budget structure reflects fundamental choices about how resource allocation choices are framed and the types of controls and incentives considered most important. As such, budget restructuring involves significant tradeoffs between the type of information provided and accountability frameworks used and has implications for the balance between managerial flexibility and congressional control. Accordingly, our work revealed differing views on the potential benefits and shortcomings of budget restructuring. OMB and agency officials credited budget restructuring with supporting more results-oriented management by increasing attention to strategic planning, performance, and results, providing more complete information on the budget resources associated with performance, and in some cases, enhancing agencies' flexibility and incentives to make tradeoffs necessary to increase efficiency and effectiveness.

However, budget changes did not meet the needs of some executive branch managers and congressional appropriations subcommittees. Officials from two case study agencies said that restructuring may complicate resource management. For example, by allocating administrative expenses across programs, the restructuring has the potential to reduce their ability to shift resources among programs to address unanticipated needs. Also, congressional appropriations subcommittee staff expressed general support for budget and performance integration but objected to changes that substituted rather than supplemented information traditionally used for appropriations and oversight, such as object class and workload information. In addition, questions have been raised about the ability of agencies' performance and financial management systems to support the new budget structures.

Going forward, infusing a performance perspective into budget decisions may only be achieved when the underlying information becomes more credible, accepted, and used by all major decision makers. Thus, Congress must be considered a partner. In due course, once the goals and underlying data become more compelling and used by Congress, budget restructuring may become a more compelling tool to advance budget and performance integration.

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**Abbreviations**

BLS	Bureau of Labor Statistics
BPI	Budget and Performance Integration
CFO	Chief Financial Officers
CoF	Construction of Facilities
Commerce	Department of Commerce
CPPR	Center for Program Planning and Results
DOJ	Department of Justice
DOT	Department of Transportation
EBSA	Employee Benefits Security Administration
EEOICF	Energy Employees Occupational Illness Compensation Fund
EPA	Environmental Protection Agency
ETA	Employment and Training Administration
ESA	Employment Standards Administration
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act
FMCSA	Federal Motor Carrier Safety Administration
FTA	Federal Transit Administration
FTE	Full-time equivalent
G&A	General and Administrative
GMRA	Government Management Reform Act
GOE	General Operating Expenses
GPRA	Government Performance and Results Act
HUD	Department of Housing and Urban Development
IFMP	Integrated Financial Management Program
IFMS	Integrated Financial Management System
IG	Inspector General
IT	Information Technology
Labor	Department of Labor
MAMOE	Medical Administration and Miscellaneous Operating Expenses
MBO	Management by Objectives
MRB	Management Review Board
MSHA	Mine Safety and Health Administration
NASA	National Aeronautics and Space Administration
NCA	National Cemetery Administration
NPA	National Program Administration
NPR	National Performance Review
OMB	Office of Management and Budget
OPPTS	Office of Prevention, Pesticides, and Toxic Substances
ORD	Office of Research and Development

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Contents

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OSHA	Occupational Safety and Health Administration
P&F	Program and Financing
PART	Program Assessment Rating Tool
PBAA	Planning, Budgeting, Analysis, and Accountability
PBGC	Pension Benefit Guaranty Corporation
PMA	President's Management Agenda
PPBS	Planning, Program-Budgeting System
S&E	Salaries and Expense
SBA	Small Business Administration
VA	Department of Veterans Affairs
VBA	Veterans Benefit Administration
VHA	Veterans Health Administration
VR&E	Vocational Rehabilitation and Employment
ZBB	Zero-based Budgeting

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# Executive Summary

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## Purpose

Over the last decade, Congress, the Office of Management and Budget (OMB), and other executive agencies have worked to implement a statutory and management reform framework to improve the performance and accountability of the federal government. Key components of this framework include the Government Performance and Results Act (GPRA), the Chief Financial Officers (CFO) Act, and the Government Management Reform Act (GMRA). These reforms are designed to inform congressional oversight and executive decision making by providing objective information on the relative effectiveness and efficiency of federal programs and spending. As a result of this framework, there has been substantial progress in the last few years in establishing the basic infrastructure needed to create high-performing federal organizations.

However, the federal government is in a period of profound transition and faces an array of challenges—including diffuse security threats and homeland security needs and a growing long-term fiscal imbalance—and opportunities to enhance performance, ensure accountability, and position the nation for the future. GAO has sought to assist Congress and the executive branch in considering the actions needed to support the transition to a more high-performing, results-oriented, and accountable federal government.<sup>1</sup> This report focuses on one strategy—budget restructuring—suggested to increase the focus on performance and results during budget deliberations.

The current administration has taken several steps to strengthen the integration of budget, cost, and performance information for which GPRA, the CFO Act, and GMRA laid the groundwork. This administration has made the integration of budget and performance information one of five governmentwide management priorities under its President's Management Agenda (PMA).<sup>2</sup> This initiative includes efforts such as the Program Assessment Rating Tool (PART), improving outcome measures, and

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<sup>1</sup> GAO has done constructive reviews of GPRA and various executive branch efforts to improve performance and accountability. See, for example, *Results Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: Mar. 10, 2004) and *Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget*, [GAO-04-174](#) (Washington, D.C.: Jan. 30, 2004).

<sup>2</sup> In addition to budget and performance integration, the other four priorities under the PMA are strategic management of human capital, expanded electronic government, improved financial performance, and competitive sourcing.

improving monitoring of program performance. Another effort is budget restructuring—changes to congressional budget justifications and in some cases appropriations accounts—to better align budget resources with performance.

Improving connections between budget and performance information is neither a new nor a simple undertaking. Since about 1950 the federal government has attempted several governmentwide initiatives designed to better inform spending decisions based on expected performance.<sup>3</sup> Efforts such as the Planning, Program-Budgeting System (PPBS) and Zero-based Budgeting (ZBB) were limited in part because their performance structures were not clearly linked to the budget. GPRA was established to provide improved connections between planning and budgeting by requiring performance plans to cover all program activities<sup>4</sup> listed in the budget. The expectation was that agency goals and measures would be taken more seriously if they were perceived to be useful and used in the resource allocation process. Thus, GPRA established a basic foundation for linking resource allocation decisions and results. Together with the CFO Act GPRA seeks to improve decision making by providing information on the relative effectiveness and efficiency of federal programs and spending and to help federal managers improve service delivery by providing them with information about program results, costs, and service quality.

Efforts to integrate performance information formally into budget decisions raise many issues, including the question of budget structure—should appropriations accounts or congressional budget justifications or both be restructured to tighten the link between resources and performance? If so, how and to what extent? The federal budget is organized into about 1,100 appropriations accounts, and most accounts have subsidiary program activities that allocate budget authority to more specific levels of inputs, outputs, or outcomes funded by the account. Our previous review of appropriations accounts revealed a complex and varied structure characterized by a mix of account orientations—object,

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<sup>3</sup> For a more detailed discussion of these initiatives, see GAO, *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation*, [GAO/AMD-97-46](#) (Washington, D.C.: Mar. 27, 1997).

<sup>4</sup> The term “program activity” refers to the listings shown in the Program and Financing (P&F) schedule of the *Appendix* portion of the Budget of the United States Government. Program activity structures are intended to provide a meaningful representation of the operations financed by a specific budget account usually by projects, activities, or organization.

organization, process, and program—that reflect a specific focus or interest of Congress.<sup>5</sup> While the current account structure may help satisfy congressional control and oversight objectives, it does not always align well with performance goals, nor does it always readily capture the “full costs” of programs.<sup>6</sup> For example, certain performance goals cut across multiple program activities and appropriations accounts. Also, the costs of a single program can sometimes be split among multiple accounts, such as accounts for salaries and expenses and accounts for other expenditure items such as capital or construction. Although clearer and closer associations between performance information and budget requests could more explicitly inform and help focus budget discussions on performance, this is easier said than done. Planning and budget structures serve different purposes, and any effort to achieve meaningful connections between them highlights tensions between their differing objectives.

In 2001, OMB elevated attention to this issue by including budget and performance integration (BPI) as a key initiative within the PMA. As part of this initiative, OMB has pursued budget restructuring to better align budget resources with programs and performance. OMB provided agencies guidance on ways to restructure their appropriations accounts and congressional budget justifications and, beginning with the fiscal year 2005 budget, OMB required agencies to submit a “performance budget” that would integrate the annual performance plan and the congressional budget justification into one document.<sup>7</sup> The “performance budget” should reframe budget requests around what agencies intend to accomplish with the resources requested and enhance public and congressional understanding of government performance.

“Performance budgeting” may be thought of as an umbrella of various initiatives, including OMB’s PART, to better infuse performance

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<sup>5</sup> GAO, *Budget Account Structure: A Descriptive Overview*, GAO-AIMD-95-179 (Washington, D.C.: Sept. 18, 1995).

<sup>6</sup> OMB and other agencies use terms such as “full cost” and “total budgetary resources” that in most cases refer to the alignment of requested budget authority with programs and performance. However, some may interpret these terms differently. Thus, when we use terms “full cost” and “total budgetary resources” we place them in quotations.

<sup>7</sup> In this report “performance budget” refers to congressional budget justifications that are structured around agency strategic and performance goals and not to any process or approach in which resource allocation decisions are being more generally linked to performance. We place “performance budget” in quotations because different users may interpret the term differently.

information into the budget process. The focus of this report is budget restructuring. Our objectives in this study were to (1) summarize the steps taken by OMB and selected agencies to better align their budgets with performance and to better capture the cost of performance in the budget, (2) discuss the potential implications of these efforts for congressional oversight of budget resources and for executive branch managerial flexibility and accountability over budget resources, (3) describe the experiences and implementation challenges associated with these efforts, and (4) identify lessons learned that might be useful in considering future efforts for linking resources to results in the budget. Observations and lessons learned in this study together with lessons learned from previous “performance budgeting” initiatives provide insights useful in consideration of current and future budget restructuring efforts and other steps to improve the use of cost and performance information in the budget process.

To provide an overview of the various budget restructuring efforts underway in the federal government, we reviewed nine<sup>8</sup> agencies’ account structures and congressional budget justifications. These nine agencies were judgmentally selected based on a combination of their scores for Budget and Performance Integration in the Executive Branch Management Scorecard in the President’s fiscal year 2004 budget,<sup>9</sup> OMB’s published statements highlighting agencies’ progress in this area, and the types and extent of budget structure changes made. The nine agencies are:

1. Department of Commerce (Commerce),
2. Department of Housing and Urban Development (HUD),
3. Department of Justice (DOJ),
4. Department of Labor (Labor),
5. Department of Transportation (DOT),
6. Department of Veterans Affairs (VA),

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<sup>8</sup> Nine agencies were selected out of 26 federal departments and agencies receiving scores in the Executive Branch Management Scorecard in the President’s fiscal year 2004 budget.

<sup>9</sup> The Executive Branch Management Scorecard is a traffic-light grading system to report how well federal agencies are implementing the PMA’s five governmentwide initiatives.

7. Environmental Protection Agency (EPA),
8. National Aeronautics and Space Administration (NASA), and
9. Small Business Administration (SBA).

To gain a deeper understanding of the implications of agencies' efforts for managerial flexibility and accountability and implementation experiences and challenges, we selected four of the nine agencies—Labor, VA, EPA, and NASA—for more in-depth case study review. To help select case study agencies from the nine in our review, we divided the agencies into three general groupings based on the type of changes made: (1) those with changes to the appropriations account structure (VA, NASA, DOJ, DOT); (2) those with changes within the account structure at the program activity level (EPA, SBA); and (3) those with changes only to the congressional budget justification (Labor, Commerce, HUD). From each category, we judgmentally selected at least one agency<sup>10</sup> for case study based on how well they had been implementing the BPI initiative and then on the extent of their changes. Thus, agencies that received higher scores for BPI on the Executive Branch Management Scorecard and made or proposed more apparent budget structure changes were more likely to be included in our study.<sup>11</sup> For a more detailed discussion of how we selected our agencies and addressed the study's objectives, see appendix I.

We conducted our work from May 2003 through December 2004 in Washington, D.C. in accordance with generally accepted government auditing standards.

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## Results in Brief

Budget restructuring is one effort among a broader initiative to improve government performance and outcomes. Because the budget is the basis for resource allocation decisions, strengthening the link between resources and performance in congressional budget justifications is viewed as an

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<sup>10</sup> We selected two agencies—VA and NASA—within the group that made or proposed changes to their appropriations account structure.

<sup>11</sup> When we initiated our study and chose agencies for review in May 2003, no agency had achieved a green light for “status”—or met all of the administration's standards for success—in implementing the BPI initiative. Since then, eight agencies have achieved green lights, including four in our review—NASA, Labor, DOT, and SBA. All agencies in our review have a green light for progress.

important step to increase the focus on performance in budget deliberations. Moreover, changing the appropriations account structure is intended to provide managers with the incentives to manage resources more efficiently. According to OMB staff, aligning authority and accountability—or appropriating budget authority<sup>12</sup> by programs and outcomes—provides both the information and flexibility to allocate resources and execute the budget with a focus on effectiveness.

Given the multiplicity of budgetary actors in our system, any budget restructuring effort represents more than structural or technical changes. It reflects important trade-offs among different and valid perspectives and needs of these different decision makers. The structure of appropriations accounts and congressional budget justifications reflects fundamental choices about how resource allocation choices are framed and the types of controls and incentives considered most important. As such, changes to the account structure have the potential to change the nature of management and oversight and ultimately the relationship among the primary budget decision makers—Congress, OMB, and agencies. Accordingly, our work revealed differing views on the potential benefits and shortcomings of restructuring budgets to better align budget resources with performance.

The nine agencies in our review took a variety of approaches to restructure their appropriations accounts and congressional budget justifications over the past several years. These approaches differed in terms of the:

- specific budget structures affected (e.g., appropriations account structure, program activities within the appropriations account structure, or congressional budget justification);
- orientation or organizing framework used to restructure the budget (e.g., bureaus, strategic goals, programs, etc.);
- level of performance for which budget resources were shown or budget authority was requested (e.g., strategic goals, performance goals, programs, etc.); and

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<sup>12</sup> Budget authority is authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

- types of resources (e.g., central administration, Inspector General (IG) offices, etc.) distributed within the performance-based budget structure to reflect “full cost.”

OMB staff and agency officials credited budget restructuring with supporting results-oriented management by increasing attention to strategic planning, performance, and results and providing more complete information on the budget resources associated with performance. Beyond providing better information, OMB staff and officials in six agencies said budget restructuring enhanced agencies’ flexibility and incentives to make trade-offs necessary to increase efficiency and effectiveness. NASA officials in particular said that their restructured budget, which allocated all direct and indirect resources to programs, gives managers greater information and incentives to use these resources more efficiently.

However, budget changes did not meet the needs of some executive branch managers and congressional appropriations committees. For example, officials from two case study agencies said budget restructuring had the potential to complicate resource management. These case study agencies proposed allocating administrative expenses to program appropriations accounts. While this change would better capture the program’s “full cost,” paying each program’s administrative expenses from separate appropriations accounts could make it more difficult for agencies to shift administrative resources across programs to address emerging needs because transferring resources between appropriations accounts requires statutory authority.

Congressional appropriations subcommittee staff for the most part continued to state a preference for and rely on previously established budget structures. Appropriations subcommittees and staff said that the changes in budget accounts and presentations shifted the focus away from programs and items of expenditures of interest to congressional appropriators and instead highlighted strategic and performance goals. While these staff expressed general support for budget and performance integration, they objected to changes that replaced information, such as workload and output measures, traditionally used for congressional appropriations and oversight with the new performance perspective. The importance of workload and output measures for making budget decisions is also important at the state level. In our recent review of state performance budgeting efforts, state officials indicated this information was most relied upon by legislators when determining funding levels and desired levels of service relative to funding.

Agencies' implementation experiences to date highlight a number of challenges and issues for current and future budget restructuring efforts, such as gaining congressional support and improving financial and performance information. Achieving better alignment and integration between budget and performance planning structures has the potential to promote greater attention to performance issues in budgeting, but only if supported by key executive and congressional decision makers. While some agencies have demonstrated sustained commitment by agency leadership, this commitment has not yet been shared by congressional appropriators and other decision makers. Some congressional staff were concerned about what they described as insufficient consultation in developing the new budget structures. Questions have also been raised about the ability of agencies' performance and financial management systems to support the allocation and tracking of resources adequately within the new budget structures. Some budget experts and agency officials suggested that improving underlying financial and performance information should be a prerequisite to restructuring budgets and that, in their opinion, this step is more important to improving management and oversight than the recent budget restructuring efforts. To the extent budget decisions are to be based on this information, the credibility of the underlying systems supporting the allocation of costs to performance becomes more critical.

Budget restructuring is one tool among many that can advance results-oriented management. However, it involves significant trade-offs between different types of information and accountability frameworks and has implications for the balance between managerial flexibility and congressional oversight and control. Thus, Congress must be considered a partner in the effort. While congressional buy-in is critical to sustain any major management initiative, it is especially important for performance budgeting given Congress' constitutional role in setting national priorities and allocating the resources to achieve them. The concerns raised by appropriations staff suggest that when creating "performance budgets" OMB and agencies should find ways to supplement, rather than replace, key information used by the appropriations committees to make decisions. The greatest challenge of budget restructuring may be discovering ways to reflect both the broader planning perspective that can add value to budget deliberations and foster accountability in ways that Congress considers appropriate for meeting its appropriations and oversight objectives. Moving forward without agreement on whether and how to structure budgets, without agreement on how to measure and report cost and performance information, and without the ability to track and explain how

resources are spent in various ways may result both in more work—as agencies prepare budgets in multiple forms—and in structures that fall short of achieving their objectives.

Going forward, the important goal of infusing a performance perspective into budget decisions may only be achieved when the underlying supply of information becomes more credible, compelling, accepted, and used by all significant decision makers in the system. Indeed, if budget decisions are to be based on this cost and performance information, there is a more compelling need to improve the integrity of the data. As OMB's own PART reviews suggest, much work remains to be done in improving the underlying information, evaluations, and systems within agencies to support performance goals. Ultimately, once the goals and underlying information become more compelling and used by Congress, budget restructuring may come to be viewed as a strategy to advance congressional budgeting and oversight objectives. In other words, the budget structure may come to reflect—rather than drive—the use of performance and cost information in budget decisions.

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## Background

Consistent with GPRA, OMB sought to forge stronger linkages between plans and budgets and to prompt greater attention to results in the resource allocation process. Over the last 10 years, OMB has discussed the need to reexamine appropriations account structures to better align them with program outputs and outcomes and to charge the appropriate account with significant costs used to achieve these results. OMB said that multiple accounts leading to the same output or outcome may inhibit a manager striving to achieve results. Also, some program activities within appropriations accounts show either inputs or only a portion of the funding for an output and make it difficult to show the full annual cost of resources used to achieve results. For example, the budget resources used to achieve VA's burial program performance goals are not readily apparent under its current appropriations account structure. The burial program is funded by six appropriations accounts spread across separate volumes of its congressional budget justification.

## GAO Analysis

### Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Performance

More recently, OMB placed greater emphasis on budget restructuring by including it as one effort in the BPI initiative of the PMA that was issued in August 2001. Beginning with the Circular A-11 for the fiscal year 2004 budget, OMB provided guidance to agencies on ways to restructure their appropriations accounts and congressional budget justifications and later required agencies to submit a “performance budget” for fiscal year 2005 to OMB and Congress. While the PMA and OMB’s recent “performance budget” requirements provided greater incentives to move in this direction, some case study agencies began thinking about budget restructuring and ways to better align the budget with performance before the PMA was introduced. One case study agency’s effort to better align budget resources with performance could be seen in the budget as early as 1998.

The nine agencies we reviewed took different approaches to restructuring budgets to better align budget resources with performance. Table 1 shows that the budget structure (e.g., appropriations account, program activity listing, or congressional budget justification) affected in the nine agencies in our study varied.

**Table 1: Where Agencies Made or Proposed Changes to Better Align Budget Resources with Programs and Performance**

		VA	NASA	DOJ	EPA	SBA	COMMERCE	HUD	LABOR	DOT
Changes to appropriations account structure	Changes to accounts	X	X	X						a
	Changes within accounts to program activities	X	X	X	X	X			b	a
Changes to congressional budget justification		X	X	X	X	X	X	X <sup>c</sup>	X	X

Source: GAO analysis.

<sup>a</sup>Some bureaus within DOT made or proposed changes to their account structure and program activities within accounts to better align with performance, but DOT as a whole did not restructure its budget accounts.

<sup>b</sup>The Pension Benefit Guaranty Corporation and the Employment and Training Administration made or proposed changes to the program activities within their appropriations accounts, but according to Labor officials these changes reflect policy changes. Labor as a whole did not restructure its appropriations accounts to better align resources with programs or performance.

<sup>c</sup>For the fiscal year 2004 budget only. The House Appropriations Committee directed HUD not to submit a “performance budget” for fiscal year 2005 and consequently, HUD did not resubmit a “performance budget” for fiscal year 2005.

While some changes or proposed changes sought to modify the way resources are appropriated and thus the framework for resources trade-offs, other changes sought to provide additional information on the connection between budget resources and programs and performance for presentational purposes. The three agencies proposing account structure changes—NASA, VA, and DOJ—requested that budget authority be appropriated to cover the “full cost” of programs or collections of programs that support common goals.<sup>13</sup> The remaining six agencies—Commerce, Labor, DOT, EPA, HUD, and SBA—for the most part maintained their existing appropriations account structures that reflected a mix of orientations and either restructured their congressional budget justifications to reframe their budget request around the “full cost” of performance or provided supplemental crosswalk tables to show the “full cost” or “total budgetary resources” of performance units for presentational purposes. In addition, some agencies also sought corresponding changes to other methods by which Congress oversees resource use, including transfer authority and reprogramming guidelines.<sup>14</sup>

In most of the selected agencies, the organizing framework of each agency’s congressional budget justification followed its appropriations account structure; however, three agencies in our study—EPA, SBA, and HUD—used organizing frameworks for their congressional budget justification that did not match their appropriations account structures. For example, EPA’s appropriations account structure generally reflects a mix of orientations, including object (items of expense) and organization. However, EPA organized its congressional budget justification by strategic goal. Any one strategic goal might have been funded by multiple

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<sup>13</sup> Congress, specifically the appropriations committees, establishes appropriations accounts to facilitate congressional allocation and oversight responsibilities. The President’s budget generally reflects these appropriations account structures, but the executive branch may propose changes to the structure.

<sup>14</sup> Transfer authority is specifically authorized by law and allows shifting all or part of the budget authority provided in one appropriations account to another. Reprogramming is shifting funds within an appropriations account to use them for different purposes than those contemplated at the time of appropriation. Sometimes committee oversight of reprogramming is prescribed by statute requiring that the agencies either notify or consult with the appropriate congressional committees when reprogramming funds that have certain program impacts or are above a certain threshold.

appropriations accounts. As a result, it was easier to see the resources associated with strategic goals and objectives in the congressional budget justification but more difficult to see the resources associated with each appropriations account.<sup>15</sup>

Agencies linked budget resources to various levels of performance in their congressional budget justifications. Most agencies in our review aligned budget resources to programs or collections of programs that support common strategic goals. Four agencies—EPA, SBA, HUD, and DOT—aligned budget resources to strategic goals or objectives or both, and three agencies—Commerce, Labor, and DOT—aligned budget resources to performance goals.

While agencies included in our study all took steps to more completely capture the “full cost” of programs and performance, the types of resources agencies allocated to program and performance units varied. In particular, the treatment of central administrative resources and IG office resources differed. For example, EPA allocated 100 percent of its resources to its strategic objectives. NASA and SBA each allocated almost all resources except for the IG to their programs and goals. Other agencies, including VA and DOJ, did not allocate central administrative resources to their programs. Thus, what was described as “full cost” or “total budgetary resources” was not the same in all agencies. This lack of consistency has the potential to complicate the understanding of what is meant by “full cost” and “total budgetary resources.” For more information on how the resources allocated to programs and performance differed, see section 2.2c.

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## Budget Restructuring Has Potential to Help Reframe Budget Choices

Recent budget restructuring efforts have sought to help reframe budget choices and to focus decisions more on the expected results of budget resources and less on inputs or line items. The different approaches used by agencies in our review provide different information and incentives and thus have different implications for management and oversight. For example, appropriations account structure changes, which change the statutory control over resources, generally have a greater potential to change management and oversight than changes to congressional budget

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<sup>15</sup> This refers to changes made up through EPA’s fiscal year 2005 budget justification. For fiscal year 2006, EPA restructured its budget justification so that it is organized by appropriations account and program/project.

justifications alone, which may be primarily presentational. Regardless of the approach used, a full understanding of the implications of budget restructuring efforts cannot be understood without looking also at the effect of corresponding changes to the other methods by which Congress and agencies oversee and manage budget resources, such as earmarks and reprogramming guidelines. (See section 3.2b for a more detailed discussion.)

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## Budget Restructuring Viewed by Some as Supporting Results-Oriented Management and Oversight

OMB staff and agency officials credited these appropriations account and congressional budget justification changes with supporting results-oriented management. Officials we spoke with or documents we reviewed from five agencies indicated that the restructured budgets increased the attention to strategic planning, performance, and results during internal budget deliberations and, in some of these agencies, increased the coordination of programs supporting common strategic goals or objectives. Also, OMB staff and officials from seven agencies credited budget restructuring with providing more complete information on the budget resources associated with performance.

Officials we spoke with from six agencies also emphasized that the changes went beyond providing more complete information on the resources associated with programs or performance to providing incentives to recognize resource trade-offs and the flexibility to make them. For example, a key objective of NASA's restructuring was to provide incentives for improved resource management. According to NASA officials, because NASA's program budgets now include direct and indirect budget resources associated with a project and managers are responsible for these resources, managers have better information and incentives to be cost effective and the flexibility to make trade-offs between various resources, such as administrative costs, supplies, direct civil servants, and contractors or consider whether lower cost alternatives exist. In addition, NASA officials credited "full cost" budgeting with helping to identify underutilized facilities. Because service pool<sup>16</sup> resources are allocated to NASA's programs and included as part of program budgets based on use, NASA said underused service pools became more visible. If programs did not cover a service pool's costs, NASA officials said that it would raise questions about whether that capability was needed. (See section 3.3a for

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<sup>16</sup> Service pools are infrastructure capabilities that support multiple programs and projects.

a more detailed discussion of the perceived benefits of budget restructuring.)

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## Some Noted Limitations and Concerns

Despite these perceived benefits, officials from two case study agencies raised concerns that budget restructuring has the potential to complicate resource management by, among other things, reducing flexibility to respond to changing needs across program accounts, creating budget execution difficulties, or adversely affecting the balance between maintaining institutional capacity—its physical assets and workforce—and operational efficiency. For example, some VA officials raised concerns that VA's proposed account structure might affect their ability to respond to changes in benefit claims. Currently, administrative costs are funded through one appropriations account so VBA can shift administrative funds among multiple programs throughout the year to address performance issues or respond to changes in benefit claims that might arise. Under the proposed appropriations account structures for fiscal years 2004 and 2005, each benefit program's administrative expenses would have been funded from separate appropriations accounts; as a result, shifting administrative funds among program appropriations accounts throughout the year would require transfer authority and VBA's ability to respond to changing needs would have been more limited.

Appropriations committee reports and subcommittee staff for the most part reflect congressional concerns and sometimes disapproval of budget restructuring efforts. Although some appropriations committee reports and staff we spoke with expressed general support for efforts to better link budget resources to performance, they were generally less comfortable with specific proposed changes. For the most part, committees continued to state a preference for and use previously established structures. For example, of the three agencies that proposed agencywide appropriations account changes—NASA, VA, and DOJ—only NASA was appropriated under the new structure. Several staff said that the organizational frameworks agencies used to restructure budgets did not align with how the agency operated, relied on units for which the agency was unable to track spending, did not provide useful information, or did not align with the focus of congressional appropriations committees. For example, appropriations subcommittee staff for EPA said that because appropriators generally focus on and fund resources by program, the congressional budget justification structured around strategic goals and objectives did not provide information they need. In 2004, after receiving justifications structured around performance for 7 years, the House and Senate

appropriations subcommittees urged EPA to reformat its congressional budget justification.<sup>17</sup> In response, EPA structured its fiscal year 2006 budget justification around appropriations accounts and program/projects.

Further, several staff said the restructured congressional budget justification not only introduced new perspectives but omitted information that appropriators have come to rely on such as changes to appropriations language and funding levels, historical information, funding levels by program or state, object class information, workload information, and detailed cost information. Lastly, some subcommittee staff said they found the narrative included in performance-based congressional budget justifications too voluminous and that, while it might be useful information, it is too cumbersome and difficult to use. As expressed in one committee report, “In the place of critical budget-justifying material, the Committee is provided reams of narrative text expounding on the performance goals and achievements of the various agencies.”<sup>18</sup> (Section 3.3b provides a more detailed description of congressional concerns.)

Executive branch officials and staff with whom we spoke expressed differing views on the extent to which appropriations account structure changes are important for efforts to advance results-oriented management. Some saw the changes in appropriations accounts structures as necessary to reinforce transformations in agency culture and accountability processes. However, most did not view these changes as critical to their efforts to advance results-oriented management at this time. In the view of some officials, budget restructuring alone does not necessarily provide the detailed cost and performance information most useful for advancing results-oriented management and addressing some key management challenges. Some agency officials, congressional appropriations committee staff, and budget experts suggested that improving underlying financial and performance information should be a prerequisite to restructuring budgets and that, in their opinion, this step is more important to improving management and oversight than the recent budget

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<sup>17</sup> House Committee on Appropriations Report 108-674, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 9, 2004), p. 91; Senate Committee on Appropriations Report 108-353, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 21, 2004), p. 111, and H.R. Conf. Rep. No. 108-792, p. 1597 (2004).

<sup>18</sup> House Committee on Appropriations Report 108-671, *Departments of Transportation and Treasury and Independent Agencies Appropriations Bill, 2005* (Sept. 8, 2004), p. 5.

restructuring efforts. Others noted that efforts to develop improved performance measures and metrics have a much greater impact on results-oriented management than budget restructuring. These officials noted that management initiatives were generally advanced when internal management and accountability processes were recast to focus on performance and results, but budget restructuring was not viewed as essential to foster this shift in managerial perspective.

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## Budget Restructuring Efforts Face Challenges

History has shown that designing effective approaches to achieve meaningful connections between performance and budget structures is a complex undertaking. Restructuring budgets inevitably requires trade-offs among the needs and perspectives of Congress and other decision makers because budget structures reflect fundamental choices about how to frame budget choices and influence controls and incentives. In many cases, Congress and other key decision makers—OMB and different levels of agency management—have not reached consensus on the value of restructuring budgets or the frameworks used to do so. This is not surprising given the different roles these decision makers have within our constitutional system of separated powers. However, developing budget structures that balance the needs of both the executive and legislative branches is made more difficult if there is no consultation; some agency officials and congressional appropriations subcommittee staff we spoke with said there was insufficient dialogue between agencies and appropriators on agencies' budget restructuring efforts.

This lack of consensus, whatever the cause, has and will likely continue to raise challenges for those attempting to develop and implement restructured budgets. Agencies' experiences have shown that pursuing restructured budgets without the agreement—or at least acquiescence of appropriations subcommittees—can result in significant resources being used to develop budget structures that are rejected or, if accepted, do not fully meet congressional needs. For example, although Congress accepted EPA's fiscal year 1999 through 2005 congressional budget justifications structured around strategic goals and objectives and allowed reprogramming within strategic objectives, Congress required that EPA provide program information and continued to set specific funding levels in committee reports based on programs.<sup>19</sup> Appropriations subcommittee

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<sup>19</sup> According to our analysis, over 50 percent of EPA's budget is dedicated to specific programs.

staff said that they generally did not use the performance-based budget to conduct their work; rather they used the program-based information they requested from EPA.

Structuring budgets to better capture the “full cost” of programs and performance involves numerous judgments, such as the contribution of various programs to achieve goals and objectives and the allocation of resources among these programs and goals. However, questions have been raised about agencies’ capacity to develop meaningful allocations and track costs within the new frameworks. Indeed, both GAO and IGs have reported weaknesses in several of our case study agencies’ financial management systems in providing reliable, useful, and timely financial information, including cost data.<sup>20</sup> Thus, while budget restructuring might provide a more complete picture of the resources associated with expected results, it is dependent on these underlying systems and assumptions.

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## Lessons Learned

These challenges suggest that budget restructuring may be a long-term, iterative process requiring flexibility to explore different approaches. Budget restructuring is one tool that can support results-oriented management. However, it involves significant trade-offs between information provided and accountability frameworks used. Congress, OMB, and agencies hold differing views on the information and incentives necessary to support effective decision making and oversight. Recent efforts to increase the focus on results in congressional budget justifications have generally reduced the visibility of other information, such as workload and output measures, that congressional appropriations committees consider important for making resource allocation decisions. The need for workload and output measures for making resource allocation decisions is not unique to the federal government. State officials indicated this information is used by legislators in making resource allocation decisions, as discussed in our most recent review of state performance budgeting efforts.

The history of budget reform suggests that budget structures will necessarily reflect multiple perspectives on resource allocation. Performance goals and planning structures can clearly add value to budget debates by focusing attention on the broad missions and outcomes that

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<sup>20</sup> GAO, *Financial Management: FFMLA Implementation Necessary to Achieve Accountability*, GAO-03-31 (Washington, D.C.: Oct. 1, 2002).

individual programs and activities are intended to address. However, budget structures also serve the legitimate role of helping Congress control and monitor agency activities and spending by fostering accountability for inputs and outputs within the control of agencies. The greatest challenge of budget restructuring may be discovering ways to address these competing values that are mutually reinforcing, not mutually exclusive. The concerns raised by appropriations staff suggest that when creating “performance budgets” OMB and agencies find ways to tailor the agencies’ performance information to meet those needs and to supplement, rather than replace, key information used by Congress to make decisions.

While congressional buy-in is critical to sustain any major management initiative, it is especially important for performance budgeting given Congress’ constitutional role in setting national priorities and allocating the resources to achieve them. Experience suggests that Congress needs to be comfortable with the appropriateness and utility of the new budget structures since budget structures fundamentally shape the focus of appropriations decisions as well as the nature of the controls through which Congress oversees executive agencies’ spending. Accordingly, if performance goals and measures are to become the basis for the new budget structures, Congress must view them as a compelling framework through which to achieve their own budgetary objectives. Indeed, GPRA itself was premised on a cycle where measures and goals were to be established and validated during a developmental period before they were subjected to the rigors of the budget process.

This suggests that the goal of enhancing the use of performance information in budgeting is a multifaceted challenge that must build on a foundation of accepted goals, credible measures, reliable cost and performance data, tested models linking resources to outcomes, and performance management systems that hold agencies and managers accountable for performance. Restructuring appropriations accounts and presentations to better capture the “full cost” of performance is part of this agenda as well. However, creating performance budgets without establishing and validating the requisite foundation and consensus on measures and goals among primary decision makers will likely not succeed in gaining support in the budgetary decision-making process. While some argue that budget restructuring might be necessary to provide incentives to take the performance goals seriously and improve the underlying information, our work suggests that restructuring can only take root once support exists for the underlying performance goals and metrics. In due course, once the goals and underlying information become more

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compelling and are used by Congress, budget restructuring may become a more compelling tool to advance performance budgeting. In other words, the budget structure will more likely reflect—rather than drive—the use of performance and cost information in budget decisions.

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## Agency Comments

We provided a copy of the draft report to OMB and the nine agencies in our review for comment. OMB said they generally agreed with the report's findings and had no specific comments. VA, Commerce, and DOJ did not provide any comments. NASA, Labor, EPA, DOT, HUD, and SBA provided technical comments, which we incorporated as appropriate.

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# Section 1: Introduction

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Budgeting—the allocation of resources among multiple claims—is the process for making choices among often-conflicting objectives. How the budget is structured matters a great deal because these structures frame fundamental choices about resource allocation and the types of controls and incentives provided. Over the past 50 years, various efforts have sought to restructure budgets so as to link budgetary and performance information. The Office of Management and Budget (OMB) and agencies are again looking at these issues as part of the President’s Management Agenda (PMA). These efforts fall under the PMA’s Budget and Performance Integration initiative (BPI). One element of BPI involves budget restructuring<sup>1</sup>—changes to appropriations accounts and congressional budget justifications to better align budget resources with programs and performance (i.e., to better capture the “full cost” of programs and performance). Past efforts at budget restructuring have proven complex and posed challenges. These challenges have included structuring budgets in ways that can meet the multiple perspectives and needs of Congress, OMB, and different levels of management at executive branch agencies. Lessons learned from past initiatives can provide insights useful in considering today’s efforts, such as understanding that no single definition or structure encompasses the range of needs and interests of federal decision makers.

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## 1.1: Recent Budget Restructuring Efforts Are Part of Broader Efforts toward a More Results-Oriented Federal Government

Recent OMB and agency efforts to restructure appropriations accounts and congressional budget justifications to better align budget resources with programs and performance are part of broader efforts toward achieving a more results-oriented government. Over the last decade a statutory and management framework was established, and Congress, OMB, and other executive agencies have worked to implement it to improve the performance and accountability of the executive branch and to enhance executive branch and congressional decision making. Key components of this framework include the Government Performance and Results Act (GPRA), the Chief Financial Officers (CFO) Act, and the Government Management Reform Act (GMRA). Among their complementary purposes,

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<sup>1</sup> For purposes of this report, the term budget restructuring is used to describe changes to budget structures and measurement to better align budget resources with programs and performance. Budget restructuring involves both (1) alignment: structural and format changes to congressional budget justifications, and in some cases, appropriations accounts to better align budget resources with programs and performance; and (2) “full cost:” changes to the way certain budget resources are distributed or measured to better reflect where and when resources are consumed.

these acts seek to inform congressional oversight and executive decision making by providing information on the relative effectiveness and efficiency of federal programs and spending and to help federal managers improve service delivery by providing them with information about program results, costs, and service quality. As a result of this framework, there has been substantial progress in the last few years in establishing the basic infrastructure needed to create high-performing federal organizations.

However, the federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and position the nation for the future. A number of overarching trends, such as diffuse security threats and homeland security needs, increasing global interdependency, the shift to a knowledge-based economy, and the looming fiscal challenges facing our nation drive the need to reconsider the role of the federal government in the 21<sup>st</sup> century, how the government should do business (including how it should be structured), and in some instances, who should do the government's business. GAO has sought to assist Congress and the executive branch in considering the actions needed to support the transition to a more high-performing, results-oriented, and accountable federal government.<sup>2</sup> This report focuses on one strategy—budget restructuring—suggested to increase the focus on performance and results during budget deliberations.

GPRA explicitly sought to promote a connection between performance plans and budgets with a key objective of helping Congress, OMB, and other executive branch agencies develop a clearer understanding of what is being achieved in relation to what is being spent. The expectation was that agency goals and measures would be taken more seriously if they were perceived to be useful and used in the resource allocation process. By requiring that an agency's annual performance plan cover each program

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<sup>2</sup> GAO has engaged in constructive reviews of GPRA and various executive branch efforts to improve performance and accountability. See, for example, *Results Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: Mar. 10, 2004) and *Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget*, [GAO-04-174](#) (Washington D.C.: Jan. 30, 2004).

activity<sup>3</sup> in the President's budget request for that agency, GPRA established a basic foundation for linking resource allocation decisions and results. However, recognizing that agencies' program activity structures are often inconsistent across appropriations accounts, the act did not specify a level of detail or components needed to achieve this coverage. Agencies are provided flexibility to consolidate, aggregate, or disaggregate program activities so long as no major function or operation of the agency is omitted or minimized.

The CFO Act, as amended, also provides a foundation for understanding the connection between resources and results. The act sought to remedy the government's lack of timely, reliable, useful, and consistent financial information. Twenty-four agencies are required to prepare financial statements annually and have them audited. The required statements include, among other things, a statement of net cost. The statement of net cost is intended to provide timely and reliable cost information to (1) help ensure that resources are spent efficiently to achieve expected results, and (2) compare alternative courses of action.

Other core components of this framework include financial management statutes that expanded and amended the CFO Act, such as GMRA and the Federal Financial Management Improvement Act (FFMIA) (see table 2). In addition, the Federal Accounting Standards Advisory Board (FASAB)<sup>4</sup> developed managerial cost accounting standards aimed at providing reliable and timely information "on the full cost of federal programs, their activities, and outputs."<sup>5</sup> If successfully implemented these reforms provide the basis for improving accountability of government programs and operations as well as routinely producing valuable cost and

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<sup>3</sup> The term "program activity" refers to the listings shown in the Program and Financing (P&F) schedule of the *Appendix* portion of the Budget of the United States Government. Program activity structures are intended to provide a meaningful representation of the operations financed by a specific budget account usually by projects, activities, or organization.

<sup>4</sup> The Comptroller General of the United States, the Director of OMB, and the Secretary of the Treasury established FASAB in October 1990 to develop accounting standards and principles for the U.S. government. To meet its unique mission, FASAB considers the information needs of the public, Congress, managers, and other users of federal financial information.

<sup>5</sup> Federal Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards Number 4: Managerial Cost Accounting Standards and Concepts* (Washington, D.C.: July 31, 1995).

performance information that can inform resource management and oversight decisions. All these efforts recognize that improving cost and performance information to better understand the connection between resources and results is essential to promoting a more results-oriented government. And, taken together, they lay the groundwork for current and future reform effects to better integrate performance, budget, and cost information.

