

Comprehensive Output Measurement: The ‘Missing Link’ in U.S. Federal Government Performance Reporting

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Federal Government Performance Reporting

David L. King

ABSTRACT

Performance and accrual-based financial management systems as envisaged in the 1990 Chief Financial Officers (CFO) Act, the 1993 Government Performance and Results Act (GPRA), the 1996 Federal Financial Management Improvement Act (FFMIA) and related legislation have been in place since prior to the turn of the millennium. Nevertheless, although performance has been measured and financial accountability improved in U.S. federal government agencies, there remains a gap in reporting on operational efficiency and effectiveness. This dissertation extends research into performance management to determine the extent to which performance measurement systems report on operational efficiency and effectiveness and thereby further facilitate performance management. It examines outputs as the unit-of-analysis within the input-output-outcome framework of performance measurement and reporting systems and their integration with accrual-based financial management systems in assessing government operations. It challenges the predominantly outcomes-focused reporting system as insufficient to the objective of improved operational efficiency and effectiveness. The research methodology employs qualitative analysis of selected agency performance reports, interviews of selected agency senior managers and oversight officials, analysis of previous research on performance reporting, and analysis of GAO survey data. The research examines an increased focus on output reporting as a means to improve operational efficiency and the linkage of outputs to outcomes as an effectiveness measure. The research leads to the conclusion that very little output efficiency or effectiveness measurement and reporting is occurring. The failure to measure performance in this manner is to the considerable detriment of operational efficiency, effectiveness and cost reduction in the federal government.

Dedication

To all those who continue to imagine a more efficient government and who desire to expose some of the measureable cost of political and bureaucratic self-interest.

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This has been a 10-year odyssey by someone who, upon reflection, was old enough to know better than to start. For the personal perseverance required to finish, the contribution of my spouse and partner in living, Colleen, has been inestimable. Her support throughout has been continuous and unfailing. Without her constant support, I simply would not have finished.

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Chapter 1

Performance Reporting and Efficiency and Effectiveness

This project examined the development and current state of measurement and reporting of operational efficiency and effectiveness within the performance measurement and reporting systems of the U.S. federal government. It is narrowly focused on the specifics of output measurement within the larger framework of performance measurement and management. It was undertaken because of the longstanding and ongoing negative perception held by the author and other researchers, identified subsequently in this report, of the inadequate state of federal government efficiency and effectiveness. In tracing the development and current state of the practice of performance measurement and reporting in the U.S. federal government, it draws upon the experiences of and makes comparisons with other selected relevant Organization for Economic Cooperation and Development (OECD) countries.

This first chapter explains the rationale for efficiency and effectiveness measurement and reporting, its relatively recent historical beginnings in American government, the legislative foundations of the U.S. federal government practices, and briefly explores and substantiates its shortcomings as the basis for this project. The chapter also outlines the theoretical basis for efficiency and effectiveness measurement and articulates the essential components of and necessity for a comprehensive system of this nature of measurement and reporting. In this latter context, the shortcomings of the current federal government practices are briefly discussed, which then leads into a discussion of the focus of this project and contemplation of what might be achieved by a more comprehensive approach to performance management. The chapter

concludes with the development of the research question and the methodology employed for the study.

Chapter 2 reviews the literature pertaining to the implementation of performance management (i.e., the practice of performance measurement, reporting, and acting upon the reported results) in other countries and the U.S. For the most part, the literature review is done using a historical framework, i.e., chronologically, as much of the practice of performance management has developed iteratively over several years. The literature review encompasses the New Public Management (NPM) literature, the performance management literature per se, and, the literature on the application of accrual-based accounting practices within government as an essential component of comprehensive performance management. The literature review deviates from a conventional structure in that it goes beyond the scholarly literature in incorporating an examination of relevant legislation, government audit reports, and government executive management directives, all of which have been important instruments in the implementation and analysis of performance management practices within the U.S. government.

Chapter 3 describes the methodology to include the research design, data collection, coding and analysis. Chapter 4 encompasses analysis and discussion of the data in the context of the research objectives, the research question, and some specific indicators, the presence of which support performance management. Chapter 5 summarizes and concludes the results of the project and explores the possibilities of an improved performance measurement, reporting, and management regime for the improved efficiency and effectiveness of the federal government.

Introduction – Why Efficiency Measurement and Reporting

Efficiency and effectiveness of government has been a persistent policy problem at all levels of American government in both political and economic terms at least since the Progressive Era (Williams, 2003, 2004). In the four decades following World War II, there were three Presidential Commissions, the 1949 and 1956 Hoover Commissions under Presidents Truman and Eisenhower respectively and the Grace Commission under President Reagan, all focused on efficiency, effectiveness and financial management (J. L. Chan, 1994). Internal audit, an instrument of financial management, was strengthened with the 1976 Inspector General Act (J. L. Chan) and in 1978, President Carter signed the Civil Service Reform Act to increase the accountability of civil service managers and improve management (J. Carter, 1978). In 1982, the Federal Managers Financial Integrity Act (FMFIA) was passed with the intent of strengthening internal control systems and reporting standards (J. L. Chan). Nevertheless, Moynihan (2010) describes the adoption and application of performance management techniques from the beginnings in the Progressive Era until the 1990s as episodic and haphazard. He dismisses Defense Secretary McNamara's Planning, Programming and Budgeting System¹ and Presidents Nixon's and Carter's Management by Objectives, and Zero-Based Budgeting respectively and the subsequent evolution to Total Quality Management with that characterization.

Unsurprisingly, the longstanding popular perception of the American public that the federal government was neither effective nor efficient and emblematic of 'fraud waste and abuse' remains extant today (Kaufman, 1981; Molyneux, Teixeira, & Whaley, 2010; Pollitt & Bouckaert, 2004, p. 301). In general terms, the federal government was viewed as an

¹ The core elements of Planning, Programming and Budgeting System (PPBS) remain in use in DoD today renamed as the Planning, Programming and Budgeting and Execution (PPBE) process.

unmeasured and inherently inefficient monopoly producer, reactively accountable in a political sense but in essence financially unaccountable and unmeasured. In 1989 the Congressional Budget Office (1989) reported finding broad and irreconcilable inconsistencies in how agencies account for their costs.

Legislated Foundations of Efficiency and Effectiveness Measurement

In the early 1990s, the negative perception of government, along with the nation's negative fiscal circumstances, contributed to legislative initiatives to improve federal government management. Congress passed the 1990 CFO Act at the nadir of the 1990-91 economic recession following years of growing deficits and budgetary wrangling in the 1980s and the Gramm-Rudman Hollings budgetary legislation culminating in the 1990 Budget Enforcement Act.² The 1990 Chief Financial Officers (CFO) Act imposed management and financial reporting reforms on the 24 principal agencies of the Executive Branch (Annex A) (L. R. Jones & McCaffery, 1992). The 1993 Government Performance and Results Act (GPRA) further imposed a performance measurement, management, and reporting regime on the agencies to more closely link and measure agency activities, processes, outputs, programs and desired policy outcomes to financial outlays. The 1994 Government Management Reform Act (GMRA) mandated external audit of agencies' annual financial statements to confirm the validity of financial reporting (Steinhoff & Dacey, 2008). The 1996 FFMIA became law subsequent to the 1994 "Contract with America" and following the 1995-96 government 'shut-down' with the federal debt at an apex and in the midst of a substantial reduction in the federal budget.³

² See "Timeline" *Slaying the Dragon of Debt*, Bancroft Library, University of California, Berkeley.
<http://bancroft.berkeley.edu/ROHO/projects/debt/timeline.html>.

³ Ibid.

The 1996 Federal Financial Management Improvement Act (FFMIA) further enhanced financial and performance reporting by requiring agencies to comply with the Federal Accounting Standards Advisory Board (FASAB) standards. Additionally, it reinforced the 1990 CFO Act with implementation of accrual-based managerial cost accounting systems throughout the 24 CFO Act Executive Branch agencies. In the late 1990s, as part of the Clinton-Gore National Performance Review (NPR), there was also discussion of redefining some agencies as “Performance-based Organizations” (PBO).⁴ The overall legislative intent was to enable a more effective and efficient government through the comprehensive financial and performance measurement, reporting, and management systems. (Collins, 1997; General Accounting Office, 1998b; Steinhoff, 2005) Performance reporting would focus attention on the achievements of government, open the bureaucracy to greater scrutiny, and achieve greater efficiency and effectiveness.

The Implementing Legislation

The foregoing ‘legislative package’ was explicit in its intent and highly prescriptive in its methodology for improving the microeconomic performance of government through improved macro-level financial management and micro-level producer specific cost management systems (Collins, 1997). The 1990 CFO Act imposed Chief Financial Officers (CFOs) on each of the 24 CFO Act Agencies and mandated that “agency CFOs develop and maintain accounting and financial management systems which report cost information [and] that agency financial management systems must provide for the systematic measurement of performance.” It further

⁴For examples of PBO agencies, see (a) the U.S. Patent and Trademark Office (USPTO), American Inventors Protection Act of 1999 (113 Stat. 1537-564) and (Relyea, 2003, Issue Brief 93026, p. CRS-4); (b) The Air Traffic Organization (ATO) of the Federal Aviation Administration (FAA) (The President, 2000, Executive Order 13180, Air Traffic Performance-Based Organization); and the Federal Student Aid Office (FSA) in the Department of Education (Jackson, 2003, The Federal Government’s First Performance-Based Organization).

prescribed “the integration of program, budget and financial systems” (CFO Act, 1990, S. 902(a)(3)(D)(i-iv); General Accounting Office, 1991; Horton, 1991; Steinhoff, 2005). There was to be a focus on the cost of the outputs or activities of government that were performed to achieve outcomes.

Three years after the CFO Act, the 1993 GPRA shifted the focus to an enhanced emphasis on ‘results,’ i.e., outcomes (what government seeks to achieve), as opposed to outputs (what government does to achieve desired policy outcomes). The first listed purpose of the GPRA is to “systematically [hold] Federal agencies accountable for achieving program results” and the third is “to improve Federal program effectiveness and public accountability by promoting a new focus on results” Section 4 of the GPRA requires agencies to “establish performance indicators to be used in measuring or assessing the relevant outputs” Collins (1997) noted that the GPRA prescribes that agencies “report (1) outputs which are the immediately observable products of program activity (e.g., not teaching, but graduates), and (2) outcomes which are the longer-term results for which a program is designed (e.g., not graduates, but graduates who obtain jobs).”

The 1994 GMRA followed the GPRA with a further emphasis on “a more effective, efficient, and responsive government” and further mandated that “all major Federal departments and agencies prepare a financial statement covering all accounts and associated activities of each office, bureau, and activity of the agency ... [including the] results of operations of those offices, bureaus, and activities”(Collins, 1997; Steinhoff & Dacey, 2008). To ensure standardization of accounting and financial management practice, the Office of Management and Budget, (OMB), Treasury Department, and Comptroller General had previously jointly created in 1990 the

Federal Accounting Standards Advisory Board (FASAB) with authority to establish government-wide accounting standards, the Statements of Federal Financial Accounting Standards (SFFAS). SFFAS No. 4 (2007) applied specifically to performance reporting. It mandated that “responsibility segments” (bureaus, offices and administrators within CFO Act agencies) must employ “Managerial cost accounting ... to measure and report the costs of ... outputs.” The 1996 Federal Financial Management Improvement Act (FFMIA) noted that, notwithstanding the CFO Act, GPRA, GMRA, and the FASAB, “Federal accounting standards have not been uniformly implemented” and further prescribed application of SFFAS No. 4 - Managerial Cost Accounting Standards and Concepts (2007; 1995)⁵ for cost accounting of outputs and performance reporting within the bureaus, offices, and administrations of the 24 CFO Act agencies. Output cost accounting prescriptions have been incorporated into the periodic and annual updates at OMB Circulars A-11, A-127, A-136, and various OMB memoranda (OMB, 2009b). OMB Circular A-136 (2011d) states “Entities are encouraged to provide information ...[to] assess the relative efficiency and effectiveness of entity programs or operations.” Circular A-136 further stated:

The reporting entity should report the full cost of each program's output, which consists of (a) both direct and indirect costs of the output, and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities. The reporting entity should accumulate and assign costs in accordance with the costing methodology in [FASAB] No.4. Program costs should also include any non-production costs that can be assigned to the program but not to its outputs.

— p. 59, OMB Circular A-136

The legislative prescriptions were rounded out with the 1996 Information Technology Management Reform Act (ITMRA) and the 2010 Government Performance and Results Act

⁵ FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, issued in July 1995. The original effective date was for reporting periods beginning after September 30, 1996. The CFO Council requested a delay until 1999 due to financial and management systems deficiencies. FASAB amended the effective date to begin after September 30, 1997. (FASAB, 1995)

Modernization Act (GPRAMA). The ITMRA required “the head of each executive agency, in consultation with the agency’s CIO and CFO, to ... ensure ... the accounting, financial, and ... other information systems of the agency are designed, developed, maintained, and used effectively to provide financial or program performance data.” (Collins). The GPRAMA “creates a more defined performance framework ... [and is] intended to increase the use of performance information in ... decision making” (Kamensky, 2011a). The GPRAMA also emphasizes strategies and outcomes at the CFO act agency and whole of government levels (Brass, 2012). It does not discuss outputs, efficiency measurement or reporting on these elements.

Government Action in Reaction to the ‘Legislative Package’

Accompanying the legislative activity, every Administration since the CFO Act has made performance improvement a prominent agenda item (Relyea, 2003). In the 1990s, the Clinton administration initiated the National Performance Review (NPR)⁶ (Kamensky, 1999). At the end of fiscal year 1998, the first GPRA mandated annual performance and financial reports were published. In 2000, the Congress passed the Reports Consolidation Act, allowing the publication of a combined Performance and Accountability Report (PAR) by the 1990 CFO Act named agencies to replace the separate financial and performance reports mandated by the CFO Act and the GPRA respectively. The 2002 Accounting for Tax Dollars Act expanded the requirement for annual audited financial statements to numerous federal agencies beyond the original 24 agencies named in the CFO Act (Daniels, 2002).

The Bush administration in the 2000s, as well as presiding over the iterative development of the annual GPRA reports, replaced the Clinton-Gore NPR with the President’s Management

⁶ Subsequently renamed as the National Partnership for Reinventing Government (Kamensky, 1999).

Agenda (PMA) (Office of Management and Budget, 2001) and the Program Assessment and Review Tool (PART) (Office of Management and Budget, 2002). Moynihan (2010) describes the Bush administration as having a “conflicted attitude toward GPRA, seeing it as a useful but unexploited beginning, rather than an end in itself.” He assessed the PMA as a process to integrate performance information with budget submissions on the assumption that efficiency and rationality would influence the Congressional budgeting process. The PART five-year program review was intended to provide the information to rate programs as ineffective, adequate, moderately effective, or effective. PART demanded an enormous investment of resources and delivered some useful results in the articulation of performance goals and measurement improvements focused on outcomes. It also represented something of a ‘high water mark’ in terms of transparency in government . However, by Moynihan’s assessment, “If the goal of PART was to foster the systematic use of performance data in decision-making, it failed.”

The Obama administration subsequently replaced the PMA and PART with the Accountable Government Initiative (Initiative) (The President, 2011; Zients, 2010). In 2010, Congress updated and more explicitly defined the strategic planning and reporting requirements of the GPRA with the 2010 GPRA Modernization Act (GPRAMA) (Brass, 2012). As of early 2012, there had been thirteen years of GPRA performance and financial measurement and reporting.⁷

⁷ See also “Timeline of Major Government Management Results-Oriented Reforms” (GAO, 2009, p. 58).

Comprehensives Legislation Yields Disappointing Results

Despite the specific legislative and administrative prescriptions for improving the efficiency and effectiveness of government through mandated accounting and reporting processes and standards, popular rhetoric and political discourse persists on a theme that implies that government performance has fallen short of the expectations of citizens and their political representatives. Within two years of full GPRA implementation in 1997-98, Schick and LoStracco (2000, p. 265) commented, “one can already discern that it is following the path of previous reforms—a big investment by agencies at the outset, leading to the generation of vast amounts of paperwork that satisfy formal requirements but provide little evidence that the innovations have made a dent in behavior or decisions.” The OMB (2001) itself similarly commented, “Though reform is badly needed, the obstacles are daunting ... Congress, the Executive Branch, and the media have all shown far greater interest in the launch of new initiatives than in following up to see if anything useful ever occurred.”

Somewhat reflecting the opinions of Schick and LoStracco, the performance measurement, reporting, and management regimes implemented over the past 20 years as a result of the legislation have yet to yield substantive positive efficiencies (Curristine, Lonti, & Joumard, 2007; D. P. Moynihan, 2009; Yang, 2011). Radin (2000) found that neither Congressional staff nor legislators were interested in performance information. Similarly, Heinrich (2012) assessed that “PART scores had no discernible consequences for program funding.” The former Congressman and Chairman of the House Oversight and Government Reform Committee Tom Davis (2009) expressed the view that the Executive Branch does not use GPRA reports and Congress uses them only to the extent the party not holding the White House can make use of them for partisan political gain. A number of researchers have questioned

the value-added of the effort (Perrin, 1998). Radin, as well as offering observations similar to those of Davis and Perrin, has been a repeated critic (1998, 2000, 2003, 2006, 2008) of the efficacy of the performance improvement methods encompassed in the legislation; “My overall assessment is that the GPRA approach doesn’t lead to serious attention to performance in the federal government. It sets up unrealistic expectations, feeds cynicism, and has produced few results (Radin, 2003). A number of other researchers have also not found much evidence of improved measurement or efficiency within agencies (Boyle, 2009; G.L. Dodaro, 2011c; Government Accountability Office, 2010; Metzenbaum, 2009; Van Dooren, 2011; Yang, 2011).

The Potential for Comprehensive Success

Although the U.S. federal government overall appears wanting of significant improvement in efficiency through performance management, some countries appear to have been more successful in achieving efficiencies with performance measurement and reporting (Australian National Audit Office, 2011; KPMG, 2011; Mackay, 2011; Organization for Economic Cooperation and Development (OECD), 2010; Pollitt & Bouckaert, 2004), as have U.S. state and local governments. (M. P. Aristigueta & Zarook, 2011; Ho, 2011; Melkers & Willoughby, 2004; D. P. Moynihan, 2006; D. C. Smith, 2009). In a survey of state and local governments, Melkers (2006) found that “implementation of performance measures and the use of performance data in the budget process change[d] ... communication patterns of policy-makers, budgeters, and agency and department staff.” A number of countries have progressed beyond performance measurement to performance budgeting (Sterck & Scheers, 2003).

The intent of the CFO Act, the GPRA, the FFMIA and the related legislation is that more effective efficiency and effectiveness measurement as expressed in the legislation would enable

more effective performance reporting and management and lead to improved efficiency and effectiveness of government (General Accounting Office, 1998b, pp. 18-19; Steinhoff, 2005).

The experience of the aforementioned ‘other nations’ as well as U.S. state and local governments suggests that effective performance reporting systems can result in improved efficiency and effectiveness in government operations (Lee, 2008; Melkers & Willoughby, 2005; K. A. Smith & Cheng, 2006).