**Table 2: Statutory Framework for Improving Accountability of Federal Government, 1990 through 1996**

Reform	Description
Government Performance and Results Act of 1993, P.L. 103-62	A key part of the statutory framework, GPRA requires executive branch agencies to complete strategic plans in which they define their missions, establish results-oriented goals, and identify the strategies that will be needed to achieve those goals. GPRA also requires executive branch agencies to prepare annual performance plans that articulate results-oriented annual goals for the upcoming fiscal year that are aligned with their long-term strategic goals. GPRA also requires that annual performance plans be tied to budget requests by linking annual goals to the program activities displayed in the budget presentations. Agencies also are required to annually issue performance reports that provide important information to agency managers, policymakers, and the public on what each agency accomplished with the resources it was given.
Chief Financial Officers Act of 1990, P.L. 101-576	The CFO Act laid the legislative foundation for the federal government to provide taxpayers, the nation’s leaders, and agency program managers with reliable financial information. The CFO Act provided a framework for improved federal government financial systems, with a focus on program results in part by centralizing within OMB the establishment and oversight of federal financial management policies and practices. The CFO Act also set up a series of pilot audits whereby certain agencies were required to prepare agencywide financial statements and subject them to audit by the agencies’ inspectors general.
Government Management Reform Act of 1994, P.L. 103-356	The Government Management Reform Act expanded the CFO Act by, among other things, extending financial statement preparation and audit requirements to 24 agencies beginning with fiscal year 1996 and for the preparation and audit of consolidated financial statements for the federal government beginning with fiscal year 1997. The covered agencies are to prepare the statements in accordance with federal standards developed by FASAB, including a requirement for cost information.
Federal Financial Management Improvement Act of 1996, P.L. 104-208, Div. A, Title I, sec. 101(f) [Title VIII], 110 Stat. 3009-389	The purpose of FFMIA is to ensure that agency financial management systems comply with federal financial system requirements, applicable federal accounting standards, and the <i>United States Government Standard General Ledger</i> to provide uniform, reliable, and more useful financial information, including managerial cost accounting information, to evaluate program and activities on their “full costs and merits,” to make fully informed decisions, and to ensure accountability on an ongoing basis.

Source: GAO analysis.

The federal government is moving into an important and more difficult phase of implementation—formally using results-oriented performance and cost information as part of agencies’ day-to-day management and

congressional and executive branch decision making. Within this area, one important and long-standing issue is how to better integrate performance, cost, and budget information to better support resource allocation decisions. Among the issues to be resolved are if, how, and to what extent the budget might be restructured to help and encourage better understanding of the connection between budget resources and performance and to support more effective and efficient resource use. The federal budget is organized into about 1,100 appropriations accounts, and most accounts have subsidiary program activities that show budget authority of more specific levels of inputs, outputs, or outcomes funded by the account. While the current account structure may help satisfy congressional control and oversight objectives, it does not always align well with performance goals, nor does it always readily capture the “full cost” of programs. For example, program activities may show only a portion of the funding for an output or outcome and certain performance goals cut across multiple program activities and appropriations accounts. Also, the costs of a single program can sometimes be split among multiple accounts, such as accounts for salaries and expenses and accounts for other expenditure items such as capital or construction.

Concerns continue that a general lack of integration among performance, budget, and financial management functions and reporting structures impedes transparency and may hamper efforts to understand fully the relationship between performance, requested resources, and resources consumed. We have reported that closer integration among performance, budgeting, and financial management functions and information might provide greater reinforcement of results-oriented management efforts and could help improve the quality and availability of budget, financial, and performance information. Clearer and closer associations between performance information and budget requests could more explicitly inform and help focus budget discussions on performance.

However, it is important to recognize that budget and planning structures serve different purposes. Achieving a connection between these structures is easier said than done. There will almost always be tension between these structures. Our past work suggests that the account structure has evolved over time to help Congress control and monitor agencies activities and spending and, as such, is geared more to fostering accountability for

inputs and outputs.<sup>6</sup> 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. Efforts to align budget and performance structures represent more than structural or technical changes but important trade-offs among different and valid perspectives and needs of Congress, including appropriators and authorizers, and different levels of Executive Branch management.

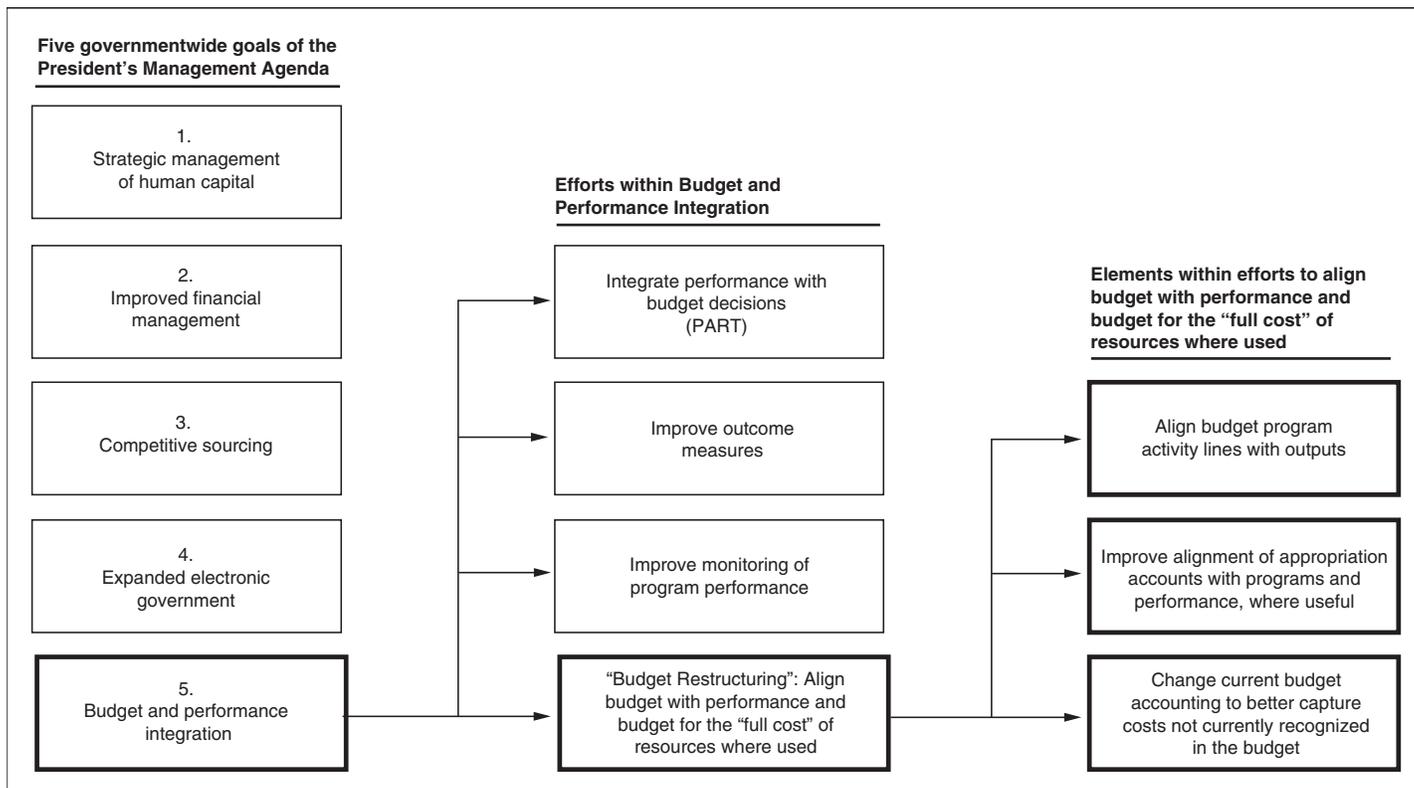
The current administration has taken several steps to strengthen the integration of budget, cost, and performance information for which GPRA, the CFO Act, and GMRA laid the groundwork. The administration included BPI as one of its management initiatives under the umbrella of the PMA. The PMA, by focusing on a number of targeted areas (including five mutually reinforcing governmentwide goals and a number of program initiatives), seeks to improve the performance and management of the government. As shown in figure 1, BPI is one of five crosscutting initiatives within the PMA and the initiative includes efforts such as the Program Assessment Rating Tool (PART), improving outcome measures, and improving monitoring of program performance. Budget restructuring to better align budget resources with programs and performance is one effort within the BPI initiative. As will be discussed in more detail in section 2, two aspects of budget restructuring discussed as part of the BPI initiative included:

1. alignment: structural and format changes to congressional budget justifications, and in some cases, appropriations accounts to better align resources with programs and performance; and
2. “full cost:” changes to the way certain budget resources are distributed or measured to better reflect where and when resources are consumed.

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<sup>6</sup> GAO, *Budget Account Structure: A Descriptive Overview*, [GAO/AIMD-95-179](#) (Washington, D.C.: Sept. 18, 1995).

Figure 1: Relationship among the PMA, the BPI, and Budget Restructuring



Source: GAO.

In outlining its BPI initiative, the current administration expressed concern that the structure of the federal government budget “makes it impossible to identify the full cost associated with individual programs.”<sup>7</sup> The administration stated that it would seek to “integrate more completely information about costs and programs performance in a single oversight process.” According to the administration, the initiative would include “budgeting for the full cost of resources where they are used, making budget program and activity lines more parallel with outputs, and, where useful, improving alignment of budget accounts.” With regard to “full cost,” the administration transmitted legislative changes that proposed to more completely recognize the accruing costs of federal employee retirement

<sup>7</sup> *The President's Management Agenda, Fiscal Year 2002*, p. 28.

benefits. The administration noted that additional legislative changes may be necessary to better align other resources with results in the budget.

OMB officials and staff we spoke with described restructuring budgets to better align budget resources with programs and performance as supporting efforts to achieve a more results-oriented government. Because the budget is the basis for resource allocation decisions, strengthening the link between resources and performance in congressional budget justifications is viewed as an important step to increase the focus on performance in budget deliberations. Moreover, an OMB staff member said changing the appropriations account structure could help better inform and drive budget decisions by providing not only the information but also the incentives to recognize and make resource trade-offs to manage resources more efficiently. According to the fiscal year 2004 *Analytical Perspectives*, “a program manager who is authorized to manage the program, controls budget authority that covers the ‘full cost’ of resources used, and has authority over program staff can focus his attention on getting results.” Thus, according to OMB staff, aligning authority and accountability—or, appropriating budget authority<sup>8</sup> by programs and outcomes—provides both the information and incentives to allocate resources and the flexibility to execute the budget with a focus on effectiveness.

OMB staff said appropriations account structure changes may not be necessary. Beginning with the fiscal year 2005 budget, OMB required agencies to change their congressional budget justification. According to OMB the structure of a “performance budget” justification—by explaining goals, how they will be achieved, and what resources are required—encourages an analytical congressional budget justification that answers key questions in an organized format and might enhance public and congressional understanding of government performance.<sup>9</sup>

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<sup>8</sup> Budget authority is authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds. The basic forms of budget authority include (1) appropriations, (2) borrowing authority, (3) contract authority, and (4) authority to obligate and expend offsetting receipts and collections. Budget authority may be classified by its duration (1-year, multiple year, or no-year), by the timing of the legislation providing the authority (current or permanent), by the manner of determining the amount available (definite or indefinite), or by its availability for new obligations.

<sup>9</sup> Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003* (Washington, D.C.: February 2002).

**1.1a: Alignment of Budget and Performance Structures Is a Long-Standing and Complex Issue**

Improving the connections between budget and performance information is not a new or simple task. Since about 1950 the federal government has attempted several governmentwide initiatives designed to better align spending decisions with expected performance.<sup>10</sup> These efforts provide insights into both the potential limitations of establishing performance structures that are not clearly linked to the budget as well as some of the challenges associated with trying to better align performance and budget structures. Table 3 provides a brief overview of the objectives of some previous initiatives as well as some of the challenges faced in terms of better aligning budget and performance structures.

**Table 3: Overview of Some Previous Initiatives**

Previous initiative	Brief description
Hoover Commissions 1949 and 1953	In 1949 the first Hoover Commission’s recommendations were intended to shift the focus away from the inputs of government to its functions, activities, costs, and accomplishments. Rather than emphasizing items of expenditure, such as salaries, a “performance budget” was to describe the expected outputs resulting from a specific function or activity. Consistent with the Commission’s recommendations, Congress enacted the Budget and Accounting Procedures Act of 1950 that, among other things, required the President to present in his budget submission to Congress the “functions and activities” of the government, ultimately institutionalizing as a new budget presentation “obligations by activities.” These presentations continue today although they are now referred to as “obligations by program activity” or more informally “program activities.” However, reflecting on the implementation of the first Commission’s recommendations, the Second Hoover Commission observed that many programs did not have adequate cost information and suggested that budget activities and organizational patterns be made consistent and accounts established to reflect this pattern. The Commission suggested that budget classification, organization, and accounting structures should be synchronized.
Planning, Program-Budgeting System (PPBS) 1965	PPBS, mandated governmentwide in 1965, introduced a decision-making framework to executive branch budget formulation that involved presenting and analyzing choices among long-term policy objectives and alternative ways of achieving them. As originally designed, PPBS information systems were not expected to correlate to the President’s budget submission to Congress. However, a later Bureau of the Budget bulletin directed agencies to provide crosswalks between their PPBS and appropriations structures. This “two-track system” was found to be burdensome, and subsequent efforts to align PPBS program structures with the federal budget were ultimately unsuccessful. While the Department of Defense continues to use PPBS procedures, the governmentwide initiative was formally discontinued in 1971.

<sup>10</sup> For a more detailed discussion of these initiatives, see GAO, *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation*, GAO/AIMD-97-46 (Washington, D.C.: Mar. 27, 1997).

*(Continued From Previous Page)*

Previous initiative	Brief description
Management by Objectives (MBO) 1973	Initiated in 1973, MBO put in place a process to hold agency managers responsible for achieving agreed-upon outputs and outcomes. While in its first year no attempt was made to establish an explicit connection between MBO and the budget process, ultimately a link between agencies' stated objectives and their budget requests was sought. Although certainly affected by President Nixon's resignation, MBO suffered from its initial separation from existing budget formulation processes and from problems in identifying and measuring objectives. The last objectives under MBO were requested in 1975.
Zero-based Budgeting (ZBB) 1977	ZBB was an executive branch budget formulation process introduced in 1977. Its main focus was on optimizing accomplishments available at alternative budget levels. Under ZBB, federal agencies were expected to set priorities based on program results that could be achieved at alternative spending levels, one of which was to be below current funding. In concept, ZBB sought a clear and precise link between budget resources and program results. The initiative, however, faced a number of challenges. Initially there was no attempt to explicitly connect the ZBB structure with agencies' organizational structures or congressional budget justifications, and crosswalks between the ZBB structure and the budget structure were viewed as obscuring the analysis of alternative spending levels and performance. Paperwork burdens also were cited as a problem for both agencies and appropriators.
National Performance Review (NPR) 1993	In the mid-1990s, NPR—an executive branch reform effort aimed at making the government “work better and cost less”—included hundreds of recommendations generally intended to emphasize results and managerial flexibility. <sup>a</sup> Among these recommendations, NPR included several proposals to deal with “mission-driven, results oriented budgeting,” including restructuring appropriations accounts to reduce overitemization and align them with programs. In a 1994 report on the status of NPR implementation, <sup>b</sup> GAO cautioned that the degree of “overitemization” is a matter of interpretation and political judgment. Further, GAO noted that one reason for congressional attention on processes rather than on results has been the absence of reliable performance data.

Source: GAO analysis.

<sup>a</sup>Office of the Vice President, *From Red Tape to Results: Creating a Government that Works Better and Costs Less*, Report of the National Performance Review (Washington, D.C.: Sept. 7, 1993).<sup>b</sup>GAO, *Management Reform: Implementation of the National Performance Review's Recommendations*, [GAO/OCG-95-1](#) (Washington, D.C.: Dec. 5, 1994).

## 1.2: Lessons Learned in Performance Budgeting Initiatives Provide Insights for Considering Current Restructuring Efforts

As previous efforts have shown, determining effective approaches to achieve meaningful connections between performance and budget structures is a large and complex undertaking.

The lessons and common themes that have emerged from previous initiatives provide insights for considering the most recent budget restructuring efforts discussed in this report. First, previous efforts have shown that any effort to link plans and budgets must actually involve both the executive and legislative branches of our government. While congressional buy-in is critical to sustain any major management initiative, it is especially important for performance budgeting given Congress' central role in setting national priorities and allocating the resources to achieve them. Past initiatives often faltered because the executive branch

developed plans and performance measures in isolation from congressional oversight and resource allocation processes. Second, previous efforts that did not initially attempt to explicitly connect performance with the budget showed the difficulty associated with using crosswalks and in maintaining congressional interest in performance structures disconnected from the congressional oversight and budget processes. For example, past federal government performance budgeting initiatives have resulted in unique and often voluminous presentations unconnected to the structure and processes used in congressional decision making.

Third, past initiatives demonstrate that there is no single definition of “performance budget” that encompasses the range of needs and interests of federal decision makers.<sup>11</sup> For example, while to some “performance budgeting” might mean increasing the focus on results during budget deliberations, it might mean greater flexibility and discretion in operations to another. Finally, past initiatives showed that performance budgeting cannot be viewed in simplistic terms. Ultimately, budgeting is and will remain an exercise in political choice in which performance can be one factor, but not necessarily the only factor underlying decisions.

Building on the lessons of these previous efforts, GPRA aimed for a closer and clearer linkage between requested resources and expected results. As noted previously, the act established a basic connection between an agency’s performance and budget structures by requiring an agency’s performance plan to cover each program activity in the President’s budget request for that agency. Our previous review of performance plans found that agencies have made progress in demonstrating how their performance goals and objectives relate to program activities in the budget. Similarly, agencies’ initial efforts to link performance plans to their statements of net cost are improving, but some presentations are more informative than others. Despite these improvements, we found that additional effort is needed to more clearly describe the relationship between performance

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<sup>11</sup> GAO, *Performance Budgeting: Initial Agency Experiences Provide a Foundation to Assess Future Directions*, [GAO/T-AIMD/GGD-99-216](#) (Washington, D.C.: July 1, 1999).

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expectations, requested funding, and consumed resources.<sup>12</sup> In addition, the measures and goals used were to be established and validated during a developmental period before being subjected to the rigors of the budget process.

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### 1.3: Challenges Confront Efforts to Better Align Budget and Performance Structures

Efforts to align budget and performance structures confront the multiple perspectives and needs of Congress, including congressional members and staff serving on appropriations and authorizing committees, and other decision makers such as officials and staff at OMB, and different levels of agency management. These multiple perspectives are manifested in the following three challenges, and any efforts to restructure budgets to better align budget resources with programs and performance must address these challenges:

- a fundamentally heterogeneous appropriations account structure that serves many different needs and objectives,
- a variety of ways “costs” can be described and measured, and
- a variety of understandings of what constitutes and might be expected from “performance budgeting.”

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#### 1.3a: Appropriations Account Structure

Appropriations accounts are established by law and facilitate congressional allocation and oversight responsibilities. Appropriations accounts frame resource allocation decisions and the types of incentives provided as well as serve as the unit of control. The appropriations account structure, developed over the last 200 years, was not created as a single integrated framework but rather developed, for the most part, as separate accounts over time in response to specific needs. Although appropriations acts generally establish appropriations accounts, the appropriations account structure serves the needs and objectives of many users of the budget and an intricate network of relationships among Congress and these users. A continual challenge in structuring

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<sup>12</sup> GAO, *Managing for Results: Agency Progress in Linking Performance Plans With Budgets and Financial Statements*, [GAO-02-236](#) (Washington, D.C.: Jan. 4, 2002); and *Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans with Budgets*, [GAO/AIMD/GGD-99-67](#) (Washington, D.C.: Apr. 12, 1999).

appropriations accounts is finding ways to balance managerial flexibility and congressional control.

Our previous review of appropriations accounts revealed a complex and varied structure characterized by a mix of account orientations.<sup>13</sup> Each of the four orientations used in our previous analysis—object, organization, process, and program—reflects a specific focus or interest of Congress. An object orientation emphasizes the items of expense while an organization orientation focuses on the responsible government unit. A process orientation concentrates on the specific operations or approaches underlying the federal activities. A program orientation focuses on the missions and objectives of government units.<sup>14</sup> All orientations were found throughout the appropriations account structures. Within this varied structure, a number of additional complexities related to better aligning budget and performance structures exist. One complexity is that some appropriations accounts with a program orientation include the resources for a number of programs within a single account. However, other appropriations accounts with a program orientation do not necessarily capture all related program resources. For example, some programs separate an appropriations account for salaries and expenses from other program expenditure appropriations accounts.

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### 1.3b: Concept of “Cost”

Recent efforts to better align budget and performance structures often use terms such as “full cost” and aim to provide improved and comparable cost information. However, the various users of performance, budget, and cost information may have different but valid perspectives on what is meant by “cost.” These differences determine how information and incentives are framed and thus, the extent to which particular cost information might be considered useful for a given purpose and user. Understanding these different perspectives and approaches to cost provides insights into the challenges associated with restructuring budgets in ways that will support the various users’ perspectives and needs.

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<sup>13</sup> GAO, *Budget Account Structure: A Descriptive Overview*, [GAO-AIMD-95-179](#) (Washington, D.C.: Sept. 18, 1995).

<sup>14</sup> The four orientations are a variation on a theme developed by Allen Schick in “On the Road to PPB: The Stages of Budget Reform,” in *Perspectives in Budgeting* (Washington, D.C.: American Society for Public Administration, 1987).

“Cost” generally can be thought of as the value of resources that have been, or must be used or sacrificed to attain a particular objective. However, what is meant by “cost” in a given situation depends on

- *when* costs are recognized,
- *what* unit of cost is being measured (e.g., strategic goal or program), and
- *the extent to which* individual cost components (e.g., salaries, materials, general administrative costs) are included in the measure.

*When* costs are measured varies based on the intended purpose. Users focused on control over spending may want to recognize the complete costs when a decision is made to commit resources. For example, the obligations-based budget helps ensure upfront control over asset acquisition costs by requiring budget authority for the full cost of the asset when it is purchased. Conversely, users focused on performance assessment (including cost efficiency and cost effectiveness) may want to recognize resources when they are used to produce goods and services. For example, accrual-based measurement records transactions in the period when the underlying economic activity generating the revenue, consuming the resources, or increasing the liability occurs, regardless of when the associated cash is actually paid or received. Each method provides different information on the “cost” of an object or activity.

*What* unit of cost is being measured helps frame decisions and has implications for how cost information might be used, including the types of questions that might be answered. For example, cost information could be aligned to strategic or performance goals, to programs or activities, or to more detailed levels of analysis such as the unit cost of a specific output.

*The extent to which* individual cost components are included in “full cost” may differ among users. “Full cost” is generally viewed as including both *direct costs* (costs that can be specifically identified with a cost object, such as an output, etc.)<sup>15</sup> and *indirect costs* (costs of resources that are jointly or commonly used to produce two or more types of outputs but are

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<sup>15</sup> According to FASAB No. 4, *Managerial Cost Accounting Standards and Concepts*, examples of *direct costs* include: salaries and other benefits for employees who work directly on the output, materials and supplies used in the work, office space, and equipment and facilities that are used exclusively to produce the output.

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not specifically identifiable with any of the outputs).<sup>16</sup> However, differences about what cost components to recognize as “full cost” will arise in part due to different perspectives on what “costs” are critical to achieving a given objective.

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### 1.3c: The Concept 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 continues to evolve. For many years, numerous experiments have attempted to change the emphasis of budgeting from its traditional focus on inputs to the allocation of resources based on program goals and measured results. As noted earlier, past initiatives demonstrate that there is no single definition of a “performance budget” that encompasses the range of needs and interests of federal decision makers.<sup>17</sup> As such, Congress, OMB, and the agencies might hold a range of views and perceptions about what is meant by “performance-based budgets” and “performance budgeting” as well as what might be achieved. For example, “performance budgeting” might be viewed in simplistic terms—that is, resource allocation is mechanically linked to performance or as presenting the varying levels of performance that would result from different budget levels. However, performance information will not provide mechanistic answers for budget decisions, nor can performance data eliminate the need for considered judgment and political choice. Alternatively, “performance budgeting” might be viewed as providing performance information in ways that inform resource allocation decisions. The different interpretations of the term “performance budgeting” increase the importance of understanding the objectives of any particular initiative and its elements.

“Performance budgeting” might best be thought of as an umbrella of tools to increase the focus on performance during the budget process. An example of a current initiative to increase visibility and focus on performance information during budget deliberations is OMB’s PART. The PART is a diagnostic tool meant to provide a consistent approach to evaluating federal programs as part of the executive branch budget

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<sup>16</sup> According to FASAB No. 4, *Managerial Cost Accounting Standards and Concepts*, examples of *indirect costs* include: general administrative services; general research and technical support; security; rent; and operations and maintenance costs for building, equipment, and utilities.

<sup>17</sup> GAO, *Performance Budgeting: Initial Agency Experiences Provide a Foundation to Assess Future Directions*, [GAO/T-AIMD/GGD-99-216](#) (Washington, D.C.: July 1, 1999).

formulation process, thereby more explicitly infusing performance information into the budget at a level at which funding decisions are made. Efforts might involve increasing credible cost and performance information and improving the government's capacity to account for and measure the total cost of federal programs and activities. Lastly, improving the alignment of the account structure to align authority with accountability and relate resources used to the results produced can also fall under the umbrella of "performance budgeting."

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## 1.4: Clarification of Report Focus and Terminology Used

While "performance budgeting" may be thought of as an umbrella of various initiatives to better infuse performance information into the budget process, the focus of this report is budget restructuring, which involves

1. alignment: structural and format changes to congressional budget justifications, and in some cases, appropriations accounts to better align budget resources with programs and performance; and
2. "full cost:" changes to the distribution or measurement of certain budget resources to better capture the cost of those resources where and when they are used.

Although OMB's concept of "full cost" initially included efforts to change the budgetary measurement of certain items to better recognize costs in the budget when resources are consumed, this effort has not been a primary focus of reform efforts. Rather, reform efforts to date have focused on changes in the structure of appropriations accounts or congressional budget justifications and the distribution of resources within these structures to more completely align budget resources with programs and performance. As a result, these efforts are the primary focus of this report.

In describing efforts to restructure budgets to better align budget resources with performance, OMB and other agencies use terms such as "full cost" and "total budgetary resources." In most but not all cases, these terms are used to refer to the alignment of requested budget authority with programs and performance within congressional budget justifications or appropriations accounts. However, various users of performance, cost,

and budget information,<sup>18</sup> including users across agencies, may interpret “full cost” and “total budgetary resources” differently. Thus, for the purposes of this report, we use the term “budgetary resources” generally to describe the budget information within appropriations accounts and congressional budget justifications that has been aligned to programs and performance during restructuring efforts. When we use terms “full cost” and “total budgetary resources” as used by OMB or the agencies or both, we place them in quotations.

In this report “performance budget” refers to congressional budget justifications that are structured around agency strategic and performance goals and not to any process or approach in which resource allocation decisions are being more generally linked to performance. We place the term in quotations because different users may interpret “performance budget” differently.

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<sup>18</sup> For example, in federal budgeting, “budgetary resources” refers to all available budget authority given to an agency allowing it to incur obligations. Budgetary authority includes appropriations, borrowing and contract authority, and authority to obligate and expend offsetting receipts and collections.

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# Section 2: Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Programs and Performance

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The Office of Management and Budget (OMB) has been discussing the need to reexamine appropriations accounts within the last decade, and beginning with the fiscal year 1999 budget, some agencies' efforts to better align budget resources with programs and performance could be seen in the budget. Recently, OMB has placed greater emphasis on budget restructuring by including it as one effort in the Budget and Performance Integration (BPI) initiative. OMB has also increased the focus on changing the congressional budget justification by requiring agencies to submit "performance budgets" to both OMB and Congress that integrate the performance plan and congressional budget justification into one document. The nine agencies we reviewed exemplify a variety of approaches taken, differing in terms of the:

- specific budget structure affected (e.g., appropriations accounts, program activities within the appropriations account structure, or congressional budget justifications);
- orientation or organizing framework used to restructure the budget (e.g., strategic goals, bureaus, programs, etc.);
- level of performance (e.g., strategic goals, performance goals, programs, etc.) for which budget resources were shown or budget authority requested; and
- types of resources (e.g., central administration, Inspector General (IG) offices, etc.) distributed within the performance-based budget structure to reflect "full cost."

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## 2.1: OMB Recently Placed Greater Emphasis on Budget Restructuring

After discussing budget restructuring in the *Analytical Perspectives* for a number of years, in 2001 OMB placed more emphasis on it by including it as one of several efforts in the BPI initiative of *The President's Management Agenda* (PMA). Then, in 2003, OMB required agencies to restructure their congressional budget justifications creating a "performance budget" for fiscal year 2005. During the same period, some agencies were also taking steps to restructure their appropriations accounts or congressional budget justifications to better align budget resources with programs and performance. OMB staff told us that they saw budget restructuring as a process that would evolve over time and that they had no single vision of the right approach.

**Section 2: Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Programs and Performance**

**2.1a: OMB and Some Agencies Made Concurrent Efforts to Restructure Budgets**

Building on the statutory framework established in the early 1990s, OMB and some agencies made concurrent efforts to restructure budgets to better align budget resources with performance. Figure 2 provides a time line of recent efforts by OMB and our four case study agencies.

**Figure 2: Time Line of OMB and Agency Efforts to Align Appropriations Accounts and Congressional Budget Justifications with Performance**

	FY1995	FY1998	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
<b>OMB</b>			In the <i>Analytical Perspectives</i> , OMB discussed need to reexamine budget structures to better align resources with performance and include "full cost"	OMB issued President's Management Agenda that discussed the need to reexamine budget structures to better align resources with performance and include "full cost"	OMB issued A-11 for FY2004 budget that included guidance on appropriations account and justification realignment and capturing "full cost"	OMB issued A-11 for FY2005 budget that required all agencies to submit "performance budget" and included guidance on appropriations account and justification realignment and capturing "full cost"		
<b>EPA</b>		EPA submitted FY1999 budget with changes to program activities and budget justification to better align resources with its strategic goals						EPA submitted FY2005 budget with changes to program activities and budget justification to better align resources with its revised strategic goals
<b>NASA</b>				NASA submitted FY2002 budget proposing to eliminate mission support appropriations account; the Congress appropriated under proposed structure		NASA submitted first "full cost" budget and fully integrated budget and performance justification for FY2004		
<b>DOL</b>						DOL submitted first "performance budget" justification for FY2004		
<b>VA</b>						VA proposed account restructuring and submitted restructured budget justification for FY2004; Congress did not appropriate under proposed structure		VA proposed modified appropriations account restructuring and submitted restructured budget justification for FY2005; Congress did not appropriate under proposed structure

Source: GAO analysis.

OMB's interest in budget restructuring did not originate with the PMA. Over the last 10 years, OMB has discussed the need to "reexamine account structures to better align them with program outputs and outcomes and to charge the appropriate account with significant costs used to achieve these results."<sup>1</sup> More recently, OMB placed greater emphasis on budget restructuring by including it as one effort in the BPI initiative of the PMA that was issued in August 2001. Beginning with the Circular A-11<sup>2</sup> for the fiscal year 2004 budget, OMB included guidance for agencies on ways to restructure their congressional budget justifications and appropriations accounts to better align budget resources with programs and performance. OMB later required agencies to submit a "performance budget" to OMB and Congress beginning with the fiscal year 2005 budget.

During the same period, some agencies were taking steps to restructure their appropriations accounts or congressional budget justifications to better align budget resources with programs and performance. Some case study agencies began restructuring their budgets or thinking about ways to better align the budget with performance before the PMA in 2001. For example, beginning with its fiscal year 1999 budget, the Environmental Protection Agency (EPA) made changes to the program activity listing within its appropriations accounts and to its congressional budget justification to better align budget resources with its strategic goals and objectives. Beginning with its fiscal year 2002 budget, the National Aeronautics and Space Administration (NASA) began taking steps toward restructuring its appropriations accounts and congressional budget justification and, for the fiscal year 2004 budget, requested budget authority for the "full cost" of its programs.

Some officials reported that the Government Performance and Results Act (GPRA) requirements and other results-oriented management initiatives, such as the Federal Financial Management Improvement Act (FFMIA), led them to think about ways to better incorporate a planning perspective into budget decisions and capture the "full cost" of their programs and activities. Officials from some agencies noted however that the PMA,

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<sup>1</sup> Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1996* (Washington, D.C.: February 1995), p. 100. Similar discussions were included in the *Analytical Perspectives* for the fiscal years 1997 through 2004 budgets as well.

<sup>2</sup> Circular A-11 provides, among other things, guidance on how to formulate, develop, and submit materials required for OMB and presidential review of agency budget requests.

which holds agencies publicly accountable for achieving goals of the management initiatives, and OMB's recent "performance budget" requirements provided greater incentives to move in this direction.

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### **2.1b: OMB Provides Budget Restructuring Guidance and Requires a "Performance Budget"**

Beginning with the fiscal year 2005 budget, OMB required agencies to submit a "performance budget" to OMB and Congress that would integrate an agency's annual performance plan and congressional budget justification into one document.<sup>3</sup> The agency's strategic plan was to be the template for the "performance budget." Agencies were instructed to provide an overview of strategic goals, past and expected outcomes for each strategic goal, how supporting programs would work together toward those goals, and how past shortcomings would be remedied. Tables would show the "full cost" paid by the agency toward each strategic goal and for each program. Each bureau or other organization was instructed to analyze its contribution to strategic goals followed by a detailed analysis of supporting programs. OMB said agencies should consult with congressional committees before submitting their budget to ensure Congress is aware of changes being made to the budget structure.

OMB also provided guidance to agencies on ways to change their current account structure to better align resources with programs and performance in the budget. The Circular A-11 guidance for the fiscal years 2005 and 2006 budgets said, "where possible" agencies should restructure the budget to align accounts and program activities with "programs or the components of the programs that contribute to a single strategic goal or objective."<sup>4</sup> In addition, the guidance for the fiscal years 2005 and 2006 budgets also suggested that agencies align program activities with Program Assessment Rating Tool (PART) programs. Agencies should also, where possible, include the "full cost" of a program in the "performance budget."<sup>5</sup>

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<sup>3</sup> According to OMB, because the plan would be integrated into the "performance budget," a separate annual performance plan would not be needed to satisfy GPRA requirements.

<sup>4</sup> OMB, *Circular No. A-11: Preparation, Submission, and Execution of the Budget* (Washington, D.C.: July 2003), p. 51-3 and OMB, *Circular No. A-11: Preparation, Submission, and Execution of the Budget* (Washington, D.C.: July 2004), p. 51-3.

<sup>5</sup> OMB, *Circular No. A-11* (July 2003), p. 51-3 and OMB, *Circular No. A-11* (July 2004), p. 51-3.

OMB described two ways in which agencies could restructure accounts to better capture “full cost.” The Circular A-11 said that in some cases agencies might consider requesting budgetary resources to cover all direct and indirect costs in the budget account or program activity that funds the program. This might involve changing the program activities in the program and financing (P&F) schedules or changing the appropriations account structure or shifting resources between accounts. In other cases, agencies might request budget authority for some support services in central accounts; in these cases, OMB suggested including a table showing the “full cost” of budget resources used by each program.

OMB defined “full cost” as “the sum of all budget resources used by an agency to achieve program outputs.”<sup>6</sup> These resources were to include not only traditional elements of costs, such as salaries and expenses, procurement of goods and services, grants, and transfers but also the cost of all support services and goods used and provided for centrally. In addition, these resources were to include accruing retiree pension and health benefits. OMB said that the “full costs” should be included in restructured accounts or displayed in informational tables. As part of these efforts, the administration proposed legislation that would change the budgetary measurement to recognize the accruing cost of retiree pension and health benefits in the budget. (See text box 1.) Congress, however, did not pass this legislation and OMB dropped the discussion from the Circular A-11.

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<sup>6</sup> OMB, *Circular No. A-11* (July 2002), p. 221-5.

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**Section 2: Variety of Efforts Undertaken to  
Restructure Budgets to Better Align Budget  
Resources with Programs and Performance**

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**OMB Proposed Legislation to Change How Certain Costs Are Captured in the Budget**

The U.S. budget is a cash and obligation-based budget. An obligation serves as the primary point of fiscal control in the budget process. Obligational budgeting involves three stages: (1) Congress must enact budget authority up front before government officials can obligate the government to make cash outlays, (2) government officials incur obligations (i.e., commit the government to make outlays) by entering into legally binding agreements, and (3) outlays (cash disbursements) are made to liquidate obligations. With limited exceptions,<sup>a</sup> budget authority, obligations, outlays, and receipts are measured on a cash- or cash-equivalent basis and the unified deficit or surplus—the key focus of policy debate—represents the difference between cash receipts and cash outlays in a given year. That is, receipts are recorded when received and outlays are recorded when paid without regard to the period in which the taxes and fees were assessed or the costs resulting in the outlay were incurred.

The cash and obligation-based budget has several advantages, including that the deficit (or surplus) closely approximates the cash borrowing needs (or cash in excess of immediate needs) of the government and, in most cases, costs are recognized at the time decisions are made to commit the government to spending. However, OMB, GAO, and others have raised concerns that, for certain items, the current budget does not recognize the complete cost up front when decisions are made or provide policymakers with comparable cost information.<sup>b</sup>

The budgetary focus on annual cash flows does not match the “full cost” of an employee with the services the employee provides. For example, some deferred compensation (e.g., some federal employee pensions and federal retirees’ earned health care benefits) is currently only recorded in the federal budget when benefits are paid rather than when benefits are earned by employees. Federal employees earn pension benefits while they are working but receive pension benefits after they have stopped working. The accruing cost of the pensions earned by current employees is part of the costs of the goods and services they provide, but the budget does not capture the full extent of these costs. Instead total budget outlays include the cash payments made to current retirees. The failure to align budget recognition with the consumption of resources can affect the government’s efforts to assess its performance by making it more difficult to assess and compare the costs associated with a given level of performance.

Also, some federal agencies acquire assets that generate hazardous substances that the agency is required by law to clean up at the end of the asset’s operating life. Since the budget is primarily measured on a cash basis, these costs are paid after the asset is acquired. Information on the estimated cleanup costs is currently not included in the budget when budgeting decisions are being made about such activities. As a result, not only are the government’s ultimate costs not fully recognized at the time the commitment is made, these costs are not properly matched with the provision of government goods and services.<sup>c</sup>

Capital is another area where the current budgetary treatment does not match resource use with the provision of goods and services. By requiring up-front budget authority for the asset’s full cash purchase price, the cash- and obligation-based budget importantly recognizes the complete cost of capital assets and permits congressional control before the purchase is made. However, this treatment does not match the cost of the use of the asset with the provision of goods and services and performance. As a result, the budget resources requested in a period may misstate the costs of achieving performance in that period.

To better capture retiree costs in the budget, OMB proposed legislation titled *Budgeting and Managing for Results: Full Funding of Retiree Costs Act of 2001*. This legislation proposed to charge the employer’s share of the full accruing cost of retirement benefits to federal employers as they are earned and each agency included the accrued cost in their fiscal year 2003 budget requests. Congress, however, did not pass this legislation. The administration instead listed the accrued cost as a notational entry to the P&F schedules of the President’s fiscal year 2004 budget. In the *Analytical Perspectives* for the fiscal year 2005 budget, OMB stated that its proposals to include the “full cost” of accruing federal employee retiree benefits in the budget should be reexamined and proposed to continue working with Congress to address concerns.<sup>d</sup>

OMB has also discussed how to better consider the cost of capital assets and environmental liabilities. In the *Analytical Perspectives* for the fiscal year 2004 budget, OMB said that one way to show a more “uniform annual cost for the use of capital” without changing current requirements for up-front budget authority would be to create capital acquisition funds (CAF).<sup>e</sup> To pay the up-front costs of new capital assets for an agency’s program accounts, the CAF would request budget authority to borrow from the Treasury. The CAF would then charge the program account annually for a share of the principal and interest and use those collections to repay Treasury. This idea is still conceptual and would need studying. Similarly, programs that generate hazardous waste could request budget authority for the annually accruing cleanup costs and pay these amounts to a designated fund.<sup>f</sup>

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**Section 2: Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Programs and Performance**

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<sup>a</sup>One exception is the treatment of credit programs for which budget authority, obligations, and outlays for the estimated cost to the government of a credit program are measured on an accrual basis. Certain interest payments are also measured on an accrual basis.

<sup>b</sup>See, for example, GAO, *Accrual Budgeting: Experiences of Other Nations and Implications for the United States*, GAO/AIMD-00-57 (Washington, D.C.: Feb. 18, 2000); *Long-Term Commitments: Improving the Budgetary Focus on Environmental Liabilities*, [GAO-03-219](#) (Washington, D.C.: Jan. 24, 2003); and *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, GAO-03-213 (Washington, D.C.: Jan. 24, 2003).

<sup>c</sup>For more information, see GAO-03-219, p. 2.

<sup>d</sup>The 2005 budget included a limited proposal that would permit the Patent and Trademark Office to use fees it collects to cover the current accruing cost of postretirement annuities and health and life insurance benefits.

<sup>e</sup>Office of Management and Budget, *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2004* (Washington, D.C.: February 2003), p. 13.

<sup>f</sup>This was one of several approaches discussed in [GAO-03-219](#).

In discussing appropriations account restructuring efforts, OMB staff said that although it is beneficial to align the appropriations account structure to give program managers authority over the budget resources needed to achieve results, there are other factors to consider, and restructuring is not always necessary. OMB staff recognized that appropriations account structure changes must be negotiated with Congress and that each agency's account structure may reflect the agency's programmatic and performance frameworks and organizational structure. For example, some agencies' strategic goals may be more program-specific while others may be more crosscutting and supported by multiple programs. Given these differences, appropriations account structure and activity alignment should be "considered with care."<sup>7</sup> OMB said there often is a good managerial reason for bureaus or offices to be funded by more than one appropriations account but that "multiple small accounts for similar purposes are usually unnecessary,"<sup>8</sup> and that appropriations accounts should be consolidated or modified when the current structure inhibits good management. An OMB staff person said appropriations account structures that lack incentives to manage more effectively and do not allow managers the flexibility to make resource trade-offs might provide barriers to achieving goals.

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<sup>7</sup> Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003* (Washington, D.C.: February 2002), p. 10.

<sup>8</sup> Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003* (Washington, D.C.: February 2002), p. 10.

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## 2.2: Agencies Took Differing Approaches to Restructure Budgets to Better Align Resources with Programs and Performance

Agencies took differing approaches to restructuring budgets to better align budget resources with programs and performance. Some agencies proposed changing their appropriations account structure or the program activities within that structure while others made changes solely to their congressional budget justification. Some agencies also sought corresponding changes to their transfer authority and reprogramming guidelines. In addition, the orientation or organizational frameworks for restructured budgets varied both among and within agencies. Further, agencies showed or requested budget resources for the “full cost” of various levels of performance—such as strategic goals, performance goals, and programs—and the types of resources agencies allocated within the performance-based budget structure varied. As discussed in section 3, understanding an agency’s particular approach is important because different approaches provide different information and incentives to the users of the budget. As a result, these approaches have potentially different implications for the management and oversight of budget resources.

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### 2.2a: Agencies Differed on Whether They Changed Their Appropriations Account Structure, Congressional Budget Justification, or Both

Some agencies proposed changing the appropriations account structure<sup>9</sup> or the program activities within their accounts while others made changes solely to their congressional budget justification. Table 4 highlights where changes were made or proposed by all nine agencies in our study and that the budget structure affected varied.<sup>10</sup>

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<sup>9</sup> Congress, specifically the appropriations committees, establishes appropriations accounts to facilitate congressional allocation and oversight responsibilities. The President’s budget generally reflects these appropriations account structures but the executive branch may propose changes to the structure.

<sup>10</sup> For a fuller description of the approaches taken by our case study agencies, see apps. II thru V.

**Section 2: Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Programs and Performance**

**Table 4: Where Agencies Made or Proposed Changes to Better Align Budget Resources with Programs and Performance**

		VA	NASA	DOJ	EPA	SBA	COMMERCE	HUD	LABOR	DOT
Changes to appropriations account structure	Changes to accounts	X	X	X						a
	Changes within accounts to program activities	X	X	X	X	X			b	a
Changes to congressional budget justification		X	X	X	X	X	X	X <sup>c</sup>	X	X

Source: GAO analysis.

<sup>a</sup>Some bureaus within the Department of Transportation (DOT) made or proposed changes to their account structure and program activities within accounts to better align with performance, but DOT as a whole did not restructure its budget accounts.

<sup>b</sup>The Pension Benefit Guaranty Corporation and the Employment and Training Administration made or proposed changes to the program activities within their appropriations accounts, but according to Department of Labor (Labor) officials these changes reflect policy changes. Labor as a whole did not restructure its appropriations accounts to better align resources with programs and performance.

<sup>c</sup>For the fiscal year 2004 budget only. The House Appropriations Committee directed the Department of Housing and Urban Development (HUD) not to submit a “performance budget” for fiscal year 2005 and consequently, HUD did not resubmit a “performance budget” for fiscal year 2005.

**Changes to Appropriations Account Structure**

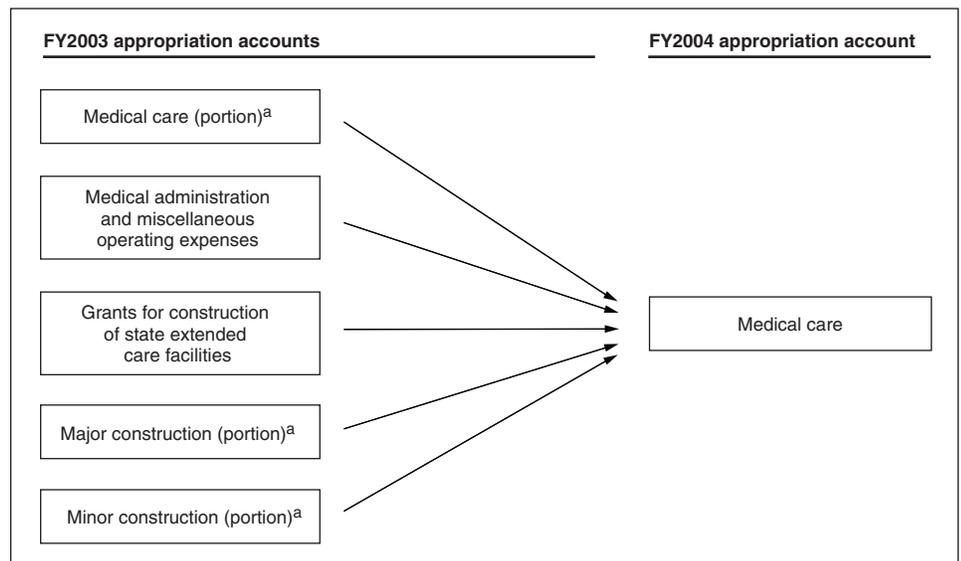
Three agencies in our study—NASA, VA, and the Department of Justice (DOJ)—proposed agencywide appropriations account structure changes to better align budget resources with performance.<sup>11</sup> These agencies also made corresponding changes to the program activity listing within their appropriations accounts and congressional budget justifications. NASA, for example, proposed to eliminate its mission support appropriations account that funded, among other things, construction projects, personnel expenses for NASA’s civil service workforce, and its central administrative functions. VA and DOJ also proposed to eliminate appropriations accounts funding construction but chose to maintain separate appropriations accounts for departmental administration.

<sup>11</sup> While some agencies did not propose agencywide appropriations account structure changes, some bureaus within such agencies proposed changes in part reflecting broader policy or authorizing language changes. For example, two bureaus within DOT—the Federal Transit Administration (FTA) and the Federal Motor Carrier Safety Administration (FMCSA)—proposed appropriations account structure changes to more closely align budget resources with performance and to reflect the administration’s proposals to consolidate various programs. Congress did not accept FTA or FMCSA’s proposed appropriations account structure for either fiscal year 2004 or fiscal year 2005.

**Section 2: Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Programs and Performance**

The following description of VA's proposed changes illustrates how these proposed appropriations account structure changes looked. VA proposed to consolidate resources from multiple accounts and split some appropriations accounts among multiple programs. In VA's enacted appropriations account structure for fiscal year 2003, each of VA's programs was funded by multiple appropriations accounts. Figure 3 shows that the Medical Care program was funded by five appropriations accounts in fiscal year 2003. Under VA's proposed account structure for fiscal year 2004, resources from these five appropriations accounts would have been consolidated into one appropriations account called Medical Care.<sup>12</sup>

**Figure 3: Appropriations Accounts Funding the Medical Care Program under VA's Fiscal Year 2003 Enacted and Fiscal Year 2004 Proposed Appropriations Account Structure**



Source: GAO analysis.

<sup>a</sup> Portions of these accounts were allocated to other program accounts.

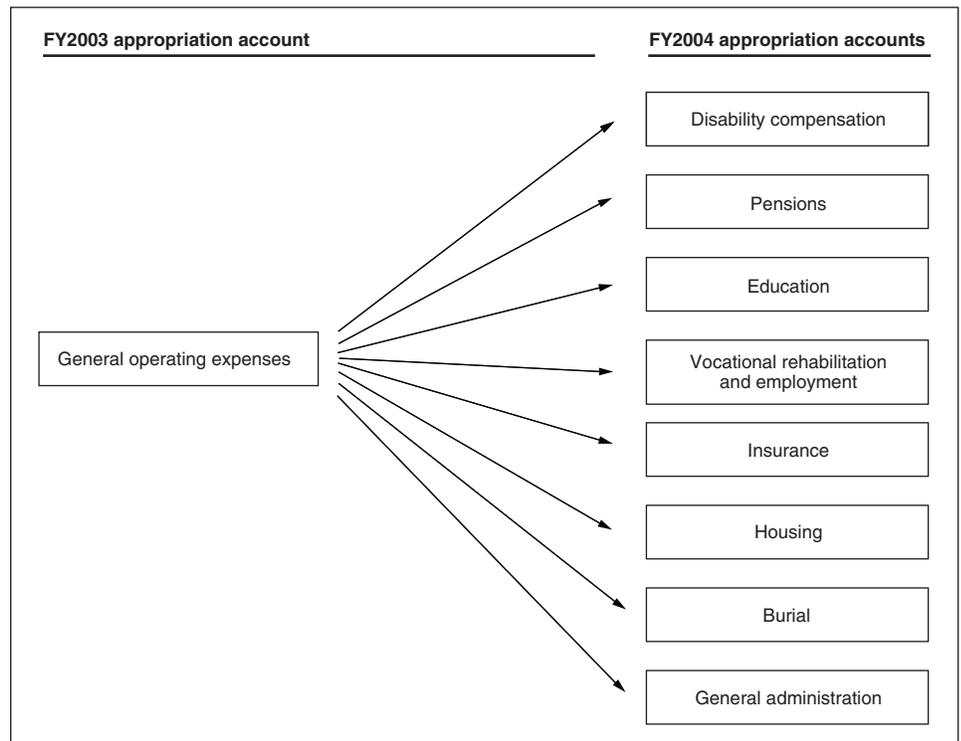
Some of VA's accounts, such as Major Construction or General Operating Expenses (GOE), provided resources associated with multiple programs. VA proposed that these accounts be disaggregated and the resources allocated to the programs they support. Figure 4 illustrates this for the

<sup>12</sup> See app. III for a fuller comparison of VA's current and proposed account structure.

**Section 2: Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Programs and Performance**

GOE account, which funded the Veterans Benefit Administration (VBA) program administration for seven programs and general administration. VA proposed to disaggregate this account and allocate the resources to eight different appropriations accounts. Similarly, VA proposed to eliminate its Construction accounts and allocate those resources among program accounts.

**Figure 4: Appropriations Accounts Funding General Operating Expenses under VA's Fiscal Year 2003 Enacted and Fiscal Year 2004 Proposed Appropriations Account Structure**



Source: GAO analysis.

In addition to VA, NASA and DOJ also proposed to eliminate appropriations accounts that funded construction projects. However, the extent to which resources for construction remained visible in the proposed appropriations account structure differed. VA showed the resources for construction as a separate, identifiable program activity line in the P&F schedule of the President's Budget *Appendix*. In contrast, NASA and DOJ's construction resources were allocated to program activities within appropriations

accounts and thus were not separately identified within the appropriations accounts.<sup>13</sup>

Of these three agencies, the appropriations account structure for only one agency changed. An agency cannot change its appropriations account structure on its own because appropriations accounts are established by law. Thus, agencies' appropriations account structure proposals must be enacted by Congress to take effect. Congress appropriated funds for NASA under its proposed account structure beginning with the fiscal year 2002 budget. However, for the most part, Congress did not accept VA and DOJ's proposed appropriations account structure changes for either fiscal year 2004 or 2005.<sup>14</sup>

### **Changes to Program Activity Listing**

Two other agencies in our study—EPA and the Small Business Administration (SBA)—did not change their appropriations account structures but rather made changes within appropriations accounts to the program activity listing in the P&F schedule. Both EPA and SBA also made changes to their congressional budget justifications to better align budget resources with performance. Beginning with the fiscal year 1999 budget, EPA changed the program activities within its appropriations accounts from programmatic areas (e.g., Pesticides, Radiation) and individual items of expense (e.g., Regional Management) to strategic goals such as Clean Air and Clean Water (see table 5). For the fiscal year 2005 budget, EPA consolidated the number of program activities to reflect changes to its strategic plan, which reduced the number of strategic goals from 10 to 5. Importantly, since a strategic goal might have been supported through multiple appropriations accounts, the amount shown for a strategic goal in any one appropriations account did not necessarily represent the total budget resources associated with that goal.

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<sup>13</sup> For the fiscal years 2004 and 2005 budgets, NASA's program activities reflect its enterprises, or main programmatic units such as Space Science, Earth Science, and Biological and Physical Research. DOJ's program activities generally reflected its programs, activities, or "decision units" – major program activities that better align with DOJ's mission and strategic objectives. For example, within the Federal Bureau of Investigation's Salaries and Expense account, the program activities include National Security, Counterterrorism, Criminal Enterprises and Federal Crimes, and Criminal Justice Services.

<sup>14</sup> For fiscal year 2005, Congress approved the proposed account structure for DOJ's Drug Enforcement Agency to merge construction and salaries and expenses (S&E) accounts.

**Section 2: Variety of Efforts Undertaken to Restructure Budgets to Better Align Budget Resources with Programs and Performance**

**Table 5: Program Activity Listing for EPA’s Environmental Programs and Management Appropriations Account (Fiscal Years 1998, 1999, and 2005 Budgets)**

<b>Fiscal year 1998 budget</b>	<b>Fiscal year 1999 budget</b>	<b>Fiscal year 2005 budget</b>
Program activities:	Program activities:	Program activities:
Air	Clean Air	Clean Air and Global Climate Change
Water Quality	Clean Water	Clean and Safe Water
Drinking Water	Safe Food	Land Preservation and Restoration
Hazardous Waste	Preventing Pollution	Healthy Communities and Ecosystems
Pesticides	Waste Management	Compliance and Environmental Stewardship
Radiation	Global and Cross-border	Reimbursable program <sup>a</sup>
Multimedia	Right to Know	
Toxic Substances	Sound Science	
Mission and Policy Management	Credible Deterrent	
Agency Management	Effective Management	
Regional Management		
Support Costs		
Superfund		

Source: President’s Budget Appendix for EPA for fiscal years 1998, 1999, and 2005.

<sup>a</sup>This program activity is not a strategic goal.

In the fiscal years 2004 and 2005 budgets, SBA maintained its programmatic and functional program activities but eliminated one program activity called “administrative expenses” and allocated those resources to the other program activities within that appropriations account. One bureau in DOT, the Federal Aviation Administration (FAA) also made changes to its program activity listing without changing its appropriations account structure. FAA changed the program activities under two appropriations accounts—(1) Facilities and Equipment and (2) Research, Engineering, and Development—to describe FAA’s performance goals.

**Changes to Congressional Budget Justifications**

While every agency in our study restructured its congressional budget justification to better align budget resources with programs and performance, four of the nine agencies did not make corresponding agencywide changes to or within their appropriations account structures. As shown in table 4, four of the nine agencies for the most part maintained their existing account structure and program activity listing and made

agencywide changes only to their congressional budget justifications.<sup>15</sup> These agencies—the Department of Commerce (Commerce), HUD, Labor, and DOT—maintained appropriations accounts that generally reflected a mix of orientations—object, organization, process, and program—and embedded additional information on the “full cost” of programs and performance within their congressional budget justifications.

In most of the selected agencies, the organizing framework of the congressional budget justification followed the appropriations account structure; however, three agencies in our study used organizing frameworks for their congressional budget justification that did not match their appropriations account structures. EPA, SBA, and HUD each maintained their previously established appropriations accounts, which generally reflected a mix of orientations, but restructured their congressional budget justifications around strategic goals.<sup>16</sup> For example, as shown in table 6, EPA’s fiscal year 2005 appropriations account structure and congressional budget justification were organized differently. EPA had five appropriations accounts, including Environmental Programs and Management and State and Tribal Assistance Grants. However, EPA’s fiscal year 2005 congressional budget justification was organized by strategic goal. The congressional budget justification included chapters for *Clean Air and Global Climate Change* and *Clean and Safe Water* followed by information for strategic objectives and programs. While it was easier to see the resources associated with strategic goals and objectives in the congressional budget justification, it was correspondingly more difficult to see the resources associated with each appropriations account because any one strategic goal, strategic objective, or program might have been funded by multiple appropriations accounts. EPA provided crosswalk

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<sup>15</sup> As noted in table 4, certain bureaus within Labor and DOT made changes to their appropriations account structures or the program activities within the accounts; however neither Labor nor DOT made agencywide changes to its appropriations account structure.

<sup>16</sup> While SBA lists resources by appropriations account in its congressional budget justification, the program descriptions are included in the performance plan section of the congressional budget justification that is organized by strategic goal. For fiscal year 2004, HUD submitted two congressional budget justifications—one in the previously established program-based structure and the other in a performance-based structure. Our analysis focuses on the performance-based congressional budget justification because HUD did not resubmit a performance-based justification for fiscal year 2005.

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tables showing the relationship between appropriations account, strategic goals, and programs as supplemental information.<sup>17</sup>

**Table 6: Comparison of EPA’s Appropriations Account Structure and Organizing Framework for Its Fiscal Year 2005 Congressional Budget Justification**

<b>2005 Appropriations Accounts</b>	<b>2005 Annual Performance Plan and Congressional Justification Table of Contents</b>
Environmental Programs and Management	Introduction and Overview
Science and Technology	Resource Tables
State and Tribal Assistance Grants	Goal 1: Clean Air and Global Climate Change
Building and Facilities	Goal 2: Clean and Safe Water
Office of Inspector General	Goal 3: Land Preservation and Restoration
	Goal 4: Healthy Communities and Ecosystems
	Goal 5: Compliance and Environmental Stewardship
	Enabling/Support Programs
	Annual Performance Goals and Measures
	Special Analysis

Source: GAO analysis.

**2.2b: Agencies Showed or Requested “Full Cost” of Different Levels of Performance**

As illustrated in table 7, agencies showed or requested budget resources for the “full cost” of programs or different levels of performance in their congressional budget justifications. Most agencies in our review aligned budget resources with programs or collections of programs that support common strategic goals. For example, VA aligned budget resources with each of its nine “business lines,” or main programmatic areas, such as Medical Care. The lowest level to which NASA aligned budget resources was programs, such as Flight Hardware and Ground Operations, within a

<sup>17</sup> This refers to changes made up through EPA’s fiscal year 2005 budget justification. For fiscal year 2006, EPA restructured its budget justification so that it was organized by appropriations account and program/project. Information on strategic goals and objectives and the resources associated with them was provided as a supplement.

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“theme” such as the Space Shuttle.<sup>18</sup> Four agencies (EPA, SBA, HUD, and DOT) aligned budget resources with strategic goals or objectives or both. Three agencies (Commerce, Labor, and DOT) aligned budget resources with performance goals.

**Table 7: Level of Program or Performance to Which Agencies Showed or Requested “Full Cost” in Congressional Budget Justifications**

Program or Performance Level	VA	NASA	DOJ	EPA	SBA	COMMERCE	HUD <sup>a</sup>	LABOR	DOT
Strategic goal	X		X	X		X	X	X	X
Strategic objective				X	X				
Performance goal						X		X	X
Collection of programs (themes, decision units)		X	X						
Program	X	X		X	X		X <sup>b</sup>	X	

Source: GAO analysis.

Note: Shaded area denotes the performance level for which agency is proposing budget authority be appropriated in the restructured framework. See discussion following this table.

<sup>a</sup>For fiscal year 2004, HUD submitted two congressional budget justifications—one in the previously established program-based structure and the other in a new performance-based structure. Our analysis focuses on the performance-based justification. HUD did not resubmit a “performance budget” for fiscal year 2005.

<sup>b</sup>“Full cost” was not shown in cases where a program supports more than one strategic goal.

While some changes or proposed changes sought to modify the way resources are appropriated and thus the framework for resources trade-offs, other changes sought to provide additional information on the connection between budget resources and programs and performance for presentational purposes. The three agencies proposing appropriations account structure changes—NASA, VA, and DOJ—requested that budget authority be appropriated to cover the “full cost” of programs or collections of programs that support common goals. (The program levels for which NASA, VA, and DOJ have requested that funds be appropriated in the new

<sup>18</sup> Themes were a key organizational unit in NASA’s fiscal year 2004 and fiscal year 2005 congressional budget justifications. However, during fiscal year 2004 (following the fiscal year 2005 budget submission), NASA fundamentally restructured its organization to position it to better implement the vision set forth in *A Renewed Spirit of Discovery, The President’s Vision for U.S. Space Exploration* (National Aeronautics and Space Administration, February 2004). NASA’s fiscal year 2006 congressional budget justification reflected its new organizational framework.

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framework are shown as shaded cells in table 7.) The remaining six agencies restructured their congressional budget justifications to generally reframe their budget request around the “full cost” of performance or to provide supplemental crosswalk tables to show the “full cost” or “total budgetary resources” of performance units for presentational purposes.

Table 8 shows one such table from Labor’s fiscal year 2005 congressional budget justification. Beginning with the fiscal year 2004 congressional budget justification, for example, Labor showed the “total budgetary resources” (both direct and indirect costs) associated with strategic goals, programs, and related performance goals. Prior to restructuring its budget, Labor showed only the direct resources associated with its programs. Currently, as shown in table 8, Labor presents program budget requests together with the administrative resources and full-time equivalents (FTEs) related to the program. Importantly, resources included in the “Program Admin” row are appropriated in a different appropriations account than the other Job Corp program resources and are also presented elsewhere in the congressional budget justification.

**Table 8: Resource Table Presented in Labor’s Fiscal Year 2005 Congressional Budget Justification for Job Corps**

Dollars in thousands

	Fiscal year 2004	Fiscal year 2005 estimate	Difference fiscal year 04/05
Job Corps appropriation	\$1,537,074	\$1,557,287	\$20,213
Program Admin.	\$28,670	\$29,496	\$826
Reimbursables	\$4,000	\$4,000	\$0
<b>Total resources</b>	<b>\$1,569,744</b>	<b>\$1,590,783</b>	<b>\$21,039</b>
FTE	187	187	0

Source: Department of Labor’s Fiscal Year 2005 Budget Justification of Appropriations Estimates for Committee on Appropriations, Volume 1.

DOT provided supplemental crosswalk tables illustrating the links between the department’s budget request and its six strategic goals. Figure 5 is an excerpt from DOT’s fiscal year 2005 budget justification.

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**Figure 5: Supplemental Table from DOT's Congressional Budget Justification**

BUDGETARY RESOURCES BY STRATEGIC AND ORGANIZATIONAL GOALS (Dollars in Millions)							
Operating Administration	Total	FY 2005 Request					
		Safety	Mobility	Global Connectivity	Environmental Stewardship	Security	Organizational Excellence
Federal Aviation Administration	13,965.8	8,815.8	3,946.1	45.3	571.6	159.6	427.5
Federal Highway Administration	34,477.9	4,142.1	26,262.2	178.2	3,796.9	62.9	35.6
Federal Motor Carrier Safety Administration	455.3	414.1	4.4	0.0	0.0	7.8	29.0
National Highway Traffic Safety Administration	689.3	687.1	0.0	0.2	2.0	0.0	0.0
Federal Transit Administration	7,266.1	15.8	6,949.5	0.9	236.8	37.7	25.4
Federal Railroad Administration	1,088.0	179.5	904.2	0.0	0.7	0.7	3.0
Research and Special Programs Administration	137.3	103.4	0.0	0.0	22.5	5.6	5.8
Maritime Administration	234.3	0.0	7.4	2.8	22.1	201.3	0.8
St. Lawrence Seaway Development Corporation	16.0	0.0	0.0	15.7	0.0	0.3	0.0
Office of the Inspector General	59.0	0.0	0.0	0.0	0.0	0.0	59.0
Surface Transportation Board	21.0	0.0	10.5	0.0	0.0	0.0	10.5
Bureau of Transportation Statistics	[32.3]	[2.7]	[9.1]	[14.1]	0.0	0.0	[6.4]
Office of the Secretary	336.1	3.2	50.0	29.7	1.6	9.0	242.6
<b>TOTAL, Department of Transportation</b>	<b>58,746.2</b>	<b>14,361.0</b>	<b>38,134.2</b>	<b>272.7</b>	<b>4,654.2</b>	<b>484.8</b>	<b>839.2</b>
Share of Total DOT Budgetary Resources	100.0%	24.4%	64.9%	0.5%	7.9%	0.8%	1.4%

Source: DOT.

**2.2c: Agencies Allocated Different Types of Resources to Performance**

While the agencies included in our study all took steps to more completely capture the “full cost” of programs and performance, the types of resources agencies allocated to programs and performance units varied. In particular, the treatment of central administrative resources and IG office resources differed. For example, EPA allocated its total budget request, including the IG’s office, to strategic goals and objectives. Other agencies did not allocate all resources to programs and performance. NASA, for example, did not allocate resources from the IG’s office; it did, however, allocate all other direct and indirect resources including procurement, civil servants, the program’s share of service pool resources, and portions of administrative resources from its field offices and headquarter offices. Similarly, SBA allocated most central administrative resources to its programs and goals but did not allocate the IG’s office. Labor allocated some central administrative (i.e., departmental) resources including legal services and some information technology resources but did not allocate all central administrative resources, such as the Office of the Secretary or the Office of the Chief Financial Officer, to programs and performance. Commerce, HUD, and DOT allocated most central administrative resources

to a separate management goal. EPA did this as well in its fiscal year 2004 congressional budget justification. However, in its fiscal year 2005 budget, its management goal was eliminated and central administrative resources were allocated to its five mission-related strategic goals. VA and DOJ did not allocate central administrative (i.e., departmental) resources. The lack of consistency in what is included in “full cost” or “total budgetary resources” has the potential to complicate the understanding of what is meant by “full cost” and “total budgetary resources.”

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### **2.2d: Some Agencies Sought Corresponding Changes to Transfer or Reprogramming Guidelines or Both**

Some agencies also sought corresponding changes to methods by which Congress oversees resource use, including their transfer authority or reprogramming guidelines or both. Providing transfer authority, or the ability to shift all or part of the budget authority provided in one appropriations account to another, provides agencies greater flexibility because transferring funds between accounts is prohibited by law. For example, after NASA’s Mission Support appropriations account was eliminated and those resources were allocated to its two mission-related appropriations accounts in fiscal year 2002, NASA received authority to transfer funds as necessary for administrative resources, including federal salaries and benefits, training, travel, and facilities, between its two mission-related accounts.<sup>19</sup> VA also sought transfer authority when proposing account structure changes for the fiscal years 2004 and 2005 budgets. Specifically, VA requested transfer authority for operations and construction expenses among different business line accounts. Appropriators did not accept VA’s proposed account structure and so did not provide VA this authority.

While a transfer of funds involves shifting funds from one appropriations account to another, reprogramming involves shifting funds within an appropriations account to use for different purposes than those contemplated at the time of appropriation. Agencies are implicitly authorized to reprogram funds as part of their general responsibility to manage funds. Sometimes committee oversight of reprogramming is prescribed by statute requiring that the agencies either notify or consult with the appropriate congressional committees when reprogramming funds that have certain program impacts or are above a certain threshold. Guidelines also may include what types of reprogramming are allowable

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<sup>19</sup> National Aeronautics and Space Act of 1958 (Pub. Law 85-568) as amended by Pub. Law 106-377, 114 Stat 1441, 1441A-57 (2000).

without notifying or consulting with the committee. For example, reprogramming may be expressly permitted among programs, activities, or object classes under certain dollar thresholds. For the fiscal year 2004 budget, NASA requested that appropriations committees change its reprogramming guidelines to allow reprogramming within a theme (a collection of programs and projects that support a common strategic goal). NASA also sought to increase its reprogramming threshold to \$10 million.<sup>20</sup> Congress accepted neither change. When EPA made its budget changes for the fiscal year 1999 budget, its reprogramming dollar threshold remained the same but Congress changed EPA's reprogramming guidance to allow funding shifts within broad strategic objectives, such as Healthier Outdoor Air. Prior to restructuring, EPA's reprogramming guidance only allowed shifting funds within specific program elements, such as Air Quality Planning and Standards and Air Quality Management Implementation. Section 3 discusses how changes or lack thereof to an agency's transfer authority and reprogramming guidelines will influence how and to what extent budget structure changes might change resource management and oversight.

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<sup>20</sup> For fiscal year 2004, the House Appropriations Committee allowed reprogrammings between programs, activities, object classifications, and elements up to \$500,000 without notifying the committee. The Senate Appropriations Committee allowed reprogrammings among programs, activities, and elements only up to \$250,000.

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## Section 3: Restructuring Budgets May Help Reframe Budget Choices and Raises Tradeoffs Among Different Decision Makers' Needs

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Different approaches to restructuring budgets provide different information and create different incentives and ultimately have different implications for management and oversight of budget resources. Understanding the specific approach used by an agency, what issues the approach raises, and what might be achieved is important to evaluate the impact on resource management and oversight. In addition, restructuring budgets should not be considered in isolation but rather in the context of any other changes occurring to the methods or structures for congressional and agency resource management and oversight. In this report, the specific approach of one agency may be used to illustrate a number of different issues that can arise.

Our work revealed differing views on the potential benefits and shortcomings of restructuring budgets to better align budget resources with programs and performance. These differing views reflect the multiplicity of roles, perspectives, and needs of Congress, OMB, and different levels of agency management. OMB and agency officials credited changes in appropriations accounts and congressional budget justifications with supporting results-oriented management. However, budget changes did not meet the needs of some executive branch managers and congressional appropriations committees, leading some to raise a number of issues. For example, officials from two case study agencies said budget restructuring had the potential to create new resource management challenges. And although some appropriations committee reports and subcommittee staff we spoke with expressed general support for budget and performance integration efforts, almost all appropriations subcommittee staff we spoke with said that the organizational frameworks used to restructure budgets did not meet their needs.

Agency officials' views differed on whether appropriations account structure changes were necessary to advance results-oriented management. It is not practical for a single reform to address all possible budget decision makers' needs. Therefore, understanding what realistically can be expected from any particular effort and how various efforts fit together is necessary to permit judgments about whether, how, and to what extent the budget might be restructured given limited resources.

### 3.1: Restructuring Appropriations Accounts and Congressional Budget Justifications Has the Potential to Help Reframe Budget Choices

The structure of appropriations accounts and congressional budget justifications reflects fundamental choices about how resource allocation choices are framed and the types of controls and incentives considered most important. Different budget structures frame budget choices differently and affect the range of possible resource trade-offs. For example, budgets could be structured to focus on individual items of expenses (e.g., program administration or construction), on individual programs, or on an agency's broader strategic and performance framework. A budget structure in which a single appropriations account funds total administrative costs—administrative costs for a number of programs are contained in one account—may increase the focus of congressional decision making and oversight on the costs of administering programs but make it difficult to see the “full cost” of the associated programs. During budget execution, such an account may allow managers to shift administrative resources among different programs to meet needs. Alternatively, a budget structure in which a single appropriations account contains the total resources associated with a program—funding the “full cost” of a program in one appropriations account, including direct and indirect resources such as administration or construction—might increase the focus on programs; however, information on individual items of expense might be obscured in such a budget structure. Such an account could allow trade-offs among different items of expense within a program during budget execution, but it would hinder the ability of managers to shift administrative resources across programs. By changing the information and incentives provided, restructuring budgets has the potential to change both the nature of resource management and oversight and the information readily transparent and available in the budget. This means budget restructuring represents more than structural or technical changes and involves important trade-offs among different perspectives and needs of Congress and executive branch agencies. Not surprisingly, the perceived benefits and shortcomings of various approaches are likely to vary based on the role and perspectives of particular budget decision makers as well as the nature of the programs in question.

#### 3.1a: Recent Budget Restructuring Efforts Have Sought to Help Reframe Budget Choices

Recent efforts to restructure budgets have sought to help reframe budget choices to establish clearer and closer associations between expected performance and budget resources and to focus decisions more on the expected results associated with budget resources and less on inputs or line items. OMB has suggested that restructured “performance budgets,” with the strategic plan serving as the template, should frame budget

requests around what agencies intend to accomplish with the resources requested.

Appropriations account structure and congressional budget justification changes made or proposed by our case study agencies help illustrate how budget restructuring might help reframe budget choices and so change the nature of resource management and oversight. In some cases, agencies restructured the budget to reduce the focus on individual items of expense and instead sought to focus on program resources as a whole. For example, NASA proposed and Congress agreed to eliminate its mission support appropriations account and to allocate those resources across programs. While information on construction, personnel, and travel resources are provided as supplementary information in the congressional budget justification, these resources are no longer separately appropriated and are no longer intended to be the focus of NASA's budget request. Rather, resources for mission support are included in program budgets to better reflect the "full cost" of programs.

Similarly, VA's proposed appropriations account structure for fiscal years 2004 and 2005 would have also helped reframe budget choices and change the nature of resource allocation, management and oversight. VA's fiscal year 2004 appropriations account structure included accounts for direct benefits, construction, grants, and program administration. VA officials sought to provide Congress with more information on total program resources, thereby shifting the resource debate from inputs to outcomes and results. In doing so, VA would go from the current structure, under which trade-offs generally are made between similar types of spending among programs, to one in which trade-offs would be made across all types of spending within a program. Today if a minor construction project costs more than anticipated or a new need arises, managers might make trade-offs among other construction projects by, for example, deferring another construction project. Similarly, a larger than anticipated utility bill might defer other operating expenses. Under the proposed change, construction, grants, and program administration appropriations accounts would be eliminated and those resources allocated among program appropriations accounts. Under the proposed structure, resource trade-offs would be focused within a program and managers might, for example, defer a new

minor construction project to cover increased operating expenses, once appropriate reprogramming requests were processed.<sup>1</sup>

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### **3.1b: When Reframing Budget Choices, Some Information May Be Less Transparent or No Longer Included**

When changing budget structures to better align budget resources with programs and performance, the total resources associated with programs and performance may be more visible. However, information that had previously been readily transparent in either the appropriations account structure or congressional budget justification may be less transparent or no longer included. As the focus on programs or how programs fit together to support the agency's strategic and performance framework is increased, information on individual items of expense may become less apparent. In moving toward the theme-based budget structure, for example, NASA provided more information on how programs and resources fit together to achieve goals, but provided less detail about its individual programs. In the fiscal year 2003 congressional budget justification, the distribution of the Space Shuttle resources among the various programs within that theme, such as Flight Hardware and Program Integration, was visible.<sup>2</sup> Further, beneath these programs, NASA provided information on program elements. For example, for Flight Hardware, NASA showed the resources requested for external tank production, main engine production, and main engine test support. These program elements and the associated resources are not visible in either the fiscal year 2004 or 2005 congressional budget justifications.

VA provides another example. For the fiscal years 2004 and 2005 budgets, as noted, VA proposed eliminating construction, grants, and program administration appropriations accounts and allocating these resources among program appropriations accounts. While one objective was to make the budget resources associated with programs more readily apparent, some previously reported information was either less transparent or not included in the fiscal year 2004 and fiscal year 2005 budgets. For example,

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<sup>1</sup> Proposed appropriations language would limit the extent to which VA managers could make trade-offs among cost components. For more information, see app. III.

<sup>2</sup> Themes were a key organizational unit in NASA's fiscal year 2004 and 2005 budget justifications. However, during fiscal year 2004 (following the fiscal year 2005 budget submission), NASA fundamentally restructured its organization to position it to better implement the vision set forth in *A Renewed Spirit of Discovery, The President's Vision for U.S. Space Exploration* (National Aeronautics and Space Administration, February 2004). NASA's fiscal year 2006 budget justification will reflect its new organizational framework.

we found that total resources requested for construction were less transparent in the fiscal years 2004 and 2005 budgets than in the fiscal year 2003 budget. In fiscal year 2003, total construction for VA was appropriated in two accounts—Construction, Major and Construction, Minor—and was shown in a separate volume of the congressional budget justifications. In both fiscal years 2004 and 2005, total construction resources were allocated among eight of VA's nine major programs and to Departmental Administration and the Inspector General.<sup>3</sup> Further, VA no longer provided a separate volume for Construction in its congressional budget justification.

Different budget structures may focus attention on direct resources or on all the budget resources—both direct and indirect—associated with programs. For example, while NASA's new structure provides more complete information on budget resources associated with programs, the direct and indirect cost components are not clearly delineated, making it harder to distinguish between them. In contrast, NASA's old congressional budget justification format included only direct procurement costs in program budgets. This format did not represent all the resources associated with operating the programs, but budget decision makers could clearly see direct program resources. Similarly, while EPA's fiscal year 1998 congressional budget justification showed the direct resources for programs, the restructured congressional budget justification for fiscal years 2004 and 2005 showed more completely the resources associated with programs, including office-level administrative resources. While centralized administrative resources are clearly delineated from direct program resources, the office-level administrative resources are not.

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<sup>3</sup> VA did not allocate construction resources to the Medical Research budget.

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## 3.2: Approach Used and Corresponding Changes Affect the Extent to Which Budget Restructuring May Influence Management and Oversight

As described in section 2, agencies took a variety of approaches. Each approach has different potential implications for resource management and oversight. Appropriations account structure changes, which change the statutory control over resources, are more likely to change management and oversight than changes to congressional budget justifications. In either case a complete view of the implications for resource management and oversight requires looking at other elements of resource control, such as reprogramming and transfer rules.

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### 3.2a: Appropriations Account Structure Changes Generally Have More Far-Reaching Implications for Management and Oversight than Changes to Program Activities or Congressional Budget Justifications Alone

Restructuring appropriations accounts changes the statutory framework for appropriating and overseeing funds. Appropriations accounts are established by law to facilitate congressional resource allocation and oversight responsibilities. Appropriations accounts generally restrict obligations to a specific amount, purpose, and time availability. Changing the appropriations account structure changes the legal framework governing the availability and use of federal funds, and thus a central aspect of congressional oversight.

Some of the appropriations account structure changes proposed by agencies in our study would change the way Congress has traditionally appropriated funds and potentially give managers more flexibility over some resources. Two of our case study agencies (NASA and VA) and one agency included in our general review (DOJ) made or proposed agencywide changes to their appropriations account structures. NASA's appropriations accounts were consolidated and its mission support account was eliminated. NASA's resources for mission support are now funded through two mission-related appropriations accounts. Under this new structure, NASA managers have more flexibility to make trade-offs among budget resources for procurement, facilities, or general administration without requiring transfer authority. Managers at VA and DOJ, which both proposed eliminating appropriations accounts funding construction and funding construction projects through program appropriations accounts, could also gain some flexibility if Congress enacted the proposed account structures.

Changing solely the program activity listing or congressional budget justification may not change the framework for resource management and

oversight because unless otherwise explicitly stated in statutory language agencies are not legally bound by funding levels shown for program activities in the Program and Financing (P&F) schedules of the President's budget or presented in the congressional budget justifications submitted to Congress by agencies. However, the program activity listing and budget estimates included in an agency's congressional budget justification form some of the bases for assessing agency needs and making appropriations and, together with congressional hearings and statements in committee reports indicating how funds should or should not be spent, reflect an understanding of how federal funds will be used by an agency during the fiscal year. As such, the program activity listing and congressional budget justification play an important role in budget deliberations and execution.

EPA and SBA made agencywide changes to both their program activities and congressional budget justifications, and four other agencies (Labor, Commerce, HUD, and DOT) made agencywide changes only to their justifications.<sup>4</sup> Although the statutory framework for budget resource trade-offs and oversight did not change in these six agencies, in one (EPA) it served as the basis for corresponding changes in reprogramming guidelines—part of the management and oversight framework for budget resources. When EPA restructured its budget to better align with its strategic plan, Congress changed EPA's reprogramming guidance to allow funding shifts within strategic objectives, such as "Healthier Outdoor Air." Prior to restructuring, EPA's reprogramming guidance only allowed shifting funds within specific program elements. This change could potentially give managers more flexibility. The other departments changed the congressional budget justification without related changes to their reprogramming guidelines.

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### **3.2b: Other Congressional Controls Influence Management and Oversight of Budget Resources**

Budget restructuring alone may not necessarily change management and oversight of budget resources because of other ways Congress and agencies oversee and manage budget resources. In addition to creating appropriations accounts, Congress oversees resource use through various

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<sup>4</sup> While some bureaus within Labor or DOT proposed changes to their account structure or program activities, the departments as a whole did not restructure their budgets. Congress did not accept DOT's proposed appropriations account structure for either fiscal year 2004 or fiscal year 2005. According to Labor officials, its proposed changes reflect policy changes and were not part of this initiative.