Notwithstanding the federal government’s mediocre results to date, a number of researchers remain optimistic and see promise in more effective performance management systems (Behn, 2003; Ingraham, Joyce, & Donahue, 2003; Kamensky, 2011b; Kettl, 1997; Newcomer & Caudle, 2011; Poister & Streib, 1999; Schwartz, 2011; Van Dooren, 2011). Moreover, some researchers have reported improvements within a few of the 24 GPRA reporting agencies (Boyle, 2009; J Ellig, 2010; Government Accountability Office, 2010; McTigue, Wray, & Ellig, 2009; Metzenbaum, 2009). McTigue et al and Ellig attributed the improvement to the gradual inculcation of a ‘performance culture’ emanating from the mandated reporting regime. A more comprehensive performance management system remains the instrument for a potential path to a more economically efficient bureaucracy that, to juxtapose Wallace Sayre,⁸ would be more *fundamentally like business in this one important respect* (Allison, 1982).

⁸ Wallace Sayre, Professor of Government at Columbia University, famously stated, “public and private management are fundamentally alike in all unimportant respects.” See Allison, G., 1982 and 1986.

Some Theoretical Foundations of Efficiency and Effectiveness Measurement, Reporting and Management

Twenty years prior to the financial and management reform legislation of the 1990s, Frederick Thayer (1972) dismissed microeconomics in government as irrelevant and troublesome. By the early 1990s, microeconomics and productivity in government had become very relevant. There are various reasons that governments at all levels have implemented performance measurement, reporting, and management. The reasons for performance management determine the nature and extent of performance measurement and reporting. Politics is among principal reasons, if not the dominant one, for instituting performance measurement and management regimes. Political leaders will always wish to demonstrate effectiveness, i.e., demonstrate that government is achieving what voters expect of legislators and public administration in terms outcomes such as, inter alia, higher employment, improved education, better health care and increased public security. Measuring effectiveness of government does not necessarily demand measurement of efficiency or any aspects of the costs of achieving the outcomes desired by voters. In some cases, effectiveness measurements are accompanied by measures of only the incremental cost, i.e., the additional appropriations, required to implement specific programs to achieve an outcome. In these cases, what might be termed the ‘base level’ or fixed and overhead costs of existing government capacities are assumed as given, i.e., not subject to examination on a basis of economic rationality.

This research focused on a microeconomic efficiency approach, as opposed to a political effectiveness one, based on the language employed in the 1990 CFO Act, the 1993 GPRA and the 1996 FFMIA, all of which place emphasis on efficiency, effectiveness, costs and productivity

as components of performance. “Microeconomics is focused on the achievement of allocative and technical efficiency ... [It prioritizes] efficiency ... while management ... focuses more on performance” (Pollitt & Bouckaert, 2004, p. 169). The GPRA appears more weighted towards effectiveness but includes an efficiency component; the FFMIA, however, prioritizes efficiency. This project assumes the foundations of performance management and efficiency in particular to be in microeconomic theory—the theory of the firm. This research sought to find the application of microeconomic theory and a commitment to benefit-cost analysis deeply embedded within the bureaucratic structures of individual agencies.

In the commercial business sector, the economic theory of the firm is enabled through the double-entry accrual-based accounting model that endeavors to measure and match revenue and expenses in a manner consistent with the economic theory. In competitive markets, this leads to the relative economic success of the more cost efficient and revenue-effective entities. In the most competitive circumstances, inefficient and ineffective firms face an existential threat if they are not as efficient and effective as others are. In the least competitive circumstances, efficiency is encouraged primarily through the self-interest of informed owners, secondarily through consumers’ ability to abstain from consumption, and thirdly by informed government regulation of prices, revenues and economic returns.

Conversely, within the realm of government production, the efficiency-driving forces are often not sufficient to facilitate reasonably achievable efficient and effective outcomes. This circumstance pertains for some relatively obvious reasons. Some of those reasons relate to well articulated economic theory and include, inter alia, monopoly production theory, the perverse

inefficiency effects of public choice and principal-agent theories,⁹ the rational preference for bureaucracy in some circumstances (Pollitt & Bouckaert, 2004, pp. 83-84; Williamson, 1999), the inability to price and generate revenues for public goods production and to correct for market externalities. Exacerbating these conditions are a very diffuse, relatively uninformed ownership (taxpayers) and the absence of management systems such as performance measurement, reporting and management, which might mitigate inefficiencies and ameliorate effectiveness.

Applying the microeconomic theory of the firm assumes that comprehensive output reporting, enabled within a performance measurement regime comprehensively implemented using the accrual-based accounting model required by the FFMIA, can emulate to some degree the efficiency and effectiveness generating synergies of firms in competitive markets. Comprehensive output measurement and reporting may potentially result in a better-informed citizen by exposing to political and public examination the costs, benefits and efficiency of public production.

The principal rationale for performance management as examined in this paper stems from the desire for a more efficient administrative bureaucracy. However, comprehensive performance management might also bring greater transparency to the negative influences on public resource allocation from the effects of public choice and principal-agent theories on legislators. These influences can result in the allocation of public resources to potentially less efficient and effective uses. The effect of transparent exposure of preferentially construed resource allocations for narrowly construed political gain on the cost and efficiencies of public production could ultimately facilitate improved effectiveness and efficiency. Conversely, the

⁹ As developed by Kenneth Arrow in *Social Choice and Individual Values* and James Buchanan and Gordon Tullock in *The Calculus of Consent: Logical Foundations of Constitutional Democracy*.

measurement of the efficiency and effectiveness of public production could similarly demonstrate that there is a place for public bureaucracy and lead to the diminishment of contracting public services to the private sector. These possibilities are not just idealized conjecture; the various experiences of state, local and foreign governments, discussed in the literature review at Chapter 2 to this paper provide some evidence.

Components of Performance Measurement and Management

This project presumes that an effective performance management system would employ a performance measurement framework that encompasses outcomes (the social, economic and political ends that government seeks to accomplish on behalf of the governed), outputs (the work that government undertakes to facilitate those outcomes), and inputs (the means and resources consumed to produce the outputs). In a microeconomic theory context, *desired policy outcomes* are a proxy for ‘demand,’ *outputs* are the ‘supply’ that responds to the demand, and the inputs represent the costs of providing the supply to meet the demand. This approach is reflective of the “fact-based set of approaches for managing government services and programs more efficiently and effectively” outlined by Kamensky and Morales (2006). Theoretically, Congress validates desired outcomes through appropriations to fund the demand on behalf of citizens. The various agencies and specialist bureaus, administrations, and offices of government then employ appropriations to acquire and convert inputs through various processes to outputs that facilitate or directly contribute to outcomes. Outputs are the value added of bureaucratic government, whether produced internally or externally to government, in that they facilitate and contribute to the desired outcomes of citizens, legislators, and governments (Figure 1).

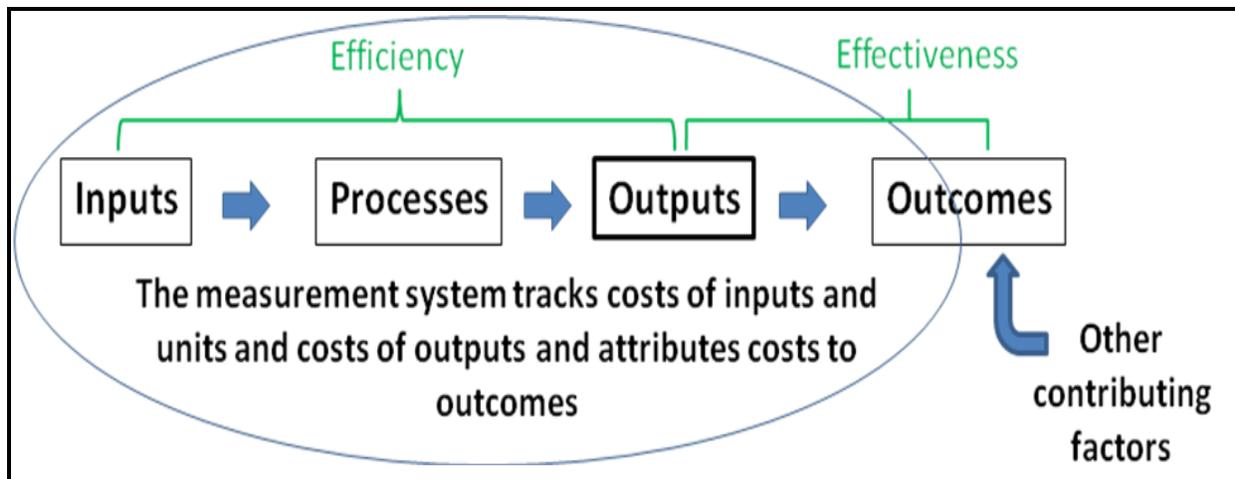


Figure 1: Components of a Performance Measurement System

An effective comprehensive performance measurement system focused on efficiency and effectiveness measures input quantities and costs, output quantities and value-added costs, output contribution to outcomes and the relative change in outcomes attributable to outputs.

Comprehensive measurement of costs in a manner commonly understood by managers and performance analysts requires the implementation of accrual-based accounting systems. This requirement is reflected in fact that the 1990 CFO Act, 1996 FFMIA and SFFAS No. 4 - Managerial Cost Accounting Standards and Concepts are all based on and require implementation of this form of accounting.

Performance management consists of managing the selection of outputs, and the processes employed and inputs consumed to produce them most efficiently to effectively achieve or facilitate the desired policy outcome. The processes of production depend on the administrative and production infrastructure that acquires the inputs and enables the processes that converts the inputs to outputs that facilitate the occurrence of outcomes. The production infrastructure consists of physical plant, machinery, equipment, and other various assets used and consumed through capital depreciation by the processes in production of outputs, whether

physical or intellectual such as policy advice or knowledge. The administrative infrastructure consists of managerial direction for the design and execution of processes, the provision and oversight of human resources, and the measurement and oversight systems that enable the productions processes, account for and are accountable for outputs. Output measurement, in order to meet the requirements of performance management, must incorporate at least three measures: 1) the volume of work or output produced; 2) indicators of the contribution of the work output to the achievement of the desired policy outcome; and 3) the cost of the output in the monetary value of the inputs absorbed or consumed in the processes of production.

The first two measures enable an assessment of the effectiveness of the work produced in achieving the outcome. The first and third measures combined enable an efficiency and benefit-cost assessment relative to the outcome. The importance of outputs in performance management is embedded in how the efficiency of operational-level work or production is measured and in how output work effort is determined to be effective in influencing outcomes. To be useful in a performance management context, i.e., to facilitate improved government efficiency and effectiveness, *comprehensive output measurement*, i.e., cost, volume, and effectiveness, is central to improved microeconomic performance and is essential to an effective performance reporting and management regime. “Information about the work carried out is the sine qua non of effective management” (Gregory, 1995). For the purposes of this research, *comprehensive output reporting* within a framework such as that at Figure 1 must be supported by *comprehensive output measurement*, which then provides a basis for improved performance management.

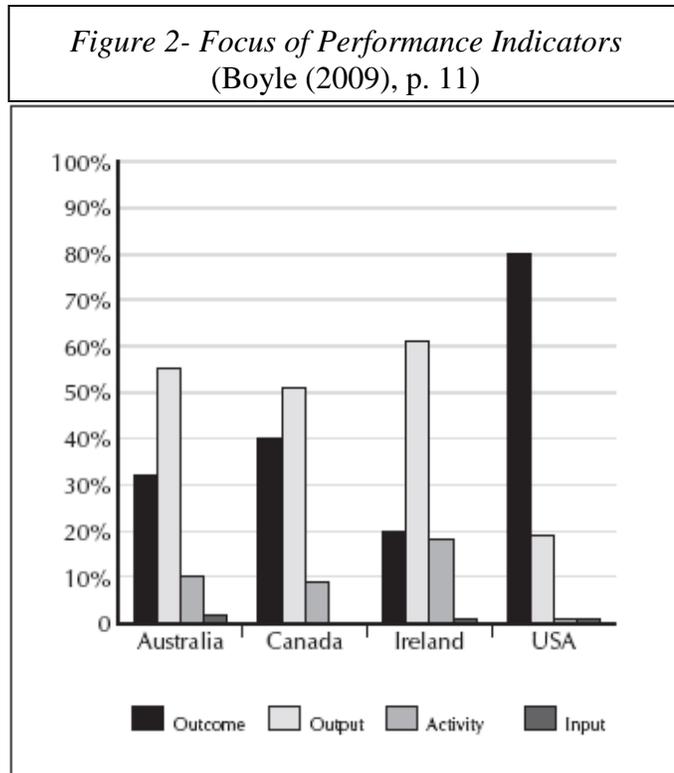
The Existing Focus of Performance Measurement and Reporting: the 'Outcomes' Bias crowds out Output Efficiency

Performance reporting practices in the U.S. developed since the implementation of the 1993 GPRA in 1998 appear to focus predominantly, if not overwhelmingly, on outcomes. “Over the past 15 years, various reform efforts have attempted to shift the focus of federal government management from a preoccupation with activities to the results or outcomes of those activities” (Steinhardt, 2008). Brass (2012) concluded that the GPRAMA has reinforced an outcome bias within the 1990 CFO Act agencies and at the whole of government levels. A number of researchers have assessed that the emphasis on desired policy outcomes has resulted in insufficient attention to outputs and contributed to the exclusion of efficiency measurement as an element of performance management (Boyle, 2009; Government Accountability Office, 2010; Heinrich, 2012; White, 2012). A systemic bias may have developed in favor of reporting on outcomes in that they focus government on serving legislative purposes. Government appears more focused in its purpose, i.e., greater effectiveness (J. Ellig, 2010; J Ellig, McTigue, & Wray, 2011; McTigue, et al., 2009), but efficiency and productivity have been left unmeasured.

In comparison to international practice, the U.S. is an outlier in its emphasis on outcomes as opposed to outputs and activities. a plurality of other nations put more emphasis on outputs and assessments of efficiency in meeting outcomes (Figure 2). The outcome emphasis crowds out efficiency measurement, “The experience of GPRA ... shows ... that the attempt to commit an entire government to outcome-based performance accountability is problematical” (Scott, 2001, p. 200). Setting strategic objectives is inherently more appealing than the more difficult

operational work of linking them to specific and measurable outputs or activities to improve productivity while achieving them.

A primary, but not exclusive, focus on outcomes is essential. In fact, if an exclusive choice had to be made between outcomes and outputs, outcomes would be the more appropriate choice. Outcomes are the most important component of performance management in that they provide strategic focus to the work efforts or output choices of government agencies—they are essential to allocative efficiency and effectiveness



but are inadequate as a measure of operational efficiency and effectiveness. The 1993 GPRA and 2010 GPRAMA recognize and emphasize the higher order placement and strategic importance of outcomes. Absent a strategic focus centered on desired policy outcomes, pursuit of output efficiency falls prey to Waldo’s (1948) dismissive comment, “efficiency for what?” Williams (2003) adds that the output-efficient government “may yet perform poorly if the outputs do not contribute to [outcomes]”. Outcomes are insufficient as a measure for enabling a more efficient government (Aucoin, 1995, pp. 195-196; Behn, 2003, 2004; Curristine, et al., 2007; Diamond, 2005; Gilmour, 2007; Lee, 2008; Scott, 2001; Williams, 2003). Outcomes often defy measurement and can rarely be attributed within a reasonable degree of empirical confidence to the efforts or production of specific outputs by specific agencies (Boyle, 2009). This precludes

use of outcomes for assessing the efficiency or internal effectiveness of government operating administrations or bureaus, their parent agencies or any particular institution or organization.

Furthermore, “Government agencies (like all organizations, including private sector firms) do not produce outcomes. Organizations produce outputs, which contribute to outcomes—both positive and negative. The outcomes are what happens (*sic*) outside the organization” (Behn, 2004). Outcomes often defy an identifiable causal link back to outputs (Aucoin, 1995, p. 195; Boyle, 2009; Diamond, 2002; Lee, 2008); outcomes are *facilitated* by the outputs of government agencies (often at various levels of government, federal, state and local) as well as being subject to exogenous and endogenous influences beyond organizational boundaries and control (Baehler, 2003). Boyle (2009, p. 12) assessed that “Three-quarters of the reported indicators surveyed in the U.S. reports” could not be attributed to agency outputs. Agencies, although focused on achieving outcomes, need to be measured and to measure and report on what they do (outputs) to facilitate outcomes and the resources (inputs) consumed to produce the outputs if they are to demonstrate efficient use of resources. Agency management is responsible for efficiency as well as an effective contribution to a policy outcome. Without a specific link between policy outcomes and agency selected outputs, there can be no outcome benefit-cost analysis and no useful efficiency measure (Carlin & Guthrie, 2001; Heinrich, 2012; Schwartz, 2011; White, 2012). Congress, in appropriating resources, has responsibility under agency theory for both allocative efficiency and production efficiency. Legislators have a need to examine the entire value chain, inputs-outputs-outcomes (Metzenbaum, 2009, Findings from Interviews with Congressional Staff Members).

Focus of the Study: Comprehensive Output Reporting

Although outcomes are essential components of performance measurement and effective performance management, the facilitation or achievement of outcomes is dependent on their underlying outputs (Boyle, 2009; Curristine, 2005a; Curristine, et al., 2007; Norman, 2007; Perrin, 2006). Output measurement and reporting, if efficiency and effectiveness are to be managed, is therefore essential to agencies and their component bureaus and offices working to facilitate or contribute to the achievement of outcomes. Efficiency and effectiveness are related to outcomes through the efficient production of those outputs that are *thought* to effectively contribute to outcomes (Gilmour, 2007; Government Accountability Office, 2010; Hatry, 2010; Scott, 2001, pp. 194-196).

This research examined output reporting within the performance measurement and management systems of selected U.S. federal government agencies in the context of the idealized input-output-outcome framework as displayed at Figure 1 above (p. 16). Applying this framework enables application of microeconomic theory and assumes that federal government performance, specifically the efficiency and effectiveness of the named 1990 CFO Act agencies' component bureaus and offices, can be improved through *comprehensive output reporting* at the bureau-level in relation to agency level strategic objectives for improving outcomes. Reporting of outputs in a manner consistent with the above framework enables microeconomic efficiency. This approach demands measurement of outputs and an identified relationship of an output to an outcome. From this perspective, *comprehensive output reporting* can only be achieved through comprehensive output measurement that incorporates an efficiency measurement.

Comprehensive Output Measurement

Comprehensive output measurement, where it occurs, needs to incorporate:

- 1) a measurement of the work done in terms of units of a defined output that is linked to a desired policy outcome or strategic objective;
- 2) a measure in money terms of the full cost of the output including;
 - a) the direct financial cost of any expenditure of obligated budgetary appropriations,
 - b) the cost of all labor (full time equivalents (FTEs)) of personnel assigned to the work activity,
 - c) the assigned cost of physical facilities, systems infrastructure and operating costs, and physical or other assets used in the work activity or output production, and
 - d) the assigned cost of management, coordination, and staff and support systems overheads at the bureau/office and agency levels.
- 3) a linkage to a strategic objective or outcome that is positively influenced by the output.

An output or output activity without linkage to achieving an outcome is a *stranded output* and an obvious example of inefficiency and ineffectiveness.

An assumption of performance management is that comprehensive measurement and reporting of outputs induces use of the information and thereby improves public governance and public resource allocation through transparency and rational economic decision-making (Brito & Perrault, 2009; Cavalluzzo & Ittner, 2004; Matheson, 2002); that is the *supply* of information induces its use, or *demand*. The Government Accountability Office (GAO) found that “greater communication of performance information is associated with greater use” (Steinhardt, 2008, p. 10). Somewhat conversely, the same report notes that “despite having more performance measures, the extent to which managers make use of this information ... has remained relatively

unchanged ... over the past 10 years.” The latter case is demonstrated with respect to efficiency related measures such as ‘allocating resources’ and ‘changing work processes;’ these uses are dependent upon output costs, which are often not measured (Ibid, pp. 5-6). Nevertheless, the assumption is controversial in that some suggest, based on, inter alia, public choice and agency theory, that the normative constraints of American political governance structures and practice inhibit, preclude and/or distort resource allocation on rational economic grounds (Boyne, 1998; Kelman, 2006). This research does not explore this latter issue.

The Accounting System for Performance Measurement and Reporting

The measurement requirements for *comprehensive output measurement and reporting* are enabled and facilitated by the adoption of accrual accounting systems accompanied by the implementation of accrual-based managerial cost accounting systems at the operational management level down to and within the component bureaus and offices of the parent CFO Act agencies. The requirement to extend cost accounting systems in this manner is one of the explicit intents of the *legislative package*, in particular the FFMIA (1996) and the related FASAB Standard No. 4 (2007). Nevertheless, fund or budgetary accounting remains the more common method within the federal bureaucracy; the limitations of this approach are discussed below.

Accrual accounting enables the assignment of costs for facilities or equipment acquired in another time period and indirect costs such as executive management overhead to be recognized as a component of current operational level outputs. Absent accrual accounting systems embedded deeply within the operating components of agencies, measurement and reporting of efficiency and effectiveness is unavoidably ad hoc in character, highly demanding, resource intensive, and inherently unreliable for both management purposes and audit verification. That

is, without accrual accounting systems, it is almost impossible to assign the cost of physical assets acquired in prior years to current outputs. (Pollitt & Bouckaert, 2004, p. 72)

Comprehensive measurement and the enabling accrual accounting systems are consistent with government legislative and regulatory requirements and management directives. These requirements are found in: the 1990 CFO Act, section 4 of the GPRA; the 1996 FFMIA; the 1997 *Framework for Federal Financial Management System* (FFMIA implementation guidance) issued by the Joint Financial Management Improvement Program (JFMIP) (GAO, 2005; OMB, 2009b); FASAB Standard No.4 *Managerial Cost Accounting Concepts and Standards* (2007); and OMB Circulars A-11 on *Preparation, Submission, and Execution of the Budget, Section 51, Basic Justification Materials* (OMB, 2011c); A-127 on *Financial Management Systems* (OMB, 2009a); and A-136 on *Financial Reporting Requirements* (OMB, 2011d, pp. 19, 59-60, 128). Additionally, the *Federal Enterprise Architecture (FEA) Reference Model* (2007) for the design of federal government information systems specifically incorporates an output measurement and reporting module. In effect, this research project examines the degree to which agencies and their component bureaus adhere to the legislation, regulations, intent, and corresponding Executive Branch administrative direction for systems design, output and cost measurement, and reporting.

A significant body of the research literature on performance management postulates that adoption of accrual-based managerial cost accounting is critical to an effective performance measurement and management regime (Blondal, 2003; Carnegie & West, 2005; J. L. Chan, 2003; Curristine, et al., 2007; Diamond, 2005; Hoque, 2008; L. R. Jones & Thompson, 2000; Khan & Mayes, 2009; Kober, Lee, & Ng, 2010; Likierman, Heald, Georgiou, & Wright, 1995; Marty, Trosa, & Voisin, 2006; Matheson, 2002; Pallot & Ball, 1996; Pina & Torres, 2003; Pollitt

& Bouckaert, 2004; Scheers, Sterck, & Bouckaert, 2005; Scott, 2001; ter Bogt, 2008). Coase (1990) argued that “the costs of organizing clearly depend on the efficiency of the accounting system.”

Accrual accounting systems provide a basis for the application of microeconomic theory to organizational governance structures and processes. Accrual accounting systems, objectively conceived¹⁰ and applied to incentivize economic efficiency, can facilitate measurement of the cost of governance and substantiate Williamson’s (1999, 2002) argument that alternative governance structures matter and, most importantly for public administration, that *there is an efficiency argument in favor of public bureaucracy*. From this perspective, there is considerable value in measuring and reporting of the costs of government processes as well as the costs of the governance structure. Such measurement enables visibility of the costs of provision and thereby a better servicing of the demand for government as embedded in appropriations for investments and appropriations for continuing government operations.

The Limitations to Efficiency Measurement of Alternative Accounting Methods

The alternative to accrual accounting is fund or budgetary appropriation accounting. This form of accounting focuses on tracking appropriated funds expenditures within a given year. Fund accounting identifies costs of specifically appropriated inputs but does not enable the identification of the contribution of other separately or previously appropriated input costs to a variety of outputs and outcomes over different budgetary or appropriation time periods.

Appropriation focused accounting systems (i.e., cash management accounting systems) that

¹⁰ Accounting systems are subject to distortion. Newberry and Pallot (2004, 2005) found that New Zealand Treasury officials, at one point, structured the accrual accounting system to disfavor public provision over private provision. Devlin (2010) asserted a malign intent in accounting systems designed for economic efficiency purposes. Johnson and Kaplan (1991) more generally point out the vagaries of accrual accounting-based cost accounting.

measure specific period cash outlays instead of total resources consumption cannot provide the information required to assess efficiency and productivity. Such systems do not reflect the full cost flow of applying the government resources to their policy purpose because they only reveal the flow of appropriated funds in a given time period, not the cost or whether or how the outputs or outcomes provided or facilitated by the expenditure represented added value to the ‘general welfare’ of citizens. “So long as a cash-based system prevails, without double-entry bookkeeping or accruals-accounting, it is hard to make either global or specific links between expenditure cost, and between cost and performance” (Pollitt & Bouckaert, 2004, p. 72).

Conversely, accrual accounting can capture both the actual cash outlays of appropriations as well as the costs of multiple appropriation funding lines for personnel, prior periods costs for equipment and facilities employed in the expenditure of current outlays, and as a result the full cost of outputs. Accrual accounting embodies the ‘best practices’ in public expenditure management (Curristine, et al., 2007; Diamond, 2002; Pallot, 2002). Of equal importance, it enables the application of economic theory for resource allocation decision-making (Marty, et al., 2006) and enables the measurement of efficiency and benefit-cost ratios.

Comprehensiveness and Depth of Accounting Systems

To be effective in assessing efficiency and in enabling useful output measurement and reporting, performance measurement systems and accrual accounting based Managerial Cost Accounting (MCA) systems that comply with FFMIA accounting standards (i.e., FASAB SFFAS No. 4), need to be implemented within agencies down to the operational management level.

“ ... much depends on the level at which the books are balanced, and on the extent to which links to performance are made explicit. If double-entry systems are confined to a high level, and accounting itself is performed as a very

centralized function, far from 'street-level' management, then the impact on most managers may be limited."

—Pollitt & Bouckaert, 2004, pp. 71-72

Importantly, comprehensive MCA systems identify cost components such as executive and managerial overhead, information technology, human capital development, capital allocations for buildings and equipment, and most critically, the work activity cost of professional and support employees, which is the largest operating cost element of government. “The biggest savings in government are the processes mandated in legislations and rules... an OMB role that is not pursued” (Davis, 2009); and nor can they be measured without access to MCA systems. Without access to meaningful cost and other performance information on outputs, front-line managers are hamstrung in the measurement, reporting, and benefit-cost analysis of outputs and therefore any meaningful benefit-cost analysis of outcomes facilitation.

As previously noted, such intra-organizational accrual accounting and cost systems are requirements of the 1990 CFO Act, the 1993 GPRA, the 1994 GMRA, and the 1996 FFMIA (Collins, 1997; Government Accountability Office, 2007a, 2007b). The GAO (2007b) has noted, “progress has been slow,” that very few federal agencies had implemented ‘Managerial Cost Accounting’ (MCA) systems, that “over the period 1997-2007, the use of performance information had not increased” (2008) and subsequently noted that “[OMB has not] emphasized efficiency in its GPRA guidance to agencies” (2010). The various OMB administrative directives such as A-11, A-127 and A-136 encourage MCA systems with normative ‘should’ statements but compliance appears to fall short of the legislative intent. For example, Circular A-136 (OMB, 2009a, p. 8, Applicability of FFMIA) specifies that compliance with the FFMIA “will only be applicable to the core financial system” which relieves agencies of the core FFMIA requirement to establish MCA systems. The GAO has repeatedly advocated for more comprehensive

managerial cost accounting systems within the U.S. federal government (GAO, G.L. Dodaro, 2011a, 2011b, 2011c; 1986, 1991, 1998a, 2003, 2004; 2007a, 2007b; Steinhardt, 2008).

The Research Question

The assumption behind this project is that efficiency and effectiveness of government is measurable—this assumption is made explicit in the “Findings and Purposes” of each of the 1990 CFO Act, the 1993 GPRA and 1996 FFMIA. It follows that, within normative political constraints, the efficiency and effectiveness of government can be assumed to be improved through effective performance measurement, management, and transparency in reporting. This can be achieved by overtly incorporating into operations those practices that incentivize productivity improvement (efficiency) in the supply of outputs and by focusing output production on desired policy outcomes (effectiveness). The instrument that this research assumes best serves that purpose is an appropriately designed performance measurement system that results in public reporting of relevant performance information that includes work activity outputs and the costs of producing them. Ideally, agency output production (supply) within politically imposed and normative constraints (governance structure, politics, ethics etc) is measured and reported in terms of resources consumed and is linked to a politically determined policy outcome (demand). This leads to the following research objectives:

1. Assess to what extent measurement and managerial cost accounting systems exist for determining the inputs for outputs and for linking outputs to outcomes; and
2. If and where such systems exist, do they result in output and efficiency reporting?

These two research objectives are embodied in the following research question:

To what extent do the cabinet-level Executive Branch agencies named in the CFO Act/GPRA and their component bureaus measure and report on the efficiency and effectiveness of their work products, i.e., outputs?

Comprehensive Output Reporting Defined

For purposes of clarity, the term *comprehensive output reporting* is used to identify the substance and quality of reporting that is implied in this research.

Comprehensive output reporting means to:

- quantify the output or work activity produced;
- identify and assign costs to output or work activity in terms of accrued direct and indirect costs including, inter alia, human resources employed, capital equipment and facilities infrastructure used or occupied by production labor and equipment, management overhead for coordination, contributing services such as information systems, HR, acquisition, finance, materials, etc; and
- qualitatively or empirically demonstrate a link of the output or work activity contribution to a strategic objective or policy outcome.

This project explicitly defines what the term *comprehensive output measurement and reporting* embodies in order to be sure that the output reporting under examination encompasses a measurement sufficiently comprehensive to enable an efficiency and effectiveness measurement that is consistent with the application of microeconomic theory to government.

As previously discussed, there are two basic accounting approaches to cost measurement in performance measurement systems. Both have validity dependent upon their intended purposes. Incremental costing, most often associated with variable costing, is usually employed

for marginal or incremental decision-making analysis purposes. Accrued full costing is recognized as the most appropriate approach in comprehensively assessing overall organizational and asset utilization efficiency; it is the methodology mandated in both the 1990 CFO Act and the 1996 FFMIA. It is also the methodology employed in the private business sector. This project assumes the essentiality of an accrued full cost approach in *comprehensive output reporting* within public bureaucracy. Accordingly, this research focuses on a *comprehensive output reporting* methodology that embodies a comprehensive accrual accounting system because this methodology is critical in the more accurate measurement of costs and economic efficiency (Blondal, 2003; Boston, Martin, Pallot, & Walsh, 1996; J. L. Chan, 2009; Coase, 1990; Curristine, et al., 2007; Khan & Mayes, 2009; Kober, et al., 2010; Marty, et al., 2006; Pallot, 2002; Pallot & Ball, 1996; Scott, 2001).

Disaggregating the Research Question for Evidence of Output Reporting

To ensure a comprehensive response to the research question, a number of subordinate questions were developed in order to make best use of the scholarly literature, prior reviews of performance management practices and results, and survey data as well as enable analysis of the GPRA reports and practitioner interviews. The development of the subordinate questions drew upon existing policy documents such as FASAB accounting standards (2007), previous GAO work (1998a, 2001a; 2004, 2005), and other related work (Martin, 2005a, 2005b). The GAO *Framework For Federal Financial Management Systems Checklist* (1998a) was particularly useful in that its content is broader than ‘traditional’ financial management and includes items germane to performance management. The GAO checklist included “six elements” (Ibid, p. 9-10) with ‘checklist items’ in each element. This project employed seven of 36 checklist items from the “Management Information” element (Ibid, pp. 36-52); see Table 1 below.

TABLE 1
GAO work employed in developing Research Questions
for Efficiency and Effectiveness Reporting

GAO Item #	Management Information (GAO/AIMD-98-21.2.1, pp 36-52)
11.	Does the agency's performance reporting answer the question; How effective and efficient are operations and programs?
13.	Do the agency's financial and related information classification structures collect information on: <ul style="list-style-type: none"> • the financial status of government operations and the use of financial resources (financial information)? • the efficiency of operations (operations information)? • the effectiveness of delivery (program information)? • individual financial events (transaction)?
21.	Does the agency's summary information classification structure consist of three separate but related classification structures, i.e., financial, operations, and program information classification structures?
31.	Does the agency's operations information structure capture the following types of information: <ul style="list-style-type: none"> • operations unit, that is the identification of an operation to be monitored? • activity type, that identifies the activity to be measured within an operations unit to accurately diagnose problem areas or areas needing improvements in efficiency? • efficiency measures, that reflect the volume, frequency, or timing associated with an activity type? • standards, that set the targets for performance measurement? • accumulators (operations), that track event occurrences [by] the efficiency measures [and] time periods (e.g., daily, monthly, yearly) to support trend analysis?
32.	Do the data elements for the agency's program information classification include <ul style="list-style-type: none"> • the nonfinancial data necessary to support the GPRA of 1993? • the program unit, that is the program level where the activity is to be measured? • effectiveness measures, that reflect resources applied and the outputs and outcomes achieved by a program unit? • goals and objectives, that describe management's projected outputs, outcomes, and results? • program accumulators that enable quantifiable measures used to determine the effectiveness of program activities?
33.	Does the agency's reporting structure support requirements for reporting and providing information on <ul style="list-style-type: none"> • financial status of operations and use of financial resources (financial reporting)? • effectiveness and efficiency of delivery (performance reporting)?
34.	Does the agency's reporting structure facilitate analysis of financial, operations, and program information by identifying and reporting variances between actual results and plans?

The following subordinate research questions (RQ) were developed to identify the conditions that would substantiate the presence of *comprehensive output reporting* practices:

RQ1 Do research resources identify the existence, necessity, and extent of efficiency and effectiveness measurement and reporting of outputs relative to outcomes in a manner consistent with *comprehensive output reporting*?

RQ2 Do research resources such as the scholarly literature, other performance management research, employee survey data, management policy documents, and audit reports substantiate the relevance of accrual accounting and managerial cost accounting systems to efficiency and effectiveness measurement?

RQ3 Do research resources identify organizational, systemic, management, etc. barriers or impediments that might constrain efficiency and effectiveness measurement and *comprehensive output reporting*?

RQ4 Do the various research resources employed to assess efficiency and effectiveness measurement and *comprehensive output reporting* yield consistent results and, if not, are differences explicable?

Note: RQ4 compares the results of the literature review, the two secondary data sources analyses, and the two primary data sources analyses for consistency.

Methodology for Applying Research Questions 1 and 2 to Primary Data Sources

One of the primary data sources, the agency 2011 GPRA reports (i.e., the annual Performance and Accountability Reports (PARs) or Annual Financial Reports (AFRs) and Annual Performance Reports (APRs)) was not designed to provide answers to the above questions and need further elaboration for analytical purposes. Of the four research questions, Questions RQ1 and RQ2 are applicable to the GPRA reports. To facilitate analysis of the GPRA reports in the context of questions RQ1 and RQ2, the following indicators were developed from Table 1 as indicators of a positive response to the presence of *comprehensive output reporting*:

INDICATOR 1-Outputs to Outcomes Relationships:

Does the agency GPRA report state discrete performance outcomes with specific links to discrete outputs within programs and/or sub-agencies?

Note: This is an effectiveness measure (Table 1, Items 11, 32). This indicator assumes that where outcomes are stated and linked to underlying outputs, there is a stronger probability of MCA systems being present. If outcomes are not stated and/or are not linked to outputs, a system for costing outcomes relative to the contribution of outputs or measuring efficiency will probably not exist.

INDICATOR 2 – Comprehensive Cost Measurement:

Do agencies and sub-agencies employ managerial cost accounting (MCA) systems that enable:

- a. reporting of ‘Net Cost’ of operations by sub-agency level bureaus or other organizations in annual financial statements;
- b. reporting of ‘Net Cost’ of operations by strategic objective or policy outcome in annual financial statements;
- c. reporting the composition of Net Costs by categories such as direct or operating costs (e.g., full-time equivalents (FTEs) and materials) and assigned costs (e.g., management, facilities, and information systems overheads) and overall program costs (e.g., expenditures on behalf of, payments to beneficiaries); and
- d. reporting of efficiency measures of outputs based on fully accrued costs.

Note: This indicator assumes agencies that exhibit an ability to assign costs to sub-agency organizations, policy outcomes, and outputs as well as assign indirect overhead costs to sub-agency organizations, programs, and outputs through comprehensive accrual-based

accounting systems will measure efficiency and effectiveness and have a *comprehensive output reporting system*. (Table 1, Items 13, 21, 32, 33, 34)

INDICATOR 3 – Qualified CFO:

Agencies with Chief Financial Officers with “impeccable credentials” (Bowsher, 1991) in accounting and financial management are assumed to be more likely to have MCA systems enabling comprehensive output costing, measurement and reporting;

Note: This indicator assumes that the qualifications of an agency’s CFO influences the comprehensiveness of the financial accounting and performance measurement systems. It is predicated on the testimony to Congress by Charles Bowsher (1991), the Comptroller General and head of the GAO when the CFO Act was passed, as to the qualifications that agency CFOs would need in order to meet the implementation requirements of the 1990 CFO Act. The inference drawn was that a CFO with the qualifications required for certification by a professional accounting and/or auditing body would be more likely to implement *comprehensive output reporting*. This assumes that a particular actor can alter choices within an organization (Sabatier, 2007, Elinor Ostrom, Ch 3).

INDICATOR 4 – Practice Diffusion of Performance Accountability Reporting (PAR):

Agencies with sub-agency bureau-level organizations that publish a PAR or an Annual Financial Report (AFR) and Annual Performance Report (APR)¹¹ that have MCA systems and *comprehensive output reporting* systems will emulate the practices of their subordinate organizations;

Note: This indicator assumes policy and practice diffusion given the assumed benefits of

¹¹ “For FY 2009 [and subsequent years], agencies may choose either to produce a consolidated PAR or to produce a separate AFR and APR” OMB Circular A-136 (Revised) Financial Reporting Requirements (2011b), p. 13.

comprehensive output reporting. It assumes a variation on the “Leader-Laggard” and “Vertical Influence” models articulated by F.S. and W.D. Berry (Sabatier, 2007, pp. 176-177).