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**Section 3: Restructuring Budgets May Help  
Reframe Budget Choices and Raises  
Tradeoffs Among Different Decision Makers'  
Needs**

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methods, including statutory language (e.g., earmarks<sup>5</sup> or restrictions in appropriations acts), transfer authority,<sup>6</sup> reprogramming guidelines,<sup>7</sup> and appropriations committee report language indicating how funds should or should not be spent. For example, as stated in committee report language, agencies are usually required to notify or consult with the appropriate congressional committees about reprogramming. Agencies also have more detailed mechanisms required by law such as systems of administrative control of funds—project and activity plans maintained by program managers to monitor and control obligations and expenditures.<sup>8</sup>

For example, although VA's proposed consolidation of some appropriations accounts would on its own have changed the resource trade-offs available to managers, VA also proposed appropriations language that would have limited some trade-offs among budget resources. For fiscal years 2004 and 2005, VA proposed to include all medical-care related expenses—including facilities operations and maintenance, provision of care, construction, grants, and administration—under one appropriations account. This change might have allowed greater flexibility to make trade-offs among these components, but the proposed appropriations language included ceilings for central administration and grants—a limitation on the Veterans Health Administration's (VHA) ability to make trade-offs among these resources. Under the proposed language, VHA would have been allowed to shift funds from construction to administration but not from administration to construction. Appropriations language providing similar limitations was included for the other VA administrations. For example, in the proposed Disability Compensation Administration account for fiscal year 2005, construction funding would have been limited. As a result, the Veterans

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<sup>5</sup> Earmarking is dedicating collections by law for a specific purpose or program or dedicating appropriations for a particular purpose. Legislative language may designate any portion of a lump-sum amount for particular purposes. Earmarking may refer to statutory language (in appropriations acts) or nonstatutory language (in reports accompanying the acts).

<sup>6</sup> Authority specifically authorized by law that allows shifting all or part of the budget authority provided in one appropriations account to another.

<sup>7</sup> Reprogramming is shifting funds from one object to another within an appropriations account to use them for different purposes than those contemplated at the time of appropriation.

<sup>8</sup> The Antideficiency Act requires that agencies prescribe, by regulation, a system of administrative control of funds.

Benefit Administration (VBA) would have been able to shift funds from construction to operations but not from operations to construction.

While EPA's budget restructuring focused on managing resources by strategic goals and objectives, appropriations language and committee report language have continued to focus on the program/project level. As a result, resource trade-offs would be limited. Prior to restructuring, EPA was required to notify appropriations committees when shifting funds among "programs, activities, or elements." Since its fiscal year 1999 budget (the first budget structured around strategic goals and objectives), appropriations committees changed EPA's reprogramming guidelines to allow funding changes within more aggregated strategic objectives, such as Healthier Outdoor Air. This change potentially would allow EPA to make resource trade-offs among program/projects that support a common strategic objective (e.g., between the Clean School Bus Initiative and Administrative Projects within the Healthier Outdoor Air strategic objective). However, appropriations language specified funding for a number of EPA's programs and appropriations committee report language also included funding directives for programs or projects.<sup>9</sup> EPA officials said that they execute the budget based on congressional intent reflected in committee reports. Thus, EPA incorporates congressional funding directives into the agency's operating plan. An added limitation to EPA's ability to make trade-offs among programs that support a common strategic objective is that some program/projects are funded from different appropriations accounts, and EPA does not have authority to transfer resources among appropriations accounts.

Although NASA's restructuring provides flexibility for some additional resource trade-offs, internal management controls and reprogramming guidelines limit other trade-offs. Consolidated appropriations accounts provide program managers with more flexibility and influence over the resources used by their programs, but that flexibility is limited by the fixed cost nature of services and labor; in particular, resource trade-offs among items of expense, such as general administration and civil personnel salaries, are limited during budget execution. NASA officials told us that during budget formulation, all resources within a program (excluding

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<sup>9</sup> According to our analysis, over 50 percent of EPA's budget is dedicated to specific programs.

center and corporate G&A)<sup>10</sup> are interchangeable, but during budget execution trade-offs among resources for civil servants and other resources are limited because contract agreements are established for some services and civil service regulations must be followed. Also, while NASA restructured its budget to help manage at the more aggregated theme level, its ability to reprogram remained tied to its programs. This limits the resource trade-offs that can be made among programs within a theme to a certain dollar threshold.<sup>11</sup> For example, under its reprogramming guidelines, NASA must notify the appropriations committees before making resource trade-offs above the reprogramming threshold between Flight Hardware and Ground Operations within the Space Shuttle Theme.

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### **3.3: Some Viewed Budget Restructuring as Supporting Improved Management and Oversight, but Concerns and Limitations also Raised**

Our work revealed differing views on the potential benefits and shortcomings of restructuring budgets to better align budget resources with programs and performance. These differing views reflect the multiplicity of roles, perspectives, and needs of Congress, OMB, and different levels of management within agencies. OMB staff and agency officials we spoke with described benefits or anticipated benefits of budget changes, including increasing agency management's understanding of and attention to strategic planning, performance, and results and providing more complete information on the budget resources associated with programs and performance. Beyond enhancing information, some agency officials saw incentives to recognize and make resource trade-offs.

However, some executive branch managers and congressional staff indicated that budget restructuring did not meet their needs. Agency officials from two of our case study agencies noted that budget

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<sup>10</sup> Center G&A (General and Administrative) costs are center costs that cannot be related or traced to a specific project but benefit all activities. Corporate G&A are costs related to the business operations of NASA headquarters. While a share of these are allocated to program budgets and program managers may question their allocation of these costs during budget formulation, NASA's program managers cannot make trade-offs between them and other resources once allocations have been established.

<sup>11</sup> For fiscal year 2004, the House Appropriations Committee allowed reprogrammings between programs, activities, object classifications, and elements up to \$500,000 without notifying the committee. The Senate Appropriations Committee allowed reprogrammings among programs, activities, and elements only up to \$250,000 without notifying the committee. NASA requested that appropriations committees change its reprogramming guidelines to allow reprogramming within a theme and also sought to increase its reprogramming level to \$10 million; however, Congress did not accept these changes.

restructuring might create new resource management challenges. Officials and program managers from most of the nine agencies we reviewed as well as appropriations staff we spoke with viewed appropriations account restructuring as unnecessary to advance results-oriented management. While some appropriations committee reports and subcommittee staff we spoke with gave general support to budget and performance integration efforts, including aligning resources with programs and performance, appropriations staff raised a number of other concerns in several appropriations committee reports or in interviews with us. Further, some congressional appropriations staff and agency officials noted that, in their opinion, the changes did not result in information they consider most useful for improving management and oversight.

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**3.3a: Budget Restructuring Viewed by Some as Supporting Results-Oriented Management and Oversight**

OMB staff and agency officials credited appropriations account structure and congressional budget justification changes with supporting results-oriented management and oversight by:

- increasing attention to strategic planning, performance, and results;
- providing more complete information on the budget resources associated with performance; and
- in some cases, enhancing incentives and flexibility to make resource trade-offs.

**Increasing Attention to Strategic Planning, Performance, and Results**

OMB staff emphasized the importance of budget restructuring for increasing attention to results during the budget process. One of OMB's objectives for this initiative is for agencies to justify their budget requests based on the resources needed to make planned progress toward strategic goals. Through its budget guidance, OMB said the agency's strategic plan was to be the template for the "performance budget" and encouraged agencies to change their current budget account structures to enhance the understanding of programs and measures of performance. Further, OMB said that structuring the budget this way presents a more complete picture of what an agency is trying to achieve and enhances public and congressional understanding of government performance.

Officials we spoke with or documents we reviewed from five agencies indicated that the restructured budgets were intended to increase the attention to strategic planning, performance, and results during budget deliberations. For example, some EPA and Labor officials credited changes with increasing their agency's focus on strategic and performance goals. In the case study agencies, some officials said that managers now have a greater incentive to better understand and pay attention to the strategic and performance frameworks because they must tie budget requests to goals. According to an EPA official, the move to the performance-based budget structure was part of an effort to more fully integrate the budgeting and planning system. Without changing and combining the congressional budget justification and performance plan, changing EPA's culture would have been more difficult. NASA officials credited budget restructuring with helping to ensure that funding decisions are aligned with its strategic plan, noting that prior to budget restructuring, NASA could not show how some activities related to its strategic plan. In its fiscal years 2004 and 2005 congressional budget justifications, VA stated that the new structure would better position VA to make resource decisions based on programs and results and improve planning, among other things. Officials from several agencies also said that they anticipate that changes would help provide a more complete picture for external users of their agencies' overall missions and how budget resources support their missions.

OMB and officials from four agencies also credited the budget changes with facilitating increased coordination among programs that support common goals and objectives. For example, OMB staff credited EPA's budget restructuring with leading to greater integration of program/projects that support common goals and objectives. OMB staff explained that there is more coordination among EPA's program offices because programs that support common goals and objectives have to "sell" themselves together under the new planning and budget structure. For example, the Endocrine Disruptor Screening Program<sup>12</sup> (within the Office of Prevention, Pesticides, and Toxic Substances (OPPTS)) and the Office of Research and Development (ORD) both support EPA's strategic objective Enhance Science and Research. OMB staff said the OPPTS reviewed ORD's research plans to ensure the research and development would support the

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<sup>12</sup> The Endocrine Disruption Screening Program is mandated to screen and test chemicals to identify potential endocrine disruptors, or substances that have adverse hormonal effects in humans.

program. This type of coordination did not happen prior to the strategic planning and budget structure changes, according to an OMB program examiner.

A NASA official also credited the agency's new theme-based budget structure, which shows the collection of programs that support common strategic goals and objectives, with showing how program elements relate to each other in achieving strategic plan objectives. A VA official also credited the process of restructuring its congressional budget justification with bringing managers together in a more coordinated manner. For example, VA works toward goals for increasing veteran access to burial space in two ways: (1) VA builds cemeteries incurring the maintenance and operational costs associated with them, or (2) provides grants to states. VA officials explained that prior to budget restructuring efforts, VA tended to work "in stovepipes" and did not look at all resources used to provide burial services. In the officials' views, budget restructuring, which pulled together resources that were presented separately in prior congressional budget justifications, provides managers with a better picture of the total resources of the program.

### **Providing More Complete Information on the Budget Resources Associated with Performance**

OMB staff and officials from seven agencies also credited budget restructuring with providing more complete information on the budget resources associated with performance. For example, prior to the fiscal year 1999 budget, EPA's justification had been organized with a chapter for each appropriations account and sections within each chapter for each EPA office. The justification contained a Science and Technology chapter, which in turn included sections for EPA's offices funded by that appropriations account, which was followed by program information. Beginning with the fiscal year 1999 budget justification, EPA's budget information was organized by strategic goals and objectives and EPA tied both direct and indirect budget resources to strategic goals and objectives.<sup>13</sup> EPA officials credited its restructured congressional budget justifications with highlighting the program funding levels associated with achieving goals and objectives and providing a better understanding of how resources fit together to achieve goals and objectives.

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<sup>13</sup> For fiscal year 2006, EPA reorganized its justification so that it is organized by appropriations account and program/project.

A Labor official and OMB staff also credited changes with giving decision makers a better idea of resources needed to achieve performance. In its previous congressional budget justification, Labor tied only direct budget resources to its programs and highlighted, but did not tie budget resources to, its annual performance goals. Now, Labor shows the direct and indirect budget resources associated with its programs and their associated performance goals, including some indirect costs, such as legal services and bureau administration. The Labor official said this information gives budget decision makers a better idea of what can be expected to be achieved with a given level of resources.

OMB staff and agency officials also said that NASA and VA's budget restructuring efforts provide more complete information. OMB staff, a NASA official, and a congressional staff we spoke with said "full cost" is useful because it provides context for institutional costs, including the cost of civil servants and facilities, and provides better information on total program costs. Some VA officials also noted the anticipated benefits of improving information on the budget resources used to achieve the program performance goals and helping highlight potential trade-offs among resources.

According to VA officials and program managers, the budget resources used to achieve the program performance goals are not readily apparent under VA's current appropriations account structure. The burial program, for example, is funded by six appropriations accounts<sup>14</sup> and the program's budget resources were shown in separate volumes of the congressional budget justification prior to restructuring. According to VA officials, this format complicated discussions about the relationship between the program's performance goals and the resources needed to achieve them. For example, performance measures related to ensuring that veterans and eligible family members have reasonable access to veteran cemeteries are supported by the operating, construction, and grant appropriations accounts, which previously were shown in separate volumes of the congressional budget justification. After presenting the burial program's budget resources together, VA officials said that presenting these budget

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<sup>14</sup> These appropriations accounts include: (1) National Cemetery Administration, which funds the operations and maintenance of veterans cemeteries; (2) Compensation and Pensions, which funds the burial benefits provided, such as burial flags, graveliners, and headstones; (3) General Operating Expenses, which funds VBA's burial-related administrative expenses; (4) Grants for the Construction of State Veterans Cemeteries; (5) Major Construction, which funds new national cemeteries; and (6) Minor Construction.

resources together provided a better understanding of the resources needed to achieve the Burial program's performance goals and helped highlight potential trade-offs among resources. For example, some officials noted that consolidating Burial program resources would have helped to highlight the potential trade-offs between federal construction and grants to states to construct veteran cemeteries.

In addition, officials from several agencies in our general review noted that the new format provided more insight into the resources associated with programs and performance. For example, an official from DOJ said that appropriations account structure changes would provide a fuller picture of resources being used to achieve its performance goals. When talking about overcrowded prisons, for example, one would have to look at two accounts under the existing account structure to get the full picture of resources being used to achieve related performance goals. DOJ proposed to merge salaries and expenses accounts with construction accounts, thereby showing all the resources used in one place.

### **Enhancing Incentives and Flexibility to Make Resource Trade-offs**

OMB stressed the importance of aligning budget authority and accountability with programs and performance to provide not only the information but also the incentives and flexibility to allocate resources and execute the budget with a focus on effectiveness. Although OMB staff said information could be provided on the cost of programs or performance in crosswalk tables, it is the appropriations account structure that provides the framework for management incentives and resource trade-offs. According to OMB, "a program manager who is authorized to manage the program, controls budget authority that covers the full cost of resources used, and has authority over program staff can focus his attention on getting results. With this combination of authority and some flexibility, a program manager has the tools necessary to be accountable for results, efficiently producing effective outputs."<sup>15</sup>

Officials we spoke with from six agencies also emphasized that the appropriations account structure changes not only provided more complete information on the resources associated with programs or performance but also provided incentives to recognize and flexibility to

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<sup>15</sup> Office of Management and Budget, *Analytical Perspectives: Budget of the United States Government, Fiscal Year 2004* (February 2003).

make resource trade-offs to improve efficiency and effectiveness. For example, a key objective of NASA’s budget restructuring was to provide incentives for improved resource management. According to NASA officials, because NASA’s program budgets now include all direct and indirect budget resources associated with a project and managers are responsible for these resources, managers now have better information and incentives to consider trade-offs between various items of expense, such as administrative costs, supplies, direct civil servants, and contractors to use resources more efficiently. Before budget restructuring, program managers’ budgets only included procurement dollars and not the cost of civil servant salaries, so that civil servants appeared “free” to program managers. Under NASA’s restructured “full cost” budget, civil servants’ salaries are included in program managers’ budgets, and NASA officials said that they view this change as making program managers more accountable for these resources because these managers have greater incentives to use civil servants’ time more efficiently. In addition, they believe that the allocation of a portion of central administrative costs to each program makes program managers more likely to pay attention and question these costs, which in turn increases pressure on headquarters and centers to reduce costs.

Similarly, some OMB staff said that VA’s proposed appropriations account structure would provide the incentives and flexibility to make resource trade-offs to improve program management. For example, VA proposed to include all medical care related expenses (i.e., facilities operations and maintenance, provision of care, construction, grants, and administration) under one appropriations account. OMB staff said that because construction projects would be included in program budgets, managers would be more accountable for those resources and would be more compelled to make trade-offs between capital and human assets. Under the proposed structure, VHA, which is responsible for providing medical care, would be able to shift funds from administration and grants to construction or operations without transfer authority.<sup>16</sup> OMB staff said that only showing the total resources associated with programs through

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<sup>16</sup> This flexibility would be limited by both reprogramming guidelines and proposed appropriations language. VHA would have to notify Congress for shifts in funds above reprogramming guidelines. Also, proposed appropriations language for the medical care account included ceilings for central administration and grant spending. As a result, VHA would not be able to use construction or operations funding for central administration or grants. OMB staff said this proposed appropriations language was intended to address congressional concerns.

presentational changes would not provide the incentive for managers to more carefully consider resource use and use them more efficiently.

In addition, NASA officials credited “full cost” budgeting with helping to identify underutilized facilities, such as service pools—the infrastructure capabilities that support multiple programs and projects. NASA’s service pools include wind tunnels, information technology, and fabrication services. Prior to “full cost” budgeting, service pool resources were shown and budgeted for separately from the programs that used them and were not aligned with NASA’s strategic plan. Now these resources are allocated to NASA’s programs and included as part of program budgets based on use. NASA officials credit this approach with making underused service pools more visible. If programs do not cover a service pool’s costs, NASA officials said that it raises questions about whether that capability is needed. NASA officials also explained that when program managers are responsible for paying service pool costs associated with their program, program managers have an incentive to consider their use and whether lower cost alternatives exist. As a result, NASA officials said “full cost” budgeting provides officials and program managers with a greater incentive to improve the management of these institutional assets.

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### **3.3b: Some Noted Limitations and Concerns**

Proposed budget restructuring did not meet with universal approval: concerns were raised both by some executive branch managers and congressional appropriations committees. Officials from two case study agencies noted that the changes had the potential to create new resource management challenges. Appropriations subcommittee staff expressed concerns and sometimes disapproval of agencies’ efforts to restructure budgets. Even among those supportive of advancing results-oriented management, universal agreement on the necessity of account structure changes did not exist. In addition, both agency staff and appropriations subcommittee staff said that budget restructuring did not provide some information they saw as most useful to advancing results-oriented management.

#### **Some Expressed Concerns that Budget Restructuring Has the Potential to Create New Resource Management Challenges**

Some VA and NASA officials expressed concern that budget structure changes have the potential to create new resource management challenges. These concerns stem, in part, from differences between the proposed appropriations account structure and how an agency currently operates as

well as concerns about the ability to accurately allocate resources within the new structure. One area in which restructured budgets were seen as likely complicating resource management at VA was where resources that were previously provided in a single appropriations account are disaggregated to flow through multiple appropriations accounts to better align with programs and performance. For example, under VA's fiscal year 2003 account structure, the General Operating Expenses (GOE) appropriations account funded administrative expenses for VBA's benefit programs. Within this appropriations account and within reprogramming guidelines, VBA could shift administrative funds among programs throughout the year to address performance issues or changes in benefit claims that might arise due to war or legislative changes. Under the proposed account structures for fiscal years 2004 and 2005, each program's administrative expenses would have been paid from separate appropriations accounts. Disaggregating appropriations accounts would limit the ability to shift administrative funds among programs throughout the year to address emerging needs because transferring resources between appropriations accounts generally requires further congressional action. VA officials raised concerns about how the changes might affect their ability to respond to changes in benefit claims.

In addition, some expressed concerns that estimation uncertainty surrounding the allocations of administrative costs may have implications for executing the budget properly and avoiding antideficiency violations.<sup>17</sup> Currently in VA, a VBA employee who administers compensation, pensions, and burial benefits is paid from the GOE appropriations account. Under the proposed appropriations account structures for fiscal years 2004 and 2005, a VBA employee's salary would have been paid from more than one appropriations account. Splitting a VBA employee's salary among three appropriations accounts would require estimating the time the employee spent on each program. Similar concerns were raised by VHA officials because doctors that spend time providing medical care and conducting medical research would be paid through two appropriations accounts under the fiscal years 2004 and 2005 proposed account structures. VA officials told us that estimation uncertainty surrounding the allocations of

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<sup>17</sup> The Antideficiency Act, among other things, prohibits making expenditures or incurring obligations in excess of amounts available in appropriations accounts unless specifically authorized by law.

administrative costs was one reason VA requested transfer authority for operational expenses between six program accounts.<sup>18</sup>

OMB staff's response to VA's concerns was that the proposed appropriations account structure would have provided needed incentives for the department to address long-standing cost estimation and financial management issues. OMB staff said that changing the appropriations account structure to align budget resources with programs and performance creates an incentive for managers to consider more seriously the budget resources of their programs during budget formulation, including whether the requested amount is adequate in terms of operating the program and meeting performance goals and to develop the systems to better track spending.

At NASA, views differed about the potential implications of the budget structure changes for managers' ability to respond to changing needs. Some program managers expressed concerns that the changes could limit their ability to respond to staffing uncertainties. Under NASA's previous budget structure, program budgets were not charged for civil servants working on their projects and staffing uncertainties were covered in center budgets. A program needing additional staff would request them from the center, which retained additional full-time equivalents (FTEs). Under the new budget structure, civil servants and the associated budget authority are requested and funded through program budgets. Some NASA program managers expressed concern that they might not be able to deal with an unexpected increase in workload because NASA program managers will have to come up with the money to pay for the civil servants, which might limit the extent to which they can shift budget resources among programs. Another program manager, however, suggested that since control over civil servants has moved from center managers to program managers, "full cost" budgeting would reduce some "red tape" in dealing with sudden needs or emergencies and that as a result, program managers could move FTEs more quickly.<sup>19</sup>

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<sup>18</sup> Transfer authority of up to 10 percent in the first year, up to 5 percent in the next year, and zero percent in the third year was requested among the following accounts: Compensation, Pensions, Insurance, Education, Vocational Rehabilitation and Employment (VR&E), and Burial.

<sup>19</sup> To address staffing concerns, NASA issued a policy statement describing how unexpected staffing needs would be met. For more information about this issue, see app. V.

Another area of concern is how budget structure changes would affect the balance between maintaining strategic or institutional capacity—its physical and human capital—and creating incentives for operational efficiencies. Specifically, some at NASA expressed concerns that its changes created incentives that could over time erode the agency's commitment to institutional assets such as central facilities and service pools. Under the new structure, budget authority for institutional assets are allocated to and requested by program budgets. The rate used to charge program budgets is determined by the operating cost of the facility and the units of consumption. As a result, a declining number of users can lead to increasing service charges for others using centers or service pools. Some speculated that this could in turn lead to a “death spiral” as increasing user charges drove out other programs, resulting in even higher user charges. Consequently, assets not adequately covered by user charges might be eliminated even though they might be valuable to the institution as a whole. A NASA official told us, however, that any asset considered to be mission critical would be maintained even if underused. These underused assets could be funded through general administration, which is allocated across all programs or by directing other work activities to the asset.

**Some Appropriations Subcommittees Noted General Support for Budget and Performance Integration Efforts but Raised Concerns about Agency Budget Restructuring Efforts**

While some appropriations committee reports and subcommittee staff we spoke with gave general support to budget and performance integration, including efforts to better link budget resources to performance, they raised a number of concerns about the agencies' budget restructuring efforts. For the most part, subcommittees continued to state a preference for and rely on previously established budget structures. Several key concerns were raised:

- organizational frameworks used to restructure budgets did not meet appropriators' needs,
- reduced visibility of items of particular interest to appropriations subcommittees, and
- overly cumbersome and difficult-to-use congressional budget justifications.

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**Regardless of General Support for Budget and Performance Integration Efforts, Appropriations Subcommittees Continue to State a Preference for and Rely on Previously Established Structures**

Some appropriations committee reports and subcommittee staff with whom we spoke expressed general support for budget and performance integration efforts, including efforts to better align resources with programs and performance. Some recognized the potential value of budget restructuring efforts for agency strategic and performance management. However, for the most part subcommittees continued to state a preference for and rely on previously established structures. Several stated that congressional budget justifications are intended for the congressional appropriations subcommittees and should be done to meet the needs of congressional members and their staff. In some cases, appropriations committees generally objected to changes that replaced information traditionally used for congressional appropriations with new performance information, which they viewed as supplemental at best.

In our review of appropriations committee reports, we found some general expressions of support for budget and performance integration efforts. Further, appropriations subcommittee staff we spoke with could see the potential value of budget restructuring efforts for agency management. For example, in its reports for VA's fiscal years 2004 and 2005 appropriations, the committee stated that it "supports the administration's efforts to align costs and funding with each program and to simplify the account structure."<sup>20</sup> Also, in the House Appropriations Committee report on fiscal year 2005 appropriations for DOJ, Commerce, and SBA, the committee stated that it "is supportive of budget and performance integration so that government programs can become more results-oriented."<sup>21</sup> An appropriations subcommittee staff we spoke with said that the budget structure changes aligned the agency's facilities and infrastructure to its programs and provided the information needed—total program cost. In its report on Labor's fiscal year 2004 appropriations, the House Appropriations Committee urges agencies under its jurisdiction "to manage themselves based on performance and outcomes" and to "use outcome and

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<sup>20</sup> Senate Committee on Appropriations Report 108-143, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2004* (Sept. 5, 2003), p. 8; and Senate Committee on Appropriations Report 108-353, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 21, 2004), p. 8.

<sup>21</sup> House Committee on Appropriations Report 108-576, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 2005* (July 1, 2004), pp. 7-8.

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performance measures as the primary management tool for resource allocation and the evaluation of programs and individuals.”<sup>22</sup> Also, while expressing concerns about EPA’s restructured budget for their purposes, appropriations subcommittee staff we spoke with said the information in EPA’s congressional budget justification might be useful for agency managers. Another staff said “performance budgeting is a good concept,” and that agency managers should know whether and how they are achieving goals.

However, general support did not translate into acceptance of the specific proposed changes, and for the most part appropriations subcommittees continued to state a preference for and rely on previously established budget structures and presentations. For example, although the appropriations subcommittee accepted EPA’s congressional budget justification, which was structured around its strategic goals and objectives, the subcommittee required that EPA provide program information. In committee reports on EPA’s fiscal year 2005 budget, the House and Senate appropriations subcommittees urged EPA to reformat its congressional budget justification to increase clarity and transparency.<sup>23</sup> Only in NASA’s case did Congress adopt the proposed appropriations account structure to appropriate funds.

Appropriations subcommittees rejected the proposed appropriations account structure changes for VA and DOJ.<sup>24</sup> VA’s House and Senate Appropriations Committees did not adopt VA’s proposed appropriations account structure for fiscal year 2004 or for fiscal year 2005. In fact, the House Appropriations Committee moved in a different direction, proposing a new account structure for VHA that differed from what VA had

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<sup>22</sup> House Committee on Appropriations Report 108-188, *Departments of Labor, Health and Human Services, and Education and Related Agencies Appropriation Bill 2004* (July 8, 2003), p. 8.

<sup>23</sup> House Committee on Appropriations Report 108-674, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 9, 2004), p. 91; Senate Committee on Appropriations Report 108-353, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 21, 2004), p. 111; and H.R. Conf. Rep. No. 108-792, p. 1597 (2004).

<sup>24</sup> In addition, for DOT, Congress did not accept the Federal Transit Administration’s (FTA) and the Federal Motor Carrier Safety Administration’s (FMCSA) proposed appropriations account structures for either fiscal year 2004 or 2005.

proposed.<sup>25</sup> Further, the House Committee report for fiscal year 2004 directed VA “to refrain from incorporating ‘performance-based’ budget documents in the 2005 budget justification submitted to the Committee, but keep the Performance Plan as a separate volume.”<sup>26</sup> However, VA resubmitted a restructured performance-based budget for fiscal year 2005. In the House Appropriations Committee report for the fiscal year 2005 budget, the committee reiterated its concerns about the performance-based structure. While the committee recognized “the right of the executive branch to propose whatever structure it deems necessary,” it stated, “If the Department wishes to continue the wasteful practice of submitting a budget structure that will not serve the needs of the Congress, the Congress has little choice but to reject that structure and continue providing appropriations that serve its purposes.”<sup>27</sup> Also, for the most part, Congress did not accept DOJ’s proposed account structure changes that would merge construction funding with the salaries and expense accounts for either fiscal year 2004 or 2005.<sup>28</sup>

In some cases, the House Appropriations Committee directed DOT to submit the fiscal year 2006 congressional budget justification in a format similar to fiscal year 2003 or earlier congressional budget justifications. For example, for the salaries and expenses of the Office of the Secretary, the committee directed the department “to submit its fiscal year 2006 Congressional justification materials at the same level of detail provided in

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<sup>25</sup> The House committee recommended an alternative account structure that included three separate appropriations accounts for the Medical Care program: (1) Medical services, (2) Medical facilities, and (3) Medical administration. According to the House committee report, the alternative account structure “will provide a better accounting of appropriated and receipt funds and will lead to better oversight of the costs and expenditures of VHA.” House Committee on Appropriations Report 108-235, *Departments of Veterans Affairs and Housing and Urban Development, And Independent Agencies Appropriations Bill, 2004* (July 24, 2003), p. 9.

<sup>26</sup> House Committee on Appropriations Report 108-235, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2004* (July 24, 2003), p. 4.

<sup>27</sup> House Committee on Appropriations Report 108-674, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 9, 2004), p. 4.

<sup>28</sup> For fiscal year 2005, Congress approved the proposed account structure for DOJ’s Drug Enforcement Agency.

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the Congressional justifications presented in fiscal year 2003.”<sup>29</sup> Also, while the House and Senate Appropriations Committees used FAA’s restructured budget to appropriate funds for fiscal years 2003 and 2004, the House committee returned to the fiscal year 2002 structure—the structure used prior to restructuring—for the fiscal year 2005 budget. The committee explained, “After testing this structure for the past two years, the Committee finds that it is inferior to the previous structure” and “To avoid confusion, the Committee encourages the agency to follow this organization in future budget requests.”<sup>30</sup>

Similarly, the House Appropriations Committee stated a preference for previously submitted budget structures and presentations, saying that it considered HUD’s “performance-based budget” a “strategic planning document for departmental managers, rather than a detailed budget justification document.” The committee directed HUD “not to submit or otherwise incorporate the strategic planning document or its structure into its fiscal year 2005 Budget Justification submission to the Committee.”<sup>31</sup> At least in part because of congressional concerns, HUD did not submit a “performance budget” for fiscal year 2005 and instead included links between resources and results in a separate performance plan. In the fiscal year 2005 report, the committee expressed appreciation and continued its direction that “strategic planning document, formats or materials are not to be incorporated into the [budget] submission.”<sup>32</sup>

While Labor’s Senate appropriations committee stated that displaying performance-based budgets is a “commendable goal” in its fiscal year 2004 committee report, the committee “continues to rely on the traditional display of appropriations account information provided prior to fiscal year

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<sup>29</sup> House Committee on Appropriations Report 108-671, *Departments of Transportation and Treasury and Independent Agencies Appropriations Bill, 2005* (Sept. 8, 2004), p. 8.

<sup>30</sup> House Committee on Appropriations Report 108-671, *Departments of Transportation and Treasury and Independent Agencies Appropriations Bill, 2005* (Sept. 8, 2004), p. 22.

<sup>31</sup> House Committee on Appropriations Report 108-235, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2004* (July 24, 2003), p. 79.

<sup>32</sup> House Committee on Appropriations Report 108-674, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 9, 2004), p. 75.

2004.”<sup>33</sup> In its fiscal year 2005 report, the Senate Appropriations Committee encouraged Labor “to continue using outcome and performance measures as the primary management tool for resource allocation and the evaluation of programs and individuals,” but required Labor “to submit its fiscal year 2006 congressional budget justifications in the traditional budget structure rather than in a ‘performance’ budget structure.”<sup>34</sup> Additional performance information should be submitted as a separate appendix in the budget justification.

**Organizational Frameworks  
Used to Restructure Budgets Did  
Not Meet Appropriators’ Needs**

OMB instructed agencies to structure the “performance budgets” like their strategic plans and, where possible to align budget accounts with programs or the components of programs that contribute to a single strategic goal or objective. While some appropriations subcommittee staff we spoke with said that performance information is useful, they did not agree with structuring the appropriations account and congressional budget justifications around this type of information. Some appropriations subcommittee staff explained that, in their opinion, the organizational frameworks agencies chose did not align with how the agency operated or with how the subcommittee appropriated funds, did not rely on units by which the agency was able to track spending, or did not provide useful information.

Appropriations committee reports or subcommittee staff we spoke with highlighted several examples of how the frameworks used to restructure the budget did not meet their needs. For example, a fiscal year 2005 House Appropriations Committee report stated that VA’s proposed account structure was not adopted “because it does not address the needs of the Congress in its role of reviewing and allocating federal budgetary resources.”<sup>35</sup> Specifically, one appropriations subcommittee staff person noted that the proposed framework did not align with how the agency operated. For example, in the staff person’s view, the organizational

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<sup>33</sup> Senate Committee on Appropriations Report 108-81, *Department of Labor, Health and Human Services, and Education and Related Agencies Appropriation Bill 2004* (June 26, 2003), p. 41.

<sup>34</sup> Senate Committee on Appropriations Report 108-345, *Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriation Bill 2004* (Sept. 15, 2004), p. 34.

<sup>35</sup> House Committee on Appropriations Report 108-674, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2005* (Sept. 9, 2004), p. 4.

framework for VBA’s proposed account structure, which would structure its budget around programs and fund administration resources from several different program accounts, did not align with how regional offices operated, in which one staff person’s time may be split across multiple programs. The staff person indicated a preference for information organized around functional area, such as administration.

EPA offers another example. House appropriations subcommittee staff said that the organizational framework used for EPA’s restructured congressional budget justification did not align with how the subcommittees appropriated funds. They explained that EPA’s new structure around strategic goals and objectives didn’t match appropriators’ interests or the structure used for appropriations because appropriators generally focus on and provide resources by program. Staff said that tracing program funding changes back to goals or determining the effect of changes in goal funding to programs was difficult.

Others expressed concern that the performance-based organizational structure focused on units with which staff did not agree. For example, appropriations subcommittee staff said that the goals presented in the congressional budget justification did not reflect those of the subcommittee. Further, an appropriations subcommittee and its staff expressed concern that organizing the budget around performance goals or missions might obscure information about how agencies are spending money. For example, in its committee report for the fiscal year 2005 budget, the House Appropriations Committee explained that FAA’s restructured budget “depends on overlapping budget categories and subjective judgments among agency officials concerning a program’s predominant purpose.”<sup>36</sup>

Subcommittee staff also expressed concern that agencies request appropriations in the performance-based frameworks but are unable to track spending in this framework. For example, some of the nine agencies in our review have structured their congressional budget justification around their strategic or performance plans and show or request funding by goals or objectives. However, according to some appropriations subcommittee staff, some agencies do not track spending by these goals and objectives and thus cannot report the amount spent by goal. In

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<sup>36</sup> House Committee on Appropriations Report 108-671, *Departments of Transportation and Treasury and Independent Agencies Appropriations Bill, 2005* (Sept. 8, 2004), p. 22.

addition, these appropriations subcommittee staff thought this shift could make it more difficult to track historical spending trends since goals might change from year to year. GPRRA requires an agency to develop a strategic plan at least every 3 years to cover the following 5-year period, and GAO has reported that changes in political leadership may also result in a new agenda with new objectives.

A concern was also raised that the organizational framework used did not provide useful cost information. An appropriations subcommittee staff said that VA's allocation of resources among its programs and offices seemed "incomplete and inconsistent." Specifically, according to the staff, claim adjudication was included as part of the Disability Compensation program's administrative costs, but appeals and court costs, which cover the lawyers in the Office of General Counsel who are a large part of the claim adjudication process, were not included. Also, the staff questioned why a portion of the department's construction resources were allocated to and requested by VA's Inspector General office. Generally, to the extent staff were uncomfortable with agencies' ability to meaningfully allocate resources, they expressed concerns about the value of the information provided by the restructured budgets.

**Reduced Visibility of Items of  
Particular Interest to  
Appropriations Subcommittees**

As agencies increased the performance perspective in congressional budget justifications, some appropriations subcommittee staff we spoke with said some information they needed was either less transparent or not provided within the restructured budgets. For example, several staff said they found that the restructured congressional budget justification failed to include information appropriators are most interested in, such as changes to appropriations language and funding levels, historical information, funding levels by program or state, object class information, and more detailed cost and performance information, such as unit cost, workload information, and output measures. This information lends itself to the budget process. For example, workload measures, in combination with cost-per-unit information, can be used to help develop appropriations levels, and legislators can more easily relate output information to a funding level to help define or support a desired level of service. Other staff explained that appropriators also focus on agencies, offices, and activities and need object class and workload-related information to make decisions.

The importance of workload and output measures for making budget decisions is also important at the state level. In a recent review of state performance budgeting efforts, some state officials said that outcome

measures and performance evaluations were useful in budget deliberations, but that legislators rely most on workload and output measures when determining funding levels and desired levels of service relative to funding.<sup>37</sup>

Concerns that performance information replaced information needed to make budget decisions were also expressed in committee reports. For example, a House Appropriations Committee report said that, “while the amount of performance data included in budget documents has increased, in many cases it has been at the expense of programmatic budget data and justifications that are critical to the work of the Committee.”<sup>38</sup> Similar concerns were raised in another committee report and the committee directed the department to “include in the budget justification funding levels for the prior year, current year, and budget year for all programs, activities, initiatives, and program elements.”<sup>39</sup> In addition, the committee said that one agency’s restructured budget obscured information and made it easier for agencies to cover cost overruns with little scrutiny.

Along these lines, some appropriations subcommittee staff said that they sought additional information from the agency instead of using what was included in the restructured congressional budget justifications or used the previous year’s congressional budget justifications. For example, in response to congressional concerns that its fiscal year 1999 congressional budget justification lacked program information, EPA provided appropriations staff with supplemental information on the budget request broken down by program in its fiscal year 2000 through fiscal year 2004 justifications. Appropriations subcommittee staff said that Labor’s fiscal year 2004 congressional budget justification failed to provide historical information and differences in funding for various training programs; appropriations subcommittee staff asked Labor for additional information or used earlier congressional budget justifications and constructed their own tables.

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<sup>37</sup> GAO, *Performance Budgeting: States’ Experiences Can Inform Federal Efforts*, [GAO-05-215](#) (Washington, D.C.: Feb. 28, 2005).

<sup>38</sup> House Committee on Appropriations Report 108-576, *Departments of Commerce, Justice, and State, The Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 2005* (July 1, 2004), p. 8.

<sup>39</sup> House Committee on Appropriations Report 108-671, *Departments of Transportation and Treasury and Independent Agencies Appropriations Bill, 2005* (Sept. 8, 2004), pp. 8, 22.

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Overly Cumbersome and  
Difficult-to-Use Congressional  
Budget Justifications

Some appropriations subcommittee staff felt strongly that the restructured congressional budget justifications were often overly cumbersome and difficult to use. Not only did the congressional budget justifications omit information the committees wanted, they sometimes included information the committees did not need. Several appropriations committee reports or subcommittee staff we spoke with stated that congressional budget justifications are intended for the congressional appropriations committees and should be prepared to meet the needs of congressional members and their staff. As expressed in one appropriations committee report, "In the place of critical budget-justifying material, the Committee is provided reams of narrative text expounding on the performance goals and achievements of the various agencies."<sup>40</sup> In the view of some staff, the type of performance information agencies provided is supplemental and including it in the congressional budget justification made it hard to use for their purposes. For example, some subcommittee staff said they found the narrative included in performance-based congressional budget justifications too voluminous and cumbersome, making any useful information contained in them too difficult to find. In its fiscal year 2005 committee report, the House Appropriations Committee directed DOT and other agencies to refrain from including substantial amounts of performance data within the congressional budget justifications themselves, and to instead submit performance-related information under separate cover.

Not only did appropriations subcommittee staff see the restructured congressional budget justifications as providing too much performance-based information, but some also said that the performance-based justifications were poorly organized or formatted, making it even more difficult to find needed information. For example, in one case subcommittee staff pointed out that in the agency's restructured congressional budget justification, program performance goals were listed by number without sufficient information to identify the goals. In addition to using congressional budget justifications from previous years and creating their own tables, appropriations subcommittee staff said they needed to flip from section to section to find information that should be listed on the same page. In the staff's opinion it was much easier to use the previous congressional budget justifications. Further, staff also said that the congressional budget justification didn't clearly show how the

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<sup>40</sup> House Committee on Appropriations Report 108-671, *Departments of Transportation and Treasury and Independent Agencies Appropriations Bill, 2005* (Sept. 8, 2004), p. 5.

programs contributed to the agency's goals and missions, and that it was difficult to understand the relationship between the administrative resources shown in "full cost" summary tables and those shown in the administrative appropriations accounts. Another issue was the imbalance between the amount of information provided and the amount of the funding request. For example, FAA provided over 170 pages of text discussing the relatively small share of its budget that is capital programs and only about 20 pages on the relatively larger operating portion of the budget.

### Agencies Address Congressional Concerns

Some agencies made changes to their performance-based budget structures in response to congressional concerns or direction. For example, both EPA and Labor reported that they made changes to their budget justifications for fiscal year 2006 to address congressional concerns. Specifically, in response to congressional direction to reformat its justification to increase clarity and transparency, EPA restructured its budget justification so that it is organized by appropriations account and program/projects. The new format provides information in a way that Congress makes decisions—at the program level. EPA continues to provide information on strategic goals and objectives and the resources associated with them, but it is streamlined and treated more like a supplement. According to Labor officials, since the submission of the fiscal years 2004 and 2005 budget justifications, they have worked with congressional appropriations committee staff to address concerns about the elimination of program-specific information. Several exhibits, including the 5-year funding histories, have been reinstated in Labor's "performance budget" for fiscal year 2006.

### **Extent to Which Appropriations Account Restructuring Considered Necessary to Advance Results-Oriented Management Varied**

Despite all the recent efforts to restructure the budget, little consensus exists on whether appropriations account restructuring is necessary to advance results-oriented management. OMB staff said that it is important to move beyond aligning budget resources to results for presentational purposes to appropriating budget authority with programs and performance, which will provide improved incentives for appropriators and program managers to recognize and make resource trade-offs. However, OMB also noted that other factors must be considered and the

restructuring appropriations accounts should be “considered with care.”<sup>41</sup> OMB staff we spoke with agreed that the need for appropriations account restructuring should be considered on a case-by-case basis, noting that appropriations account restructuring may not be necessary for all agencies.

Agency officials from the nine agencies in our review differed in the extent to which they viewed appropriations account structure changes as important for efforts to improve performance. Some saw the changes in appropriations accounts as necessary to reinforce performance-based cultural transformations and accountability processes within agencies. However, most expressed the opinion that appropriations account structure changes were not critical to their efforts to advance results-oriented management at this time. Officials generally said that the structure itself did not present a significant impediment to efforts to improve performance, noting that other factors, such as underlying authorizing statutes and earmarks, might create more significant impediments. There were some agency officials who saw ways in which the appropriations account structure hindered efforts to improve performance. For example, some NASA officials said that, prior to restructuring, the previous appropriations account structure resulted in a lack of accountability over the resources used to achieve performance and limited managers’ abilities to make resource trade-offs to use resources more efficiently. Others cited examples in which the current appropriations account structure complicates the discussion of performance. For example, a DOJ official noted that DOJ’s appropriations account structure does not provide a full picture of the resources associated with meeting its performance goals. When talking about overcrowded prisons, for example, one would have to look at two appropriations accounts under the existing account structure to get the full picture of resources being used to achieve related performance goals.

While officials from most agencies did not view appropriations account structure changes as critical to their results-oriented management efforts, some officials said that changing the congressional budget justification without making corresponding changes to the appropriations account structure might create new challenges. For example, a Commerce official explained that Commerce currently operates under a performance-based budget. However, Congress still appropriates under the previously

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<sup>41</sup> Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003* (Washington, D.C.: February 2002), p. 10.

established appropriations account structure. As a result, Commerce must translate from appropriations accounts to its strategic goals by creating crosswalks, which were described as time-consuming. Similarly, EPA officials reported that, prior to the fiscal year 2005 budget, they formulated and executed the budget at the goal, objective, and subobjective level. However, once Congress appropriated by key program, the funds were translated to the performance-based framework. EPA was concerned that they couldn't track spending by key program and so, for the fiscal year 2005 budget, EPA implemented changes to its budget and financial management systems in order to include programs in budget formulation and execution.

**New Budget Structures Do Not Address Some Shortcomings in Cost and Performance Information Identified as Useful for Results-Oriented Management**

Previous initiatives suggest that it is not practical for one reform to address the multiple needs and perspectives of Congress, OMB, and other executive branch managers. Accordingly, it is important to recognize that budget restructuring alone does not necessarily provide some detailed cost and performance information cited by agency officials and congressional staff as most useful in advancing results-oriented management and addressing some key management challenges. The need for detailed and adequate cost and performance information is a long-standing challenge. OMB stressed that budget restructuring is one effort among many that are intended to work together to advance the integration of budget, cost, and performance information to support results-oriented management efforts.

One objective of recent budget restructuring efforts is to provide better information on the "full cost" of achieving performance; however, some agency officials—mainly at the program manager level—and appropriations subcommittee staff stressed the importance of more detailed cost and performance information, such as unit cost and workload information, as more useful for improving management and oversight than what is provided by budget restructuring. As an example, the ability to compare the unit cost of programs or activities across regions was cited as beneficial to highlighting potential inefficiencies. Similarly, some appropriations subcommittee staff said detailed unit cost information, such as cost per patient or cost per insurance claim, was potentially useful in making budget decisions. Further, a VA official cited the need for cost accounting information that could help VHA identify underused medical equipment and divert some of its resources to another medical facility to help cover costs. These congressional staff and the agency official pointed

out that the restructured budgets did not provide this information. While restructured budgets are intended to better capture the “full cost” of programs and performance, the level at which budgets generally are organized is more aggregated than the detailed managerial cost information needed for this type of analysis.

Some also expressed concern that budget restructuring would not provide information to help address some key agency management challenges. For example, NASA has had long-standing contracting issues that the information provided by budget restructuring would not necessarily address. NASA program managers we spoke with said budget restructuring would not help reduce or limit cost overruns, which has been a key performance issue. They said they need more detailed cost information on contract cost components, including labor and materials, to monitor contractor performance.<sup>42</sup> Others noted that efforts to develop improved performance measures and metrics have a much greater impact on results-oriented management than budget restructuring. For example, an agency official said improving management is not only about managing dollars more effectively but also improving the level of service. In the official’s view, performance measures about the accessibility and quality of services—not the budget structure—drive management decisions about whether or not to build a facility to expand services.

Other officials noted that management initiatives were generally advanced when internal management and accountability processes, such as performance management systems, were recast to focus on performance and results, but budget restructuring was not viewed as essential to foster this shift in managerial perspective. For example, according to Labor officials, changes to Labor’s performance management system that increase managers accountability for achieving results affect management more than budget structure changes. An official suggested that changes to the budget structure reflect, rather than drive, efforts to advance results-oriented management.

Given these types of issues, some agency officials, congressional appropriations staff, and budget experts suggested that improving financial

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<sup>42</sup> GAO has also reported that NASA program managers need systems with the ability to integrate these data with contract schedule information to monitor progress on the contract. See *Business Modernization: Improvements Needed in Management of NASA’s Integrated Financial Management Program*, [GAO-03-507](#) (Washington, D.C.: Apr. 30, 2003).

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and performance information should be a prerequisite to restructuring budgets and some added that, in their opinion, this step is more important to improving management and oversight than the recent budget restructuring efforts. Since it is not practical for one reform to address all decision makers' needs, it is important to understand what can realistically be expected from any particular effort as well as how various efforts fit together so that effective judgments can be made on whether, how, and to what extent the budget might be restructured given limited resources.

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# Section 4: Budget Restructuring Efforts Face Challenges

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The history of performance budgeting efforts has shown that designing effective approaches to achieve meaningful connections between performance and budget structures is a complex undertaking. Current efforts face many of the same challenges faced by previous initiatives. Restructuring budgets inevitably requires trade-offs among the needs and perspectives of Congress and other decision makers because budget structures reflect fundamental choices about how to frame budget choices and influence controls and incentives. Structuring budgets to better capture the “full cost” of programs and performance also involves numerous judgments about such issues as the relative contribution of various programs to achieve performance and the appropriate allocation of resources among these programs and goals. These complexities suggest that designing and implementing budget restructuring proposals will be a long-term and experimental process.

While some agencies have demonstrated that sustained commitment by agency leadership is important to move budget restructuring forward, this commitment has not yet been shared by congressional appropriators and other decision makers. A lack of consensus among Congress and other key decision makers exists on the value of budget restructuring and on the value of the organizing frameworks used to structure agencies’ performance-based budgets. In some cases this lack of consensus has increased agencies’ workloads and raised questions about the sustainability of budget restructuring efforts. Questions have also been raised about the ability of agencies’ performance and financial management systems to support the allocation and tracking of resources adequately within the new budget structures. Congressional staff and others expressed concerns about moving forward on budget restructuring without adequate performance and financial information.

Experiences to date highlight a number of implementation challenges and issues for current and future budget restructuring efforts including:

- lack of consensus between congressional appropriators and other decision makers,
- need for sustained commitment, and
- need for adequate systems to support allocation and tracking of costs within new frameworks.

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These challenges suggest that budget restructuring may be a long-term, experimental process requiring flexibility to explore different approaches.

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#### 4.1: Lack of Consensus between Congressional Appropriators and Other Decision Makers Creates Challenges for Budget Restructuring Efforts

In many cases, Congress and other key decision makers—OMB and different levels of agency management—have not reached consensus on the value of restructuring budgets or the frameworks used to do so. The multiplicity of roles and needs of Congress and other decision makers may mean complete consensus is unattainable because no one structure or approach is likely to satisfy all. However, in some cases, there has been no dialogue between Congress, OMB, and the agencies. The lack of any consensus creates and will continue to create significant challenges and frustrations for those attempting to develop, implement, and use restructured budgets.

As noted in section 3 of this report, agreement has not been reached about either the value of restructuring budgets around performance or the specific organizational frameworks used to do so. Any frameworks used to structure performance budgets—such as strategic goals, performance goals, programs, or individual item of expense (e.g., salaries and expenses or construction)—will meet some needs but not others. This is not surprising given the different roles decision makers have within our constitutional system of separated powers. For example, appropriations subcommittee staff highlighted their oversight role and accountability for resource use. They also cited the demands of allocating limited resources within the time constraints of the appropriations process. All of these factors led them to want consistently presented information in areas such as object classes, program funding, major new initiatives, changes in policy, and historical spending trends for key functional areas and organizational units.

In contrast, OMB staff and agency officials tended to emphasize the importance of linking resource allocation decisions to strategic and performance goals and the need for increased authority and flexibility over the resource use to improve efficiency and effectiveness. The various roles of decision makers within agency management also create differing needs. As discussed in section 3 of this report, aligning resources with high-level strategic and performance goals may be useful for strategic management and assessing performance, but it may not provide the detailed information needed to inform operational management decisions to improve efficiency and effectiveness.

These contrasting perspectives were evident in the different reactions of appropriations staff and OMB officials and staff to agencies' appropriations account or congressional budget justification changes. While OMB and some agencies were pursuing efforts to implement restructured budgets, several appropriations subcommittees were specifically directing some agencies in their jurisdiction to use previously established structures and refrain from incorporating performance-based information into congressional budget justifications. For example, one House Appropriations Committee report directed agencies to, "refrain from incorporating 'performance-based' budget documents in the 2005 budget justification submission to the Committee, but keep the Performance Plan as a separate volume."<sup>1</sup> Meanwhile, for the fiscal year 2005 budget, OMB required agencies to submit a "performance budget" that would integrate an agency's annual performance plan and congressional budget justification into one document.

Determining whether it is possible to develop any approach to restructuring budgets around performance acceptable to all decision makers is made more difficult if there is no consultation. OMB said agencies should consult with congressional committees before submitting the budget to ensure they are aware of changes being made to the budget structure, and OMB recognizes that account structure changes must be negotiated with Congress. However, some agency officials and congressional appropriations subcommittee staff we spoke with cited insufficient dialogue between the agencies and appropriators. For example, some appropriations subcommittee staff said that they had not been sufficiently consulted about proposed budget structure changes. Moreover, some appropriations subcommittee staff said agency officials had presented the changes without providing enough detail about the changes or, in other cases, did not adequately seek and respond to their input. One Senate Appropriations Committee report also reflected these concerns about the need for communication on the framework used to restructure budgets, stating that "[the Committee] expects the Department

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<sup>1</sup> House Committee on Appropriations Report 108-235, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2004* (July 24, 2003), p. 4.

to work with the Committee to make sure that the fiscal year 2004 budget justifications meet Committee needs.”<sup>2</sup>

The lack of consensus, whatever the cause, has and will likely continue to raise challenges for those attempting to develop and implement restructured budgets. Agencies’ experiences have shown that pursuing restructured budgets without the agreement—or at least acquiescence—of appropriations subcommittees can result in significant resources being used to develop budget structures that are rejected or, if accepted, do not fully meet congressional needs. This leads in turn to increased agency and appropriations subcommittee staffs’ workloads or frameworks that are not fully used by congressional appropriators. For example, to satisfy OMB’s requirement to submit a performance budget, some agencies likely expended significant resources to create performance-based budgets only to be appropriated and have to execute based on previously established structures. Furthermore, appropriations subcommittee staff said they used alternative methods to get the information they needed, including asking agency staff to provide supplemental information and creating crosswalks between the performance-based framework and the previously established framework because some formerly reported information was not included in the new performance-based congressional budget justifications.

The lack of agreement on the framework used to structure the budget may not only increase workload but also raise questions about the extent to which the restructured budget will in fact reframe budget choices. This can be true even in cases where restructured budgets are adopted. For example, although Congress accepted EPA’s fiscal years 1999 through 2005 congressional budget justifications, which were structured around its strategic goals and objectives and changed EPA’s reprogramming guidance to expressly allow funding shifts within strategic objectives, Congress required that EPA provide program information and continued to set specific funding levels in committee reports based on programs.<sup>3</sup> Appropriations subcommittee staff said that they generally did not use the performance-based budget to conduct their work but rather the program-based information they requested from EPA. Although Labor submitted a

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<sup>2</sup> Senate Committee on Appropriations Report 108-81, *Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriation Bill, 2004* (June 26, 2003), p. 41.

<sup>3</sup> According to our analysis, over 50 percent of EPA’s budget is dedicated to specific programs.

“performance budget” for fiscal years 2004 and 2005, appropriations subcommittee staff we spoke with said they either relied on the fiscal year 2003 congressional budget justification to find information they needed or requested supplemental information from Labor. In short, they did not generally use the performance-based budget.

Given the differing needs and perspectives of appropriators and agency officials there may always be some gaps. Therefore, the challenge will be to seek alternatives beyond and complementary to budget restructuring that can both provide the information decision makers need and improve the use of performance information during various stages of the budget process.

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## 4.2: Budget Restructuring Requires Sustained Commitment and Leadership

Successfully changing appropriations accounts and congressional budget justifications requires sustained commitment by key decision makers. Most of our case study agencies had been working on the framework and methods used to better capture the cost of programs and performance in the budget for several years prior to proposing appropriations account structure changes or submitting a restructured congressional budget justification to Congress. Even after the initial changes, agencies continue to refine the appropriations account structure and congressional budget justification to reflect revised strategic plans or address concerns. EPA, for example, changed its budget framework to reflect changes to its strategic plan. At the same time, EPA implemented additional changes to improve financial management. Furthermore, some officials from our case study agencies told us that it might take time to see the benefits of any changes for management and oversight. For example, NASA officials said that they began working on the “full cost” initiative in 1995. The formulation of the fiscal year 2004 budget was primarily a headquarters exercise and the fiscal year 2005 budget was the first budget program managers formulated in “full cost.” As a result, according to NASA officials, program managers have limited experience with budgeting and managing in “full cost,” and it may take a few more years to completely achieve the benefits of “full cost” management.

Some agencies said that commitment by agency leadership and staff, early involvement of OMB, and integration of agencies’ budget and planning staff were helpful in their long-term effort to better link resources to performance in the budget. For example, EPA officials credited their senior leadership with supporting budget restructuring efforts and integrating planning and budget staff. Labor and NASA officials reported

that they involved OMB in task forces or decisions related to the design of restructured budgets. Labor officials said that integrating its budget and planning staff to provide central coordination, direction, and planning on department goals and objectives facilitated increased collaboration between budget and planning staff and supported budget restructuring. However, while a sustained commitment by agency leadership and staff appears necessary to advance budget-restructuring efforts, it is not sufficient.

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### 4.3: Concerns Raised about Ability of Agencies' Systems to Accurately Link Budget Resources to Performance and to Track Cost in the New Budget Structures

Structuring budgets to better capture the “full cost” of programs and performance involves numerous judgments, such as the contribution of various programs to achieve goals and objectives and the allocation of resources among these programs and goals. Restructuring budgets to better align budget resources with programs and performance might provide a more complete picture of the resources associated with expected results, but that is dependent on these underlying estimates and assumptions. To the extent performance and resource allocations are made on an arbitrary or misleading basis, the new structures cannot be assumed to provide improved information on the connections between performance and resources. Questions have been raised about agencies' capacity to

- develop meaningful allocations of resources to program and performance within the new frameworks,
- track costs within the new frameworks, and
- develop meaningful estimates of the contribution of programs to goals and objectives within the new framework.

Agency officials and appropriations subcommittee staff we spoke with raised concerns about the ability of agencies' financial management systems to accurately allocate budget resources within the performance framework used to structure appropriations accounts and budget justifications as well as to adequately track costs. Officials from several agencies questioned their ability to accurately allocate resources, including staff time, among programmatic or goal areas. Indeed, both GAO and inspectors general have reported weaknesses in several of our case study agencies' financial management systems in providing reliable, useful, and

timely financial information, including cost data.<sup>4</sup> Also, OMB's PART reviews suggest that much work remains to be done in improving the underlying information, evaluations, and systems within agencies to support performance goals.<sup>5</sup> Some OMB staff said that budget restructuring would provide a much-needed incentive to address these issues. Officials from a number of agencies noted that they are in the process of improving financial management systems or developing managerial cost accounting systems, which they expected to better inform the estimates used in the budgets in the future.

Agencies face two broad challenges in seeking to align budget resources to performance in the budget structure. The first challenge is that unless each program or activity is linked directly to one and only one goal or objective, the performance contribution of a program must be allocated across goals or objectives. This places greater importance on exploring the analytical linkage between programs and goals. The second challenge is allocating resources, such as central administration, across goals. If one VBA staff's salary will be funded from multiple appropriations accounts, accurate estimates of the amount of time they spend on each program becomes important. Allocating resources requires establishing a basis on which to spread resources and having the supporting data to support allocation estimates. Officials we spoke with used a variety of bases to allocate resources to programs and performance, ranging from specific projects, full-time equivalents (FTEs), workload estimates, etc. To the extent the basis used reflects true resource needs, allocating resources has the potential to provide more complete information on the resources associated with programs and performance. If the basis used is arbitrary or does not reflect true resource use, then information and incentives will not be improved. The appropriate basis may vary. For example, FTEs may be an appropriate basis to allocate some resources but not others. An agency that uses FTEs as a method to allocate publishing costs might wrongly assume that an office with many FTEs should be allocated a greater share of publishing resources despite the fact that an office with fewer FTEs might publish more (or need more expensive types of published products) and thus have higher publishing costs than the office with more FTEs.

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<sup>4</sup> GAO, *Financial Management: FFMLA Implementation Necessary to Achieve Accountability*, [GAO-03-31](#) (Washington, D.C.: Oct. 1, 2002).

<sup>5</sup> GAO, *Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget*, [GAO-04-174](#) (Washington, D.C.: Jan. 30, 2004).

Regardless of the basis of allocation, the systems and underlying data to support resource allocation is important for agencies to have. Some agency officials and congressional staff questioned the ability of agencies' systems and data to support resource allocation and track costs in new structures. For example, VA officials explained that VBA staff often divide their time between administering disability compensation, pension, and burial claims. Under the current structure, the staff's salary is paid from the General Operating Expense (GOE) account regardless of which activities the staff is undertaking. Under the proposed structure, the staff's salary would be paid from three different appropriations accounts depending on the activities undertaken. VA officials said that allocating salaries among the three accounts would be difficult to properly estimate.

Some also expressed concerns about potential difficulties arising from executing budgets within a structure built from uncertain resource allocation estimates. Accounting systems and budget execution concerns have led some agencies to request transfer authority; that is, the ability to shift resources among appropriations accounts. For example, when it began allocating administrative resources to its programs in two separate appropriations accounts, NASA requested and received transfer authority for administrative expenses between its two appropriations accounts. NASA officials said this flexibility is needed because of the inherent difficulty in correctly estimating resource allocations since staff divide their time among projects. Also, VA requested transfer authority for administrative expenses to avoid antideficiency violations because estimation uncertainties exist around separating administrative resources into multiple program accounts.<sup>6</sup> Appropriators did not accept VA's proposed account structure and so did not provide VA this authority.

Concerns were also raised about agencies' ability to track costs within the new structure and to provide supplemental cost information by organizational unit or functional area. For example, VA's budget office does not track what is spent by strategic goal and objective throughout the year because its financial system does not track costs in this way; rather, VA applies assumptions to spread costs among strategic goals and objectives. Without adequate performance and financial information systems, agency managers may be unable to accurately track these costs and help make

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<sup>6</sup> The Antideficiency Act, among other things, prohibits making expenditures or incurring obligations in excess of amounts available in appropriations accounts unless specifically authorized by law.

informed resource management decisions. Although Labor allocates both direct and indirect resources to performance goals, costs are not tracked at this level during budget execution, and managers are not bound to spend the amounts shown for performance goals in the budget justification. Without adequate performance and financial information, some agency officials and congressional appropriations subcommittee staff expressed concerns about moving forward with budget restructuring. For example, appropriations subcommittee staff we spoke with said that given agencies' inability to report how funds were being spent in both the previously established and new performance-based budget structures, the staff were unwilling to accept proposed budget structure changes.

While there was general agreement among the agency officials and budget experts we spoke with on the need for integrated financial management systems that provide reliable and timely information, they expressed differing views on the extent to which these systems need to be in place prior to restructuring budgets around programs and performance. Some agency officials, appropriations staff, and budget experts emphasized the importance of having integrated financial management systems in place that can accurately estimate and track spending before proceeding with budget restructuring. As such, some said that improving performance and cost information should be the first step, especially given that some approaches to budget restructuring provide increased managerial discretion over resource use. Some OMB staff and agency officials, however, expressed the differing view that requiring budgets to be structured around programs and performance provides much needed incentives for agencies to address long-standing financial management issues.

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#### 4.4: Budget Restructuring May Be a Long-Term, Iterative Process Requiring Flexibility to Explore Different Approaches

These challenges suggest that budget restructuring may be a long-term, iterative process requiring flexibility to explore different approaches. As OMB and agencies have wrestled with the issues described above and the broader Budget and Performance Integration (BPI) initiative has evolved, OMB's guidance related to budget restructuring has changed. OMB staff we spoke with described budget restructuring as a long-term effort requiring experimentation to determine effective approaches. OMB staff said they have refined their guidance as they learn more about what is working for agencies at the forefront of budget restructuring efforts. Moreover, they said their intention is not to dictate specific approaches. Instead they want to encourage agencies to change congressional budget justifications—and in some cases appropriations accounts—to better align

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budget resources with programs and performance in ways that meet agencies' and other users' needs while increasing the information and incentives to recognize and make resource trade-offs with a focus on results. However, while experimentation and flexibility may be needed to develop and implement a complex and evolving initiative, changes in specific guidance nevertheless may reduce clarity with respect to the objectives of and steps necessary for budget restructuring as well as the role of budget restructuring within broader budget and performance integration efforts.

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# Section 5: Lessons Learned and General Observations

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Budget restructuring is one tool that can advance results-oriented management. However, it involves significant trade-offs between information provided and accountability frameworks used. Congress, OMB, and the agencies hold differing views on information and incentives necessary to support effective decision making and oversight. While increasing the focus on results in budget decisions is important, recent efforts to increase the focus in congressional budget justifications have generally reduced the visibility of other information, such as object class, workload, and output measures that congressional appropriations committees consider important for making resource allocation decisions. The need for workload and output measures for making resource allocation decisions is not unique to the federal government. State officials indicated this information is used by legislators in making resource allocation decisions, as discussed in our most recent review of state performance budgeting efforts.

The history of budget reform suggests that budget structures will necessarily reflect multiple perspectives on resource allocation. Performance goals and planning structures can clearly add value to budget debates by focusing attention on the broad missions and outcomes that individual programs and activities are intended to address. However, budget structures also serve the legitimate role of helping Congress control and monitor agency activities and spending by fostering accountability for inputs and outputs within the control of agencies. The greatest challenge of budget restructuring may be discovering ways to address these competing values that are mutually reinforcing, not mutually exclusive.

Budget restructuring has implications for the balance between managerial flexibility and congressional oversight and control and ultimately the relationship among the primary budget decision makers—Congress, OMB, and agencies. Thus, Congress must be considered a partner in this effort. While congressional buy-in is critical to sustain any major management initiative, it is especially important for performance budgeting given the Congress' constitutional role in setting national priorities and allocating the resources to achieve them. The concerns raised by appropriations staff suggest that when creating "performance budgets" OMB and agencies should find ways to tailor the agencies' performance information to meet those needs and to supplement, rather than replace, key information used by appropriations committees to make decisions. Lessons from previous initiatives and agencies' recent experiences suggest that Congress needs to be comfortable with the appropriateness and utility of the new budget structures since budget structures fundamentally shape the focus of

appropriations decisions as well as the nature of the controls through which Congress oversees executive agencies' spending. Accordingly, if performance goals and measures are to become the basis for the new budget structures, Congress must view them as a compelling framework through which to achieve its own appropriations and oversight objectives. Indeed, GPRA itself was premised on a cycle where measures and goals were to be established and validated during a developmental period before they were subjected to the rigors of the budget process.

This suggests that the goal of enhancing the use of performance information in budgeting is a multifaceted challenge that must build on a foundation of accepted goals, credible measures, reliable cost and performance data, tested models linking resources to outcomes, and performance management systems that hold agencies and managers accountable for performance. Restructuring appropriations accounts and presentations to better capture the "full cost" of performance is part of this agenda as well. However, creating performance budgets without establishing and validating the requisite foundation and consensus on measures and goals among primary decision makers will likely not succeed in gaining support in the budgetary decision-making process.

Going forward, the important goal of infusing a performance perspective into budget decisions may only be achieved when the underlying supply of information becomes more credible, compelling, accepted, and used by all significant decision makers in the system. Indeed, if budget decisions are to be based on this cost and performance information, there is a more compelling need to improve the integrity of the data. As OMB's own PART reviews suggest, much work remains to be done in improving the underlying information, evaluations, and systems within agencies to support performance goals. Thus, improving the supply of credible cost and performance information as well as generating consensus for the goals themselves are essential parts of a longer-term strategy to infuse performance into budget decisions.

While some argue that budget restructuring might be necessary to provide incentives to take the performance goals seriously and improve the underlying information, our work suggests that restructuring can only take root once support exists for the underlying performance goals and metrics. In due course, once the goals and underlying information become more compelling and used by Congress, budget restructuring may become a more compelling tool to advance performance budgeting. In other words,

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**Section 5: Lessons Learned and General  
Observations**

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the budget structure will more likely reflect—rather than drive—the use of performance and cost information in budget decisions.

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# Objectives, Scope, and Methodology

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In this report we refer to budget restructuring as involving both (1) changes to the structure and format of appropriations accounts and congressional budget justifications to better align with programs and performance and (2) changes to distribution or measurement of certain budget resources to better capture the cost of those resources where and when they are used. Although the Office of Management and Budget's (OMB) concept of "full cost" originally included efforts to change the budgetary measurement of certain items to better capture "when" they are used, the primary focus of reform efforts to date and this report has been on changes in alignment of appropriations accounts or congressional budget justifications and the distribution of resources within these structures to more completely show the cost of resources "where" they are used.

Our objectives for this report were to (1) summarize the steps taken by OMB and selected agencies to better align their budgets with performance and to better capture the cost of performance in the budget, (2) discuss the potential implications of these efforts for congressional oversight of budget resources and executive branch managerial flexibility and accountability over budget resources, (3) describe the experiences and implementation challenges associated with these efforts, and, (4) describe the lessons learned that might be useful in considering future efforts for linking budget resources to results in the budget. Observations and lessons learned in this study together with lessons learned from previous "performance budgeting" initiatives provide insights useful in consideration of current and future budget restructuring efforts and other steps to improve the use of cost and performance information in the budget process.

To address our objectives, we reviewed OMB documents, such as the President's Management Agenda (PMA),<sup>1</sup> Circular A-11,<sup>2</sup> as well as presentations of OMB officials and staff. We also analyzed appropriations account structures and congressional budget justifications for nine federal

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<sup>1</sup> The PMA, by focusing on 14 targeted areas (5 mutually reinforcing governmentwide goals and 9 program initiatives), seeks to improve the performance and management of the government.

<sup>2</sup> Circular A-11 provides, among other things, guidance on how to formulate, develop, and submit materials required for OMB and presidential review of agency budget requests.

agencies for mainly the fiscal years 2003 through 2005 budgets.<sup>3</sup> For four of the nine agencies, we conducted more in-depth case studies to gain a fuller perspective of the potential implications of the budget changes for executive branch management and agencies' experiences implementing these changes. For the four case study agencies, we held interviews with agency officials at various levels of management and with senior staff and budget examiners from OMB's Resource Management Offices.

Also, to obtain views and gain insight about the potential implications for congressional oversight of budget resources, we met with House and Senate majority and minority staff of the appropriations subcommittees with jurisdiction over some of the nine agencies of our review. We had at least one interview with appropriations staff for each of our case study agencies. Furthermore, we reviewed House and Senate appropriations committees' reports for language about agencies' appropriations account and congressional budget justification changes.

In addition, we conducted two panel discussions to obtain the views of officials from our case study and review agencies as well as budget experts in an interactive setting. We summarized the interviewees' and panelists' answers, identified recurring themes or observations, and considered insights provided by previous initiatives to describe the lessons learned that might be useful in considering future efforts.

In some cases, budget restructuring efforts have only recently been implemented (and in some cases only in part). Thus, it may be too early to fully understand both the implications of budget restructuring on executive branch management and congressional oversight and the implementation experiences and challenges associated with these efforts. Also, while we describe the various approaches all nine agencies took, the approaches should not be directly compared because each agency is different and may have had different objectives for its budget restructuring efforts. Comparisons are also difficult because agencies start with different missions, organizational frameworks, and appropriations account structures. For example, the National Aeronautics and Space Administration (NASA) is a research and development agency and is almost entirely funded by discretionary accounts whereas the Department

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<sup>3</sup> However, in some cases, agencies began budget restructuring prior to fiscal year 2004. In those cases, such as the Environmental Protection Agency (EPA), we looked at earlier account structures and justifications.

of Veterans Affairs (VA) is funded largely by mandatory accounts. Much of EPA's work is done with third parties (e.g., contractors and states), which involves the provision of grants and other pass-through resources to states, localities, and Indian tribes. Nevertheless, describing efforts undertaken at a variety of agencies provides a broader look at the implications of various approaches taken to link resources to performance.

To provide specific information on each of our case study agencies' budget restructuring efforts, this report includes an appendix for each case study agency with a more in-depth description of each agency's approach as well as the benefits and limitations noted by agency officials and OMB staff we spoke with. In these appendixes, we neither evaluated agencies' choices nor critiqued their processes. We sent copies of the appendixes for technical review and comment to officials or staff at our case study agencies to ensure accuracy of our portrayal of their reform efforts.

Given the objectives and scope of this work, we did not evaluate agencies' financial systems, the reliability and validity of data underlying agencies' budget requests, or internal controls related to the general management of the agencies. We also did not evaluate agencies' strategic or performance plans or the goals or measures to which agencies tied their resources. Of necessity, our evidence is largely based on testimonial evidence from individuals knowledgeable about these efforts. In many cases, efforts to align budgets with performance efforts are fairly recent and agencies may not have had time to fully realize the implications of their approaches. Thus, many agencies provided testimonial information about the anticipated benefits or limitations of these initiatives rather than specific examples. Where possible, we corroborate testimonial evidence with documentary evidence.

We conducted our work from May 2003 through December 2004 in Washington, D.C. in accordance with generally accepted government auditing standards. We provided drafts of the report to OMB and the nine agencies in our review for comment.

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## Methodology for Selection of Agencies

To provide an overview of the various budget restructuring efforts underway in the federal government, we reviewed nine agencies' appropriations account structures and congressional budget justifications. To gain a deeper understanding of the implications of agencies' efforts for managerial flexibility and accountability and implementation experiences

and challenges, we selected four agencies out of the nine agencies for more in-depth case study review. The four case study agencies are:

1. Department of Labor (Labor),
2. Department of Veterans Affairs (VA),
3. Environmental Protection Agency (EPA),
4. National Aeronautics and Space Administration (NASA).

The five agencies for general review are:

1. Department of Commerce (Commerce),
2. Department of Justice (DOJ),
3. Department of Transportation (DOT),
4. Department of Housing and Urban Development (HUD), and
5. Small Business Administration (SBA).

Agencies were judgmentally selected based on a combination of their scores for Budget and Performance Integration (BPI) in the Executive Branch Management Scorecard in the President's fiscal year 2004 budget,<sup>4</sup> OMB's published statements highlighting agencies' progress in this area, and the types and extent of changes made. The Executive Branch Management Scorecard is a traffic-light grading system to report how well federal agencies are implementing the PMA's five governmentwide initiatives. OMB assesses agency "status" based on the "Standards for Success."<sup>5</sup> Under each initiative, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has any one of a number of serious flaws. OMB assesses agency "progress" on a case-by-case basis against the deliverables

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<sup>4</sup> *Budget of the United States Government, Fiscal Year 2004*, Executive Office of the President, Office of Management and Budget (February 2003), p. 45.

<sup>5</sup> "Standards for Success" were defined by the President's Management Council and discussed with experts throughout government and academe, including the National Academy of Public Administration.

and time lines established under each initiative that are agreed upon with each agency. The “Standards for Success” describe expectations for the extent to which agencies incorporate financial and performance information into management decisions, the quality of strategic and annual performance plans, and the ability of agencies to report the “full cost” of performance goals. We considered agencies receiving higher scores on OMB’s Scorecard, which indicates OMB’s assessment of agency efforts in this area, because they might potentially provide lessons to other agencies. We also considered the type and extent of budget restructuring. Thus, agencies that received higher scores and made or proposed more apparent changes were more likely to be included in our study.

As a starting point, we considered 11 federal departments and agencies out of 26 receiving scores in the Executive Branch Management Scorecard in the President’s fiscal year 2004 budget for review (see table 9). First, we considered all agencies that received a “yellow light” for “status” in BPI.<sup>6</sup> Nine of these agencies in total had a “yellow light” in status. We added to the list 2 agencies that had a “red light” for status because they were mentioned by OMB in the fiscal year 2004 *Analytical Perspectives* as having taken steps toward better capturing the cost of performance in the budget.

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<sup>6</sup> At the time of our agency selection, no agency had received a “green light” for status on the budget and performance integration initiative. Since then, eight agencies have achieved green lights, including four in our review—NASA, Labor, DOT, and SBA. All agencies in our review have a green light for progress.

**Table 9: Agencies Considered for Review**

<b>Yellow light on status</b>	<b>Red light on status; efforts highlighted</b>
Environmental Protection Agency	Department of Housing and Urban Development
Department of Commerce	Department of Justice
Department of Defense	
Department of Labor	
Department of Transportation	
Department of Veterans Affairs	
National Aeronautics and Space Administration	
Small Business Administration	
Social Security Administration	

Source: GAO analysis of *Budget of the United States Government, Fiscal Year 2004*.

For each of these 11 agencies, we then looked more specifically at budget restructuring efforts to better align budget resources with performance. We began by reviewing agencies’ proposed appropriations account structures, as shown in *Budget of the United States Government, Fiscal Year 2004—Appendix* and agencies’ congressional budget justifications. We identified the type of changes made and reviewed the extent of changes undertaken. Of the 11 agencies, we identified 9 agencies that made the most significant changes to their budget.<sup>7</sup> Consequently, all 9 of these agencies were included in our study.

To help select case study agencies from these nine agencies, we divided the agencies into three general groupings based on the type of changes made: (1) those with changes to the appropriations account structure (VA, NASA, DOJ, DOT); (2) those with changes within the account structure at the program activity level (EPA, SBA); and (3) those with changes only to the congressional budget justification (Labor, Commerce, HUD).

Within each category, we then judgmentally selected at least one agency for case study based on their “status” in the BPI initiative on the Executive Branch Management Scorecard and then by the extent of their changes.

<sup>7</sup> We eliminated the Department of Defense and Social Security Administration because we did not identify significant changes to their appropriations account structure or congressional budget justifications.

For example, within the group that made or proposed changes to their appropriations account structure, we selected two agencies—VA and NASA. The final selection of agencies for case studies is outlined in table 10.

**Table 10: Agencies Selected for Case Studies**

<b>Changes to account structure</b>	<b>Status/Reason</b>
Department of Veterans Affairs	Selected for case study
National Aeronautics and Space Administration	Selected for case study
Department of Justice	Not selected for case study/Red light in status
Department of Transportation	Not selected for case study/Proposed account structure changes not agencywide
<b>Changes within account structure to program activities</b>	
Environmental Protection Agency	Selected for case study
Small Business Administration	Not selected for case study/Based on preliminary review it appeared that EPA had made more significant changes
<b>Changes to congressional justification only</b>	
Department of Labor	Selected for case study
Department of Commerce	Not selected/Based on preliminary review it appears that Labor had made more significant changes
Department of Housing and Urban Development	Not selected/Red light in status

Source: GAO.

As discussed previously, we conducted a general review of the five agencies not selected for a case study.<sup>8</sup> Because we reviewed only a subset of agencies, our study does not provide a complete view of all budget restructuring efforts underway in the federal government. Likewise, our findings are not generalizable to all federal agencies. However, we believe our observations apply more broadly across the federal government given their congruence to previous work

<sup>8</sup> For HUD, we only reviewed its fiscal year 2004 budget because it did not submit a “performance budget” to Congress for fiscal year 2005.

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done by GAO and others examining budget and performance integration efforts.

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## Methodology for Agency and Congressional Interviews

To gain information and insights on the rationale for budget restructuring, the role the budget plays in broader efforts to improve management, the perceived benefits and limitations of budget changes for agency management, and the implementation issues associated with budget changes, we met with agency officials who were responsible for designing and implementing budget changes, including those responsible for presenting the changes to Congress. These same officials were also able to generally describe how budget restructuring had affected or was expected to affect agency management. To get a broader perspective on the potential implications of the budget changes for different levels of management, we met with program managers at three different program-level offices within each case study agency. For our study, program managers are defined as those below the department level (for VA and Labor) or headquarter level (for NASA and EPA) who are responsible for formulating and executing a program's budget. Specifically, we spoke with directors and officers for budget, planning, and finance. These officials described generally how budget restructuring had affected or was expected to affect resource management.

To select the program managers to interview, we mainly relied on department or headquarter budget officials' referrals. At each entrance conference, we asked agency officials to identify programs or program managers who could describe how the budgetary changes have affected program management. We indicated that it would be beneficial to talk with officials who could speak about how budgetary changes were implemented and how management has changed (i.e., experience with the budget before and after budget restructuring). In cases where examples were provided in initial interviews, we requested that we interview the related program officials.

We also met with an OMB official and some staff to discuss OMB's overall objectives and vision for budget restructuring efforts. To discuss the potential implications for management and oversight at individual agencies, we met with senior staff and program examiners from OMB's Resource Management Offices responsible for our case study agencies.

To discuss the potential implications for congressional oversight, we met with some House and Senate majority and minority appropriations

subcommittee staff responsible for our case study agencies and in some cases, general review agencies. Although we attempted to meet with as many congressional appropriations committee staff as possible, given our time frames, the congressional schedule, and the schedules of appropriations staff, we were not able to interview all relevant staff. We contacted a majority and minority staff member from each of the House and Senate appropriations subcommittees with jurisdiction over our case study agencies (NASA, VA, EPA, and Labor), and interviewed 10 staff members on the House and Senate appropriations subcommittees responsible for our case study agencies (7 majority staff and 3 minority staff). In addition, we discussed two of our general review agencies—HUD and DOT—with appropriations staff.

For each set of interviews, we developed a standard list of questions; however, we did not perform structured interviews. We tailored the questions to each agency because each case study agency had different objectives and took different approaches to this initiative. To the extent possible, we obtained supporting information, such as internal budget guidance and financial management guidelines, to corroborate testimonial evidence. We summarized the interviewees' answers and identified recurring themes or observations for our analysis.

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## Methodology for Panel Discussions

To discuss the conceptual benefits and limitations of budget restructuring in an interactive setting, we conducted two panel discussions, on November 12, 2003, and December 18, 2003, at GAO. We invited officials from each of the nine agencies we reviewed to attend each panel. Out of the nine agency officials we invited, eight participated.<sup>9</sup> To help contribute to identifying and assessing the implications of budget restructuring for management and oversight, we included two federal budget experts in each panel. We judgmentally selected four experts who provided expertise in wide-ranging budget and management issues in both the executive and legislative branches.

Prior to the panel meeting, each participant received a short summary of approaches agencies have taken to link resources to results in the budget as well as the list of questions to be discussed at the panel so they would be aware of our interests and be better able to provide us, where possible,

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<sup>9</sup> Due to scheduling conflicts representatives from SBA did not attend the panel sessions.

with specific examples. Specifically, we asked panel participants to discuss: (1) the extent to which the previous budget structure and/or presentation impeded efforts to improve management and performance, (2) the objectives in making budgetary changes, (3) the rationale and the trade-offs agencies faced in determining the approach taken, and (4) specific examples of advantages and disadvantages budget restructuring had in terms of the information and incentives provided for strategic and day-to-day management and the agency's ability to communicate to Congress and OMB how resources tie to the agency's mission and strategic direction. The panels were intended to supplement information gathered in interviews. As with our interview summaries, we summarized the panel discussions to identify general themes or observations that emerged.

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# Department of Labor

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The Department of Labor (Labor) submitted its first integrated “performance budget” for fiscal year 2004, building on earlier efforts to better incorporate budget and performance in its performance plans and financial statements. Labor introduced uniform changes to its fiscal year 2004 congressional budget justification aimed at more directly linking budget resources to performance but did not make changes to its appropriations account structure. Within its congressional budget justification, Labor now presents the “total budgetary resources”<sup>1</sup> for each program and the supporting performance goals. Labor officials we spoke with said they anticipate that these changes will support increased use of performance and cost information in decision making, but they also noted some areas for improvement and limitations.

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## Background

Labor describes its mission as assisting job seekers, wage earners, and retirees by providing for better working conditions, increasing training and employment opportunities, securing benefits, improving free collective bargaining, and tracking national economic measurements. Labor is composed of 15 major bureaus and offices<sup>2</sup> and employs over 17,000 staff. The department’s fiscal year 2005 budget request was approximately \$57.3 billion. Of this amount, approximately \$17 billion is subject to the congressional appropriations process. The remaining \$40 billion is permanent authority, which is under the jurisdiction of authorizing committees.