INDICATOR 5 – Overt Performance Culture:

Agencies and sub-agency component organizations with an overt ‘performance management culture’ practice *comprehensive output reporting* as evidenced by:

- a. Chief Financial/Chief Performance Officers that report directly to the agency head;
- b. integrated financial management, budget, and performance staffs;
- c. no FFMIA non-compliance observations in audit reports; and
- d. articulation of efficiency and effectiveness goals in the “Management Discussion and Analysis” section of annual reports

Note: This indicator looks for an organizational culture characterized by a structure and managerial emphasis supportive of comprehensive output measurement and reporting.

Organizations in which: 1) the CFO reports directly to the executive head of the agency; 2) the performance and financial management staffs are fully integrated; 3) full compliance with the 1996 FFMIA was a stated objective; and, 4) improving efficiency and effectiveness was an overtly stated organizational objective; would be more likely to implement accrual-based MCA systems and *comprehensive output reporting* systems. It also is related to the nature of organizational behavior reflected in Sabatier (2007, Elinor Ostrom, Ch 3; Sabatier and Jenkins-Smith, Ch 6)

INDICATOR 6 – Fee Revenue Dependent:

Agencies or sub-agency organizations with ‘substantial’ fee revenues will have accrual MCA

systems and produce comprehensive output reports (Table 1, Items 31-34);

Note: This indicator assumes that substantial revenue collection would be more likely to foster accrual-based accounting and comprehensive cost measurement. Fee revenues are analogous to taxes in that they are collected from citizen-taxpayers and must accurately reflect the costs of the goods and/or services that government is providing for the fees collected. The absence of accurate cost systems results in fee-payers being unfairly ‘taxed’ or ‘subsidized’ relative to others. Organizations with ‘substantial fee revenues’ would be more likely to have comprehensive output cost measurement systems. ‘Substantial fee revenues’ were defined as 20% of the gross costs of operations.

INDICATOR 7 – Wilson Typology Match:

Agencies that fit Wilson’s typology of *production* or *procedural* organizations are more likely to produce comprehensive output reports (Scott, 2001, pp. 31-32; Wilson, 2000, pp. 158-171);

Note: This indicator is based on organizational characteristics. Wilson (2000) hypothesized that those organizations that could be defined as production or procedural organizations would be more likely to adopt practices characteristic of commercial entities. Production organizations are those where both the outputs and outcomes are clearly identifiable. Procedural organizations are those in which outputs are clearly identifiable but the relationship to outcomes is not. Scott (2001), in his description and analysis of New Zealand’s ‘New Public Management’ reforms, made a similar assertion. Agencies or sub-agency organizations that can ‘easily’ identify outputs are more likely to measure/report them.

INDICATOR 8 – Performance-Based Organization (PBO):

Agencies that operate as ‘performance-based organizations’ (PBO) or under similar criteria¹² produce comprehensive output reports.

Note: This indicator refers to cases where Congress has explicitly designated an organization as a ‘Performance-based Organization.’ In such cases, the organization is required to report on outputs and outcomes.

The above indicators are not *independent variables* in that they are not causal to the practice of *comprehensive output reporting*, which in turn, enables comprehensive performance management. The indicators are regarded as predictive of the potential for *comprehensive output reporting* at the operational management level. The principal indicator of comprehensive performance management is agency work activity or outputs measured and reported in terms of quantity and cost (efficiency) derived from accrual-based MCA systems with evidence of linkage to a policy outcome (effectiveness). These indicators provided a basis for coding annual GPRA reports for analysis of *comprehensive output reporting* practices. *Comprehensive output reporting* is a surrogate; existence of which implies efficiency and effectiveness measurement and a fully developed output-measurement based performance management instrument. The absence of *comprehensive output reporting* does not necessarily mean that measurement is not taking place; but such measurement is of limited value if it is not reported or published for managerial use and public scrutiny (a transparency quality).

This research project makes no attempt to discern if agencies or sub-agency administrations, bureaus or offices are more efficient due to comprehensive output measurement

¹² See Note 1 on p. 2 of this document.

and reporting within the ‘input-processes-output-outcomes framework’ as outlined at Fig. 1. It only attempts to determine if output and efficiency measurement is reported and therefore undertaken. Nevertheless, as supplementary commentary subsequent to the data analysis and the conclusions emanating from that analysis, Chapter 5 of this report provides some discussion on various possible actions to improve federal government efficiency and effectiveness through more comprehensive output reporting and analysis and greater transparency.

Summary

Performance measurement and reporting within the U.S federal government is a longstanding issue. This project, examining the extent of *comprehensive output reporting* within the U.S. federal government, was undertaken in the context of understanding of how federal government agencies measure and report upon efficiency and effectiveness in a manner that would be more beneficial to citizens. This chapter began by outlining some of the history of the development of performance measurement and management in the U.S. federal government. A political and economic rationale for performance measurement and management was provided. This was followed by a summary of the legislative foundation that underlies current performance management practice within the federal bureaucracy. Notwithstanding the comprehensive legislation underpinning current practice, implementation has been uneven and the results disappointing. The preamble to the 1996 FFMIA noted that “accounting standards have not been uniformly implemented.” Numerous researchers have commented on the absence of improved efficiency within the federal bureaucracy and others on the lack of interest by Congress in efficiency and effectiveness beyond political rhetoric. In general, the issue of government efficiency and effectiveness, once it becomes conflated with the myriad of other issues common in the course of American political discourse, is usually only a minor and peripheral one.

Even so, other researchers have noted the success of performance measurement systems in other OECD countries and there remains reason for optimism that improved U.S. performance management efforts can bear fruit. Improvement is possible if the focus of performance measurement and management more closely reflects the intent and letter of the legislation passed in the 1990s. Accordingly, this project has been developed to assess the state of performance measurement and management in a microeconomic efficiency context in relation to what the legislation states. It aims to assess the performance measurement and management instruments and practice of the federal bureaucracy with an emphasis on overall government output efficiency and effectiveness reporting in contrast to program outcome effectiveness for political or annual budget purposes. *Comprehensive output reporting*, as explained in the foregoing, has been selected as an indicator of the ability of government to meet the outcomes-demand of legislator-agents and citizen-taxpayer-principals while improving efficiency. This project frames the issue of federal government efficiency and effectiveness in a context of microeconomic efficiency and effectiveness in contrast to an emphasis on budgetary spending efficiency and accountability in a political context.

Chapter 2

A Review of the Literature Relevant to Efficiency and Effectiveness Measurement and Government Documents on Policy and Practice

This literature review encompasses analysis by international and American researchers. The international literature was drawn from English-language publications by authors writing under the aegis of the OECD and researchers from New Zealand, the UK, Australia, and Sweden with some selections from Canada and European nations. The four first-listed countries were leaders in implementation of what was known as “New Public Management” (NPM) beginning, predominantly, in the 1980s.

Performance measurement and management, in an American government context, dates back to the beginning of the 20th century and the Progressive Era of American public administration (J. L. Chan, 2009; Williams, 2002, 2003, 2004). This early history was largely a story of local government, not the federal government. The federal government actively implemented a performance management regime only following the enactment of the GPRA in 1993. Prior to the GPRA, formalized performance measurement and management processes, although frequently recommended under various reform initiatives (Hoover Commissions, 1949; 1956; Scherer, Report on Budget Concepts, 1967; Grace Commission), were non-existent at the federal level.

Much of the American scholarly literature on performance management is historical and descriptive in character rather than analytical in terms of process and the outcomes of measurement efforts. This is supported by Micheli and Neely (2010) who observed, “Despite the significant volume of studies on public sector performance measurement, a paucity of empirical research describes in detail the systems and processes used at different levels of government to measure and manage performance.” Researchers discuss both efficiency and effectiveness with some oscillation in emphasis between the two but with effectiveness of policy outcomes usually being the more dominant theme, especially among American researchers. Few U.S.-based researchers examine or comment on performance measurement in terms of microeconomic theory or efficiency, although that theory is implicit in any discussion of efficiency. Efficiency and economic theory-based commentary by non-U.S. researchers has been more frequent, particularly with respect to New Zealand and the UK (Boston, et al., 1996; Likierman, et al., 1995; Pallot & Ball, 1996; Pollitt & Bouckaert, 2004; Scott, 2001).

This research concentrates on the specifics of the measurement of what this project has termed *comprehensive output measurement and reporting* within a performance management regime. This nature of performance measurement and reporting is very dependent on the adoption of a comprehensive accrual-based cost accounting throughout agencies and their subordinate sub-organizational components. Many researchers acknowledge the importance of accrual accounting, which enables *comprehensive* cost measurement, as part of an efficiency focused performance measurement regime. However, little of the U.S. research appears to be cognizant of how deeply accrual-based accounting methods need to permeate the organizational structure to be effective.

The contribution to the literature from this project is in determining the extent to which the U.S. federal government measures, reports, and manages efficiency, identifying what needs to be measured and managed, and the essentials of the accounting system required to implement an effective performance management regime focused on microeconomic efficiency. The analysis employs *comprehensive output reporting* as a proxy indicator for efficiency and effectiveness measurement.

The Scope of the Relevant Literature and Documents

Within the literature examining performance management systems, there are four strands relevant to this research on efficiency and effectiveness measurement and reporting of outputs. These include the scholarly literature on the ‘New Public Management’ (NPM) movement, the literature on performance management per se, and the accrual accounting literature spanning the past three decades concerning the adoption of accrual-based accounting (a practice formerly regarded as exclusive to the business sector) by the federal government. The fourth body of literature reviewed for this project is somewhat anomalous in that it encompasses other than the ‘normal’ scholarly research literature—legislation and government policy, management, and administrative documents. A substantial portion of the scholarly research literature frequently references government documents in analyzing and commenting on the practice of performance management.

The lead strand of literature considered for this project is the New Public Management (NPM) literature. The NPM movement along with its associated literature of the 1980s and 1990s represents the progenitor in concept and practice of the current evolution of performance measurement, reporting, and management systems. It is separated from performance

management by time and the evolving maturation in application of the concepts and practice. In essence, the modifier “new” in NPM is “old” with the turn of the 21st century

The second strand of literature, and closely related to the analysis of the early practice of NPM, focuses on the larger universe of performance management per se. Over the last fifteen years, this literature has predominantly focused on the results and processes emanating from legislation—in the U.S. context, the passage of the 1990 CFO Act, the 1993 GPRA, the 1996 FFMIA—and the evolving development of performance measurement and management at the national government level.

A third strand of the literature highly relevant to *comprehensive output measurement and reporting*, as defined for this project, concerns the adoption of accrual accounting and accrual-based managerial cost accounting subsystems. The first widespread application of accrual accounting in government developed out of New Zealand’s NPM reforms of the late 1980s and early 1990s. Blondal (2003) noted that those OECD countries that first adopted accrual accounting were also those countries “at the forefront on public management reforms,” the precursor to the current performance management regimes. The majority of the literature in this category concludes that the efficiency component of performance management is unrealizable without accrual-based financial and cost management accounting systems.

The fourth strand of literature consisting of government’s administrative management policies, studies, audit reports, studies, etc. does not qualify, as ‘scholarly’ research and analysis in that it is declarative and directive of principles, policies, processes and procedures employed without critical analysis of logic, effects and outcomes. Nevertheless, it is important in terms of this project for the reasons that it is policy and defines practice. The practice of government

performance measurement and management is mandated by legislation and executive management policy and direction and is further heavily influenced by auditors' reports, special commissions, external and internal evaluations, and legislative inquiry. Government documents describe the rationale for a government's performance regime, articulate the purpose and objectives, define the practice and procedures, highlight the shortcomings, provide the funding, and influence the form, function and outcomes of performance management. Government documents provide a substantial, substantive, and essential foundation component for research into government performance reporting and management. Accordingly, research into government performance measurement, reporting, and management must encompass this body of writing in order to be complete.

Aside from the financial accounting literature, the scholarly literature often does not fall uniquely into one of these strands. Additionally, elements of the accrual accounting and performance measurement and management literatures also incorporate accrual-based and performance-based budgeting, topics beyond the boundaries of this research. There is also a portion of the literature within the performance management subset focused on leadership, incentive management, and public choice theories as well as institutional and transaction cost theory, all of which are also beyond the scope of this research.

Organization of the Literature and Document Review

The review of the literature and government documents follows the above categorization of the literature, beginning with the NPM literature. The nature of the review within each category of literature varies to reflect the development and components of practice of output and outcome measurement, reporting, and management relevant to this research. In the case of the

NPM body of literature, the review is country-based and chronological reflecting the rough order in which more countries followed the practices of the early adopters, i.e., New Zealand, Sweden and the UK and the iterative nature of development. The review of the performance management literature, the second category, is also chronological in that, apart from its historical roots in the Progressive Era, most of this literature follows the earlier literature on the NPM movement.

The accrual accounting literature review spans the entire period of the other literature and focuses on the adoption by government of a practice that, prior to the NPM initiative, was predominantly identified as a “business practice” and often considered as not relevant to government. The review of the accounting literature is more ‘traditional’ in that it is based on practices but also, in some respects, uses a chronological framework. Accrual accounting is an international story and reflects the NPM theme of “making government more like business.” Lastly, the review of official government documents, for obvious reasons, is highly U.S. centric. It reveals the development and implementation of the U.S. performance management methodology as influenced by the legislated accounting and output model developed over the past 25 years.

In all cases, the literature review highlights the development of practice, discusses the variations in practice and the perceived results of the variation. The review leads to the basis of this study and its contribution to the literature: the extent of measurement and reporting on the efficiency and effectiveness of the U.S. federal government in a manner that has the potential to improve federal government productivity and accountability. The intended research outcome is an assessment of the extent of *comprehensive output reporting*. The research examines the

capacity for such reporting and its frequency of occurrence in thirteen of the fifteen Executive Branch named CFO Act agencies.

The New Public Management (NPM) Literature—a Chronological Perspective

The current wave of performance measurement and management development, implementation, and practice begins in the 1980s with the NPM movement—Australia, New Zealand, Sweden and the United Kingdom (UK). The experiences of these early adopter countries are instructive. Most of the early adopters of performance measurement did so in conjunction with and in a context of NPM adoption. These ‘first movers’ were predominantly focused on improving the efficiency of what government was doing as opposed to the effectiveness or outcomes of what government was achieving. New Zealand and the UK initially concentrated almost exclusively on outputs, an efficiency measurement. Similar to the U.S. 1993 GPRA, Australia began with a highly outcomes-focused or effectiveness strategy. Sweden pursued a balanced approach incorporating both outputs and outcomes. Two nations, New Zealand and Sweden, implemented performance management concurrent with adoption of government-wide comprehensive accrual-based accounting systems—an essential component of efficiency measurement. All four countries subsequently migrated to a balanced output and outcomes model, full cost accrual accounting, and performance informed budgeting. Pollitt and Bouckaert (2004, pp. 30-31) added that in reforming public management, “microeconomic theories have also been extensively used,” particularly in New Zealand.

New Zealand

It can be said that New Zealand truly “broke new ground” with their model of public management reform (Schick, 1996, 2001; Scott, Ball, & Dale, 1997). They pursued a highly

output-centric strategy grounded in microeconomic theory and the comprehensive measurement and analysis of government activity and outputs at every level of management. (Aucoin, 1995; Boston, et al., 1996; Boston & Pallot, 1997; Pollitt & Bouckaert, 2004; Scott, 2000, 2001). Ironically, New Zealand's approach relied upon research, thinking and theory by the U.S. Department of the Treasury (Boston, et al., 1996; Schick, 2001; Scott, 2001). Through its 1989 Public Finance Act, New Zealand mandated accrual accounting and imposed a "thorough system of financial reporting" (Boston, et al., p. 58) on all departments to both capture the full cost of government provision as well as provide an instrument for the application of microeconomic theory in assessing efficiency and benefit-cost (Boston, et al., 1996; Pallot, 2002; Scott, 2001). Ultimately, the more or less exclusive focus on outputs resulted in whole-of-government and inter-departmental coordination problems (Rae, 2002). "The failure [was] not too much focus on outputs ... it is too little focus on outcomes" (Scott, 2001, p. 196). To enable more effective government, New Zealand found it necessary to rebalance its output-intensive approach to incorporate strategic outcomes (Baehler, 2003; Carlin & Guthrie, 2001; Norman, 2004, 2007; Ussher & Kibblewhite, 2001; Webber, 2004a). While outputs remained the unit-of-analysis for efficiency measurement in New Zealand, they were further linked to outcomes to ensure effectiveness of the output work of agencies. Outcomes were determined at the political executive level to ensure the focus of all agencies' outputs was on politically determined outcomes. Output measurement within agencies was focused on the efficiency of agencies in facilitating the politically determined outcomes. (Boston & Eichbaum, 2005; Kibblewhite, 2001; Norman, 2007; Webber, 2004b)

The United Kingdom

The UK also began with a dominant focus on outputs and government efficiency, not effectiveness (Zifcak, 1994, p. 16). But the UK was considerably slower in both developing a comprehensive performance measurement regime and in moving to a more balanced approach between outputs and outcomes (N. Carter & Greer, 1993). “In practice the British model has focused on efficiency in the use of resources ... the operating budgets of agencies ... has been the overriding concern ... precious little attention has been given to ... the effectiveness of public services” (Aucoin, 1995, p. 193; Zifcak, 1994, p. 72). However, notwithstanding the focus on efficiency, the UK did not take up implementation of accrual-based accounting and a more comprehensive approach incorporating outcomes until 1995. It did so after reaching the conclusion of the necessity of accrual accounting in meaningful cost measurement and as a component of ‘contesting’ government provision against commercial provision (Heald, 2005; Likierman, et al., 1995; Pallot & Ball, 1996).

Sweden

In contrast to New Zealand and the UK, Sweden undertook a combined output-outcome approach at the outset, concurrently introducing accrual based financial statements and cost accounting. Sweden implemented performance measurement with full cost accrual accounting data as its basis, measuring outputs and linking outputs qualitatively to outcomes for allocative efficiency and effectiveness. However, in the early 2000s, Sweden rebalanced its emphasis, phasing in a new management philosophy, somewhat de-emphasizing management for results (outcomes) with one more focused on activities (outputs) (Pollitt & Bouckaert, 2004, pp. 287-288).

Australia

Australia, unlike the others but similar to the U.S., began with an outcomes focused approach (Curristine, 2005b, p. 90, Note 3). But, amid repeated criticism by the national auditor, a change in government in the late 1990s, and a recognition that the public service “lacked the edge of competition and the reality of meaningful performance targets,” the Australian government increased significantly its emphasis on outputs (Pollitt & Bouckaert, 2004, pp. 211-213). In 1999, Australia adopted a new *Outcomes and Outputs Framework* (Management Advisory Committee, 2001) followed by an accelerated conversion to accrual and cost accounting extending down through agency management (Kelly & Wanna, 2004). “The ... framework places a strong emphasis on outcomes and outputs as the foundation for performance information” (Fox, 2006) and is intended “to deliver a line of sight between inputs and outcomes”¹³ with improved allocative effectiveness and operational efficiency as the objective (Australian Government Information Management Office, 2011, p. 40; Australian National Audit Office, 2007, 2011; Champoux, 2006; Mackay, 2011). Australia’s *Framework* “requires every ... agency ... to identify comprehensive and explicit outcomes, outputs and performance measures for the quantity, quality, price and effectiveness of their activities” (Hawke, 2007).