Labor’s strategic management framework is structured around four strategic goals—(1) a Prepared Workforce, (2) a Secure Workforce, (3) Quality Workplaces, and (4) a Competitive Workforce—and supporting

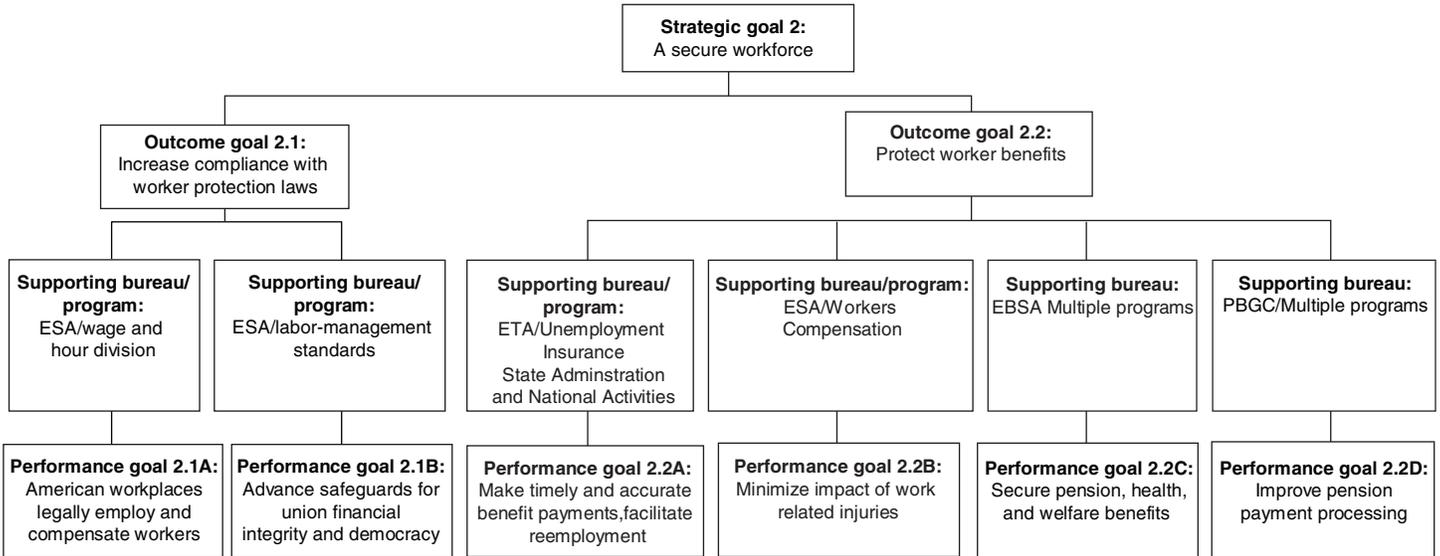
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<sup>1</sup> Term used by Labor in its fiscal years 2004 and 2005 congressional budget justifications. “Total budgetary resources” includes direct program funds, other funds appropriated within Labor (e.g., IT crosscut, legal services, and other indirect costs) and additional other resources available (e.g., reimbursements and user fees) associated with a particular program or project.

<sup>2</sup> Labor’s bureaus and offices are the Employment and Training Administration (ETA), the Employee Benefits Security Administration (EBSA), the Pension Benefit Guaranty Corporation (PBGC), the Employment Standards Administration (ESA), the Occupational Safety and Health Administration (OSHA), the Mine Safety and Health Administration (MSHA), the Bureau of Labor Statistics (BLS), the Office of the Solicitor, Bureau of International Labor Affairs, Office of the Assistant Secretary for Administration and Management, Women’s Bureau, Office of the Chief Financial Officer, Veterans’ Employment and Training Service, Office of Disability Employment Policy, and Office of the Inspector General.

outcome and performance goals. Below this level, some bureaus have additional, bureau-specific performance goals and may subdivide departmental performance goals into bureau-specific performance goals. For example, ESA's Wage and Hour Division further breaks down the departmental strategic goal for a secure workforce into three bureau-specific performance goals. Figure 6 provides an example of this framework using Labor's Strategic Goal 2, a Secure Workforce.

Figure 6: Example of Labor's Strategic Framework



Source: GAO analysis based on U.S. Department of Labor FY2005 Performance Budget.

Within this framework, strategic goals may cross bureau (e.g., ETA and ESA support the Secure Workforce strategic goal) and bureaus may support multiple strategic goals (e.g., ETA supports three strategic goals: a Prepared Workforce, a Secure Workforce, and a Competitive Workforce). Generally, programs and performance goals align with bureaus and performance goals are associated with a particular program or activity. However, in some cases, multiple programs within a bureau support the same performance goal or goals. For example, all seven of OSHA's budget

activities support the same two performance goals.<sup>3</sup> As discussed in section 4 of the report, when there are multiple contributors and funding streams to strategic goals and objectives, determining the performance contributions of programs to goals or objectives within the new budget structures is challenging.

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## Objectives and Implementation Time Line

Labor officials described the objectives of Labor's most recent efforts to link resources to performance as providing better cost and performance information to users of the budget, including Congress and executive branch management, to improve decision making. Labor focused on providing better information in the congressional budget justification about the department's goals and the budget resources needed to achieve them.

Changing managerial flexibility over budget resources was not one of Labor's objectives since this type of flexibility already exists in the form of reprogramming and transfer authorities. According to Labor and OMB officials, the current appropriations account structure adequately aligns its budget resources with the department's management and performance structure at this time. Labor's appropriations account structure is organized around bureaus with a separate departmental administrative account, which, according to Labor officials, generally reflects the manner in which Labor conducts its business. Five of Labor's seven bureaus are funded through single appropriations accounts<sup>4</sup> and Labor's reprogramming unit—"programs, activities, or elements"—is generally tied to its budget activities, which reflect direct and indirect program activities.

Labor officials and program managers we spoke with said this appropriations account structure provides them sufficient flexibility over budget resources. For example, BLS officials said each of their budget

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<sup>3</sup> The two performance goals are: (1) by 2008, reduce the rate of workplace fatalities by 15 percent from the baseline; and (2) by 2008, reduce the rate of workplace injuries and illnesses by 20 percent from the baseline.

<sup>4</sup> BLS, EBSA, PBGC, OSHA, and MSHA are all funded through a single Salaries and Expense (S&E) appropriations account. Although ESA is funded through eight appropriations accounts—S&E, Special Benefits, Energy Employees Occupational Illness Compensation Fund (EEOICF), Administrative Expenses for EEOICF, Special Benefits for Disabled Coal Miners, Panama Canal Commission Compensation Fund, Black Lung Disability Trust Fund, and Special Workers' Compensation Expenses—ESA's primary administrative functions are funded through the S&E account. ETA, however, is funded through multiple accounts, with a separate program administration account.

activities (e.g., Labor Force Statistics, Prices and Cost of Living) contains the resources (e.g., data processing, analytic work, information technology (IT), field support) program managers need to manage effectively and they have sufficient flexibility to make resource trade-offs within each program. Similarly, ESA officials said they have sufficient flexibility to move resources within their five program activities (e.g., Enforcement of Wage and Hour Standards, Federal Programs for Workers Compensation) and rarely need to shift resources among them. While ETA officials noted that the structure of their program activities within their appropriations account structure is not as flexible as they would like for program management, they said their appropriations account structure, in conjunction with existing reprogramming and transfer authorities, generally provides the flexibility they need to manage effectively.<sup>5</sup>

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### Labor's Efforts Have Progressed Over Several Years and Have Involved Staff Integration

Labor's efforts to link budget resources and performance in the budget progressed over the last several years, building on earlier efforts to better link resources to performance in its performance plans and financial statements. Figure 7 presents a time line of Labor's key efforts to link resources with performance. As the figure shows, Labor began linking budget resources to its strategic goals in its fiscal year 1999 Annual Performance Plan. Parallel to this effort, Labor began linking resources<sup>6</sup> to strategic and performance goals in its fiscal year 1999 financial statements. For its fiscal year 2002 Annual Performance Plan, Labor went further by tying budget resources to its 10 outcome goals, the level below strategic goals. For its fiscal year 2004 congressional budget justification, Labor took steps to shift the focus of its congressional budget justification from a process orientation to a performance orientation and, for the first time, to link "total budgetary resources" to its programs as well as strategic and performance goals within the congressional budget justification itself.

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<sup>5</sup> ETA officials said that consolidating their program activities, which are generally organized by population (e.g., Youth Activities, Adult Activities), would provide them with more flexibility to make trade-offs and better serve different populations.

<sup>6</sup> Labor provides net costs, which are calculated on an accrued basis, to outcome goals in its financial statements. Resources are defined differently for financial management purposes than for budget purposes.

Figure 7: Labor’s Implementation Time Line

Mid-1990s	FY1998	FY2000	FY2001	FY2002	FY2003
Integrated budget and planning staff within the Office of the Assistant Secretary for Administration and Management	Submitted FY1999 Annual Performance Plan in which resources were linked to strategic goals	Issued FY1999 financial statements in which resources were linked to outcome goals (level below strategic goals)	Submitted the FY2002 Annual Performance Plan in which resources were linked to outcome goals	Created Center for Program, Planning, and Results to coordinate department’s strategic planning efforts	Submitted first “performance budget” for FY2004 linking resources to strategic and performance goals

Source: GAO analysis.

To put a more direct focus on results, in fiscal year 2002 the Center for Program Planning and Results (CPPR) was established within the Office of the Assistant Secretary for Administration and Management. According to Labor officials, establishing the CPPR while maintaining close integration with the Departmental Budget Center has allowed Labor to more effectively provide central coordination, direction, and planning on departmental goals and objectives and implement the President’s Management Agenda component of the Budget and Performance Integration initiative.

Both OMB and Labor officials and staff said the department collaborated with OMB to determine how to change the congressional budget justification. Labor convened a task force that included OMB staff and budget and planning staff from key bureaus within Labor. Another key player in implementing these budgetary changes was the department’s Management Review Board (MRB), which oversees Labor’s efforts under the President’s Management Agenda. The MRB periodically meets with OMB leadership and is the overall steering committee for Labor’s Budget and Performance Integration efforts.

## Summary of Labor’s Budget Restructuring Approach

As noted, Labor made changes to its congressional budget justification, but did not make departmentwide appropriations account structure changes. Labor’s congressional budget justification changes did not change the framework for either its transfer authority and reprogramming guidelines or its internal control of funds. For cost allocation, Labor uniformly

defined “total budgetary resources.” Bureaus had some discretion over determining how to allocate costs.

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**Congressional Budget  
Justification Changed to  
Better Link Budget  
Resources to Performance,  
but No Department-wide  
Changes Made to  
Appropriations Account  
Structure**

Labor redesigned the presentation of its fiscal year 2004 congressional budget justification to better link “total budgetary resources” to its programs and its strategic and performance goals. Labor continued this basic format in fiscal year 2005 with only minor refinements. Labor’s efforts focused on three areas within its congressional budget justification. First, Labor replaced narrative that focused only on tasks with narrative that related tasks or activities to outcomes and results. Second, “total budgetary resources,” including indirect costs (e.g., program administration), were shown with the programs they support, whereas in the past only some portion of indirect costs was shown with programs. Third, steps were taken to link “total budgetary resources” to strategic and performance goals. Labor officials said these changes were aimed at providing a more complete picture of the department’s objectives and the budgetary resources associated with programs and supporting performance goals.

Beginning in fiscal year 2004, Labor began replacing task-oriented narrative with information explaining the relationship of those tasks or activities to anticipated outcomes and results in its congressional budget justification. Labor formatted its congressional budget justification around the appropriations account structure (basically, each bureau or agency) and added a departmental overview section to bring every agency’s programs and resources together, depicting at a higher level the department’s intended performance and its resources. The departmental overview outlines the Secretary’s vision for the department; lays out the department’s strategic, outcome, and performance goals; and includes the budget resources requested to achieve its strategic goals. Bureau “performance budgets” include appropriations account information, strategic and performance goal information, and justifications for “budget activities” funded by those accounts. “Budget activities” are generally direct and indirect program activities one level lower than the bureau level. In each budget activity section, Labor provides a performance summary with the stated performance goal and past and planned performance, as well as critical strategies to meet those goals. However, according to Labor officials, to maintain the approximate size of the budget document, some previously reported information was eliminated. For example, 5-year funding histories were provided at the appropriations level but were no longer included with every budget activity, and some previously provided

program-specific information was eliminated, such as Job Corps construction costs. According to Labor officials, since the submission of the fiscal years 2004 and 2005 budget justifications, they have worked with congressional appropriations committee staff to address any concerns about the elimination of program-specific information. They said several exhibits have been reinstated in the fiscal year 2006 “performance budget,” including the 5-year funding histories.

Under the new format, Labor shows direct and indirect budget resources associated with programs. The section for each program in the bureau’s “performance budget” includes a table that links direct and indirect resources to programs. Table 11 shows budget resource tables provided in the fiscal year 2005 congressional budget justification for the Job Corps program.<sup>7</sup> To provide a more complete picture of resources associated with the Job Corps program, the fiscal year 2005 table shows not only the direct program appropriation, but also indirect resources including Program Administration and Reimbursable. For example, the fiscal year 2005 table provides an estimate of approximately \$29 million for program administration and \$4 million for reimbursable—figures not provided with the Job Corps budget request prior to the fiscal year 2004 congressional budget justification. Resources included in the “Program Admin” row are appropriated in a different appropriations account than the other Job Corps program resources and are also presented elsewhere in the congressional budget justification.

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<sup>7</sup> The fiscal year 2005 congressional budget justification followed the same general structure as the fiscal year 2004 justification.

**Table 11: Resource Table Presented in the Fiscal Year 2005 Congressional Budget Justification for Job Corps**

Dollars in thousands

	Fiscal year 2004	Fiscal year 2005 estimate	Difference fiscal year 04/05
Job Corps appropriation	\$1,537,074	\$1,557,287	\$20,213
Program admin.	\$28,670	\$29,496	\$826
Reimbursables	\$4,000	\$4,000	\$0
<b>Total resources</b>	<b>\$1,569,744</b>	<b>\$1,590,783</b>	<b>\$21,039</b>
FTE <sup>a</sup>	187	187	0

Source: Department of Labor's Fiscal Year 2005 Performance Budget.

<sup>a</sup>Full-time equivalent

The new congressional budget justification format also provided more information on the budget resources associated with strategic and performance goals. In the overview section of the congressional budget justification as well as each bureau "performance budget," Labor links budget resources to strategic goals. Beginning in the fiscal year 2004 congressional budget justification, each program budget request includes information on the budget resources of associated performance goals. Table 12 presents a "performance goal cost allocation summary" from the fiscal year 2005 congressional budget justification for the Job Corps program performance goal, "to improve educational achievements of Job Corps students, and increase participation of Job Corps graduates in employment and education." The summary shows budget resources associated with the performance goal listed not only by appropriations (program appropriation, other appropriation, and other resources), but also by cost type (direct and indirect). The links between programs, performance goals, and Labor's strategic goals are presented in an appendix to each bureau's "performance budget."

**Table 12: Performance Goal Cost Allocation Presented in the Fiscal Year 2005 Congressional Budget Justification for Job Corps**

<b>Performance Goal 1.2B<sup>a</sup> Cost Allocation Summary</b>			
<b>Cost (by type of appropriation)<sup>b</sup></b>		<b>Cost (direct and indirect)<sup>c</sup></b>	
	<b>Resources in 000's</b>		<b>Resources in 000's</b>
Job Corps appropriation	\$1,557,287	Direct cost of all outputs	\$1,585,682
Other appropriation: PA	\$29,496	Indirect cost	\$5,101
Other resources: Reimbursements	\$4,000	Common Administrative Systems	N/A
<b>Total resources for goal</b>	<b>\$1,590,783</b>	<b>Total resources for goal</b>	<b>\$1,590,783</b>

Source: Department of Labor's Fiscal Year 2005 Performance Budget.

<sup>a</sup>Performance goal 1.2B is "To improve educational achievements of Job Corps students, and increase participation of Job Corps graduates in employment and education." Labor does not list this definition with this table, but rather it is listed elsewhere, such as the budget activity narrative.

<sup>b</sup>Labor uses the following definitions:

Direct Appropriation: Resources directly attributable to a program activity, such as employee salaries and travel.

Other Appropriation: Resources appropriated elsewhere, but whose benefits accrue toward the operation of the budget activity. Examples include departmental administration, IT Crosscut, and legal and adjudication services.

Other Resources: Resources available for a budget activity, but not appropriated. Examples include reimbursements and fee collections.

<sup>c</sup>See table 13 for definitions and examples of direct and indirect costs.

While the new congressional budget justification is aimed at providing a more complete picture of both total budget resources associated with goals, these changes were primarily presentational and it was not intended that managers be required to execute their budgets based on the allocations made to goals. No departmentwide changes associated with linking resources to performance were made to the appropriations account structure or within the structure to the program activity listing in the P&F

schedule of the President's Budget *Appendix* for Labor.<sup>8</sup> In addition, no changes were made to transfer authority, reprogramming guidelines, or internal control of funds. Both Labor and OMB officials and staff told us that it was not necessary to make departmentwide appropriations account structure changes at this time because the current structure adequately reflects the manner in which Labor conducts its business and managers have sufficient flexibility over resources to manage their programs.

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**“Total Budgetary Resources” Is Uniformly Defined at Labor but Bureaus Have Discretion Determining How to Allocate Costs**

Labor defined “total budgetary resources” uniformly across the department by issuing guidance on which categories of cost to be included. Labor defined three main cost categories: “Direct,” “Indirect,” and “Common Administrative Systems,” as shown in table 13. A fourth category, “Other Program Mandates,” which included costs not included in the previous three categories, was not allocated to performance goals or programs because, according to Labor, those costs were not associated with current performance goals. These costs were allocated to strategic goals (e.g., unemployment benefits).<sup>9</sup>

Labor does not allocate certain departmental costs (e.g., the Office of the Secretary, Office of the Chief Financial Officer, Office of the Assistant Secretary for Administration and Management, some information technology expenses, and program evaluation) to performance goals and programs. Although Labor officials said they are working toward allocating more resources in future iterations of the “performance budget,”

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<sup>8</sup> While no departmentwide appropriations account structure changes were made, the Pension Benefit Guarantee Corporation (PBGC) made and the Employment Training Administration (ETA) proposed to make some account structure changes. For example, in fiscal year 2004, the PBGC divided the “Services related to terminations” program activity into “Pension insurance activities” and “Pension Plan terminations” to more accurately reflect their business activities within its PBGC Fund appropriations account. ETA proposed to consolidate Adult, Dislocated Worker, and Employment Service State Grants within the Training and Employment Services appropriations account. This corresponds with the changes to authorizing legislation being proposed by the administration to consolidate these programs into a single block grant.

<sup>9</sup> Labor directed bureaus to include the budget authority and FTE for all other administrative or program costs not captured in program and performance goal resource tables in “Other Program Mandates.” This category replaced the category, “Mission Critical,” which Labor used for the fiscal year 2004 congressional budget justification. Labor defined “Mission Critical” as “the budget authority and FTE for the remainder of the budget activity, i.e., those resources not specifically identified with a performance goal.”

they and OMB staff cautioned that allocating some costs with non-material amounts could be of limited benefit.

**Table 13: Labor’s Main Cost Categories: Definitions and Examples**

Cost category	Definition	Examples
Direct	Costs that can be identified specifically with a particular final cost objective	Adult Activities program grant dollars received by states
Indirect <sup>a</sup>	Costs that are (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited	Departmental management, legal, working capital fund
Common Administrative Systems	Costs that cut across the department	IT crosscut and legal and adjudication services

Source: GAO analysis of internal Labor guidance.

<sup>a</sup> Internal Labor guidance states that indirect costs are generally allocated by direct program funding or FTE.

While Labor uniformly defined “total budgetary resources” and issued guidance on which cost categories to include, bureaus have discretion in determining the appropriate method to allocate departmental and bureau-level costs to programs and performance goals. Labor centrally allocated Common Administrative Systems—costs such as legal and adjudication services that cut across the department—to bureaus according to standardized methods. Although bureaus were not able to negotiate departmental allocations, they did have discretion over how to allocate these costs within the bureau. Labor officials explained that one bureau’s portion of Common Administrative System resources might only apply to a specific program within the bureau (i.e., legal costs might only apply to the enforcement program of an enforcement agency), in which case 100 percent of those funds would be applied to that program. In contrast, another bureau’s portion of Common Administrative Systems might apply to two or more of its programs or budget activities, requiring the costs to be spread among them, as appropriate. For example, while ESA allocated its share of departmental costs to each of its program activities (e.g., Enforcement of Wage and Hour Standards), ETA allocated those costs only to its Apprenticeship Training, Employer and Labor Services program activity within its program administration appropriations account. Labor

officials said that they did this because, in their view, it did not make sense to allocate relatively minor departmental costs among appropriations accounts and program activities.

How bureaus allocate bureau-level costs also differs. For example, ESA allocated bureau-level administrative costs to its four program activities based on FTEs. BLS allocated IT costs based on number of users (e.g., LAN support based on number of personal computers and servers in the system for a particular program) and bureau administrative costs based on FTEs. While bureaus' cost-allocation methods vary, the methods most commonly used are direct funding and FTEs. Labor officials also noted that standardized methods for allocating costs might not be appropriate—even for agencies that serve similar goals—because each bureau is unique.<sup>10</sup>

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## Agency Views on Implications of Budget Restructuring for Management and Oversight

Labor officials highlighted several benefits resulting from the new congressional budget justification. They credited the changes with (1) providing better information on the “total budgetary resources” associated with programs and performance goals, (2) prompting increased attention to overhead costs, and (3) helping increase the focus on performance. However, the officials we spoke with also noted some areas for improvement and limitations.

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## Labor Officials Viewed Congressional Budget Justification Changes as Providing More Complete Information on “Total Budgetary Resources” Associated with the Department’s Programs and Goals

Labor officials said that the new budget presentation provides a more complete picture of the budget resources associated with programs and strategic and performance goals. In their view, because both direct and indirect costs are presented with programs and performance goals, budget users should be better able to understand the relationship between performance and budget resources and thus, make decisions based on more complete information. For example, Labor officials said that showing direct and indirect costs gives more insight into the relationship between program administration costs and goals associated with program delivery. Labor officials further explained that looking at administrative resources associated with their programs helped ETA create a system that is less “siloes” and can serve multiple populations more efficiently because redundant administrative costs could be redirected to program delivery.

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<sup>10</sup> However, if using common measures across government, Labor officials said that “full cost” should be consistently applied.

ETA proposed to consolidate programs, such as the Adult and Dislocated Worker Grants programs, into the larger portfolio of Workforce Investment Act training programs. This legislative proposal focused on creating a system that wasn't "stovepiped" and creates one pot of money to serve multiple populations. ETA proposed an appropriations account structure change to accommodate the proposed policy and authorization change. Generally speaking, however, Labor officials and program managers cautioned that it is still too early to fully understand how program managers might use information provided under the new budget presentation to improve decision making.

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**Labor Officials Credited Congressional Budget Justification Changes with Prompting Increased Attention to Overhead Costs**

According to Labor officials we spoke with, changes in the budget presentation have increased the attention given to overhead costs. Some Labor officials and program managers noted that because these overhead costs are allocated to programs, managers have begun to pay more attention and raise questions about these costs. For example, BLS officials said they have been holding annual meetings with program managers to justify bureau-level overhead allocations.<sup>11</sup> Officials said some allocations, such as retirement, are fixed, while others, such as new bureau-level initiatives, may be questioned by program managers. In a specific example, BLS officials told us that prior to showing total budget resources, recruiting efforts were decentralized; both programs and bureau-level staff were conducting similar recruiting efforts without coordination, leading to inefficiencies. According to BLS officials, the charge for bureau-level recruiting costs led bureau and program managers to better coordinate and eliminate duplicative efforts.

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**Congressional Budget Justifications Changes Credited with Helping Increase Focus on Performance**

According to Labor officials, because budget resources must be tied to performance goals and program managers need to justify their programs in terms of their contribution to the department's strategic goals, the congressional budget justification changes have increased managers' focus on the department's performance framework. Labor officials said they believe this effort has increased the attention managers give to performance issues when preparing their budgets and hoped the change

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<sup>11</sup> Although this process was initiated in BLS prior to the fiscal year 2004 performance budget, it is nonetheless worth noting that the allocation of indirect resources to programs and performance has led to discussion among the bureau and program managers over proper cost allocations.

will continue to increase the dialogue between bureau-level planning and budgeting staff on performance issues. For example, ESA officials credited the link between the congressional budget justification and performance goals with supporting the development of better, outcome-based performance goals in the bureau's Wage and Hour Division.<sup>12</sup> OSHA's performance budget narrative also suggests that Labor's new integrated budget and performance justification led to the bureau developing new performance goals.

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### Some Labor Officials Noted Limitations of the Congressional Budget Justification Changes

While Labor officials pointed out several benefits as discussed above, some areas for improvement and limitations related to the congressional budget justification changes were also noted. Some program managers questioned the value of showing indirect costs—for which they don't have control—for improving program management and noted it is not particularly useful to know their share of the department's resource allocation.<sup>13</sup>

Other officials said that, in some cases, knowing the usefulness of total budget resource information depends on the nature of a program's activities, and the added value of allocating certain costs should be considered. For example, the department allocates a share of its central legal costs (Solicitor's Office and Legal and Adjudication costs) to each bureau to provide a better picture of the budget resources used by each bureau. BLS officials said that because of the nature of their operations as a data collection organization and the relatively minimal legal costs they incur, it might not be as critical for them to know the legal costs associated with its programs. In contrast, they said that bureaus such as OSHA and MSHA, designed for regulatory purposes with relatively high legal costs, might find such information more useful. However, in bureaus such as BLS, legal costs are negligible as compared with enforcement agencies such as OSHA and MSHA where legal costs contribute significantly to the cost of doing business.

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<sup>12</sup> The two new goals were "Improving Customer Satisfaction by Decreasing the Average Number of Days to Conclude a Complaint" and "Ensuring Timely and Accurate Prevailing Wage Determinations." Wage and Hour Division officials also credited PART with the development of these goals.

<sup>13</sup> BLS officials did say that knowing their allocation of the department's Working Capital Fund (WCF) may be useful for future budget planning because program managers can plan for the resources they will require. The WCF includes financial and administrative services, field services, human resource services, and telecommunications, as well as an investment in reinvention fund and non-Labor reimbursements.

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In addition, program officials noted that the provision of total budget resources in the congressional budget justification might not provide the detailed cost information they need to improve program management. For example, some bureau officials said the new budget presentation does not provide unit and output/outcome cost information, such as cost per program participant, which they say is an important factor in providing more effective program management. Although this information might be available elsewhere in the agency.

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## Future Direction

Moving into the future, Labor officials said the department plans to continue to use an incremental approach to link resources to performance in the budget to ensure that the choices it makes are useful for the department and acceptable to Congress. The department is focusing its current efforts on refining the allocation of resources to programs and performance. Labor officials added that another key and complimentary effort is the development of a cost accounting system, which they said could improve the budget process, resource allocation, and program management.

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# Department of Veterans Affairs

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The Department of Veterans Affairs (VA) budget restructuring efforts are intended to meet multiple objectives, including better positioning VA to more effectively evaluate program results and allowing managers to more readily recognize and make resource trade-offs. Beginning with the fiscal year 2004 budget, VA proposed changes to its appropriations account structure and made corresponding changes to the organizing framework of its congressional budget justification to more readily show the “full cost” requested for its nine major programs. VA also showed the budget resources associated with its strategic goals and objectives in its congressional budget justification and integrated its annual performance plan into its congressional budget justification. VA’s proposed account structure for fiscal years 2004 and 2005 was not accepted by Congress. While some VA officials credited budget restructuring with providing a more complete picture of total program resources and helping to highlight resource trade-offs, some said that the proposed account structure might reduce flexibility to respond to changing needs and create budget execution difficulties. Some VA officials said that budget restructuring did not provide information they consider most useful to improving management and oversight.

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## Background

VA’s mission is to serve America’s veterans and their families by assuring that they receive medical care, benefits, social support, and lasting memorials. VA is one of the world’s largest health care, medical research, and insurance benefits organizations and is divided into three administrations: the Veterans Health Administration (VHA), the Veterans Benefits Administration (VBA), the National Cemetery Administration (NCA), and the staff offices of VA’s central office. VHA is responsible for providing medical care, educating health care professionals, conducting medical research, and serving as a resource in the event of a national disaster or national emergency. VBA administers six programs: Disability Compensation, Pensions, Insurance, Education, Housing, and Vocational Rehabilitation and Employment (VR&E). VBA administers the monetary benefits and burial flag portions of the burial program, but NCA is responsible for the operations and maintenance of veterans’ cemeteries and administers the grant program for aid to states in establishing, expanding, or improving state veterans’ cemeteries. VA’s budget is split between mandatory (e.g., disability compensation benefits, pension benefits) and discretionary (e.g., medical care, construction, program administration) spending. For fiscal year 2005, VA requested a budget of approximately \$67.7 billion—\$35.6 billion in mandatory spending and \$32.1 billion in discretionary spending.

VA has five strategic goals—four mission-related goals and one administrative goal. Within each strategic goal there are three to five strategic objectives, which are supported by one or more of VA's major programs. Table 14 uses the strategic goal to restore the capability of veterans with disabilities to provide an example of VA's strategic framework. Within this goal there are four strategic objectives supported by one or more programs.

**Table 14: Example of Relationship between VA's Strategic and Programmatic Frameworks**

**Strategic goal 1:** *Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families*

Strategic objectives	Programs
1.1: Maximize the physical, mental, and social functioning of veterans with disabilities and be recognized as a leader in the provision of specialized health care services.	Medical Care Medical Research
1.2: Provide timely and accurate decisions on disability compensation claims to improve the economic status and quality of life of service-disabled veterans.	Compensation Staff Offices
1.3: Provide all service-disabled veterans with the opportunity to become employable and obtain and maintain suitable employment while providing special support to veterans with serious employment handicaps.	Vocational Rehabilitation and Employment
1.4: Improve the standard of living and income status of eligible survivors of service-disabled veterans through compensation, education, and insurance benefits.	Education Insurance Compensation

Source: Department of Veterans Affairs, *FY2005 Budget Submission: Summary Volume 4 of 4* (February 2004).

## Objectives and Implementation Time Line

VA said the budget structure changes are intended to better position VA to more readily determine the “full cost” of each program and thereby help VA more effectively evaluate program results. VA officials said they also anticipate that budget restructuring would allow managers to more readily recognize and make trade-offs between resources, for example between capital and operating expenses. Lastly, some VA officials said VA's

proposed budget structure will provide Congress and the American public a better understanding of what VA does.

VA's budget restructuring efforts have been underway for quite some time, as shown in the time line in figure 8. According to VA officials, VBA began aligning budget resources, including indirect resources such as administration, with its major programs for presentational purposes in its fiscal year 1996 congressional budget justification. In 1998, VA and the Office of Management and Budget (OMB) established a joint working group, including the budget and finance staff from VA's central office and administrations, to identify options for account restructuring to bring about a closer connection between resources and results. VA submitted the Annual Performance Plan volume as a separate volume of its congressional budget justification for the first time for fiscal year 2000. According to VA officials, all three of VA's administrations showed the budget resources associated with their programs in the fiscal year 2001 congressional budget justification. In fiscal year 2004, VA proposed to restructure its appropriations accounts to better align budget resources with its major programs. VA also made corresponding changes to the organizing format of its congressional budget justification. Congress did not enact the proposed account structure and directed VA "to refrain from incorporating 'performance-based' budget documents in the 2005 congressional budget justification" and to submit the justification with the traditional appropriations account structure.<sup>1</sup> Despite congressional objections, VA proposed appropriations account structure changes for the fiscal year 2005 budget and also integrated its annual performance plan into its congressional budget justification, rather than submitting it as a separate volume as it had done previously. Again, Congress did not appropriate under the proposed account structure.

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<sup>1</sup> House Committee on Appropriations Report 108-235, *Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Bill, 2004* (July 24, 2003), p. 4.

Figure 8: VA's Implementation Time Line

FY1995	FY1997	FY1998	FY1999	FY2000	FY2003	FY2004
VBA began to align budget resources to programs for presentational purposes in FY1996 budget justification	Included summary of Annual Performance Plan in FY 1998 budget justification	Formed joint working groups with OMB to think about budget restructuring	Began submitting Annual Performance Plan as a separate volume of FY2000 budget justification	VA (as a whole) aligned budget resources to programs for presentational purposes in the FY2001 budget justification	Proposed account restructuring and submitted restructured budget justification for FY2004; Congress did not appropriate under proposed structure	Proposed modified appropriation account restructuring and submitted restructured budget justification for FY2005; Congress did not appropriate under proposed structure  Incorporated Annual Performance Plan into budget justification no longer submitting as a separate volume

Source: GAO analysis.

## Summary of VA's Budget Restructuring Approach

For the fiscal years 2004 and 2005 budgets VA both proposed changes to its appropriations account structure and made corresponding changes to the organizing framework of its congressional budget justification. These changes increased the focus on programs and associated resources but made information on individual items of expense less apparent. To facilitate transition to the new account structure, VA provided OMB and Congress with crosswalk tables to assist them in evaluating its budget request. In addition, VA proposed new transfer authority for some expense items between some program accounts. VA allocates budget resources other than Departmental Administration to its nine major programs. Different types of resources are allocated differently.

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VA Proposed  
Appropriations Account  
Structure Changes for Fiscal  
Years 2004 and 2005

In its proposed changes to its appropriations account structure for fiscal years 2004 and 2005, VA chose to focus the proposed restructuring around VA's nine major programs, which are the eight direct benefits—Medical Care, Compensation, Pensions, Insurance, Education, Housing, VR&E, and Burial—and one indirect benefit—Medical Research and Support—that VA provides. The key features of VA's proposed appropriations account structure for fiscal year 2004 were:

- Reducing the number of appropriations accounts by, for example, eliminating the medical administration account, two construction appropriations accounts, and two grant appropriations accounts.
- Allocating indirect expense items, including program administration, construction, and grants for construction to the program accounts they support.
- Funding a program's mandatory and discretionary components in one appropriations account.
- Continuing to fund departmental administration in a separate account, *General Administration*.

In VA's enacted appropriations account structure for fiscal year 2003, VA's programs were funded by multiple appropriations accounts. Some accounts, such as Major Construction or General Operating Expenses (GOE), provided resources associated with multiple programs and some accounts, such as MAMO<sup>2</sup>E and Medical and Prosthetic Research, provided resources for only one program. Figure 9 compares the enacted appropriations account structure for fiscal year 2003 to the proposed appropriations account structure for fiscal year 2004 and illustrates how the proposed account structure would consolidate resources from multiple accounts and split some appropriations accounts among multiple programs. For example, under VA's proposed account structure for fiscal year 2004, resources from five appropriations accounts that support the medical care program would be consolidated and funded through one appropriations account. The GOE account would be split among eight appropriations accounts.

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<sup>2</sup> Medical Administration and Miscellaneous Operating Expenses.

**Appendix III**  
**Department of Veterans Affairs**

**Figure 9: Comparison of Appropriations Accounts Funding Each Major Program under Fiscal Year 2003 Enacted Appropriations Account Structure and Fiscal Year 2004 Proposed Appropriations Account Structure**

Enacted account structure (FY 2003)	Proposed account structure (FY 2004)
<b>Medical Care program</b>	
<ul style="list-style-type: none"> <li>• Medical Care (portion)</li> <li>• Medical Administration and Miscellaneous Operating Expenses (MAMOE)</li> <li>• Grants for construction of State Extended Care facilities</li> <li>• Major Construction (portion)</li> <li>• Minor Construction (portion)</li> </ul>	} Medical Care
<b>Medical Research and Support program</b>	
<ul style="list-style-type: none"> <li>• Medical and Prosthetic Research</li> <li>• Medical Care (portion)</li> </ul>	} Medical and Prosthetic Research
<b>Compensation program</b>	
<ul style="list-style-type: none"> <li>• Compensation and Pensions (portion)</li> <li>• Readjustment Benefits (portion)</li> <li>• Minor Construction (portion)</li> <li>• General Operating Expenses (portion)</li> </ul>	} Compensation
<b>Pensions program</b>	
<ul style="list-style-type: none"> <li>• Compensation and Pensions (portion)</li> <li>• Minor Construction (portion)</li> <li>• General Operating Expenses (portion)</li> </ul>	} Pensions
<b>Education program</b>	
<ul style="list-style-type: none"> <li>• Readjustment Benefits (portion)</li> <li>• Education Loan Fund Program Account</li> <li>• Minor Construction (portion)</li> <li>• General Operating Expenses (portion)</li> </ul>	} Education
<b>Vocation Rehabilitation and Employment program</b>	
<ul style="list-style-type: none"> <li>• Readjustment Benefits (portion)</li> <li>• Vocational Rehabilitation Loans Program Account</li> <li>• Minor Construction (portion)</li> <li>• General Operating Expenses (portion)</li> </ul>	} Vocation Rehabilitation and Employment
<b>Insurance program</b>	
<ul style="list-style-type: none"> <li>• Veterans Insurance and Indemnities</li> <li>• General Operating Expenses (portion)</li> </ul>	} Insurance
<b>Housing program</b>	
<ul style="list-style-type: none"> <li>• Veteran Housing Benefit Program Fund Program Account</li> <li>• Native American Veteran Housing Loan Program Account</li> <li>• Guaranteed Transitional Housing Loans for Homeless Veterans Program Account</li> <li>• General Operating Expenses (portion)</li> </ul>	} Housing Program Account
<b>Burial program</b>	
<ul style="list-style-type: none"> <li>• Compensation and Pensions (portion)</li> <li>• Grants for the construction of State Veterans Cemeteries</li> <li>• Major Construction (portion)</li> <li>• Minor Construction (portion)</li> <li>• National Cemetery Administration</li> <li>• General Operating Expenses (portion)</li> </ul>	} Burial Benefits
<b>Departmental Management</b>	
<ul style="list-style-type: none"> <li>• General Operating Expenses (portion)</li> <li>• Major Construction (portion)</li> <li>• Minor Construction (portion)</li> </ul>	} General Administration
<b>Inspector General</b>	
<ul style="list-style-type: none"> <li>• Inspector General</li> <li>• Minor Construction (portion)</li> </ul>	} Inspector General

Source: GAO.

Note: Excludes some trust funds, special funds, revolving funds, and nonbudgetary accounts.

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Despite some appropriations accounts being eliminated, VA is maintaining some visibility by showing the different types of resources funded within each program account in the program activity listing. For example, as shown in figure 10, the Medical Care account's program activity listing includes NPA-MAMOE, Major Construction, Minor Construction, and Grants to states for construction of extended care facilities. As a result, although appropriations accounts for construction and administration would be eliminated, the portion of VA's construction and administration resources related to a specific program could be found within each program account.

Figure 10: Program Activity Listing: Medical Care Appropriations Account

Program and Financing (in millions of dollars)				
Identification code 36-0160-0-1-703	2003 actual	2004 est.	2005 est.	
<b>Obligations by program activity:</b>				
Direct program:				
Operating expenses:				
Provision of veterans health care:				
00.01	Acute hospital care .....	5,505	6,316	6,835
00.02	Rehabilitative care .....	468	451	494
00.03	Psychiatric care .....	1,131	1,178	1,211
00.04	Nursing home care .....	2,313	2,213	1,914
00.05	Subacute care .....	273	247	216
00.06	Residential care .....	449	496	546
00.07	Outpatient care .....	11,585	13,740	14,589
00.08	Miscellaneous benefits and services .....	1,456	1,594	1,677
00.09	National Program Administration (NPA-MAMOE) .....	70	86	84
00.10	CHAMPVA .....	328	433	527
00.91	Total operating expenses .....	23,578	26,754	28,093
Capital investment:				
Provision of veterans health care:				
01.01	Acute hospital care .....	444	287	426
01.02	Rehabilitative care .....	45	29	43
01.03	Psychiatric care .....	78	51	75
01.04	Nursing home care .....	86	56	82
01.05	Subacute care .....	16	10	15
01.06	Residential care .....	26	17	25
01.07	Outpatient care .....	812	526	774
01.08	Miscellaneous benefits and services .....	43	28	41
01.09	National Program Administration (NPA-MAMOE) .....	1	3	3
01.11	Construction, major projects .....	128	225	475
01.12	Construction, minor projects .....	156	256	186
01.13	CHAMPVA .....	4	4	4
01.91	Total capital investment .....	1,839	1,492	2,149
Grant Program:				
02.01	Grants to States .....	173	157	104

Source: Budget of the United States Government, Appendix, Fiscal Year 2005.

VA's proposed appropriations account structure was not accepted by Congress for fiscal year 2004. Rather, Congress made different changes to VA's account structure. For the most part, VA continued operating under the same appropriations account structure. However, appropriators created three separate appropriations accounts for Medical Care—Medical Services, Medical Administration, and Medical Facilities. According to

appropriations subcommittee staff, the enacted account structure was intended to provide a better understanding that increasing funding for Medical Care does not necessarily result in an equal increase in medical services provided to veterans because there is associated infrastructure and overhead to finance.

VA again proposed to change its account structure for the fiscal year 2005 budget. The fiscal year 2005 proposed structure differed from the fiscal year 2004 proposed structure in that VA proposed separate appropriations accounts for the mandatory and discretionary portions of some benefits programs (see figure 11). For example, VA proposed funding mandatory benefits of the Compensation program in the Disability Compensation Benefits appropriations account and the associated discretionary spending, including GOE (i.e., program administration) and construction in the Disability Compensation Administration appropriations account. As in the fiscal year 2004 budget proposal, VA proposed to fund Departmental Administration in a separate account. Again, VA's proposed account structure was not enacted for fiscal year 2005 and appropriators used the same account structure as used for the fiscal year 2004 budget.

**Appendix III**  
**Department of Veterans Affairs**

**Figure 11: Comparison of Appropriations Accounts Funding Each Major Program under Fiscal Year 2004 Enacted Appropriations Account Structure and Fiscal Year 2005 Proposed Appropriations Account Structure**

Enacted account structure (FY 2004)	Proposed account structure (FY 2005)
<b>Medical Care program</b>	
<ul style="list-style-type: none"> <li>•Medical Services</li> <li>•Medical Facilities</li> <li>•Medical Administration</li> <li>•Grants for construction of State Extended Care facilities</li> <li>•Major Construction (portion)</li> <li>•Minor Construction (portion)</li> </ul>	} Medical Care
<b>Medical Research and Support program</b>	
<ul style="list-style-type: none"> <li>•Medical and Prosthetic Research</li> <li>•Medical Care (portion)</li> </ul>	} Medical and Prosthetic Research
<b>Compensation program</b>	
<ul style="list-style-type: none"> <li>•Compensation and Pensions (portion)</li> <li>•Readjustment Benefits (portion)</li> <li>•Major Construction (portion)</li> <li>•Minor Construction (portion)</li> <li>•General Operating Expenses (portion)</li> </ul>	} Compensation
<b>Pensions program</b>	
<ul style="list-style-type: none"> <li>•Compensation and Pensions (portion)</li> <li>•Minor Construction (portion)</li> <li>•General Operating Expenses (portion)</li> </ul>	} Pensions
<b>Education program</b>	
<ul style="list-style-type: none"> <li>•Readjustment Benefits (portion)</li> <li>•Education Loan Fund Program Account</li> <li>•Minor Construction (portion)</li> <li>•General Operating Expenses (portion)</li> </ul>	} Education
<b>Vocation Rehabilitation and Employment program</b>	
<ul style="list-style-type: none"> <li>•Readjustment Benefits (portion)</li> <li>•Vocational Rehabilitation Loans Program Account</li> <li>•Minor Construction (portion)</li> <li>•General Operating Expenses (portion)</li> </ul>	} Vocation Rehabilitation and Employment
<b>Insurance program</b>	
<ul style="list-style-type: none"> <li>•Veterans Insurance and Indemnities</li> <li>•Minor Construction (portion)</li> <li>•General Operating Expenses (portion)</li> </ul>	} Insurance
<b>Housing program</b>	
<ul style="list-style-type: none"> <li>•Veteran Housing Benefit Program Fund Program Account</li> <li>•Native American Veteran Housing Loan Program Account</li> <li>•Guaranteed Transitional Housing Loans for Homeless Veterans Program Account</li> <li>•Minor Construction (portion)</li> <li>•General Operating Expenses (portion)</li> </ul>	} Housing Program Account
<b>Burial program</b>	
<ul style="list-style-type: none"> <li>•Compensation and Pensions (portion)</li> <li>•Grants for the construction of State Veterans Cemeteries</li> <li>•Major Construction (portion)</li> <li>•Minor Construction (portion)</li> <li>•National Cemetery Administration</li> <li>•General Operating Expenses (portion)</li> </ul>	} Burial Benefits
<b>Departmental Management</b>	
<ul style="list-style-type: none"> <li>•General Operating Expenses (portion)</li> <li>•Major Construction (portion)</li> <li>•Minor Construction (portion)</li> </ul>	} General Administration
<b>Inspector General</b>	
<ul style="list-style-type: none"> <li>•Inspector General</li> <li>•Minor Construction (portion)</li> </ul>	} Inspector General

Source: GAO.

Note: Excludes some trust funds, special funds, revolving funds, and some nonbudgetary accounts.

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**Changes to Congressional Budget Justification Followed Organizing Framework Used for Proposed Account Structure**

For both fiscal years 2004 and 2005, VA changed the organizing framework for its congressional budget justification to reflect the proposed appropriations account structure framework (i.e., around its major programs). For the fiscal year 2003 congressional budget justification, budget information within each volume was generally organized by appropriations account and then programmatic area. For example, within the “Benefits Program” volume, there was a section for the Compensation and Pensions appropriations account and a discussion of the mandatory portion of three programs it funded. The extent to which the program discussion included individual items of expense associated with each program varied by administration. VHA’s administrative budget request was discussed in the same volume as the direct program budget request, whereas VBA’s administrative budget request was discussed in the “Departmental Administration” volume separate from the direct program budget. The congressional budget justification included one volume devoted solely to Construction providing an agencywide summary of the total resources requested for construction. The performance plan also was submitted as a separate volume of the budget justification.

Key changes in the fiscal years 2004 and 2005 congressional budget justifications were the reorganization of program-related information and fuller incorporation of the annual performance plan. VA presented the direct program portion of each program and the administrative budget request for that program in the same volume for all administrations similar to VHA in fiscal year 2003. Also, VA eliminated the Construction volume and discussed construction projects along with the program-specific budget request. Further, beginning in the fiscal year 2005 budget, VA more fully incorporated its annual performance plan into the budget justification and no longer submitted it as a separate volume.

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**As Focus on Programs Increased, Some Previously Reported Information Became Less Transparent**

As the focus on programs increased in VA’s fiscal years 2004 and 2005 budget structure, information on individual items of expense became less apparent. For example, we found that total resources requested for construction were less transparent in the fiscal years 2004 and 2005 budgets than in the fiscal year 2003 budget. In fiscal year 2003, total Construction for VA was appropriated in two accounts—(1) Construction, Major and (2) Construction, Minor—and was shown in a separate volume of the congressional budget justification. In contrast, in both the fiscal years 2004 and 2005 budget structures, total construction resources were allocated to eight of VA’s nine major programs and to Departmental

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Administration and the Inspector General.<sup>3</sup> Further, VA no longer provided a separate volume for Construction in its congressional budget justification.

To facilitate transition to the new account structure, VA provided OMB and Congress with crosswalk tables to assist them in evaluating its budget request. These side-by-side tables presented VA's budget request under both the old and new appropriations account structures. A VA official said these tables were designed to assist OMB and congressional appropriations committee staff to become more familiar and comfortable with the proposed account structure.

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Requests for Transfer Authority Accompany Proposed Account Structure Changes

VA requested new transfer authority for administrative expenses between the Medical Care and Medical Research accounts of up to 5 percent in the first year, 2 ½ percent in the second year, and zero percent thereafter. Also, VA requested transfer authority for operational expenses between Compensation, Pensions, Insurance, Education, VR&E, and Burial of up to 10 percent in the first year, up to 5 percent in the next year, and zero percent in the third year. VA said that transfer authority was needed to facilitate the transition to the new appropriations account structure. Additionally, according to VA officials, this transfer authority was needed to avoid antideficiency violations that might arise for two reasons: (1) estimation uncertainties surrounding their allocations of administrative costs and (2) changes in benefit claims that might arise due to war or legislative changes.

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VA Allocates Budget Resources Other Than Departmental Administration to Its Nine Major Programs Using Different Methods to Allocate Different Types of Resources

VA allocates budget resources to its nine major programs. For the fiscal year 2004 budget, resources allocated to and requested by program budgets were benefit payments, program administration, operations, construction projects, and grants. For example, VA proposed that the Medical Care appropriations account include funding for medical administration, related Construction projects, related Grants to build extended care facilities, as well as the capital and operating expenses traditionally funded through this account. VA also proposed that VBA's administrative expenses and construction projects be funded through separate program appropriations accounts. However, VA did not allocate departmental administration to its

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<sup>3</sup> VA did not allocate construction resources to the Medical Research budget.

programs, but rather continued to finance these costs in a separate account.

VA used various methods, ranging from specific projects, full-time equivalents (FTEs), workload estimates, and cost accounting system estimates, to distribute different types of resources. For example, VA officials said construction costs were distributed to the administrations on a project basis. For example, resources for the construction of new cemeteries were distributed to NCA. VBA distributed construction project resources among its programs based on the number of program FTEs. VBA considers estimated workload (e.g., estimated number of pension, compensation, and burial claims received) and associated FTEs to distribute administrative costs among six programs—Compensation, Pensions, Education, VR&E, Housing, and Insurance. At VHA, physicians' salaries were divided between medical care and medical research based on information from its cost accounting system, which tracks time doctors spend providing service or conducting research. VHA officials questioned the value of distributing certain costs. For example, some VHA officials noted that distributing utilities among medical care and research is complicated and time consuming and, in their opinion, does not necessarily provide benefits commensurate with these costs.

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## Agency Views on Benefits and Limitations of Budget Restructuring for Management and Oversight

VA officials credited budget restructuring with providing a more complete picture of total program resources and helping to highlight resource trade-offs. However, the extent to which resource trade-offs could be made might be limited by proposed appropriations language, among other things. Some program managers raised concerns that proposed appropriations account structure changes would create new problems such as reducing flexibility to respond to changing needs and creating budget execution difficulties. Lastly, some VA officials said that budget restructuring did not provide information they consider most useful to improving management and oversight.

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## Changes Alter the Framework for Budget Choices

VA's budget restructuring efforts sought to increase the focus on program resources as a whole, rather than on individual items of expense. In doing so, VA's proposed appropriations account structure would reframe budget choices and change the nature of resource management and oversight. Whereas under the current structure trade-offs are generally made between similar types of spending, trade-offs would be made across all types of

spending within a program under the proposed structure. For example, under the current structure, if a minor construction project cost more than anticipated or a new need arose, managers might make trade-offs among other construction projects, by for example, deferring another construction project. Similarly, a larger than anticipated utility bill might defer other operating expenses. Under the proposed structure, however, resource trade-offs would be focused within a program among different types of spending. For example, managers might defer a new minor construction project to cover increased operating expenses once appropriate reprogramming requests were approved.

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### Changes Provide a More Complete Picture of Total Program Resources and Help Highlight Trade-offs

According to VA officials, one objective of VA's proposed appropriations account structure and congressional budget justification changes is to provide a more complete picture of the resources used to achieve program performance. VA officials and program managers said the budget resources used to achieve program performance goals are not readily apparent under VA's current appropriations account structure. The burial program, for example, is currently funded by six appropriations accounts.<sup>4</sup> Performance measures related to ensuring that veterans and eligible family members have reasonable access to veteran cemeteries are supported by the operating, construction, and grant appropriations accounts, which were shown in separate volumes of the fiscal year 2003 congressional budget justification. VA officials said this format complicated discussions about the relationship between the program's performance goals and the resources needed to achieve them. VA officials indicated that prior to budget restructuring efforts, VA tended to work "in stovepipes" and didn't look at all resources used to provide burial services. After presenting the burial program's budget resources together, VA officials said that budget restructuring provided a better understanding of the resources needed to achieve the burial program's performance goals. It also helped highlight potential trade-offs among resources used to achieve goals (e.g., federal construction projects and grants to states to construct veteran cemeteries). A VA program manager also credited changes with bringing managers together in a more coordinated manner.

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<sup>4</sup> These appropriations accounts are: (1) National Cemetery Administration, which funds the operations and maintenance of veterans cemeteries; (2) Compensation and Pensions, which funds the burial benefits provided, such as burial flags, graveliners, and headstones; (3) General Operating Expenses, which funds VBA's burial-related administrative expenses; (4) Grants for the Construction of State Veterans Cemeteries; (5) Major Construction, which funds new national cemeteries; and (6) Minor Construction.

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### Ability to Make Resource Trade-offs Under Proposed Budget Structure May Be Limited

Under VA's proposed account structure, managers potentially would have some increased flexibility to make trade-offs within a program between individual items of expense including construction or program administration without requiring transfer authority. However, according to VA officials, several factors may limit a manager's ability to make trade-offs, including proposed appropriations language, authorizing legislation, and the nature of appropriated funds. For example, for both the fiscal years 2004 and 2005 budgets, VA's proposed appropriations language for a number of program appropriations accounts included a ceiling on construction costs. This ceiling would limit managers' ability to make trade-offs between program administration and construction; managers could shift funds from construction to administration but not from administration to construction.<sup>5</sup> Authorizing legislation, which requires VBA to provide specific services, would also limit VBA's ability to make trade-offs among programs or within a program between benefits (to which veterans are entitled) and operating expenses. Another reason, according to VA officials, it would be difficult for managers to make additional trade-offs is the different nature or periods of time for which appropriated funds are available for obligation. For example, construction resources are generally available until expended while other resources are available for only 1 or 2 years. VA officials said that because resources are appropriated with different rules and tracked separately, it would be difficult to commingle them.

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### Appropriations Account Structure Changes May Create New Resource Management Challenges

While some officials and managers noted potential advantages of appropriations account structure changes for resource management, others noted that appropriations account structure changes may create new resource management challenges. These concerns were raised in cases where budget resources that were previously appropriated in a single appropriations account are disaggregated and allocated among multiple appropriations accounts to better align with programs and performance. The concerns stem, in part, from differences between the proposed appropriations account structure and how VA currently operates as well as concerns about the ability to accurately allocate resources within the new structure. As a result, VA officials we spoke with raised the concern that

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<sup>5</sup> VA would have to consult or notify appropriations committees of funding shifts among programs or activities above certain dollar thresholds depending on its specific reprogramming guidelines.

budget restructuring may, among other things, reduce flexibility to respond to changing needs and create budget execution difficulties.

For example, some VA program managers raised concerns that the proposed account structure might reduce VA's flexibility and ability to manage the workload during budget execution to respond to changes in benefit claims or performance needs. Under VA's fiscal year 2003 account structure, the GOE appropriations account funded administrative expenses for all VBA benefit programs. Within this appropriations account and within reprogramming guidelines, VBA could shift administrative funds among programs throughout the year to address performance issues or changes in benefit claims that might arise due to war or legislative changes. For example, to meet compensation workload goals, VBA sometimes used pension administrative funds to process disability compensation claims. In contrast, under the proposed account structures for fiscal years 2004 and 2005, the ability to shift administrative funds among programs throughout the year would be more limited because each program's administrative expenses would be paid from separate appropriations accounts. As a result, VA would make trade-offs within a program among different types of spending. For example, if there were a surge in disability compensation claims due to a war or change in legislation and VBA had to increase compensation claims processing, VBA would have to either reduce other administrative costs associated with the disability compensation program, such as travel or operating expenses, or would face antideficiency violations.<sup>6</sup> Officials noted that, if the requested transfer authority were granted along with the enactment of the proposed account structure, possible antideficiency violations would be less of an issue during the first 2 years.

In addition, some expressed concerns that estimation uncertainty surrounding the allocations of administrative costs may complicate paying administrative expenses and civil servant salaries having implications for executing the budget properly and avoiding antideficiency violations. For example, at VBA one employee might administer benefits from several different programs. Currently, that employee's salary is paid from the GOE appropriations account. Under the proposed appropriations account structures for fiscal years 2004 and 2005, a VBA employee's salary would

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<sup>6</sup> The Antideficiency Act, among other things, prohibits making expenditures or incurring obligations in excess of amounts available in appropriations accounts unless specifically authorized by law.

have been paid from more than one appropriations account. Splitting a VBA employee's salary among three appropriations accounts would require estimating the time the employee spent on each program. Similar concerns were raised by VHA officials because doctors that spend time providing medical care and conducting medical research would be paid through two appropriations accounts under the fiscal years 2004 and 2005 proposed account structures. VA officials told us that estimation uncertainty surrounding the allocations of administrative costs was one reason VA requested transfer authority for operational expenses between six program accounts. However, this authority was only to be in place for 2 years.

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### Budget Restructuring Does Not Provide Some Information Cited as Useful for Improving Management and Oversight

Some program managers and appropriations subcommittee staff said detailed cost information and performance measures were more important for improving management and oversight than the information provided by the budget restructuring effort. For example, VBA officials said performance information on quality and timeliness informs resource allocation decisions in VBA's field offices. Another official said cost accounting information could help VHA identify underused medical equipment and divert some of its resources to another medical facility to help cover costs. Similarly, some appropriations subcommittee staff said they needed more detailed cost information than what was provided under the proposed account structure. According to appropriations subcommittee staff, information such as cost per patient or cost per insurance claim was potentially useful in making budget decisions. Further, an appropriations subcommittee staff said that improving cost and performance information was important to have before moving forward with budget restructuring efforts.

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### Future Direction

VA officials indicated that they plan to continue showing the budget resources associated with VA's programs in the congressional budget justification and fully integrating the performance plan, but said they were unsure at this time how they would proceed with appropriations account restructuring. They said that while budget restructuring put them in a better position to focus on how resources could be used more efficiently to achieve VA's access goals, they did not view the appropriations account structure changes as critical to these efforts.

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# Environmental Protection Agency

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Beginning with the fiscal year 1999 budget, the Environmental Protection Agency (EPA) made changes within its appropriations accounts and congressional budget justification to better link budget resources to strategic goals and objectives. EPA changed its program activities within its appropriations accounts to better align with its strategic plan. EPA also integrated its annual performance plan into its congressional budget justification and restructured the justification around its strategic goals and supporting strategic objectives.<sup>1</sup> However, EPA officials said that partly in response to congressional concerns, program information continues to be provided in the congressional budget justification. Moving forward, EPA plans to continue to make necessary adjustments every three years to reflect revised Strategic Plans required under the Government Performance and Results Act (GPRA) and to improve performance and cost data.

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## Background

EPA's stated mission is "to protect human health and the environment." EPA's work involves five key areas: developing regulations, providing financial assistance, conducting environmental research, sponsoring voluntary partnerships and programs, and fostering compliance of national environmental standards. Much of EPA's work involves the provision of grants and other pass-through resources to states, localities, and Indian tribes to carry out environmental work. The agency is composed of 13 offices<sup>2</sup> and employs 18,000 staff located in Washington, D.C., regional offices, labs, and other facilities located across the country. EPA requested \$7.8 billion in discretionary budget authority for fiscal year 2005.<sup>3</sup>

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<sup>1</sup> This report focused on budget restructuring efforts up through the fiscal year 2005 budget. EPA restructured its fiscal year 2006 budget in response to congressional direction so that it is organized by appropriations account and program/project. Information on strategic goals and objectives is provided as a supplement.

<sup>2</sup> EPA's offices are: (1) Office of Air and Radiation; (2) Office of Water; (3) Office of Prevention, Pesticides and Toxic Substances; (4) Office of Solid Waste and Emergency Response; (5) Office of Enforcement & Compliance Assurance; (6) Office of Research and Development; (7) Office of Environmental Information; (8) Office of Administration and Resources Management; (9) Chief Financial Officer; (10) Office of General Counsel; (11) Office of International Affairs; (12) Office of the Administrator; and (13) Office of Inspector General.

<sup>3</sup> *The Budget of the United States Government, Fiscal Year 2005—Appendix*, shows that this requested amount includes, for example, about \$1.3 billion for the Superfund account, and \$2.3 billion for the Environmental Programs and Management account.

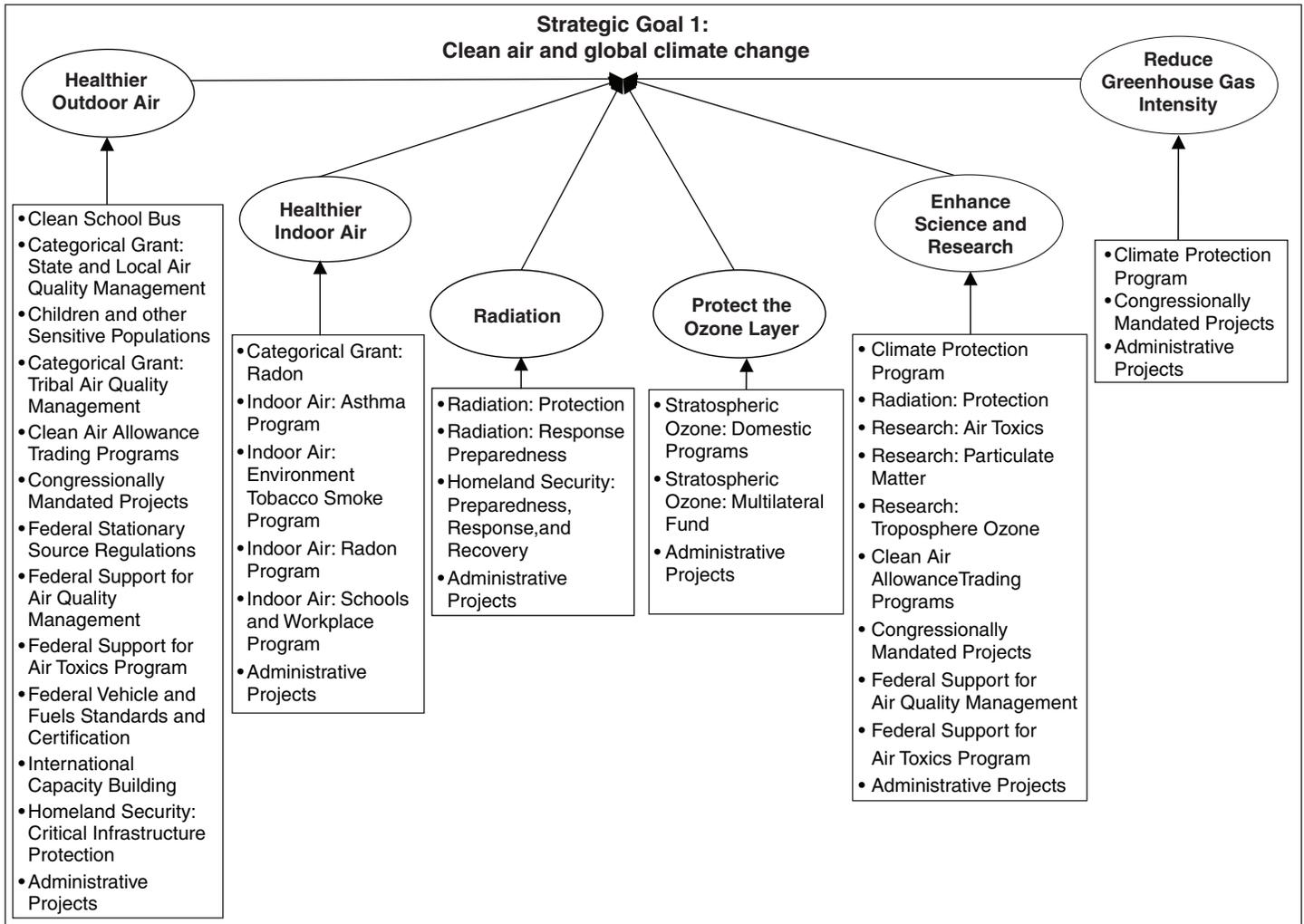
EPA's strategic plan served as the organizing framework for its budget changes. Figure 12 provides a simplified example of EPA's organizing framework using the Clean Air and Global Climate Change strategic goal.<sup>4</sup> Each strategic goal is broken down into a number of strategic objectives. Objectives are supported by a number of program/projects.<sup>5</sup> For example, the Clean Air and Global Climate Change strategic goal and the strategic objective, Healthier Outdoor Air, are supported by a number of program/projects, including the Clean School Bus initiative and Clean Air Allowance Trading Programs. Some program/projects may support one or more goals or objectives. For example, figure 12 shows that Clean Air Allowance Trading Programs support both the Healthier Outdoor Air and Enhance Science and Research strategic objectives. The same hierarchy is used for each of EPA's five strategic goals.

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<sup>4</sup> EPA has four other strategic goals, including: (1) Clean and Safe Water, (2) Land Preservation and Restoration, (3) Healthy Communities and Ecosystems, and (4) Compliance and Environmental Stewardship.

<sup>5</sup> Program/projects are defined as major program areas of responsibility and describe "what" EPA does based on specific statutory authority (programs) or "what" significant tasks or problems the agency is addressing (projects).

Figure 12: Example of EPA's Budget Structure Organized by Strategic Goal and Objective



○ Strategic objectives

□ Program/projects

Source: GAO analysis based on Environmental Protection Agency 2005 Annual Performance Plan and Congressional Justification.

Within this framework, strategic goals and strategic objectives, appropriations accounts, and program/projects may cross. Figure 13 shows these relationships. Strategic goals and objectives are supported by multiple program/projects, which may be funded by multiple appropriations accounts. For example, figure 13 shows the Clean Air goal and one of its supporting objectives—Healthier Outdoor Air—are funded

by five appropriations accounts. Program/projects may also be funded by multiple appropriations accounts and, in some cases, support multiple strategic goals and objectives. For example, the Homeland Security: Critical Infrastructure Protection program/project receives funding through three appropriations accounts and contributes to a number of strategic goals and objectives. Similarly, appropriations accounts generally provide funding for multiple strategic goals and objectives. For example, the Environmental Programs and Management and Science and Technology appropriations accounts fund all five of EPA's strategic goals and their supporting strategic objectives. As discussed in section 4 of the report, when there are multiple contributors and funding streams to strategic goals and objectives, determining the performance contributions of programs to goals or objectives within the new budget structures is challenging.

**Figure 13: The Relationship between Strategic Goals and Objectives, Program Projects, and Appropriations Accounts**

Strategic goal Clean air and global climate change  Strategic objective: Healthier outdoor Air	Program/project: Homeland Security: Critical infrastructure protection	Program/project: Homeland Security: Critical infrastructure protection	Appropriation account: Environmental programs and management
Funded through: 	Funded through: 	Supports: 	Provides funds for: 
Environmental Programs and Management	Environmental programs and management	Clean air and global climate change	Clean air and global climate change
Science and technology	Science and technology	Clean and safe water	Clean and safe water
State and Tribal Assistance Grants	Hazardous substance Superfund	Compliance and environmental stewardship	Land preservation and restoration
Building and facilities			Healthy communities and ecosystems
Inspector General			Compliance and environmental stewardship
<b>Appropriation accounts</b>		<b>Strategic goals</b>	

Source: GAO analysis.

## Objectives and Implementation Time Line

Beginning in the mid-1990's, EPA undertook steps aimed at better linking its budget to its strategic plan. EPA officials described the previous budget structure as focused on program inputs and lacking the strategic vision and consideration of performance to support decision making. According to EPA officials, the changes to the budget were made to provide a better picture of what EPA is trying to achieve with a given level of budget resources and to better incorporate a performance perspective in the budget process.

EPA officials did not view changing managerial flexibility over budget resources as one of the primary objectives of EPA's budget changes. EPA

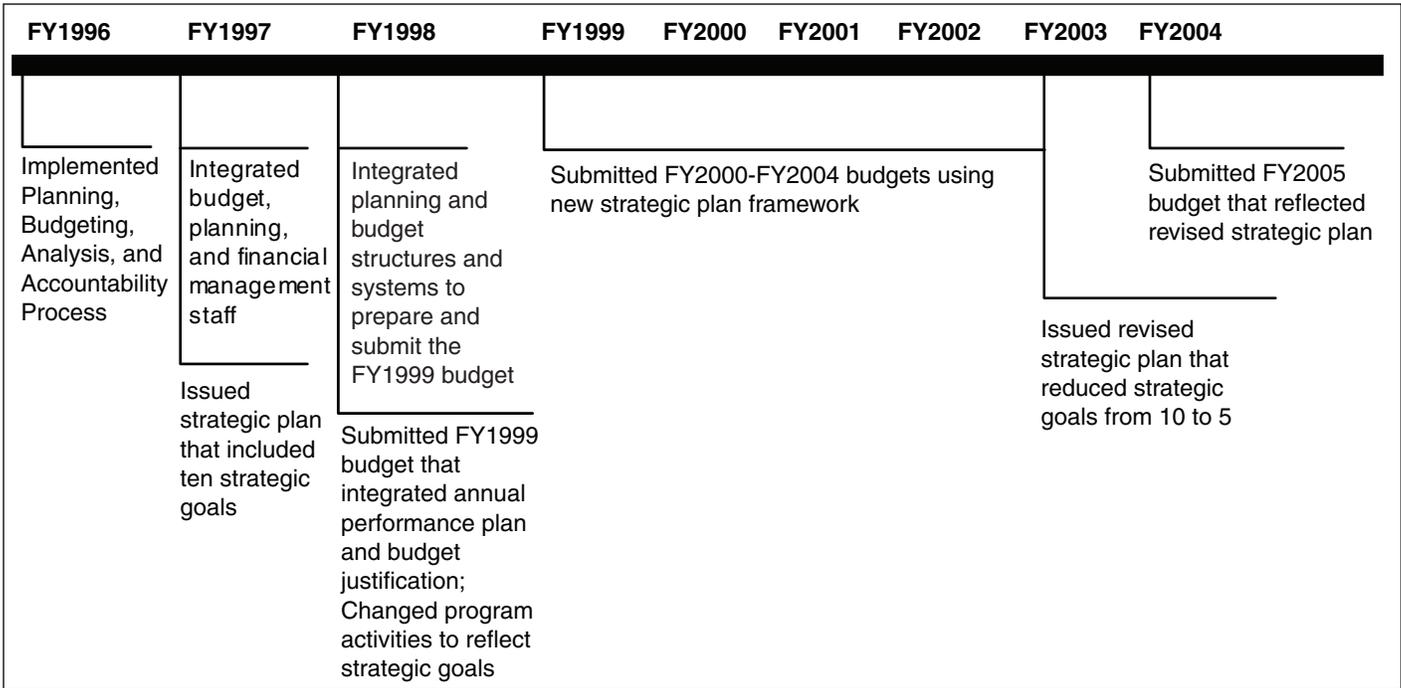
officials and program managers we spoke with generally did not view the appropriations account structure as an impediment to management or as posing a barrier to incorporating a performance perspective into the budget. For example, some officials and staff from EPA's offices noted that although their programs are funded by multiple appropriations accounts, they generally have adequate authority and flexibility over those budget resources to manage their programs.

As shown in figure 14, EPA's effort to better link budget resources to performance in the budget began in the mid-1990's. In fiscal year 1996, EPA created the Planning, Budgeting, Analysis, and Accountability (PBAA) process to meet requirements set forth in GPRA and better position EPA to focus on results. One of the PBAA's stated purposes was improving the link between long-term planning and annual resource allocation.<sup>6</sup> During fiscal year 1997, EPA undertook efforts to better link its budgeting, planning, and financial management processes and to integrate relevant staff. Then, for the fiscal year 1999 budget, EPA integrated its performance plan within its congressional budget justification and restructured its program activities and its congressional budget justification to better align with its strategic plan. Most recently in its fiscal year 2005 budget, EPA modified the program activities within its appropriations accounts and its budget justification to reflect changes to its strategic plan.

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<sup>6</sup> The PBAA had four stated purposes: (1) to develop goals and objectives for accomplishing the agency's mission, (2) to make better use of scientific information related to human health and environmental risks in setting priorities, (3) to improve the link between long-term planning and annual resource allocation, and (4) to develop a new management system to assess accomplishments and provide feedback for making future decisions.

Figure 14: EPA's Implementation Time Line



Source: GAO analysis.

## Summary of EPA's Budget Restructuring Approach

After Congress restructured EPA's appropriations accounts in 1996, EPA made performance-related budget changes within its appropriations accounts and to the congressional budget justification rather than proposing changes to the account structure. Within its appropriations accounts, EPA changed program activities to better align with its strategic goals. EPA also integrated its annual plan into its congressional budget justification and organized the justification around strategic goals and objectives. Within the restructured budget, budget resources were aligned with strategic goals and objectives. At the same time these changes were made to the budget structure, EPA's reprogramming guidance also changed. However, partly in response to congressional concerns, EPA incorporated additional information to assist users, including funding by program and appropriations accounts.

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Some Changes Made to  
EPA's Appropriations  
Account Structure in the  
Mid-1990s

Congress initiated appropriations account structure changes in the late 1990s that were intended to allow EPA greater flexibility to manage its programs. After the release of a 1995 congressionally requested report by the National Academy of Public Administration,<sup>7</sup> Congress restructured EPA's appropriations accounts for the fiscal year 1996 budget. Specifically, Congress eliminated the Program and Research Operations account (which mainly funded administrative expenses, such as salaries) and the Abatement, Control and Compliance accounts (which funded activities, such as setting environmental standards and issuing permits). According to a 1995 conference report, a new Environmental Programs and Management account was created in an effort to provide EPA with increased flexibility to meet personnel and program requirements; it funded most of the items previously funded by the eliminated accounts. State categorical grants that were proposed under the Abatement, Control and Compliance account were moved to a newly created account, State and Tribal Assistance Grants. In addition, a Science and Technology account was created for research activities.

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Strategic Goals and  
Objectives Used as  
Organizing Framework for  
Appropriations Account  
Structure and Budget  
Justification Changes

EPA made its performance-related changes to the program activities within its existing appropriations account structure and the budget justification rather than change the account structure itself. Table 15 uses the Environmental Programs and Management account to illustrate changes made to EPA's program activities since the fiscal year 1998 budget. Beginning in the fiscal year 1999 budget, EPA changed the program activities within its appropriations accounts from programmatic and functional areas, such as Pesticides and Support Costs, to strategic goals, such as Clean Air and Clean Water.

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<sup>7</sup> *Setting Priorities, Getting Results: A New Direction for the Environmental Protection Agency*, National Academy of Public Administration, 1995. This report provides recommendations to EPA and Congress for strengthening EPA's management, including how EPA allocates its budget and how its managers think about the programs, priorities, and responsibilities.

**Table 15: Program Activity Changes Since Fiscal Year 1998 Budget: Environmental Programs and Management Appropriations Account Example**

Fiscal year 1998 budget	Fiscal year 1999 budget	Fiscal year 2005 budget
Program activities:	Program activities:	Program activities:
Air	Clean Air	Clean Air and Global
Water Quality	Clean Water	Climate Change
Drinking Water	Safe Food	Clean and Safe Water
Hazardous Waste	Preventing Pollution	Land Preservation and
Pesticides	Waste Management	Restoration
Radiation	Global and Cross-border	Healthy Communities and
Multimedia	Right to Know	Ecosystems
Toxic Substances	Sound Science	Compliance and
Mission and Policy	Credible Deterrent	Environmental Stewardship
Management	Effective Management	Reimbursable program <sup>a</sup>
Agency Management		
Regional Management		
Support Costs		
Superfund		

Source: President's Budget *Appendix* for EPA for fiscal years 1998, 1999, and 2005.

<sup>a</sup> This program activity is not a strategic goal.

The formats for the fiscal years 2000 through 2004 budgets used the same basic format as EPA introduced for the fiscal year 1999 budget. For the fiscal year 2005 budget, EPA consolidated the number of program activities to reflect changes to its strategic plan, which reduced the number of strategic goals from 10 to 5. Within each appropriations account, budget resources, including indirect office-level and central administrative resources, were aligned to strategic goals and objectives. Since a strategic goal might have been supported through multiple appropriations accounts, the amount shown for a strategic goal in any one appropriations account did not necessarily represent the total budget resources associated with that goal.

EPA also made changes to its congressional budget justification. Beginning with the fiscal year 1999 budget, EPA integrated its annual plan into the congressional budget justification and reformatted the justification to better align its budget request with the agency's strategic goals and objectives. Previously, EPA's justification had been organized with a chapter for each appropriations account and sections within each chapter for each EPA office. For example, the previous justification contained a Science and Technology chapter, which in turn included sections for EPA's offices funded by that appropriations account, which was followed by program information. EPA staff said that previous congressional budget

justifications included program elements, which were breakdowns of programmatic areas. For example, the Air Toxics program was broken down by several program elements, including Air Quality Planning and Standards and Air Quality Management Implementation. EPA's reprogramming guidance was tied to these program elements.

For the fiscal year 1999 through 2005 justifications, EPA aligned budget resources to strategic goals and objectives. Budget information was shown by strategic goals and objectives in both summary tables at the front of the congressional budget justification and within chapters organized by strategic goal. For example, summary tables at the front of the fiscal year 2005 congressional budget justification showed (1) budget authority by goal and appropriations account, and (2) budget authority by goal and objective. Examples of these tables are shown in tables 16 and 17.

**Appendix IV  
Environmental Protection Agency**

**Table 16: Resource Table Presented in EPA's Fiscal Year 2005 Congressional Budget Justification: Resources by Goal/Appropriation**

Dollars in thousands

	<b>FY2003 Actuals</b>	<b>FY2004 Pres. Budget</b>	<b>FY2005 Pres. Budget</b>
<b>Clean Air and Global Climate Change</b>			
Budget Authority	\$882,811.6	\$915,983.1	\$1,004,615.5
Full-time equivalents (FTE)	2,702.6	2,737.9	2,756.6
<i>Environmental Programs and Management</i>			
Budget Authority	\$416,801.6	\$451,848.7	\$467,758.4
FTEs	1,919.0	1,948.8	1,963.7
<i>Environmental Programs and Management-reimbursable</i>			
FTEs	1.2	0.5	0.6
<i>Science and Technology</i>			
Budget Authority	\$197,661.1	\$199,500.1	\$205,788.5
FTEs	703.2	702.7	702.9
<i>Science and Technology-reimbursable</i>			
FTEs	3.2	3.0	3.0
<i>Buildings and Facilities</i>			
Budget Authority	\$8,560.5	\$8,710.1	\$9,387.0
<i>State and Tribal Assistance Grants</i>			
Budget Authority	\$252,531.8	\$247,750.0	\$312,750.0
<i>FEMA -reimbursable</i>			
FTEs	6.8	0.0	0.0
<i>Inspector General</i>			
Budget Authority	\$4,198.2	\$5,147.0	\$5,724.6
FTEs	31.3	38	40.9
<i>Hazardous Substance Superfund</i>			
Budget Authority	\$3,058.4	\$3,027.2	\$3,207.1
FTEs	18.7	17.3	18.2
<i>Working Capital Fund-reimbursable</i>			
FTEs	19.2	27.6	27.3

Source: Environmental Protection Agency 2005 Annual Performance Plan and Congressional Justification.

Note: Strategic goal shown in bold text. Appropriations accounts shown in italics.

Appendix IV  
Environmental Protection Agency

**Table 17: Resource Table Presented in EPA's Fiscal Year 2005 Congressional Budget Justification: Resources by Goal/Objective**

Dollars in thousands

	FY2003 Actuals	FY2004 Pres. Budget	FY2005 Pres. Budget
<b>Clean Air and Global Climate Change</b>			
Budget Authority	\$882,811.6	\$915,983.1	\$1,004,615.5
FTEs	2,702.6	2,737.9	2,756.6
<i>Healthier Outdoor Air</i>			
Budget Authority	\$557,907.1	\$579,059.2	\$659,876.2
FTEs	1,706.6	1,751.5	1,765.9
<i>Healthier Indoor Air</i>			
Budget Authority	\$44,299.1	\$48,042.5	\$48,954.7
FTEs	152.0	149.9	153.2
<i>Protect the Ozone Layer</i>			
Budget Authority	\$18,145.2	\$19,069.4	\$21,813.7
FTEs	39.2	36.1	36.7
<i>Radiation</i>			
Budget Authority	\$30,046.8	\$34,858.9	\$34,718.0
FTEs	168.1	185.0	183.9
<i>Reduce Greenhouse Gas Intensity</i>			
Budget Authority	\$99,836.4	\$106,936.5	\$108,389.3
FTEs	251.3	244.1	244.6
<i>Enhance Science and Research</i>			
Budget Authority	\$132,577.0	\$128,016.6	\$130,863.6
FTEs	358.2	371.2	372.4

Source: Environmental Protection Agency 2005 Annual Performance Plan and Congressional Justification (EPA's Proposed Budget).

Note: Strategic goal shown in bold. Strategic objectives shown in italics.

EPA's fiscal year 1999 through 2005 budget justifications were organized by strategic goal. In the fiscal year 2005 congressional budget justification, each strategic goal chapter began with a goal overview, including a summary table of budget resources for the strategic goal broken down by strategic objective and narrative describing the supporting strategic objectives and performance goals and strategies. A section for each strategic objective followed the goal overview. Each strategic objective section contained two main tables: (1) a resource summary table that broke down the budget request for the objective by appropriations account, and (2) a table that listed all of the program/projects and associated resources that support the objective. Figure 15 provides an

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example using the resource summary table and the program/project table for the Clean Air and Global Climate Change goal and Healthier Outdoor Air objective from the fiscal year 2005 congressional budget justification.