The Evolution of Performance Measurement and Management

Other OECD Countries

The OECD countries, other than Australia, New Zealand, Sweden, and the UK discussed above, have followed the pattern established by these and other NPM-adopting countries in using

¹³ Australian Government Information Management Office (Department of Finance and Deregulation) Australian Government Architecture Reference Models, Ch. 4 Performance Reference Model at <http://www.finance.gov.au/e-government/strategy-and-governance/aga-rm/4-prm.html>. Developed from the US Federal Enterprise Architecture Framework (FEAF) at <http://www.whitehouse.gov/omb/e-gov/fea>.

an outputs-to-outcomes migration path for comprehensive performance measurement and management (Curristine, 2005b; Curristine, et al., 2007). “Nearly 80% of countries introduced their first government-wide initiative on outputs measurements at least five to ten years ago, and over 40% have been working on developing outputs measures for more than ten years,” i.e., since the mid to late 1990s (Ibid, 2007). More than 50 per cent of these countries subsequently developed a combination of output and outcome measures. All countries report difficulty with development of measures of performance, especially for outcomes. Outcomes “involve the interaction of many factors ... [and are] problematic to relate what an agency ... actually contributes.” There are also “problems with time-lag issues, and in some cases the results are not within the control of the government.” Additionally, OECD researchers found that agencies that focused primarily on outputs were often not as cognizant of the needs of citizens or “the wider societal outcomes,” that is the effectiveness of government. Courty, Heinrich and Marshke (2005) note “In recent decades, measurement systems have shifted toward an explicit focus on measuring organizational outcomes ... [and] performance assessment serves important functions in public organizations other than promoting program efficiency and effectiveness.” Most importantly, legislators and the public usually relate better to and prefer outcomes as measures of effective government. (Curristine, et al., 2007)

The U.S. Experience

The U.S. performance literature reveals a pronounced shift in preferences among researchers from output to outcome measurements over the last fifty years. Literature on government performance from the 1950s through to the 1990s speaks almost exclusively of efficiencies and productivity measurement—an output dependent measure (M. H. Baker, 1972; Bouckaert, 1990; Congressional Budget Office, 1989; Diamant, 1967; Gissler, 1972; Hatry,

1972; Kendrick, 1963; Mercer & Koester, 1978; Newland, 1972; Parkinson, 1955; Peterson, 1972; Schick, 1966; Vandermeulen, 1950; Wildavsky, 1966; Yamada, 1972). Notwithstanding this level of commentary on government performance by the various researchers, there was little evidence of research into or even the existence of performance measurement practices. Hatry (1972) declared “the state of the art of productivity measurement [in] government services is disappointing” He was not alone; numerous researchers similarly observed on the lack of productivity and efficiency measurement in government (J. A. Mark, 1972; Morris, Corbett, & Usilaner, 1972; Peterson, 1972; Yamada, 1972). Allison (1982, 1986) observed, “there exist no ready data on what public servants do” and bemoaned the absence of any meaningful research into the management of government.

Beginning in the 1980s, in conjunction with NPM initiatives and the election of the Reagan administration, there was increasing rhetoric on ‘making government more like business’ among the advocates of performance management, some of it emanating from publication of the Grace Commission Report (also referred to as President's Private Sector Survey on Cost Control (PPSSCC)) and the subsequent joint CBO and GAO (1984) analysis of it. A subsequent CBO-GAO report commissioned by the Congress to review the Grace Commission Report characterized the majority of the proposals “as management proposals to achieve greater efficiencies or to operate on a more business-like basis” (Ibid, p. 2). The joint analysis assessed that about 40 percent of the savings would be attributable to “management improvements,” many of which had been previously recommended by the GAO, with federal work force productivity improvement being among the largest component of savings (Ibid, pp. 13-14). The Grace Commission also recommended the adoption of accrual accounting (Ibid, p. 95) in order to provide “a system that focuses on the total operating expenses of each organizational unit.” The

CBO-GAO report further noted that the “GAO has favored implementation of the concepts of cost-based budgeting and accrual accounting ... [and] believes that the implementation of accrual accounting throughout the federal government would improve financial control.”

Shortly after release of the Grace Commission report, the joint CBO-GAO analysis of it, and the then newly developing NPM, Downs and Larkey (1986) published a critique of the relevance of comparisons between the public and private sectors and the perception that that the private sector is a model for government to emulate. Burkhead, a Professor of Economics and Public Administration at Syracuse University, reviewed the work. Burkhead (1986) critiqued Downs’ and Larkey’s characterization of the Grace Commission as “... gratuitous vilification of the public sector ...” delivered in a tone of “... arrogant, self-congratulatory certitude ...” as “[too] harsh treatment.” Nevertheless, he supported the view that “Efficiency and public policy are inextricably intertwined” and remarked, “There is no value-free analytic tool that yields [efficiency increases].” Burkhead summarized with the view that “The pursuit of reforms in the name of efficiency, particularly in the federal government, has not brought disaster; but it has brought frustration and cynicism.” That nature of assessment remains relevant today when considering further attempts at efficiency and effectiveness reform.

The concept of ‘outcomes’ in performance management as opposed to the outputs focus of NPM, appears in the American literature in the early 1990s. A key word search revealed that Wholey and Hatry (1992) were among the first U.S. researchers to advocate use of outcomes in the context of performance monitoring and management and government effectiveness. The GPRA, enacted the following year, reflects the outcomes focus in its purpose as “holding Federal agencies accountable for ... results” and “promoting a new focus on results” (GPRA). The focus

of the literature and the performance reporting regimes adopted following the 1993 GPRA has been predominantly on outcomes (GAO, 1996; 2008). Bruel, Mihm & Wye (1999) noted the, “unprecedented strides toward increasing ... effectiveness” through outcomes. The GAO (2001b) observed the GPRA “seeks to shift the focus of government ... accountability away from a preoccupation with the activities ... to a focus on the results.”

The *President’s Management Agenda* (PMA) in 2001 and the *Program Assessment and Review Tool* (PART) in 2002 further reinforced the outcomes emphasis (Metzenbaum, 2009). Metzenbaum (2006) also noted, “Output indicators can work in some situations, [but] most notably when a clear link has been established between a particular activity ... and outcomes.” Gilmour (2007) noted “An important feature of PART is its emphasis on measuring outcomes rather than outputs.” Even given this emphasis, Robert Shea, OMB Associate Director for Management, opined “Many agency and programme (*sic*) measures were insufficiently outcome-oriented” (2008). Similarly, Joyce (2011b) argued that the “production of appropriate data” has been a “key challenge” because measurement has largely focused on outputs or activities and not results or outcomes—“we know what we are doing, but not what we are [achieving].”

“The U.S. approach to performance reports has been to focus almost exclusively on outcomes ... whereas ... other countries ... [more output-focused] reports are also used as accountability mechanisms” (Boyle, 2009). Newcomer and Caudle (2011) noted “performance management systems are increasingly robust ... Outcome-oriented performance management has increasingly supplanted output and process management.” Researchers have, in general,

favorably reviewed the GPRA bias for outcomes (Curristine, et al., 2007; Hatry, 2008; Hatry & Kopczynski, 1997; KPMG, 2011; K. Mark & Pfeiffer, 2011; Perrin, 2006; Van Dooren, 2011).

The focus on outcomes has not been without critics. Newcomer and Caudle (2011) also noted, “Experience suggests that it is necessary to determine the costs of outputs and lower-level outcomes that contribute to overall outcomes.” In contrast to the emphasis on outcomes in the GPRA itself, the other performance related legislation implies a more balanced inputs-outputs-outcomes framework (Collins, 1997; General Accounting Office, 1998b). Since the advent of GPRA reporting in 1998, the criticism of the outcomes focus in the literature has gradually increased. The GAO observed that the overall intent of the performance legislation, specifically the FFMIA (Sec. 802, Findings and Purposes), was not well-served in the context of federal government practice; “Effective management of the government's day-to-day operations has been hampered by a lack of necessary [output] data” (GAO, 2001a). Scott and Williams independently concluded that a focus on outcomes to the exclusion of outputs is problematic; frontline management requires a link from outcomes to outputs and measures of outputs (Scott, 2001; Williams, 2003). Schick (2003, p. 74) also advocated a balanced outputs to outcomes approach in stating.

... outcome data are often unavailable or costly to obtain, and ... the causal relationship between government policy and social conditions may be problematic. In countries that take performance seriously, reforms that aim to improve outcomes tend to end up focusing on outputs instead. This “second best” situation certainly is more productive than spending years in the quest for ideal outcome measures. ... Outputs are the face presented by government to its people. If citizens deem services inadequate, they will not regard government as performing well.

The Peterson-PEW Commission on Budget Reform (2011) in commenting on performance metrics stated unequivocally that “Agencies must ... link their program outputs to the ultimate

outcomes they are trying to influence.” However, there can be no links if outputs are not part of the measurement equation.

Behn (2003) recommends developing different measures for different purposes in observing, “it is the ... purpose ... that determines which ... measures will be most helpful. The usual admonition of performance measurement is, ‘Don’t measure inputs. Don’t measure processes. Don’t measure outputs. Measure outcomes.’ But outcomes are not necessarily the best measure for all purposes.” Behn (2004) subsequently added in outlining numerous potential deficiencies in performance management, “the most significant deficit might be the organization’s failure to focus on the desired outputs” and that “Government agencies are particularly prone to this kind of performance failure.” Baehler (2003) opined; “in practice, the difficulties of separating government’s contribution [to an outcome] from that of countless non-governmental factors render effectiveness measurement rather weak”. Joyce (2011b), although expressing a preference for outcome measurement, when observing on “performance-informed budgeting,” commented, “We know what we are buying, but not how much it costs.” The absence of cost information can normally be attributed to the limitations of accounting systems that do not or are unable to even measure costs, much less relate those costs to actual outputs or activities and their performance. This has been a long-standing criticism of accounting in both the commercial and government sectors (H. T. Johnson & Kaplan, 1991).

Apart from the arguments on the level of analysis and notwithstanding the growing adoption of performance measurement within governments, the purpose, utility and results of performance management regimes have been questioned by many. As noted in Chapter 1, Radin (1998, 2000, 2003) is among the foremost critics of the GPRA in observing, “Performance of

government is not something that one can calculate in a manner that is similar to a fiscal accounting process. There are multiple accountability expectations that are built into most federal programs and policies.” Notwithstanding that “some positive things have come from the GPRA process,” she questioned the utility and benefit-cost of the GPRA in particular in that it is more about reports and process than measureable results. Radin highlights the GPRA’s incompatibility with the structure of American government and its fundamental difference from the parliamentary systems that have implemented similar programs. Importantly, from the perspective of this project, the core of Radin’s criticism is in the level of analysis and the overarching concept of the GPRA as a “one-size-fits all approach to all situations,” not efficiency and effectiveness measurement per se. She notes, “Much of the data that is currently available is not focused on outcomes but on inputs and processes and occasionally on outputs”—the focus of this project.

Radin (2003) further contends that the managerialist-rationalist purpose embedded in the GPRA is more appropriate to administrative rather than political purposes; it has little appeal for politicians, which partially explains the lack of interest within Congress in the annual reports. In a more recent article, Radin (2009) identified “at least three agendas at play” in performance measurement. She identifies a negative agenda in the effort “to eliminate programs and cut back on responsibilities of government,” a neutral agenda in any “need to respond to changes in the society with changes in the program,” and a positive agenda in the “effort that highlights the need to get value for taxes and expenditures and assure accountability.” Synthesizing Radin, it seems that the strongest interest in competent ‘efficiency oriented’ management on a continuing basis must come from the managers of the public service itself to “get value ... and ensure accountability.” “Problems, political and rational, arise and collide when output efficiency is

deleterious to desired, but possibly unstated, political outcomes” (2003). The implication is that ‘real’ performance within the ‘government firm’ might be improved in the absence of the GPRA, which feeds rational managerial data to those with a politically rational motivation. If the desire, emanating from theme of “Reinventing Government” is to ‘let the managers manage,’ then refocusing the GPRA reports and the financial statements required by the CFO act and FFMI might be a better approach.

This research project was intentionally designed to be narrowly focused on the measurement of efficiency and effectiveness of what government does, i.e., outputs. However, some discussion is warranted of the broader aspects of performance measures such as the ‘balanced scorecard.’ This approach, attributed to research by Kaplan and Norton (1992; republished in 2005) of the Harvard Business School, has gained numerous adherents in the private sector and considerable favor in public administration. The attractiveness of an alternate approach to performance beyond the traditional financial metrics reflective of efficiency has not been lost on the public sector where financial metrics have had less salience, particularly in the absence of profit and loss measures and comprehensive cost accounting systems. The Executive Branch agencies do not appear to have embraced the tool.¹⁴ Numerous cities embrace balanced scorecard concepts such as represented in Baltimore’s CitiStat¹⁵ program and New York City

¹⁴ A search of the PERFORMANCE.GOV website using the term ‘balanced scorecard’ returns little evidence of its use at the Executive Branch agency level. OPM returns a hit in its archived material that is no longer updated. The DoE Office of Management has a link to assist DoE sub-components if they choose to use a Balanced Scorecard approach. The Balanced Scorecard Institute lists five federal agency sub-organizations employing the technique. (See (<http://balancedscorecard.org/Resources/ExamplesSuccessStories/tabid/57/Default.aspx>))

¹⁵ For Baltimore, see <http://www.baltimorecity.gov/Government/AgenciesDepartments/CitiStat.aspx>.

Police Department's original CompStat program, which has now led to more comprehensive citywide programs.¹⁶

The focus of this research is much narrower. It focuses on output measurement in terms of physical quantities of inputs, human effort, and cost because cost remains the most all encompassing measure of the resources used in producing outputs that generate outcomes. Kaplan and Norton (1992), in advocating the balanced scorecard concept, acknowledge that traditional financial measures can give misleading signals and often become 'control measures.' Instead of control, "the scorecard puts strategy and vision, not control, at the center." Nevertheless, financial measurement is among the most important components of a balanced scorecard approach simply because few events in business or in government are absent financial implications. Furthermore, 'control' is one of the major components of performance management in the public sector. Behn (2003) articulates eight purposes of performance measurement as; to evaluate, to control, to budget, to motivate, to promote, to celebrate, to learn, and to improve. Five of the eight (Ibid, 594-598), evaluation, controlling, budgeting, motivating, and improving, need valid output measures linked to outcomes.

Meyer (2005) is less enthusiastic than the Harvard faculty on the efficacy of the balanced scorecard and admits to heterodoxy in his opinion. He asserted the balanced scorecard does not improve the quality of performance measurement and management and can add further complications." He makes the point that "performance measures lose variance and 'run down' with use" thereby losing capacity to discriminate between good and bad results. He attributed 'running down' of the variance to two possibilities; improvement through reducing the lower tail

¹⁶ For NYC, see http://www.nyc.gov/html/ops/cpr/downloads/pdf/cpr_fact_sheet.pdf and for the NYPD see http://www.nyc.gov/html/nypd/downloads/pdf/crime_statistics/cscity.pdf.

of the probability distribution [the ‘good’ result] or the “gaming of performance measures.” Gaming occurs because “people gradually learn to deliver what is measured rather than the performance that is sought but measured imperfectly.” Meyer assessed the real value of the scorecard as advocated by Kaplan and Norton is as a “tool for communicating strategy ... and only secondarily as a compensation tool.” It’s the ‘compensation’ or ‘performance reward’ aspect that incentivizes gaming. Courty and Marschke (2003, 2008) drew similar conclusions that in general performance measurement results in gaming over time. Meyer noted that “by the mid-1990s ... between one third and two thirds of U.S. companies [used] the balanced scorecard ... for purposes of measuring, appraising and compensating ... performance.” If we assume Behn’s eight purposes of performance measurement in public administration are applicable, the use of the balanced scorecard within public administration runs a similar risk of distortion.

As an alternative, Meyer advocated a reductionist approach—a return to costs and revenues. He recommends a “focus on the core activities of the firm, literally what the firm does, what these activities cost, and the revenues they yield” In public administration terms, outcomes are substitutes for “the revenues they yield.” He recommends the adoption of activity-based cost accounting (ABC), a comprehensive form of a Managerial Cost Accounting (MCA) system that is attributed to be among the more useful and objective forms of cost accounting, although it is often reliant on self-reporting or arbitrary cost assignment methods that are also potentially distorting. The implicit expectation is that an ABC-based measure would elicit, or be subject to, less gaming. Courty and Marschke (2003) noted that the value of a performance measure can only be determined after it has been used and, as Meyer observed, its use tends to degrade its value. They note the importance of the user of a performance measure having a deep understanding of the potential for and the character of the gaming that it might elicit.

Important to any system of performance measurement, or a particular sub-component such as the output efficiency and effectiveness measurements identified for this project, is whether or not it is used. Moynihan and Pandey (2010) ask the question “Why do managers use performance information?” The authors assert, “Without knowledge of why such use occurs, it becomes difficult to establish the conditions for performance management success.” In contrast, this research project only sought to determine if a specific type of information, output efficiency and effectiveness, was being measured.

Moynihan and Pandey tested local government managers for performance information use based on a number of hypotheses. These included: 1) Public Service Motivation (PSM)--an altruistic dedication absent an expectation of reward; 2) extrinsic reward—an economic based response; 3) organizational role of the user; 4) experience of the user in position; 5) the availability or ‘supply’ of information to a user; 6) an organizational culture that seeks improvement in performance; 7) management authority to make use of the information; 8) a financial management staff that challenges organizational proposals; 9) perceptions of citizen or elected official active interest; and 10) a manager’s professional associations. The dependent variable was “regular use of performance information to make decisions.”

The results of their survey analysis suggested that performance information use by managers in local government was “more likely to be driven by altruism rather than self-interest.” The authors therefore recommended “performance systems should be designed to appeal to a sense of public service.” They also found that supply of information did contribute to its use. Additionally, organizational culture and managerial authority or flexibility in resource allocations, both of which are influenced by the commitment displayed by executive leadership

and legislators, were positive influences on use of performance information. Lastly, they reported that specialist managers were more likely to use information than generalist managers and that the professional associations of managers were a positive influence on use. (Ibid, p. 860-862)

Moynihan and Pandey did not reflect on the transferability of their results from a relatively more 'closely knit' and perhaps homogenous political-administrative body to what is likely a much more disparate, diverse, and disaggregated federal level. Areas where there might be differences worthy of speculation and further research include the relative 'closeness' (both physical and social proximity) of local government public administration to citizens and legislators, the sizes of both the public administration unit and the legislative bodies that interact and the dispersion of political and ideological opinion within the legislative body. These differences, on the surface, may influence the hypotheses related to PSM, organizational culture, management authority, and citizen perception.

The Accrual Accounting Literature

As stated in the introduction to this chapter, the review of this body of literature does not employ a chronological framework as was used for the foregoing literature. Instead, it is organized around the theory and adoption of the practice of accrual accounting by the U.S. federal government.

The two Hoover Commissions of 1949 and 1955 and the Grace Commission of 1984 all advocated adoption of accrual accounting. The 'public administration history' of adoption of this 'business practice' began with NZ in the 1980s. The U.S. federal government formally adopted the practice in law with the passage of the 1990 CFO Act. The CFO Act required annual

financial statements to be prepared on an accrual basis for each of 24 Executive Branch Agencies. The manner and purposes of the implementation of accrual accounting was further embedded in law and extended in practice with the subsequent passage in 1996 of the FFMIA.