**Figure 15: Excerpt from EPA's Fiscal Year 2005 Congressional Budget Justification**

<b>Environmental Protection Agency</b>				
<b>FY 2005 Annual Performance Plan and Congressional Justification</b>				
<b>Clean Air and Global Climate Change</b>				
<b>OBJECTIVE:</b> Healthier Outdoor Air				
<p>Through 2010, EPA and its partners will protect human health and the environment by attaining and maintaining health-based air quality standards and reducing the risk from toxic air pollutants.</p>				
<b>Resource Summary</b> (Dollars in Thousands)				
	FY 2003 Actuals	FY 2004 Pres. Bud.	FY 2005 Pres. Bud.	FY 2005 Req. v. FY 2004 Pres Bud
<b>Healthier Outdoor Air</b>	<b>\$557,907.1</b>	<b>\$579,059.2</b>	<b>\$659,876.2</b>	<b>\$80,817.1</b>
Environmental Program & Management	\$231,825.3	\$250,509.5	\$261,196.7	\$10,687.3
Science & Technology	\$75,701.8	\$81,059.9	\$85,302.2	\$4,242.3
State and Tribal Assistance Grants	\$243,116.5	\$239,600.0	\$304,600.0	\$65,000.0
Building and Facilities	\$4,583.4	\$4,645.2	\$5003.2	\$358.0
Inspector General	\$2,680.1	\$3,244.6	\$3,774.1	\$529.5
Total Workyears	1,706.6	1,751.5	1,765.9	14.4
<b>Program Project</b> (Dollars in Thousands)				
	FY 2003 Actuals	FY 2004 Pres. Bud.	FY 2005 Pres. Bud.	FY 2005 Req. v. FY 2004 Pres Bud
Clean School Bus	\$0.0	\$1,500.0	\$65,000.0	\$63,500.0
Categorical Grant: State and Local Air Quality Management	\$229,633.4	\$228,550.0	\$228,550.0	\$0.0
Children and other Sensitive Populations	\$50.6	\$235.0	\$127.0	(\$108.0)
Categorical Grant:Tribal Air Quality Management	\$13,483.1	\$11,050.0	\$11,050.0	\$0.0
Clean Air Allowance Trading Programs	\$15,667.4	\$21,814.9	\$22,857.5	\$1,042.6
Congressionally Mandated Projects	\$12,724.8	\$0.0	\$0.0	\$0.0
Federal Stationary Source Regulations	\$19,120.1	\$23,702.2	\$24,302.0	\$599.8
Federal Support for Air Quality Management	\$92,966.1	\$96,657.4	\$102,849.9	\$6,192.5
Federal Support for Air Toxics Program	\$28,116.6	\$28,655.1	\$27,358.7	(\$1,296.4)
Federal Vehicle and Fuels Standards and Certification	\$55,525.5	\$60,446.8	\$64,466.5	\$4,019.7
International Capacity Building	\$3,570.0	\$1,541.3	\$1,633.9	\$92.6
Homeland Security: Critical Infrastructure Protection	\$0.0	\$1,106.2	\$1,110.8	\$4.6
Administrative Projects	\$87,049.5	\$103,800.3	\$110,569.9	\$6,769.7
<b>TOTAL</b>	<b>\$557,907.1</b>	<b>\$579,059.2</b>	<b>\$659,876.2</b>	<b>\$80,817.1</b>

Source: EPA's FY 2005 Annual Performance Plan and Congressional Justification.

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EPA Reprogramming  
Guidance Change  
Potentially Provided More  
Flexibility

At the same time that EPA made changes within its appropriations accounts and congressional budget justification, Congress changed EPA's reprogramming guidance to allow funding shifts within strategic objectives, although its reprogramming dollar threshold remained the same.<sup>8</sup> Previously, EPA's reprogramming guidance only allowed shifting funds within program elements, which was a tighter reprogramming unit than the more aggregated strategic objective unit. EPA officials and OMB staff said that the change to the strategic objective potentially provides more flexibility to make trade-offs among program/projects.

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EPA Showed Budget  
Resources by Strategic  
Goals and Objectives

As shown in the congressional budget justification, strategic goals and objectives included associated budgetary resources, including direct costs and indirect costs, such as central planning, facilities management, and human resources management. Resources were allocated to strategic goals and objectives through the program/projects that support them. EPA officials explained that most program/projects included direct program resources as well as all office-level administrative resources that are directly traceable to program/projects such as personnel and travel costs. However, central administrative resources were not allocated to program/projects; rather these resources were shown as separate program/projects, which were then allocated across strategic goals and objectives.<sup>9</sup> For example, "Central Planning, Budgeting, and Finance" and "Facilities Infrastructure and Operations" were program/projects. These types of enabling or support programs were aggregated and listed as "administrative projects" beneath each objective and were included in the budget resources of the strategic goals and objectives they support.<sup>10</sup>

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<sup>8</sup> According to the fiscal year 2004 House and Senate Appropriations Committee reports, the reprogramming threshold is \$500,000, except for (1) in the Environmental Programs and Management account, up to \$1,000,000 may be reprogrammed with prior congressional approval; and, (2) in the State and Tribal Assistance Grants account, reprogramming for performance partnership grants funds is exempt.

<sup>9</sup> In its fiscal year 2004 budget justification, some indirect costs were captured in separate mission-support goals (e.g., Effective Management and Sound Science). In the fiscal year 2005 budget justification, EPA allocated these resources to its five mission-related goals and their objectives.

<sup>10</sup> EPA officials said that, in general, indirect resources are allocated to strategic objectives based on supporting program/projects FTE levels.

While the tables within the strategic goal and objectives sections of the congressional budget justification included the budget resources—both direct and indirect—associated with the strategic goal and objectives, only the portion of the appropriations account supporting the particular strategic goal or objective was included. Similarly, in cases where a program/project supported multiple strategic objectives, the program/projects listed under strategic goals and objectives included only the portion of the program/projects that supported the strategic goal and objectives. For example, the Homeland Security: Critical Infrastructure Protection program/project supported a number of strategic goals (e.g., Clean Air and Global Climate Change, Clean and Safe Water) and their supporting strategic objectives (e.g., Healthier Outdoor Air, Protect Human Health). The Healthier Outdoor Air strategic objective, for example, only included the portion of the program/projects associated with that objective. As noted below, EPA showed its total budget request by program/project in the back of the justification.

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**Budget Justification Was Organized Around Strategic Goals but Additional Information Was Included to Assist Decision Makers**

While restructuring its congressional budget justification based on strategic goals and objectives, EPA took steps to include additional information to assist in congressional decision making. EPA officials and staff told us that the focus of congressional interest and oversight remained at the program/project level. In response to congressional concerns that its fiscal year 1999 budget justification lacked program information, EPA included a list of “key programs” in its fiscal year 2000 justification. According to EPA officials, the list covered approximately 30 percent of EPA’s programs at first but was later expanded to cover EPA’s entire budget request. In its fiscal year 2005 congressional budget justification, EPA replaced “key programs” with “program/projects,” which EPA officials said were a refinement because they were created using a more formal process. Program/projects covered both programmatic (e.g., Geographic Program: Chesapeake Bay) and central administrative functions (e.g., Facilities Infrastructure and Operations). EPA included a table providing a complete list of program/projects, the appropriations accounts they were funded through, and the resource request in the back of the congressional budget justification.

EPA’s congressional budget justification also included an “Enabling/Support Programs” appendix providing detailed information on these support programs, which mainly include central administrative functions such as Facilities Infrastructure and Operations, IT/Data Management, and Acquisition Management. This appendix was organized

by office (e.g., Office of Environmental Information, Office of Administration and Resources Management) and included each enabling/support program's resource request and performance information.

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## Agency Views on Implications of Budget Restructuring for Management and Oversight

EPA officials described several benefits or potential benefits of the appropriations account and congressional budget justification changes and noted some limitations. EPA central office budget staff and program managers also emphasized the importance of the agency's efforts to improve its financial management system for its performance management efforts.

EPA officials viewed the changes within the appropriations accounts and congressional budget justification as enhancing the performance perspective initiated under GPRA. EPA officials said that the new structure better links budget resources to EPA's strategic plan and highlights the program/project funding levels associated with achieving goals and objectives. According to EPA officials and OMB staff, the current structure focuses on the achievement of goals and objectives rather than focusing on individual programs as the pre-fiscal year 1999 budget did. Specifically, because managers now are required to justify their budgets in terms of the agency's strategic direction, some credited the changes with increasing understanding of and attention given to the agency's strategic and performance management framework. This new approach, which requires budget requests to be aligned to strategic goals and objectives, was credited by EPA officials with providing greater incentives for officials and program managers to understand the agency's strategic framework and explain how particular program/projects fit within that framework. Some staff credited the budget changes with leading to better integration of program/projects that support common goals and objectives. EPA officials also noted that these efforts have supported greater integration of and collaboration among planning and budget staff.

Although central administrative resources were allocated to strategic goals and objectives, EPA officials noted that increasing management flexibility to make resource trade-offs among central administrative resources or between central administrative and program resources was not an objective of budget restructuring. For the most part, staff we spoke with said that sufficient flexibility over resources to manage programs already existed. An EPA official explained that their intention included ensuring that the new structure provided managers the ability to implement their

programs with at least the same level of flexibility as in the old structure. EPA officials said administrative resources were allocated to strategic goals and objectives to provide a better picture of the resources associated with the achievement of those goals and objectives rather than to change the management of those resources.

EPA officials said that budget restructuring helped focus budget decisions and resource management at the strategic objective level. EPA officials and OMB staff explained that changing EPA's reprogramming guidance from allowing funding shifts within specific program elements to allowing funding shifts within broader strategic objectives potentially provides more flexibility to make trade-offs among program/projects to achieve strategic objectives. Along these lines, officials from one program office explained that under the old structure funding was tied to a number of program elements. Under the current structure, EPA officials said that those program elements have been changed to program/projects that support strategic objectives. Because there are fewer strategic objectives than program elements, this change potentially provides managers with greater flexibility than previously available to make trade-offs within that objective. EPA officials noted that although increased flexibility was not a primary objective of the reforms, increased flexibility would be viewed as positive.

While EPA's budget changes were described as supporting EPA's efforts to manage based on strategic goals and objectives and could potentially provide more flexibility to make resource trade-offs among programs, EPA officials also noted some limitations. First, the various program/projects that support a particular strategic objective are funded from different appropriations accounts, and EPA does not have authority to transfer resources between appropriations accounts. However, as discussed previously, EPA central office budget officials and program managers we spoke with generally did not view the appropriations account structure as an obstacle to management or as a barrier to incorporating a performance perspective into the budget. Secondly, EPA officials and OMB staff noted that much of Congress's focus remains on programs rather than on strategic goals and objectives. For example, appropriations committee report language for EPA specifies funding levels by program. EPA officials noted that they incorporate these congressional directives with respect to program funding into the operating plan, which may restrict the ability to make resources trade-offs among programs.

Finally, some EPA central office budget officials and program managers emphasized the importance of integrating the budget and financial management and noted the agency's efforts to improve its financial management system.<sup>11</sup> According to EPA officials, the agency has been implementing a new integrated accounting and budget formulation system to increase cost information. EPA officials noted that EPA's Integrated Financial Management System (IFMS)<sup>12</sup> tracks EPA's budget to various levels including strategic goals, objectives, program/projects, and activities. Both EPA officials and program managers noted the improvements to the financial management system as useful to its budget restructuring efforts as well as its broader efforts to improve performance management.

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## Future Direction

In response to congressional direction, EPA has significantly restructured its congressional budget justification for fiscal year 2006 to organize by appropriations account and program, rather than strategic goal and objective. EPA continues to provide information on strategic goals and objectives in the budget justification, but its handled more as a supplement. EPA plans to continue to make necessary adjustments every 3 years to reflect revised Strategic Plans required under GPRA and to improve cost and performance information.

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<sup>11</sup> EPA received a "green light" for financial performance on the Executive Branch Management Scorecard for the fiscal year 2005 budget. According to OMB, EPA demonstrated the use of financial and performance information for day-to-day decision making.

<sup>12</sup> The new IFMS structure includes a Program Results Code organized by goal, objective, National Program Manager, program/project, and activity. Activities describe how EPA conducts its work.

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# National Aeronautics and Space Administration

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The National Aeronautics and Space Administration (NASA) restructured its budget to better align budget resources to programs and performance in the budget. The budget structure changes are intended to improve internal management and provide a better understanding of what it takes to do NASA's work. NASA officials said that these changes were part of a broader "Full Cost Initiative" and provide not only information but also incentives to make decisions on the most efficient use of resources. This has been a long-term process—NASA began putting the processes and tools in place in fiscal year 1995. NASA incrementally changed its appropriations account structure and congressional budget justification to support implementation of "full cost" practices and to better reflect the relationship of its budget to the Strategic Plan. Currently, NASA requests budget authority for the "full cost" of its programs and uses different methods to allocate different types of resources to its programs. While NASA officials anticipate that budget restructuring will support results-oriented management, some limitations and concerns were raised.

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## Background

NASA is the nation's leading organization for research and development in aeronautics and space. NASA describes its mission as to understand and protect our home planet; explore the universe and search for life; and to inspire the next generation of explorers "as only NASA can."<sup>1</sup> This mission is carried out by a workforce of federal employees (about 18,900 full time equivalents) and contract employees (over 100,000) in NASA's centers and other facilities across the country. NASA's budget has remained relatively constant in real terms over the last decade; its fiscal year 2005 budget request was for about \$16 billion in discretionary funding.

When preparing the fiscal year 2005 budget, NASA was organized around seven Strategic Enterprises, or main programmatic units: (1) Space Science, (2) Earth Science, (3) Biological and Physical Research, (4) Aeronautics, (5) Education, (6) Space Flight, and (7) Exploration Systems.<sup>2</sup> Enterprises were composed of one or more themes, or groups of programs that could be attributed to related strategic goals. For example, the Space Science Enterprise included Solar System Exploration, Mars Exploration, and other themes. NASA had 18 themes, which were used as

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<sup>1</sup> National Aeronautics and Space Administration *2003 Strategic Plan*, p.2 .

<sup>2</sup> Exploration Systems was created in fiscal year 2005 to better reflect the new vision for space exploration.

the basis for the agency's budget planning, management, and performance reporting. Within a theme there were multiple theme elements, or programs, that work together to achieve strategic goals. For example, the Mars Exploration Theme (within the Space Science Enterprise) included the Mars Global Surveyor, the 2003 Mars Exploration Rovers, and 2005 Mars Reconnaissance Orbiter, which all supported NASA's strategic goal to explore the solar system and universe beyond. In June 2004 (following the fiscal year 2005 budget submission), NASA fundamentally restructured its enterprises into Mission Directorates to position the organization to better implement the vision set forth in *A Renewed Spirit of Discovery, The President's Vision for U.S. Space Exploration*.<sup>3</sup> NASA's fiscal year 2006 congressional budget justification reflected its new organizational framework.

The relationship between NASA's organizational framework and its strategic plan was complex. NASA had 10 strategic goals—7 science- and research-related strategic goals and 3 enabling goals. Most strategic goals were supported by multiple themes and themes provide primary or contributing support to multiple strategic goals. Figure 16 shows the relationship between NASA's strategic and organizational framework using themes within the Space Science and Space Flight Enterprises. The complex relationship may raise challenges for agency efforts to better align resources with performance.

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<sup>3</sup> National Aeronautics and Space Administration, *The Vision for Space Exploration* (February 2004).

Figure 16: Example of Relationship between NASA's Strategic and Organizational Frameworks

	Space Science Enterprise					Space Flight Enterprise		
	Solar System Exploration	Mars Exploration	Astronomical Search for Origins	Structure and Evolution of the Universe	Sun-Earth Connection	International Space Station	Space Shuttle Program	Space and Flight Support
<b>Strategic Goal 1:</b> Understand Earth's system and apply Earth system-science to improve the prediction of climate, weather, and natural hazards	●				●	○	○	○
<b>Strategic Goal 5:</b> Explore the solar system and the universe beyond, understand the origin and evolution of life, and search for evidence of life elsewhere	●	●	●	●	●		○	○
<b>Strategic Goal 6:</b> Inspire and motivate students to pursue careers in science, technology, engineering, and mathematics	○	○	○	○	○	○	○	○
<b>Strategic Goal 9:</b> Extend the duration and boundaries of human space flight to create new opportunities for exploration and discovery		○				●	○	●

● Theme's primary contributions  
 ○ Theme's supporting contributions

Source: NASA's fiscal year 2004 congressional budget justification.

## Objectives and Implementation Time Line

According to NASA officials, restructuring the budget to better align budget resources with programs and performance is intended to improve internal management and provide a better understanding of what it takes to do NASA's work. NASA's budget restructuring efforts were part of the broader "Full Cost Initiative," which involves changes to accounting, budgeting, and management. NASA officials emphasized that the pieces all fit together and support one another. The accounting and budgeting portions support the management decision-making process by providing not only better information, but also incentives to make decisions on the most efficient use

of resources. According to NASA officials, accounting changes alone would not change managers' behavior. NASA also needs to budget and manage under "full cost" to realize the anticipated benefits of more efficient resource use. Under "full cost" budgeting, project managers are both expected to continue to control direct costs and have greater control or influence over indirect costs, such as service pools and administrative costs. Lastly, by tying resources to performance, this initiative is intended to provide internal and external parties with information about how programs and resources are tied to NASA's mission and strategic plan.

NASA officials highlighted several limitations to the previous appropriations account structure and congressional budget justification. Specifically, NASA officials said the previous appropriations account structure and congressional budget justification did not align resources with its strategic plan and also limited program managers' accountability and flexibility to make resource trade-offs to use resources more efficiently. For example, NASA officials said that prior to changing its budget justification it was difficult to show how some activities related to its strategic plan. They also said that because mission support resources were requested and funded in a separate appropriations account than its programs and projects, the resources requested may not have reflected the amount needed by NASA's programs and projects. In addition, since mission support resources were not included in program managers' budgets under the previous budget structure, program managers lacked accountability over the resources used to achieve performance and had limited ability to make resource trade-offs to use resources more efficiently. Specifically, whereas project managers had considerable control over contractor-supplied hardware and labor prior to budget restructuring, they had less control over the number and type of civil service personnel assigned to their projects and no control over the cost of the assigned personnel and other support costs. As a result, civil servants and other support costs appeared "free" to program managers and they had less incentive to use those resources efficiently.

Budget restructuring, including NASA's efforts to better capture the "full cost" of its programs in the budget, has been a long-term process at NASA. NASA began putting the processes and tools in place in fiscal year 1995. (See figure 17.)

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**Figure 17: NASA's Implementation Time Line**

FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Developed "full cost" concept and approach				Created standard cost definitions <sup>a</sup>		Submitted FY2002 budget to Congress with first proposed account structure change related to "full cost" effort; Congress appropriated under proposed structure		Implemented Core Financial Module of the Integrated Financial Management Program intended to support implementation of the "full cost" initiative	
								Submitted first budget in which programs request budget authority for the "full cost" of programs; Congress appropriated under proposed structure	
								Began incorporating Annual Performance Plan into budget justification and linked all programs to the strategic plan in the budget justification	

Source: GAO analysis.

<sup>a</sup>NASA's *Full Cost Initiative Agency-wide Implementation Guide* (February 1999).

NASA implemented the Core Financial Module of the Integrated Financial Management Program (IFMP) in fiscal year 2003 with the objective of standardizing cost components across the agency. NASA said the integrated financial management system was necessary to support implementation of "full cost" practices and to submit its first "full cost" budget, which it did in fiscal year 2004.

Despite the progress that has been made, the initiative remains relatively new. For example, the "full cost" allocations for formulation of the fiscal year 2004 budget was primarily a headquarters exercise and the fiscal year

2005 budget was the first budget program managers formulated in “full cost.” As a result, according to NASA officials, program managers have only 1 year’s experience with budgeting and managing in “full cost,” and the agency has not yet achieved the complete benefits of “full cost” management.

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## Summary of NASA’s Budget Restructuring Approach

Beginning with the fiscal year 2002 budget, NASA incrementally changed its appropriations account structure and congressional budget justification to support implementation of “full cost” practices and to better reflect the relationship of its program budgets to the agency’s strategic plan. The organizational framework of NASA’s congressional budget justification followed its appropriations account structure and provided budget information by enterprises, themes and programs. Changes to its appropriations account structure and congressional budget justification were accompanied by changes to transfer authority and proposed changes to reprogramming guidelines. The extent of the linkage between resources and performance has progressed over time and now NASA links budget resources to its programs and projects within themes and enterprises. NASA uses different methods to allocate different types of resources.

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## NASA’s Appropriations Account Structure Changes Began in Fiscal Year 2002

The first step in NASA’s incremental changes to its appropriations account structure was made in the fiscal year 2002 budget. That year, NASA proposed to eliminate its mission support appropriations account and Congress accepted the account structure change. (See figure 18.) NASA spread the budget resources for research, program management, and Construction of Facilities (CoF) to NASA’s mission-related accounts—(1) Human Space Flight and (2) Science, Aeronautics, and Technology. No major changes were proposed or made to the appropriations account structure for fiscal year 2003.

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**Figure 18: NASA's Appropriations Account Structure Incrementally Changed between Fiscal Years 2001 and 2005 to Reflect Organizational Framework**

	Fiscal year 2001	Fiscal year 2002	Fiscal year 2003	Fiscal year 2004	Fiscal year 2005
<b>Account</b>	Mission Support				
	<ul style="list-style-type: none"> <li>• Safety, mission assurance &amp; engineering and advance concepts</li> <li>• Research and program management</li> <li>• Construction of facilities</li> <li>• Space communication services</li> </ul>				
<b>Account</b>	Human Space Flight	Human Space Flight	Human Space Flight		
	<ul style="list-style-type: none"> <li>• Space station</li> <li>• Payload and ELV support</li> <li>• Investments and support</li> <li>• Space shuttle</li> <li>• Payload and utilization operations</li> </ul>	<ul style="list-style-type: none"> <li>• Space station</li> <li>• Payload and ELV support</li> <li>• Investments and support</li> <li>• Space shuttle</li> <li>• Space operations</li> <li>• Safety, mission assurance &amp; engineering</li> </ul>	<ul style="list-style-type: none"> <li>• Space station</li> <li>• Payload and ELV support</li> <li>• Investments and support</li> <li>• Space shuttle</li> <li>• Safety, mission assurance &amp; engineering</li> <li>• Space communications and data systems</li> </ul>		
<b>Account</b>	Science, Aeronautics and Technology	Science, Aeronautics and Technology	Science, Aeronautics and Technology		
<b>Program activities</b>	<ul style="list-style-type: none"> <li>•Space science</li> <li>•Earth science</li> <li>•Life and microgravity science</li> <li>•Aerospace technology</li> <li>•Space operations</li> <li>•Academic programs</li> <li>•Mission communication services</li> </ul>	<ul style="list-style-type: none"> <li>•Space science</li> <li>•Earth science</li> <li>•Biological &amp; physical research (R)</li> <li>•Aerospace technology</li> <li>•Space operations</li> <li>•Academic programs</li> <li>•Mission communication services</li> </ul>	<ul style="list-style-type: none"> <li>•Space science</li> <li>•Earth science</li> <li>•Biological &amp; physical research (R)</li> <li>•Aerospace technology</li> <li>•Space operations</li> <li>•Academic programs</li> <li>•Mission communication services</li> </ul>		
<b>Account</b>				Space Flight Capabilities	Exploration Capabilities (R)
<b>Program activities</b>				<ul style="list-style-type: none"> <li>•Space flight</li> <li>•Crosscutting technology<sup>a</sup></li> </ul>	<ul style="list-style-type: none"> <li>•Space flight</li> <li>•Exploration systems</li> </ul>
<b>Account</b>				Science, Aeronautics, and Exploration	Science, Aeronautics, and Exploration
<b>Program activities</b>				<ul style="list-style-type: none"> <li>•Space science</li> <li>•Earth science</li> <li>•Biological &amp; physical research</li> <li>•Aeronautics</li> <li>•Education</li> </ul>	<ul style="list-style-type: none"> <li>•Space science</li> <li>•Earth science</li> <li>•Biological &amp; physical research</li> <li>•Aeronautics</li> <li>•Education</li> </ul>

Source: GAO.

(R)= Renamed.

<sup>a</sup> Although listed as a separate program activity like enterprises, Crosscutting Technology is a component of the Aeronautics Enterprise.

Note: Accounts funding the Office of Inspector General and Trust Funds excluded because those resources were not allocated to NASA's programs or projects.

In fiscal year 2004, NASA further refined its appropriations account structure and program activity listing within the accounts. NASA created two mission-related appropriations accounts—(1) Science, Aeronautics and Exploration (SAE) and (2) Space Flight Capabilities. Within these appropriations accounts, NASA also changed the program activity listing in the program and financing (P&F) schedule of the President’s Budget *Appendix* to better align with NASA’s enterprises. For example, between the fiscal years 2002 and 2004 budgets the Space Station and Space Shuttle program activity lines were combined to form the Space Flight program activity line (see figure 18).

For the fiscal year 2005 budget, NASA’s basic structure remained the same; however a new program activity line, Explorations Systems, was added to the Exploration Capabilities (formerly called Space Flight Capabilities) account. The new program activity line reflected NASA’s newly created enterprise that was added to better align with the new vision for space exploration.

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### Changes to the Budget Justification Followed Account Structure Organizing Framework

NASA also changed its congressional budget justification and more fully incorporated the annual performance plan into its budget justification beginning with the fiscal year 2004 budget. In the congressional budget justification, NASA provided budgetary information by appropriations account, enterprise, themes, and then program and projects that compose them. For example, in the fiscal year 2005 budget justification, within the chapter for the Exploration Capabilities appropriations account, there was discussion and presentation of budgetary information for the Space Flight Enterprise, followed by the International Space Station and Space Shuttle Program Themes. Within themes, the supporting programs and the associated budget resources were shown. Within the Space Shuttle Theme, NASA provided the budget resources associated with Shuttle programs such as Ground Operations, Flight Operations, Flight Hardware, and the Service Life Extension Program.

NASA linked its themes to its strategic plan within the congressional budget justification. Each theme was linked to one or more of NASA’s 10 strategic goals. Themes, and the programs and projects that support them, were also linked to NASA’s strategic objectives and annual performance goals. While resources could be linked to strategic goals, objectives, and performance goals through the themes, NASA did not show the “full cost” of strategic goals, objectives, and performance goals in the budget justification. For example, in the fiscal year 2004 congressional budget

justification, NASA showed the Space Shuttle Program Theme supported some mission-related goals, but it primarily contributed to the enabling strategic goal “to ensure the provision of space access and improve it by increasing safety, reliability, and affordability.” This goal was also supported by other themes in the Space Flight and Aeronautics Enterprises. The dollar contribution of the Space Shuttle Theme was not distinguishable and the “full cost” of activities supporting that goal was not provided.

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Some Previously Reported  
Information Less  
Transparent or No Longer  
Included

As the focus on programs or how programs fit together to support the agency’s strategic and performance framework increased in NASA’s budget structure, information on individual program elements or items of expense became less apparent. For example, in the fiscal year 2003 appropriations account structure, the Space Station and the Space Shuttle program were two program activities listed in the P&F schedule of the Human Space Flight account. Beginning with the fiscal year 2004 budget, when NASA changed its program activity listing to align with its enterprises, the budget resources associated with the Space Station and the Space Shuttle Program Themes (and the programs or projects that compose them) were combined into one program activity line labeled “Space Flight” within the Space Flight Capabilities account. As a result, the resources requested for the Space Station and Space Shuttle programs were no longer transparent in the program activity listing of the President’s Budget *Appendix* for NASA.

Some resources were also less transparent in the fiscal years 2004 and 2005 congressional budget justifications. Specifically, there was less information on program elements and direct and indirect cost components were not clearly delineated in the fiscal years 2004 and 2005 budget justifications. In the fiscal year 2003 congressional budget justification, one could see the distribution of Space Shuttle resources among various programs, such as Flight Hardware and Program Integration. Beneath these programs, NASA provided information on program elements. For example, for Flight Hardware, NASA showed the resources requested for external tank production, main engine production, and main engine test support. These program elements and the associated budget resources were not visible in the fiscal years 2004 and 2005 budget justifications. Direct and indirect cost components were also less transparent in the fiscal years 2004 and 2005 budget justifications. Under NASA’s old congressional budget justification format, program budgets included only direct procurement costs and indirect costs were budgeted separately. While decision makers and other budget users could not see all the resources

associated with operating the programs prior to the fiscal year 2004 budget, they could clearly distinguish between direct and indirect resources. Under the restructured congressional budget justification, the direct and indirect cost components associated with NASA's programs were combined and not clearly delineated.

Supporting information on NASA's institutional resource request was provided in supplemental tables in NASA's fiscal years 2004 and 2005 congressional budget justifications. These tables provided information on general and administrative resources by center (i.e., Center G&A); direct travel and personnel in each center; full-time equivalents (FTEs) by center; and headquarter and agencywide general and administrative resources (i.e., Corporate G&A). They also provided information on CoF projects by center.

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### Changes to Transfer and Reprogramming Authority Accompanied Budget Structure Changes

NASA's budget structure changes were accompanied by new transfer authority. Beginning with fiscal year 2002, NASA's mission support account was eliminated and the resources were allocated to its two mission appropriations accounts. Since then, NASA has been funded mainly by two appropriations accounts and has had transfer authority for administrative services, including federal salaries and benefits, training, travel, and facilities funding between these appropriations accounts. The legislation said this transfer authority was granted "to ensure the safe, timely, and successful accomplishment of Administration missions."<sup>4</sup> NASA officials said this additional flexibility was needed because there is an inherent difficulty in estimating program resources because staff divide their time among multiple programs.

In fiscal year 2004, NASA also requested that congressional appropriations committees change its reprogramming guidelines. Currently, NASA's reprogramming guidelines allow managers to shift funds among and within programs or other line items presented in the congressional budget justification up to certain dollar thresholds specified by appropriations

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<sup>4</sup> National Aeronautics and Space Act of 1958 (Pub. Law 85-568) as amended by Pub. Law 106-377, 114 Stat 1441, 1441A-57 (2000).

committees without first notifying them.<sup>5</sup> NASA requested that it be allowed to shift funds within and among its 18 themes (rather than programs) without the requirement to notify Congress first. NASA also asked that they increase the dollar threshold for such reprogrammings to \$10 million. NASA said this change would provide theme managers additional flexibility during budget execution to make trade-offs between programs and projects within a theme that support a common goal. They saw it as important to not only properly align resources with performance but also to allow for the most efficient use of resources within a theme. Currently, if additional funds are needed throughout the year, program managers must shift resources within that program. Under the proposed reprogramming guidelines, additional costs that arise throughout the year could be offset by reducing another program's costs within the same theme. Congress, however, did not change NASA's reprogramming guidelines for fiscal years 2004 or 2005 and they continue to be generally tied to programs.<sup>6</sup>

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### NASA Requested Budget Authority for the "Full Cost" of Programs

The extent of NASA's resource linkage has progressed over time. Beginning in fiscal year 2002, NASA allocated mission support resources to its program appropriations accounts. In the fiscal years 2004 and 2005 budgets, NASA allocated all budget resources (except the Inspector General's office) to the more detailed program/project level and combined program resources to show the budget resources associated with themes and enterprises. Program budgets include direct program costs, including procurement and personnel as well as a share of general and administrative costs from NASA's centers (Center G&A) and from NASA headquarters (Corporate G&A). Resources for the use of service pools, or centralized infrastructure, such as wind tunnel services and information technology, are also allocated to program budgets. Table 18 describes these costs allocated to and requested by program budgets in more detail.

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<sup>5</sup> For fiscal year 2004, the House Appropriations Committee allowed reprogrammings between programs, activities, object classifications, and elements up to \$500,000 without notifying the committee. The Senate Appropriations Committee allowed reprogrammings among programs, activities, and elements only up to \$250,000.

<sup>6</sup> NASA officials said, however, that because reprogramming guidance is essentially tied to any line item in the budget justification, aggregating program elements and providing less detailed information in essence changed the interpretation of the reprogramming guidance. The implications of this change are discussed in more detail later in this appendix.

**Table 18: Cost Definitions and Examples**

Cost type	Definition	Examples
Direct	Direct costs that can be related or traced to a specific project at the time costs are incurred.	<ul style="list-style-type: none"> <li>• Purchased goods and services</li> <li>• Contracted support</li> <li>• Direct civil service salaries/benefits/travel</li> </ul>
Service pool costs	Infrastructure capabilities supporting multiple program and projects at NASA centers that can be linked to programs and projects based on usage or consumption.	<ul style="list-style-type: none"> <li>• Facilities and related services</li> <li>• Information technology</li> <li>• Science and Engineering</li> <li>• Fabrication</li> <li>• Test Services</li> <li>• Wind Tunnel Service</li> </ul>
Center G&A	Indirect costs from NASA's centers that are not related to specific programs and projects.	<ul style="list-style-type: none"> <li>• Center director and other indirect civil service salaries/benefits/travel</li> <li>• Center training and awards</li> <li>• Security</li> <li>• Grounds maintenance</li> <li>• Library</li> <li>• Human resources department</li> <li>• Medical services</li> </ul>
Corporate G&A	NASA headquarter operating costs and agencywide G&A costs (costs of corporate G&A function performed at NASA centers on behalf of the agency).	<ul style="list-style-type: none"> <li>• NASA administrator and immediate staff</li> <li>• Enterprise level/management</li> <li>• Headquarters Operations management</li> </ul>

Source: NASA's fiscal year 2005 budget justification.

### Allocation Methods Vary Among Different Types of Resources

NASA uses different methods to distribute different types of resources.

- Service Pool resources are funded by a specific program based on usage. The rate for its use is determined by the operating cost of the facility or function and the units of consumption.
- Center G&A are distributed to programs operating in each center based on the number of direct and service pool FTEs and on-site contractors that work on a program or project.
- Corporate G&A are distributed to programs based on the program's share of NASA's total direct and indirect costs.

According to NASA officials, NASA's cost allocation methods have been, and may continue to be, refined.

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## Agency Views on Implications of Budget Restructuring for Management and Oversight

NASA officials anticipate that budget restructuring to better align budget resources with programs and performance will support results-oriented management by helping managers identify and address underutilized assets and by providing managers with information and incentives to recognize and make resource trade-offs. However, because this initiative is still relatively new, NASA officials said it is too early to see the full benefits of its budget restructuring efforts. Concerns were raised that the budget structure changes may, among other things, reduce flexibility to respond to changing needs or adversely affect the balance between maintaining institutional capacity and operational efficiency.

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## Budget Restructuring Credited with Increasing Information and Incentives to Recognize and Make Resource Trade-offs; However, Trade-offs Would Be Limited

NASA officials credited budget restructuring with providing managers the information and incentives to recognize and make resource trade-offs. Before budget restructuring, program managers' budgets only included procurement dollars and not the cost of civil servant salaries or use of central facilities. NASA officials said that, as a result, civil servants and central facilities appeared "free" to program managers. Under NASA's restructured "full cost" budget, all costs associated with a program are included in program managers' budgets, and NASA officials said that they view this change as making program managers more accountable for these resources. As a result, managers are more likely to pay attention to these costs and have greater incentives to use civil servants' time more efficiently. In addition, given that programs are allocated a portion of central administrative costs, NASA officials noted that program managers are paying more attention to and questioning these costs, which in turn increases pressure on headquarters and centers to reduce costs.

Changes to NASA's appropriations account structure and congressional budget justification would facilitate resource trade-offs. As discussed earlier, NASA's mission support account was eliminated and resources for mission support are now funded through NASA's two mission-related appropriations accounts. Under this new structure, managers can make trade-offs between direct program and mission support resources. In addition, changes to NASA's congressional budget justification have, in effect, increased NASA's ability to move funds within appropriations accounts during budget execution. For example, within the Flight Hardware program in the fiscal year 2003 congressional budget justification, resources were tied to program elements, such as external tank production, main engine production, and main engine test support. These items and their costs are not shown in the fiscal years 2004 and 2005

congressional budget justifications. According to NASA officials, because reprogramming is essentially tied to any line item in the congressional budget justification, aggregating programs and providing less detailed information on program elements in the budget justification provides NASA with more flexibility to make resource trade-offs among program elements. As a result, managers have more flexibility to move resources among these program elements during budget execution.

While NASA's restructuring changes provide some additional resource trade-offs, internal management controls and reprogramming guidelines limit other trade-offs. NASA officials said that flexibility is limited by the fixed-cost nature of services and labor. In particular, resource trade-offs among items of expense, such as general administration and civil personnel salaries, are limited during budget execution. NASA officials told us that during budget formulation, all resources within a program (excluding center and corporate G&A) are interchangeable, but during budget execution trade-offs among resources for civil servants and other resources are limited because contract agreements are established for some services and civil service regulations must be followed. Also, while NASA restructured its budget to help manage at the more aggregated theme level (e.g., Space Shuttle), its reprogramming unit remains tied to its programs (e.g., Flight Hardware, Ground Operations). This limits the resource trade-offs that can be made among programs within a theme. For example, NASA cannot make resource trade-offs (above the reprogramming threshold) between Flight Hardware and Ground Operations within the Space Shuttle Theme without notifying Congress first.

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### Budget Structure Changes May Create New Resource Management Challenges

At NASA, views differed about the potential implications of the budget structure changes for managers' ability to respond to changing needs. Some program managers expressed concerns that the changes could limit their ability to respond to staffing uncertainties. Under NASA's previous budget structure, program budgets were not charged for civil servants working on their projects and staffing uncertainties were covered in center budgets. A program needing additional staff would request them from the center, which retained additional FTEs. Under the new budget structure, civil servants and the associated budget authority are requested and funded through program budgets. Some NASA program managers expressed concern that they might not be able to deal with an unexpected increase in workload because NASA program managers will have to come up with the money to pay for the civil servants, which might limit the extent to which

they can shift budget resources among programs. Another program manager, however, suggested that since control over civil servants has moved from center managers to program managers, “full cost” budgeting would reduce some “red tape” in dealing with sudden needs or emergencies and that as a result, program managers could move FTEs more quickly.

An official stated that NASA addressed these concerns and issued a policy statement describing how unexpected staffing needs would be met. If a program needed additional FTEs, program managers could obtain additional staff from other projects or from the center’s “Workforce in Transition.” The costs for the program receiving the staff would increase, and the program providing staff would have funds available to hire more staff or could carry over its excess funding to the following year. If NASA management determined cost increases were legitimate, the costs would be funded most likely from center reserve funds.<sup>7</sup> If they determined the increased costs are not legitimate, they would not be funded and the program would need to reconfigure its budget by negotiating resources with other programs. In either case, funds would move in accordance with current policies surrounding changes to operating plans or NASA management practices.

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**Allocation of Service Pool  
Costs to Programs Credited  
with Providing Better  
Information and Incentives  
to Identify and Address  
Underutilized Assets**

According to NASA officials, aligning budget resources with programs or projects provides the information and incentives to identify and address underutilized assets. Prior to the changes, central administrative facilities, such as service pools, were shown and budgeted for separately from the programs that used them. Now these resources are allocated to NASA’s programs and included as part of program budgets based on use. NASA officials credited this approach with making underused assets more visible because if a service pool or other asset’s costs were not covered by programs, questions would be raised about whether that asset or capability is needed. NASA officials also explained that when program managers are responsible for paying service pool costs associated with their program, program managers have an incentive to consider their use and whether lower cost alternatives exist. As a result, NASA officials said “full cost”

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<sup>7</sup> According to NASA officials, centers have “investment accounts” that fund nonprogram Construction of Facilities and research and development. However, officials noted center managers face pressures to keep Center G&A down in order to compete for programs to operate at their center.

budgeting provides officials and program managers with a greater incentive to improve the management of these institutional assets.

Some NASA program managers raised concern that the budget structure changes might affect the balance between maintaining strategic or institutional capacity and creating incentives for operational efficiencies. Specifically, some expressed concerns that NASA's changes created incentives that could over time erode the agency's commitment to institutional assets such as central facilities and service pools. Under the new structure, budget authority for institutional assets are allocated to and requested by program budgets. The rate used to charge program budgets is determined by the operating cost of the facility and the units of consumption. As a result, a declining number of users can lead to increasing service charges for others using centers or service pools. Some speculated that this could in turn lead to a "death spiral" as increasing user charges drive out other programs, resulting in even higher user charges. Consequently, assets not adequately covered by user charges might be eliminated even though they might be valuable to the institution as a whole.

A NASA official told us, however, that NASA would remain committed to assets considered by agency management to be important for achieving NASA's mission even if they are underused. The costs of underused assets determined to be of institutional value could be absorbed by the programs using the asset, funded by general administration, which is allocated across all program budgets, or by directing other work activities to the asset. Further, the NASA official said "death spirals" are unlikely to occur at centers in the short term for two reasons: (1) center directors have some control over where program/projects do their work and (2) program managers must execute the budget within the commitment made about resources and results during budget formulation, including the use of centers. However, the NASA official said, the "death spiral" phenomenon may be more likely with some service pools, such as fabrication shops.

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**Budget Restructuring Not  
Intended to and Will Not  
Address Some Key  
Performance Issues**

One objective of NASA's recent budget restructuring efforts is to provide better information and incentives to help managers focus on efficiency and effectiveness. However, budget restructuring alone does not necessarily provide some cost and performance information cited by some NASA officials and program managers as most useful in advancing results-oriented management and addressing some key management challenges. NASA program managers we spoke with said budget restructuring would not help reduce or limit cost overruns, which has been a key performance

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issue.<sup>8</sup> They said they need more detailed cost information on contract cost components, including labor and materials, or at the task level to monitor contractor performance. In contrast, the information provided by budget restructuring—total program cost—is more aggregate than the data needed to monitor and improve contract management. Others noted that efforts, including developing improved performance measures and metrics, have a much greater impact on results-oriented management than budget restructuring.

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## Future Direction

While the accounting and budget aspects of the “full cost” initiative have been implemented, the more difficult management aspect lies ahead. NASA officials said it may take a few more years to see the full benefits of the “full cost” initiative at NASA.

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<sup>8</sup> GAO has reported that NASA has had long-standing contracting issues in part because it lacked accurate and reliable information on contract spending. See *Business Modernization: Improvements Needed in Management of NASA's Integrated Financial Management Program*, [GAO-03-507](#) (Washington, D.C.: Apr. 30, 2003).

# GAO Contact and Staff Acknowledgments

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