Notwithstanding the imposition of accrual accounting on the federal government through legislation, there has been a relative paucity of discussion on its use within the American public administration literature, at least as it applies at the federal government level.¹⁷ Out of 45 literature items selected based on a keyword search, only 13 focused on the U.S. Of those, five were GAO reports and, of eight others, five involved one author, James Chan (J. L. Chan, 1994, 2003, 2009; James L. Chan, Jones, & Luder, 1994; J. L. Chan & Xiaoyue, 2002), from the scholarly research in accounting. Some American public administration literature discusses accrual accounting in the context of performance budgeting (L.R. Jones, Guthrie, & Steane, 2001; L. R. Jones & Thompson, 2000; Joyce, 2011b). Radin (2003) has been dismissive of the likelihood and utility of accrual budgeting being adopted by the U.S. given the separated powers construct of American government. Another nine documents, of which Alan Schick (2007) is the only ‘American’ contributor, discuss accrual accounting in OECD nations comparatively in the context of accrual budgeting, not operational efficiency, but include some commentary on American practice. About one-half of the articles (22 items, in addition to the OECD and other comparative literature) focused on Australia, New Zealand, the UK, and Canada.

The relative absence of comment on accrual accounting within public administration contrasts sharply with the specific direction in the CFO Act to use accrual accounting and the concomitant ‘purposes’ of the FFMIA, which state, in part, “The purposes of this Act are to ...

¹⁷ In contrast, there is considerably more literature relevant to the state and local government level, but often focused on budgeting in the context of accrual accounting (K. A. Smith & Cheng, 2006).

improve performance, productivity and efficiency” Clearly, accrual accounting and accrual-based managerial cost-accounting systems should be seen as the instruments for achieving productivity and efficiency—an argument advanced by Johnson and Kaplan (1991) in their comprehensive critique of business sector accounting practices. With respect to the federal government, the management guidance documents issued by the Office of Management and Budget (OMB), the implementing authority for the CFO Act, make no substantive reference to accrual accounting. The *Performance and Management* subsections of the 2012 and 2013 budget submissions (OMB, 2011a; 2012a, 'Analytical Perspectives'), refer to productivity and benefit-cost analysis but make no mention of *accrual accounting* or *managerial cost accounting systems* and the essentiality of such systems in measuring productivity and performing benefit-cost analysis. Notwithstanding the legislated adoption and the existing extent of implementation of accrual accounting at the agency level, as recently as 2007 the GAO (2007a) found that the accrual accounting requirements of the 1990s legislated framework remained to be fully implemented—specifically the requirements of the 1996 FFMIA.

The private sector has had similar problems. More than two decades ago, Johnson and Kaplan (1991) published a landmark critique of accounting in the private sector. They castigated the accounting profession for concentrating on periodic financial statements for external purposes and neglecting the original foundations of the profession in failing to provide operational level management with useful cost and other performance measures. The “original purpose of providing information to facilitate cost control and performance measurement in hierarchical organizations has been transformed into one of compiling costs for periodic financial statements” (Ibid, p. 253). As noted by Johnson and Kaplan, adoption of accrual accounting for the purposes of publishing periodic financial statements for disclosure of financial conditions,

although required by tax and other regulation (e.g., the Securities and Exchange Commission), is insufficient and a deviation from the historical purposes of accounting in business.

The greater value in accrual accounting is in its utility for matching expenditures to outputs and outcomes or revenues and assisting operational managers in determining the best use of resources. This latter purpose requires a commitment by Chief Financial Officers to serve the needs of operational managers. Johnson and Kaplan reinforce the point; "... management accounting information, driven by the procedures and cycle of the organization's financial reporting system, is too late, too aggregated, and too distorted to be relevant for managers' planning and control decisions." The authors add that not only are such reports "of little help to operating managers" in improving efficiency, they result in operating managers devoting their time to developing the required information themselves. These same issues are relevant to public administration.

Several researchers in public administration identify the principal argument for accrual accounting as one of economic rationality in resource allocation in the context of output production performance measurement (Khan & Mayes, 2009; Kober, et al., 2010; Marty, et al., 2006; Pallot & Ball, 1996). The relevance for this research is that production in both the government and commercial spheres cannot be fully assessed in an economic efficiency context without implementing accrual accounting (Coase, 1990) and doing so in a manner that empowers operational managers (H. T. Johnson & Kaplan, 1991). Chan (2009) notes that in the history of government practice, "accounting has been at the core of the efficiency of public administration since the Progressive Era." Williams (2002) noted that the New York Bureau of Municipal Research in the early 1900s encouraged adoption of business cost accounting techniques to

enable cost effectiveness measurement of government services. Accrual accounting enables application of economic theory for resource allocation; in particular “it has the effect of reinforcing the economic rationality of public decisions” (Marty, et al., 2006). From a financial accountability perspective, Hepworth (2002) noted that with the implementation of accrual accounting, the managerial emphasis shifts to efficiency and effectiveness from ensuring budgets are spent on time. “The measurement of efficiency requires quantitative information on costs and outputs of public service provision. Ideally, this requires an accrual accounting system that registers costs rather than cash flows” (Curristine, et al., 2007). However, Johnson and Kaplan (1991) warn that accrual-based management accounting reports prepared on the same information construct as periodic financial statement with costs “distributed to products by simplistic and arbitrary measures” can distort economic decision-making, the primary purpose of *comprehensive output reporting*.

A number of international researchers (Curristine, et al., 2007; KPMG, 2011; Rodríguez Bolívar & Navarro Galera, 2007) assert that accrual accounting is essential in converting public administration from an input focus to an output and outcome focus as well as for measuring efficiency. “The objective of accruals [accounting] is to make the true cost of government more transparent” (Blondal, 2003). Marty et al (2006) “conclude that obtaining information about the operating costs of the departments ... makes it possible to ensure the economic efficiency of the public choices and ... [enables] an evaluation of economic optimality.” In commenting on U.S. practice, Caiden (2010), in reviewing Schick (2009), notes that accurate cost allocation is crucial to allocative efficiency. Pina and Torres (2003) assessed that accrual accounting “enhances transparency and maintains ... accountability,” which are among the objectives of effective performance measurement and management. Laurin and Wagner, (2011) noted that a change to

an accrual-based cost of outputs focus in government job placement services *forced* outside contract service providers to be more competitive in their pricing.

Brook and Candreva (2007) also found that accrual accounting is instrumental for full cost recognition, especially for personnel-related costs. One of the major personnel-related costs in government is political and executive management overhead. Light (2012) indicates “that between 1961 and 2009, the number of executive layers—or ranks by title—at an average cabinet-level agency jumped from seven to 18, even as the number of executives per layer swelled from 451 to 2,600.” Overhead is a pernicious cost that remains ‘out of sight and out of mind’ absent accrual accounting. Accrual accounting, if adequately implemented, is able to open overhead costs and their relevance to the work done to scrutiny and challenge.

Policy and practice diffusion may have played a role in the adoption of accrual accounting in many OECD countries. Blondal (2003) has noted that “more [OECD] countries are adopting accruals ... [which] typically proceeds with individual ... agencies first adopting accruals for their own reporting. Over time ... more ... agencies adopt accruals, and then the financial statements for the whole-of-government are presented on an accrued basis.” This diffusion process has not been as widely emulated in U.S. federal government practice. The process in the US has largely followed a reverse trajectory, and one that also remains incomplete. Accrual accounting has been imposed on the named CFO Act agencies from the top down (i.e., through the 1990 CFO Act, the 1996 FFMIA and other related legislation) but does not appear as yet to permeate the cabinet-level Executive Branch agencies below the agency headquarters level.

The performance management and accrual accounting literatures, when it comes to efficiency measurement, both suggest the two practices, efficiency measurement and accrual accounting, require simultaneous implementation for either to be effective. That has not generally been the case; Pollitt (1999) observed “Performance management and financial management have tended to operate in separate spheres ... with little interaction between them.” That observation was repeated in 2004 (Pollitt & Bouckaert, 2004, pp. 71-72). Pollitt’s observation appears perhaps debatable in the cases of the Australia, Canada, New Zealand, and Sweden. However, it still holds in the U.S., fifteen years following 1998 when ‘whole-of-government’ financial statements were first put in place (J. L. Chan, 2002).

There is little evidence of accrual accounting based performance reporting extending below the top management level of agencies (Boyle, 2009; Heinrich, 2012; Metzenbaum, 2009). In assessing managerial cost accounting practices, the GAO (2007b) reviewed ten of the 24 CFO Act/GPRA agencies required to have managerial cost accounting systems. Out of the ten agencies reviewed, only three had implemented comprehensive agency-wide systems while one additional department had made “significant progress.” The GAO has concluded “many agencies do not yet have the accurate, reliable, and timely data needed for MCA systems to ensure the outputs are useful and reliable.” That conclusion is reinforced by McTigue et al (2009) wherein the authors rated sixteen of twenty-four federal agencies *unsatisfactory* in measurement of efficiency and effectiveness. Comprehensive accrual-based MCA systems bridge the *separate spheres* and facilitate the *interaction* to which Pollitt referred. ‘Bridging’ was among the intended outcomes of the 1990 CFO Act, which established Chief Financial Officers in each of the 24 federal agencies, as well as the 1993 GPRA, the 1994 GMRA, and the 1996 FFMIA.

Pollitt & Bouckaert (2004, p. 72) have observed from their survey work that if accrual accounting systems are not comprehensive and are not accessible for use by ‘street-level’ management, then the links between input expenditures and cost and performance will not be possible and any benefits will be limited. Their observation is evidence that the issues highlighted by Johnson and Kaplan (1991) are also prevalent in public administration. Scheers et al (2005) assessed that the financial instruments accompanying the management, performance measurement, and financial reforms in Australia and the UK have delivered a “more efficient and effective internal management” but that “it takes time realize the full potential.” Sterck and Scheers (2006) similarly noted, “the major impact ... appears to be situated in the internal management of departments and agencies” as well as the fact that “Top managers say that efficiency and effectiveness have improved.”

Survey work by Lee (2008) revealed that, “financial information was considered to be the *most useful*” (italics added) in comparison to all other performance metrics for all levels of management in assessing and improving efficiency. Smith and Cheng (2006) assessed that accounting reforms “might not be useful for allocating resources [budgeting] ... but appear to be useful for improving the quality and cost of providing services.” Schick (2007) draws a similar conclusion in stating that accrual-based performance and budgeting tools are more useful as “analytical tools” than as “budgetary decision rules.”

Some researchers in the field have noted the high degree of correlation between those nations adopting the efficiency focused NPM precepts and practices and the adoption of accrual accounting techniques; both are measurement and efficiency oriented (Diamond, 2002; Kober, et al., 2010; Pina & Torres, 2003). In contrast to the aphorism *familiarity breeds contempt*, accrual

accounting, like most red wine, may *improve with age*. It appears to increase in value with familiarity and use (Lee, 2008). Kober et al (op. cit.) found that although accrual-based measurement remains controversial in many countries, it may become increasingly valued over time. H.J. ter Bogt, (2008) in studying Dutch local government, commented that, “over the long run, the [accrual accounting] changes did have some effects that [public administrators] liked and seem (*sic*) to be in line with the ‘ideals’ presented in NPM literature.”.

Notwithstanding the practical and theoretical basis for accrual accounting systems in output reporting, a number of researchers in public administration question the utility, usually on the basis of unforeseen externalities, effects on the normative values of *traditional* public administration, the benefit-cost aspect, and the overall effectiveness of performance management (Carlin, 2005; Devlin, 2010; Ellwood & Newberry, 2007; Hyndman & Connolly, 2011; Lapsley, Mussari, & Paulsson, 2009). Eikenberry and Kluver (2004) question the entire precept of performance measurement and the “marketization” of public administration and see it as “incompatible with democratic citizenship.” Those without a financial background, as might be the norm among public administrators, generally “don’t believe there is a need for it” and that “accruals accounting provides a narrow idea of performance, focusing on cost of services and efficiency” (Hyndman & Connolly, 2011).

Auditors, accountants, financial officers, and economists are generally among the strongest advocates of accrual accounting (Ayto, 2001; R. Baker & Rennie, 2006; Christensen & Parker, 2010; Free & Radcliffe, 2009; General Accounting Office, 1986, 1991, 2000; Government Accountability Office, 2006, 2007a, 2007b; Hepworth, 2002; Likierman, et al., 1995; Management Advisory Committee, 2001; Scott, 2001).

Legislation, Audits and Reports, and Management Directives

Examination of this body of documents is somewhat anomalous to what is normally incorporated into a literature review for a research project in that it does not constitute ‘scholarly research.’ However, as pointed out in the introduction to this chapter, it forms a critical part of the analysis for this project. Legislation, audit reports, and Executive Branch policies on public management have substantially defined the practice of performance measurement, reporting, and performance and financial management in the U.S. government. The body of legislation across a number of countries has facilitated much of the scholarly research into the outcomes, outputs, and the overall performance management regimes of governments. Some researchers have found evidence of positive changes in bureaucratic behavior and government outcomes as well as raised questions as to the efficacy of performance and financial reporting systems and whether or not the *general welfare* has improved as intended (Boyle, 2009; Metzenbaum, 2009; Schick, 2001; Scott, 2001). Accordingly, the relevant legislation, reports and management policies comprise an important ‘literature’ component for research into government microeconomic performance measurement and management. This section constitutes an analysis of the legislation and policy as well as the closely related scholarly comment with respect to it.

The Financial Accounting and Performance Reporting Legislation

The 1990 CFO Act, the 1993 GPRA and the 1996 FFMIA represent the foundation microeconomic efficiency and effectiveness legislation of the American federal government. The CFO Act provided the primary impetus and basis for action, with the GPRA and the FFMIA defining the practice of performance and financial reporting, analysis and management. The CFO Act was the outcome of more than 40 years of a longstanding inability to account for funding, fee and other revenues, expenditures of appropriations, and assets, liabilities and operating costs

of the federal government. The 1949 and 1956 Hoover Commissions and the 1984 Grace Commission all recommended that government adopt accrual accounting in order to better measure the cost, efficiency and effectiveness of government (J. L. Chan, 1994, 2009) as did the 1967 President's Commission on Budget Concepts¹⁸ (J. L. Chan, 2002; Scherer, 1967). The 1986 Federal Government Reporting Study (GAO, 1986) concluded that:

“Members of Congress, public and private groups and government executives ... most users wanted [a system that provided] ... a complete measure of the annual cost of government services, a measure of cost that is useful for analysis of trends and for comparison with measures of output or benefit, ... and information to assess whether the value of goods and services provided by government are adequate in relation to the goods and services withdrawn by government from the economy.” The study concluded that to “provide all this information requires a cost-based, full accrual accounting system.”

The continuing fiscal, budget and spending crises of the mid to late 1980s and early 1990s, characterized by the 1982 Federal Managers' Financial Integrity Act (FMFIA), the 1985 Balanced Budget and Emergency Deficit Control Act, and the 1986 Federal Government Reporting Study, contributed to a growing impetus for financial management reform. The first federal government Chief Financial Officer (CFO) was established administratively in the OMB in 1987. Various legislative attempts to improve and embed comprehensive financial management reform in the federal government were undertaken throughout 1988 and 1989. Subsequently, in September 1990, the CFO Act was introduced in the House and shortly thereafter signed by the President in October (Library of Congress, 1990). The head of the GAO, Charles Bowsher, characterized the Act as “most comprehensive and far-reaching financial management improvement legislation since the Budget and Accounting Procedures Act of 1950” (General Accounting Office, 1991).

¹⁸ The Report was completed in 1967 but was presented to Congress in January 1968; it is often referred to as the “1968 President's Commission”

Interestingly, Congress, in exercising its budget and oversight authority, mandated in the 1950 Budget and Accounting Procedures Act that “the GAO ... prescribe accounting rules and procedures to be followed by executive departments and agencies, whose accounting systems also had to be approved by the GAO” (J. L. Chan, 2002, p. 204). In the 1990 CFO Act, Congress reversed itself, diminishing the authority of the Comptroller General and Congress itself, and, instead, “authorised OMB [i.e., the Executive Branch] to determine the ‘form and content’ of financial statements of federal agencies. Although, the legislation did not change the GAO’s longstanding role in prescribing accounting standards” (J. L. Chan, 2002, p. 205; CFO Act, 1990, p. Sect. 3515(c)), it has diminished the GAO’s influence over the extent of their application. The OMB is now in the position to “prescribe accounting rules and procedures to be followed by executive departments and agencies” (J. L. Chan, 2002, p. 204).¹⁹

The CFO Act also established within the OMB a new position of the Deputy Director for Management as the CFO of the Executive Branch. In addition, the legislation created the Office of Federal Financial Management (OFFM) under the new Deputy Director to carry out government-wide financial management responsibilities. Lastly, the Act established CFOs in each of the 24 CFO Act Agencies. Among the stated purposes of the CFO Act is included the mandate to:

Bring more effective general and financial management practices to the Federal Government through statutory provisions, ... Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information, ... [and] Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the

¹⁹ This quote is employed out of context to emphasize the shift in authority over accounting rules from the GAO (Congress) to the OMB (Executive Branch).

Government and the Congress in the financing, management, and evaluation of Federal programs.

(CFO Act, 1990)

While the emphasis in the legislation is on financial management broadly conceived, the Act also mandated that “agency CFOs develop and maintain accounting and financial management systems which report cost information [and] ... that agency financial management systems must provide for the systematic measurement of performance” (GAO, 1991, p. 14). The GAO further noted, “decisionmakers (sic) need reliable financial information to assess the implications of alternatives and improve the economy and efficiency of government operations.” However, since Congress vested authority in OMB in the 1990 CFO Act “to determine the ‘form and content’ of financial statements” the Comptroller-General and the head of the GAO, only has advisory authority as to what “reliable financial information” is required.

As pointed out in the introduction to this project, the 1996 FFMIA reinforced and expanded upon the cost and efficiency management requirements of the CFO Act. The FFMIA mandated compliance with the accounting standards developed under the FASAB, particularly SFFAS No. 4 on Managerial Cost Accounting Standards. Many of the legislative prescriptions of the FFMIA have been incorporated into OMB management guidance in OMB Circulars A-11 on budgeting, A-127 on financial management, and A-136 on financial reporting (see pp. 5-6).

The Performance Legislative Framework

The 1990 CFO Act, the 1993 GPRA, and the 1996 FFMIA are the basis of the input-output-outcome performance management framework at Figure 1 (p. 16). While the CFO Act is concentrated on the financial integrity, accountability, accounting systems, and cost measurement for analysis purposes, the 1993 GPRA concentrates primarily on effectiveness, i.e.,

the policy purposes or outcomes, with little emphasis on what government does or the cost to achieve policy outcomes. In contrast, the 1996 FFMIA concentrates on financial and cost measurement and accountability for government operations.

The five purposes of the GPRA listed in Section 2(b) of the Act refer throughout to reporting on “results,” “objectives,” and “effectiveness.” The sole reference to efficiency is to “congressional decision making ... on the *relative* effectiveness and *efficiency* of Federal programs and spending” (emphasis added). No reference is made to the efficiency or effectiveness of the underlying activities or outputs of agencies in achieving outcomes. In Section 4 of the GPRA, pertaining to Performance Plans and Reports, agencies are required to “establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity.” A ‘performance indicator’ is defined as a “particular value or characteristic used to measure output or outcome.” In summary, the focus of 1993 GPRA is primarily on the effectiveness of government in achieving desired policy outcomes; it does not specify a requirement for output measurement or reporting. However, Section 902(a)(3)(D) of the CFO Act specifically mandates that “agency Chief Financial Officers shall [inter alia] ... develop and maintain an integrated agency accounting and financial management system [that] ... provides for ... the development and reporting of cost information ... [as well as] the systematic measurement of performance.” The result is that the efficiency and effectiveness of agency outputs, even if measured under the CFO Act and the FFMIA, are not mandated to be reported under the GPRA.

The distinction between output measurement (CFO Act and FFMIA) and outcome reporting (GPRA) in the legislation is reinforced through the manner in which the two acts are

administered. The CFO Act is administered, by statute, through the offices created by the CFO Act, that of the OMB Deputy Director for Management (DDM) and the Office of Financial Management, which is subordinate to Deputy Director for Management. That practice also applies to the FFMIA. This not the case for the GPRA; it appears to fall, by practice in contrast to legislation, within the remit of another OMB Deputy Director and the Executive Associate Director for Resource Management responsible for Performance Management and the Resource Management Offices. This division in responsibilities is not apparent in the most recent description of duties for OMB (2013) but it remains apparent in the OMB Organization Chart.²⁰ As Pollitt (1999) observed in 1999, there remains a distinct bureaucratic separation within the OMB between financial management and efficiency reporting and outcome performance reporting and management functions. As remarked on by Johnson and Kaplan (1991), there has been a similar problem in the business sector. The separation between financial management and performance management appears in various GAO reports as well. This is also the pattern revealed in the scholarly research into performance reporting and management; these separate literatures refer to a relative paucity of efficiency reporting and financial measurement in the formal performance reports. The relevance of this ‘distinct bureaucratic separation’ within OMB was examined in the course of the interviews for this project.

The Accounting Legislation – the FFMIA

The 1996 Federal Financial Management Improvement Act (FFMIA) reinforced the responsibility of agency CFOs for output measurement and efficiency. Its explicit intent was to reinforce the provisions of the CFO Act and is administered similarly within the OMB. Six years

²⁰ See OMB Org Chart, http://www.whitehouse.gov/sites/default/files/omb/assets/about_omb/omb_org_chart_0.pdf. Last accessed for confirmation purposes Oct 3, 2013.

following the CFO Act, the “Findings and Purposes” of the FFMIA, Section 802 state “Federal financial management continues to be seriously deficient, and Federal financial management and ... accounting practices do not accurately report financial results ... or the full costs of programs and activities.” The purposes of the FFMIA are explicitly activity and output-cost focused; it requires “financial management systems to support full disclosure of ... full costs ... so that programs and activities can be considered based on their full costs and merits [and] ... improve performance, productivity and efficiency” Section 803 requires that government financial systems be uniform in adherence to Federal Accounting Standards Advisory Board (FASAB) standards. FASAB Standard No. 4 *Managerial Cost Accounting Standards and Concepts* (2007) establishes requirements for costing, including output costing and reporting. Under the FFMIA, compliance with FASAB standards requires explicit comment by agencies’ independent auditors.

However, and importantly, the FFMIA allows that final determination of compliance with the FFMIA, notwithstanding a negative audit opinion, is left to the agency head and the Director of the OMB (FFMIA, 1996, S. 803; OMB, 2009b). In 2001, the GAO (2001a) observed that independent auditors for “19 of the 24 CFO Act agencies reported that their agencies’ financial management systems did not substantially comply with FFMIA requirements.” In 2007, the GAO (2007a) again cited failure to comply with the FFMIA as a significant problem. A second GAO report that year (2007b) cited widespread failures in implementing Managerial Cost Accounting (MCA) systems. In 2009, the Director of OMB, exercising his authority over accounting rules as transferred from the GAO by the CFO Act, defined compliance as follows:

In determining whether an agency’s financial management systems substantially comply with FFMIA, management and auditors need to consider whether a system’s performance prevents the agency from providing reliable and timely financial information necessary for Federal managers. Identified deficiencies that do not prevent the agency from meeting the above requirement generally should not be considered as part of a FFMIA compliance determination. Auditors then need to use

judgment in assessing whether the adverse impacts caused by identified deficiencies are instances of substantial noncompliance with FFMIA.

OMB Memorandum M-09-06, Jan 9, 2009
Implementation Guidance for the FFMIA

In practice, the OMB guidance implies that the only relevant criterion for ‘substantial’ FFMIA compliance is “reliable and timely information necessary” *to complete auditable financial statements* (emphasis added). This guidance implies there is no need to measure output or activity costs if they are *deemed as only required* for management purposes as opposed to auditable financial statements. This nature of guidance precludes independent auditors from assessing ‘substantial’ compliance with the FFMIA on the basis of implementation of the managerial cost accounting systems essential to effective and efficient management performance. The OMB guidance substantively defeats the purposes of the FFMIA.²¹

GAO Management and Audit Reports

The GAO has noted that “much remains to be done ... to increase the use of performance information to make decisions about resources” (Dalton, 2004). A GAO (2004, p. 64) survey of federal managers found only 31 percent employed measures of cost effectiveness for their programs. Schick (2003, p. 83), in commenting on practices within the OECD, noted that “governments that invest in measuring performance rarely use the results in managing.” The follow-on 2007 GAO survey (Steinhardt, 2008) found 29 percent employed such measures. The GAO commented that the differences were not statistically significant. However, Diamond

²¹ See FFMIA Sec. 802. Findings and Purposes, paragraph (b) Purpose—The purposes of this Act are to— (2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities ... so that programs and activities can be considered based on their full costs and merits; (4) improve performance, productivity and efficiency of Federal Government financial management; (5) establish financial management systems to support controlling the cost of Federal Government
....

(2005) observed that since the enactment of GPRA, the focus on the measurement of efficiency appears to have been diminished. In GAO's 2007 survey, Steinhardt (2008) further noted that "federal managers who reported using information obtained from performance measurement for various management activities," including "allocating resources" and "changing work processes," had declined. Lee (2008) observed, "It seems paradoxical that public sector reform is partly a response to growing criticism of public sector inefficiency, yet attention on performance measurement has recently shifted away from the long-debated efficiency measures."

More recently, the GAO (2010; Steinhardt, 2009) again reported an inadequate emphasis on efficiency, notwithstanding that the GAO survey data (2008b) indicating that 47 percent of federal managers claimed to employ efficiency measures. Others have also noted the limited utility of outcomes for measurement purposes and the corresponding essentiality of outputs for efficiency and effectiveness measurement (Behn, 2003, 2004; Hatry, 2006, 2010; Hatry & Davies, 2011; Wholey, 1999). Notwithstanding his positive view of outcome reporting, Boyle (2009) found that the "outcome and outcome indicators ... actually used ... in GPRA performance reports," had little useful tie-back to agency outputs. Metzenbaum (2009) also assessed that "GPRA ... did not motivate ... widespread use of [performance data] ... measurements are obviously useless when not used in daily and strategic decision-making." Hatry (2010) concluded, "The use of performance information appears to be particularly weak." Pollitt and Bouckaert (2004, p. 176) best highlight the tension between outcomes and outputs; "effectiveness is a question of securing the hoped for outcomes, while efficiency is a matter of optimizing the input/output ratio." They also note that managers that concentrate on outputs tend to lose sight of outcomes but that managers cannot be accountable for outcomes influenced by external factors. They can only be accountable for outputs and for whether those outputs are

focused appropriately on the desired outcomes. Francis Fukuyama (2004, pp. 55-66, "Principals Agents and Incentives") observed, "Monitoring agent behavior and holding agents accountable is particularly difficult in the public sector. ... If ... [outputs] cannot be measured accurately, there can ultimately be no formal mechanism for delivering transparency and accountability."

In assessing agency GPRA reports, the GAO (2011a, 2011b) reported, "Auditors continue to report that many agency systems do not meet FFMIA requirements, and increasing concern exists regarding the criteria to be used for determining substantial compliance with FFMIA as a result of recent revisions to OMB guidance." In 2011, independent auditors found 11 of 15 cabinet-level agencies were not in substantial compliance with FFMIA (G. L. Dodaro, 2012) while in only seven cases did management agree. The Comptroller-General summarizes the circumstances in his 2012 testimony to Congress on the 2011 financial statements.

"... many of the CFO Act agencies continue to struggle with financial systems that are not integrated and do not meet the needs of management for reliable, useful, and timely financial information. Often, federal entities expend major time, effort, and resources to develop financial information that their systems should be able to provide on a daily or recurring basis."

Dodaro, 2012, GAO-12-444T, p.5

The Comptroller-General's testimony defines an important issue in the context of more comprehensive financial reporting. OMB which, as of the passage of the 1990 CFO Act, has the authority to "prescribe the form and content of the financial statements" appears to have interpreted its mandate in a manner that does not provide the "complete, consistent, reliable, and timely information" called up by the Act (CFO Act, 1990, "Findings and Purposes" and "Financial Statements of Agencies). In 2009, OMB (C. Johnson, 2009) issued revised management guidance on implementation of the 1996 FFMIA. OMB reduced the requirements of the FFMIA to "support full disclosure of ... the full costs of Federal programs and activities ...

so that programs and activities can be considered based on their full costs and merits” through implementation of managerial cost accounting (MCA) systems. The revised guidance weakened the influence of audit oversight on agencies to establish MCA systems as stated in FASAB Statement of Federal Financial Accounting Standard (SFFAS) No. 4.²² Prior to the OMB change, an agency could be denied a ‘clean audit’ for not establishing MCA systems for critical processes, such as revenue collection. This change also reflects somewhat the diminution of support to operational management by the professional financial and accounting community articulated by Johnson and Kaplan (1991). CRS (McMurtry, 2009) analysis highlighted the improvement in “timely financial reporting and more unqualified audit opinions.”

A Summary of the Literature and Documents Review

The New Public Management (NPM) literature reveals a similar pattern of government management reform across a number of OECD countries with Australia, the UK, Sweden and New Zealand employed as exemplars. In their survey work, Pollitt and Bouckaert (2004, pp. 30-31) noted that microeconomic theory underpinned many of the management ideas on the improvement in efficiency and effectiveness.

The performance management literature from the internationally focused researchers reflects a migration from output to outcome measures. Some countries started their administrative reforms by assuming production efficiency mattered most and concentrated primarily on outputs. New Zealand is the pre-eminent example (Boston, et al., 1996; Scott, et al., 1997) followed by the UK. Other countries, Australia for example (Baehler, 2003; Management

²² Prior to the issuance of this memorandum, GAO guidelines (2005) determined compliance with the FFMIA for audit purposes. The critical section is articulated in the "Functional Requirements" for the "Cost Management Functions" on p. 94 of GAO-05-225G, which specifies that "the core financial system provide the capability to allocate and distribute the full cost and revenue of cost objects as defined in ... SFFAS No. 4 [MCA systems].”

Advisory Committee, 2001), assumed effectiveness was primary and started by defining outcomes . However, outcomes were extremely difficult, and in many cases impossible to quantify in meaningful terms and attribute back to the specific outputs and activities of government. An outcome-based approach helped focus output efforts and probably contributed to efficiency but provided no basis for measuring and therefore demonstrating efficiency. In most cases, those countries embarking on management reforms that were aimed at greater efficiency and effectiveness, ultimately develop management and performance measurement systems based on measurement of outputs for efficiency purposes and assessment of their contribution to outcomes for effectiveness purposes (Australian National Audit Office, 2007; Boyle, 2009; Hoque, 2008; Pollitt & Bouckaert, 2004; Scott, 2001; Ussher & Kibblewhite, 2001). Most of the literature encompassed in the categories of NPM and performance management also point to the necessary evolution to and adoption by governments of accrual-based accounting if output performance is to be measured (Curristine, et al., 2007; OECD, 2005). In summary, outcome measures have been difficult to develop; but they have been preferred by both legislators and the public. The efficiency of government matters; but it might be concluded that output measures are best for internal management purposes while outcomes are more suitable for public reporting.

The U.S. experience has been largely the opposite of the other OECD nations. Between World War II and the 1993 GPRA, a number of presidential commissions and the scholarly literature focused on efficiency and financial accountability—measures more closely associated with outputs than outcomes. Since the enactment of the GPRA, the emphasis in the federal government has largely been on outcomes with output measurement and efficiency all but ‘falling off the table.’ The performance measurement and management literature reveals the U.S. as the principal outlier with respect to its predominant focus on outcomes since the passage of

the 1993 GPRA, notwithstanding the perceived mandate in financial legislation to also measure outputs. That said, a number of researchers have noted inadequacies in the outcome focus inherent to the GPRA; they have advocated a more balanced approach and a closer look at the output measurement and relating what government does (outputs) to achieve outcomes.

Some researchers, Radin in particular, see little value and some harm in the manner in which performance measurement is practiced in the federal government. She notes that there is more purpose in performance measurement and management as a tool of internal administrative management rather than a political or general public reporting mechanism. Meyer notes that all “performance measures lose variance and ‘run down’ with use,” result in ‘gaming’ thereby losing capacity to discriminate between good and bad results. Courty and Marschke report similar findings. Meyer sees the better alternative to be a return to a “focus on the core activities of the firm, literally what the firm does, what these activities cost, and the revenues they yield” Moynihan and Pandey, in their research on why managers might use performance information drew the conclusion that the strongest motivation came from the intrinsic public service motivation of managers, organizational culture and authority to act on the information. Although they did not draw the explicit conclusion, their findings appear to substantiate the view that measures of what the organization does are the measures more likely to be used. That appears to reinforce Radin’s view.

From a summary perspective, this literature group suggests the necessity for an increased emphasis measuring output and outcome performance in relation to each other. This implies a research approach based on *comprehensive output reporting* (Research Question RQ1, p.27).

If government production is to be assessed in an economic efficiency context (see Research Question RQ2, p. 27), the literature on accrual accounting largely affirms the utility and necessity of its application. Chan (2003, 2009) and Williams (2002, 2003) note that accrual accounting was instrumental in the original work on government performance by the New York Bureau of Municipal Research and its various offshoots. Marty, et al (2006) noted that accrual accounting “has the effect of reinforcing the economic rationality of public decisions.” Blondal (2003) observed that “objective of accruals [accounting] is to make the true cost of government more transparent.” Brook and Candreva (2007) asserted its essentiality in particular for recognizing and allocating personnel costs, the largest component of government cost.

Johnson and Kaplan (1991) expressed deep reservations about the manner in which the professional accounting community and the current accrual accounting model does not support operational management. They articulated similar reservations for cost accounting practices based on financial systems and statements focused on external reporting and advocated a return to those costing and measurement methodologies that best support operational managers—that represents a call for improved managerial cost accounting (MCA) systems. Such systems are essential to output measurement. In a similar vein, Pollitt and Bouckaert (2004, p. 72) noted that if accrual accounting is limited to the upper levels of organization structure, “far from ‘street-level’ management,” its effect on operations and operational level management will be limited.

The review of the legislative framework, as reflected in the 1990 CFO Act, the 1993 GPRA, the 1996 FFMIA, FASAB SFFAS No. 4 on Managerial Cost Accounting (MCA), and the 2010 GPRAMA, reveals the legislation to be a robust foundation for a comprehensive input-output-outcome regime supported by comprehensive accrual accounting systems that also

provide for sub-systems. However, the FFMIA allows the degree of implementation to be at the discretion of executive management (FFMIA, 1996, S. 803). The FFMIA implementation documentation issued by OMB (2009b) implies a less positive outcome for the performance measurement, reporting and management system. Although the core financial administration legislation (the CFO Act and the FFMIA), accounting standards (FASAB Standard No. 4), and OMB procedural guidance in OMB Circulars concerning financial and budget management specify the development of activity and output costing and efficiency measures, the reality of reporting is substantially different. The GPRA, the dominant legislation concerning performance reporting, and the government wide management direction from OMB in various executive memoranda (Lew & Zients, 2011b; OMB, 2011b; Zients, 2011) is focused principally on outcomes, which are difficult to measure and attribute. The GAO and the scholarly literature referenced above regarding performance measurement indicate that the cost and efficiency component of performance reporting is not well developed in either of the accounting systems or the performance management regime in the federal government.

In closing, the literature and documentary review suggests that the U.S. federal government performance measurement systems are conceptually and practically incomplete in that they appear to be predominantly focused on outcomes. Outcomes generally defy useful measurement in terms of agency resources and the efficiency and effectiveness of the use of those resources. Furthermore, although accrual-based financial statements are in place at the agency level, the documentary review, as well as some of the scholarly literature, indicate that the accrual-based managerial cost accounting systems essential to comprehensive cost-based performance measurement and reporting systems are not in place at the sub-agency or bureau level.

Chapter 3

Methodology

This project employed a qualitative research design. Creswell (Creswell, 2009) states that qualitative methods are best suited to open ended questions and research employing document or interview data. The existence or extent of the practice of *comprehensive output reporting* is an open ended question. Although there are factors or indicators of the presence of *comprehensive output reporting*, there are no independent variables that ‘cause’ the practice of *comprehensive output reporting*.²³

This project employed a cross-sectional case study approach. O’Sullivan et al (2003) indicate that cross-sectional and case study designs are appropriate for this nature of inquiry. Subsequent to a literature review, the project surveyed documents, analyzed past surveys on performance management practices, analyzed performance and financial reports, and then interviewed individuals to determine whether or not *comprehensive output reporting* occurred. Different reports from different Executive Branch cabinet-level agencies from a specific point in time were assessed for indicators of reporting practices. The analysis of the reports was complemented by non-random interviews of subjects in three of the thirteen executive branch agencies from which reports were selected for review. In conjunction, previous individual survey work was analyzed to determine the nature of and if individual attitudes and behavior of senior

²³ It is feasible to argue that the legislation (e.g., the 1990 CFO Act, the 1993 GPRA, and the 1996 FFMIA) and accompanying regulation (particularly FASAB SFFAS No. 4) are *causal*. However, although the legislation and regulations dictate measurement and reporting, interpretation of the ‘form’ has varied and a causal link to *comprehensive output reporting* in practice is not evident. Additionally, although this project has articulated the essentiality of accrual accounting to *comprehensive output reporting*, accrual accounting does not ‘cause’ *comprehensive output reporting*.

managers in the recent past were indicative of *comprehensive output reporting*. Essentially, the project sought to identify what nature of reporting had occurred, how prevalently, and under what circumstances.

The literature on New Public Management (NPM), performance measurement and management, and accrual accounting in the public sector was reviewed to obtain data on the development and characteristics of performance management implementation in the U.S. and other nations. Additionally U.S. federal legislation, audit and other GAO reports, and Office of Management and Budget managerial and procedural directives were analyzed for rationale and the nature of the managerial direction that characterized and shaped implementation of performance management within the CFO Act named agencies.

Secondary data, such as the results of the 2007 GAO (2008b) survey of mid-level of senior managers and the last of the 10-years of Mercatus Center (MC) Annual Performance Report Scorecards (McTigue, et al., 2009) were used to assess implementation and practice in agencies in the recent past. Empirical measures indicative of performance measurement and management practices were developed from the 2007 GAO Managers Survey data and compared to this project's *comprehensive output reporting* indicators. The Mercatus Center report was analyzed for its assessment of performance management practices in the CFO Act agencies in comparison with the GAO Managers Survey analysis and this project's *comprehensive output reporting*. Secondary data analysis was used to inform primary data analysis and to determine inconsistencies in interpretation between previous researchers.

Primary data consisted of the 2011 GPRA reports for 13 of the cabinet-level Executive Branch agencies²⁴ and interviews of non-randomly selected managers within three non-randomly selected bureau-level agencies within three of the 13 agencies. The interviews provided the basis for deeper case analysis of the three bureau-level sub-agency organizations.

The project excluded the Departments of Defense and Homeland Security due to the fact that neither had achieved a ‘clean audit opinion’ in 2011 for issues related to, among others, asset valuations (G. L. Dodaro, 2012). The absence of a ‘clean audit’ called into question the reliability of accrual accounting-based cost assignment and therefore the utility of comprehensive output measurement and reporting. A list of the 13 cabinet-level agencies selected for this research and the 24 agencies required to prepare annual GPRA reports in accordance with the 1990 CFO Act and the 1993 GPRA is at Appendix A.

Research Design

The research sequence, analysis framework, and methods plan consisted of the following:

- 1) Content analysis of secondary data available in previous work by:
 - a. the GAO (the 2003 and 2007 management surveys and other related GAO audit reports). The analysis was expanded to include development of indices from the survey data indicating the nature, extent, and quality of as well as impediments to performance measurement; and
 - b. the George Mason University Mercatus Center reports and articles on GPRA reporting (J. Ellig, 2009, 2010; J Ellig, et al., 2011; McTigue, et al., 2009).

²⁴ For a list of the Cabinet level CFO Act agencies, see (Office of Citizen Services, 2012, USA.gov Web Page),

- 2) Content analysis of the selected 13 agency annual GPRA mandated performance and financial reports (PARs or AFRs and APRs) for evidence of output and/or work activity efficiency and effectiveness reporting employing the research questions developed in Chapter One;
- 3) Content analysis of selected sub-agency bureaus/offices budget submissions and their performance and financial reports (i.e., in those few cases where formal performance and financial reporting at the sub-agency component organization level occurred) for evidence of output and/or work activity efficiency and effectiveness reporting;
- 4) Development of three sub-agency component organizations (i.e., bureaus, offices, or administrations within the CFO Act departments/agencies) as case studies based on interviews and content analyses of agency-level reports; and
- 5) Interviews of selected ‘case organizations’ and parent agencies’ officials, e.g., Chief Financial/Chief Information Officers/Performance Officers or their staff, at the agency and sub-organization levels, performance and financial staff, and operational level senior managers (i.e., those responsible for producing outputs), and
- 6) Interviews of selected OMB, GAO staff and the Mercatus Center researchers concerning performance measurement, reporting and management issues.

The 13 selected agencies’ annual financial and performance reports (PARs or AFRs and APRs) were accessed via Internet weblinks through [Performance.Gov](https://www.performance.gov), the federal government website for performance reporting, to the agency websites. The sub-agency budget submissions and reports, such as they existed or were available, were accessed through the respective sub-agency organizations’ websites. The links to the sub-agency websites were acquired either through the parent agency website or using conventional Internet search protocols. The content

analyses were expected to reveal reporting patterns that were then used to select the case study organizations. The case studies were employed to examine the specific reporting practices at the sub-agency level within the overall reporting pattern.

The intent of the documentary review was to apply the research questions in Chapter One (RQ1 and 2 specifically) to the content of the policy documents. The intent was to identify the likelihood that comprehensive output performance measurement and reporting, supported by some level of managerial cost accounting, was taking place within the sub-agency component organizations, regardless of whether or not such reporting appeared in detail in the annual agency level reports.

Subsequent to the review of the 2011 agency level PARs or AFRs and APRs, the results were compared to results from the content analysis of the secondary data sources. This led to the selection of three sub-agency component organizations for development as case studies for evidence of comprehensive output reporting and for exploring possible explanations as to how and why output reporting did or did not occur. Yin (2009, pp. 5-20) assessed that research addressing “how” and “why” or explanatory issues focused on contemporary events, as this project does, are appropriate for a multiple case study approach. The three organizational cases selected were based on exemplifying different levels of reporting with the intent of identifying differences in how and why output reporting was carried out.

For example, the documentary review revealed that both the U.S. Patent and Trade Office (USPTO) and the Federal Aviation Administration (FAA) appeared to exhibit a more comprehensive level of output reporting than all other federal government entities. Both of these sub-agency organizations produce their own annual PAR, potentially indicative of heightened

attention to performance reporting and an organizational culture with an enhanced performance orientation. The FAA was chosen as one of the research cases over the USPTO simply because it was larger and therefore perhaps would serve as a better proxy for other federal government organizations. The U.S. Geological Survey (USGS) was identified as reflecting a moderate but increasing level of reporting and appeared as a potential leader in output reporting in the Department of Interior. The USGS Office of Budget, Planning and Integration website (Performance Management Web Page, 2012) indicated that during the period 2004 through 2008 the USGS published an annual PAR. As of 2009 and through 2011, the USGS has not published a PAR. Instead, its performance data has been summarized in the Department of Interior performance and financial reports. The U.S. Forest Service in the Department of Agriculture was selected as an example of an organization within a department that the documentary review indicated might be struggling with performance reporting.

Since output production is normally a function of operational management, output measurement could be expected to occur predominantly within sub-sub-agency organizations, i.e., the divisions or branches of the component bureaus, offices or administrations of the agencies. Furthermore, given the previously noted OMB emphasis on outcome reporting versus output reporting, relatively little output reporting might be evident in agency-level PARs, AFRs or APRs. Nevertheless, to be effective, outcome reporting would normally be occur within a framework described at Figure 1 (p. 16), which implies an output linkage to outcome reporting. That is, agency annual reports (the annual PAR) that attributed costs and performance outcomes to sub-agency organizations would be one indicator that some level of output reporting might exist at the sub-agency level.

Based on the documentary analysis of the primary and secondary data sources, interviews were sought with the authors of the Mercatus Center (MC) reports and articles and a selection of GAO, OMB, and Treasury officials to obtain their views on performance reporting and the comprehensiveness of the reporting by the agencies and sub-agency component organizations. The MC interviewees were the authors of the Center's 10th Annual Report (McTigue, et al). The GAO interviewees were selected from among those named as authors or contributors to the GAO reports related to performance measurement and management.

Interviews were also sought with officials in the three selected case study organizations and their parent agencies. In the parent agencies, interviews with officials responsible for managing financial and performance reporting for agency use were also pursued. In the three selected bureau-level case organizations, interviews were obtained with performance, budget and financial management officials with a role in performance and financial reporting and also with a selection of line management officials responsible for output production and reporting.

Data Collection

Documentary – Primary Data

The annual GPRA reports for the 13 CFO Act agencies, i.e., the 2011 PARs, AFRs and APRs, were accessed using links on the 'Performance.gov' website to the agency websites. The list of the agencies with links to their respective websites is at Appendix A. As previously mentioned, data collection was confined to 13 of the cabinet level agencies out of the 24 agencies named in the 1990 CFO Act. Within sub-agency organizations, budget submissions, if available, were linked to the websites, usually within a webpage for the senior budget official for the agency.

Documentary – Secondary Data

GAO reports and congressional testimony on the results of the 2003 (Dalton, 2004) and the 2007 (Steinhardt, 2008) Federal Managers Surveys are available through the GAO website. Survey questions and responses for the 2007 edition are on the same website (GAO, 2008b). For this research, only responses to Questions 5 and 7 to 12 inclusive were germane. These were ‘headline’ questions that asked for responses to a further 63 items within the seven questions; 24 items of which were considered to be directly related to the issue of output reporting.

The Mercatus Center 10th Annual Performance Report Scorecard and related articles by the authors of that report were accessed through the George Mason University Mercatus Center website. Internet sources for the primary and secondary data used in this research are referenced in those works (See: J. Ellig, 2009; J Ellig, 2010; J. Ellig, 2010; McTigue, et al., 2009).

Interviews – Primary Data

A total of 35 interviews were requested and 22 were obtained. Most interviews required repeated attempts at contact and repeated requests for appointments. Only one interviewee specifically rejected an interview request. Several others did not respond to email requests and telephone calls. No more than three attempts were made to obtain an interview. Interviews were conducted May through August 2012. Eight of the interviews were with oversight or analysis organizations; agencies and bureaus made up the others. Interview response rates appeared to vary across the nature of the employment of the targeted officials. It was much more difficult to obtain interviews from financial management officials than performance management officials—three interviews were obtained with financial management reporting officials.

There was no apparent reason for the observed disparity in willingness to be interviewed. Similar to financial officials, few top-level executive managers at the agency or sub-agency levels acceded to interview requests. However, in a number of cases, their offices referred interview requests to the lower level senior staff and operational level managers directly involved in the work of preparing, assembling, reporting, analyzing and using the data for practical management purposes. The senior management personnel interviewed appeared well aware of the current shortcomings in content and in performance and financial measurement and were able to offer operational level perspectives on the utility of the performance management systems. These interviews left the researcher with the subjective impression of a greater degree of specificity of the issues, problems, and successes of performance measurement and reporting.

Nevertheless, the near absence of elite level interviews deprived this research of a top level executive and political perspective on performance reporting focused on efficiency and effectiveness. This higher level perspective is more important in determining the efficacy of what government does to facilitate what are predominantly aspirational outcomes that are not reliably or directly attributable to the agencies or the work agencies perform (Boyle, 2009, p. 12). The top-level executive perspective would probably be more relevant to and important in performance management activities emanating from performance reporting. For example, top-level executive management has more influence over allocative efficiency, i.e., 'what activities are to be funded.' Operational efficiency or 'how to do what has been funded' is more the province of operational management. Operational efficiency is the primary focus of this research. However, it is unlikely that operational process changes resulting in significant changes in cost profiles, especially increases, would be changed absent executive level cognizance and approval.

All interviews were setup and conducted under protocols established by the Virginia Polytechnic and State University Institutional Review Board. All interviews were recorded with one exception; one subject agreed to be interviewed but refused to sign the *Informed Consent* protocol and refused permission to be recorded. The interview recordings were summarized in electronic text and then coded for content. For the one interview that was not recorded, notes were taken during the course of the interview and then rewritten with expansion of detail immediately subsequent to the interview based on the researcher's notes and memory recall. The questionnaires used in the conduct of the various interviews are at Appendix C.

The following organizations acceded to interview requests as indicated:

- 1) Department of Agriculture and U.S. Forest Service – four interviewees;
- 2) Department of Interior and U.S. Geological Survey – five interviewees;
- 3) Department of Transport and Federal Aviation Administration – four interviewees;
- 4) Office of Management and Budget – three interviewees;
- 5) Government Accountability Office – two interviewees; and
- 6) Mercatus Center (George Mason University) – three interviewees.

Coding

The object of coding in this research was to identify the existence of indicators of *comprehensive output reporting* in the data. The object of this research is defined as: *comprehensive output reporting* incorporating *output quantification*, with *full costing* of the units of output, an output or production entity *efficiency measure*, and an *effectiveness indicator* relevant to an identified agency outcome. Coding protocols were refined based on experience from the documentary reviews and analysis of secondary data sources.

The indicators were those activities or systems thought to represent precursor conditions, activities, or intermediate outputs related to the development of comprehensive output measurement and reporting. For example, *full costing* of work activity or outputs usually requires some form of a managerial cost accounting (MCA) system.²⁵ MCA systems are a requirement of FASAB SFFAS 4, application of which is a requirement of the 1996 FFMIA. Such systems are essential for enabling attribution of direct and indirect costs such as management and administrative infrastructure systems (information systems, human resources, etc) overheads, capital depreciation and direct labor costs. However, MCA systems are not causal; a MCA system is only an indicator of the likelihood of *comprehensive output reporting*.

During the reviews of the 2011 PARs, AFRs and APRs, the sections on 1) 'Management Discussion and Analysis,' 2) Statement of Net Cost,' 3) Notes to the Financial Statements,²⁶ and the 4) Independent Auditor's report were coded for reference to information on sub-agency component organizations' costs, outputs or outcome measures and commentary or data on output efficiency and effectiveness. Evidence of these elements increases the likelihood of comprehensive output reporting. Similarly, sub-agency organizations' PARs, AFRs, APRs, and budget submissions, where available, were similarly coded for evidence of output or activity performance reporting. The documents were also scrutinized for indicators of links to: 1) costs and agency outcomes, 2) operational efficiency measures (outputs relative to accrued input costs), 3) MCA systems that recorded costs of administrative infrastructure systems, facilities

²⁵ Costing of outputs or activities can be done using ad hoc or periodical analyses in the absence of comprehensive managerial cost accounting systems that might routinely provide such information. Output costing done quarterly for example using ad hoc cost analysis techniques, although labor intensive, can be as reliable as those generated by automated accounting systems.

²⁶ 'Note 23' to the Financial Statements is required, in accordance with *OMB Circular A-136 (2010, p. 130)*, to provide supplementary detail to the Statement of Net Cost regarding agency sub-organizations costs.

and management overheads, personnel and other costs for programs, objectives and organizational components. Coding elements developed corresponded to the research questions developed in the research plan.

Issues with coding and the coding scheme

The initial ‘pre-research’ review of selected PARs, agency websites, the McTigue et al study (2009), the Boyle (2009) and the Metzenbaum (2009) analytical work suggested difficulty defining what constitutes an output, a performance indicator, a strategic objective, and an outcome. Most PARs, by OMB direction, focus on high level policy outcomes or strategic objectives with little to no reference to operational level processes and outputs. Boyle (2009, p. 12) in his review of performance reports assessed that, “Three-quarters of the reported indicators surveyed in the U.S. reports are aspirational in nature” and consequently cannot be reliably attributed to work efforts of the agency trying to achieve them. In some cases (e.g., Dept. of Labor), the financial report (DoL AFR, 2011a, pp. 67, 76, Note 15, pp 108-111) and the performance report (DoL APR, 2011b, p. 65) employed cost aggregation categories distinct from those identified as strategic outcomes. Although, the cost aggregation categories and outcomes were cross-referenced, the outcomes were not linked to aggregated costs—that reduced the value of reporting and precluded any efficiency measurement.

Some work outputs defy specific quantitative measurement, e.g. oral policy advice. Private sector scientific, engineering, legal, accounting, and business consulting professionals, among others, often maintain ‘time-and-billing’ systems in order to record the cost and to place a value on ‘advice’ rendered and invoiced. That practice is extremely rare or non-existent intra-organizationally within government—this research observed no evidence of such systems.

Additionally, the practices (indicators) being examined might not be the only ones contributing to the reporting of comprehensive cost information. Other factors limiting reporting may be political or managerial, information systems, management discretion, disincentives, reduced appropriations, congressional or public obloquy, etc. Some of these disincentives to performance reporting were captured in the published 2007 GAO Survey results (2008b) and were analyzed.

Analysis

Analysis included examination of both primary and secondary data sources for potential indicators such as:

- 1) existence of comprehensive accrual-based MCA systems embedded in ‘modern’ financial information systems (1996 FFMIA and FASAB SFFAS No. 4 compliant) at the bureau or operational management level
- 2) output-based performance measurement costing and reporting systems;
- 3) overt managerial interest in operational efficiency and effectiveness within component bureaus in conjunction with and related to desired policy outcomes; and
- 4) a professionally qualified CFO at the agency and sub-agency/bureau level.

If the above indicators correspond to evidence of output reporting that includes the assessment of the cost and the effectiveness of outputs in GPRA reports, then Research Questions RQ1 and 2 are confirmed. It is possible that comprehensive output reporting might be taking place without being evident in the annual GPRA reports. If that is the case, evidence or indicators of such reporting may be revealed in the GAO 2007 Managers Survey responses or be uncovered during interviews.

Operationalizing the Methodology for Document Content Analysis

Methodology for Agency 2011 GPRA Reports

The initial step in this study’s methodology was a content analysis of GPRA performance and financial reports for evidence of output reporting as a basis for developing the parameters of the study. The annual performance and financial reports for fiscal year 2011 for selected Executive Branch agencies were accessed at www.performance.gov. These reports took the forms of a Performance and Accountability Report (PAR) that combined performance and financial reporting or separate Annual Performance Reports (APRs) and Annual Financial Reports (AFRs). Each agency performance report was scanned for articulation of:

- 1) Strategic objectives or outcomes to which a department’s subordinate component bureaus or offices target work objectives, activities, or outputs; (RQ1, Indicator 1-Outputs to Outcomes, p. 32)
- 2) Programs, work objectives, activities, or outputs reported as an indication of progress towards achievement of each strategic objective or outcome and attributed to the work of one or more of the agency component organizations. (RQ1, Indicator 1, p. 32)

In conjunction with explicit performance data, the Management Discussion and Analysis (MDA)²⁷ section, the Statement of Net Cost (SNC), and the ‘standard’ Note 23²⁸ to the Financial

²⁷ “The MD&A performance discussion should ... Discuss the strategies and *resources* the entity uses to achieve its performance goals; ... Entities are encouraged to ... assess *the relative efficiency and effectiveness of entity programs or operations*. Efficiency is defined as the ratio of an “effective or useful” outcome or output to the total input resources of a system; effectiveness is having an intended or expected effect. Entities should strive, to the extent possible, to indicate results achieved and relate major goals and objectives in their strategic plan to cost categories (i.e., responsibility segments) presented in the entity’s Statement of Net Cost (SNC). **Entities should focus on tracking, reporting, and improving program effectiveness and efficiency.**” (Office of Management and Budget, 2010, p. 21, OMB Circular A-136) [emphasis added].

²⁸ OMB Circ. A-136 specifies such information to be included at “Note 23.” However, the information, when reported, was found under various other note numbers—not a significant issue.

Statements from each agency financial report, the contents of which are mandated by OMB Circ. A-136 (2010, p. 130), were scanned for evidence of output reporting based on: (RQ1 and 2, p.31)

- 1) commentary implying an emphasis by executive level management on achieving improved efficiency and effectiveness; (Indicator 5- Overt Performance Culture)
- 2) commentary on compliance with the 1996 FFMIA, particularly with respect to FASAB Standard No. 4 regarding managerial cost accounting systems; (Indicator 5)
- 3) cost attribution to the parent agency's strategic objectives or outcomes; (Indicator 2- Comprehensive Cost Measurement)
- 4) cost attribution to the agency's component subordinate organizations; (Indicator 2)
- 5) cost attribution to the agency's appropriated programs; (Indicator 2)
- 6) overhead cost attribution to subordinate organizations and programs for items such as departmental management, facilities, financial and information systems, and other shared physical and systems infrastructure; (Indicator 2)
- 7) efficiency measurements (output quantity over total accrued costs) associated with any of the activities or outputs performed within the agency; (Indicator 2) and,
- 8) fee revenues in excess of 20% of gross operating costs; (Indicator 6 – Fee Revenues)

Third, the independent audit reports integral to the agency level PARs, AFRs and APRs were also scanned for comments on compliance with the 1996 FFMIA, particularly FASAB standards (FFMIA, 1996, Sec, 802, (b), 803 (a), (b)). For the purposes of output reporting, the emphasis is on compliance with FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting (MCA) Standards and Concepts* (2007).

Importantly, OMB (2009a, p. 8, para 8.D; 2009b, pp. 6-9) does not regard failure to comply with the FFMIA in implementing comprehensive MCA systems as a material deficiency for audit

purposes. Auditors are only ‘compelled’ to report on *material deficiencies* and ‘may’ report on lesser deficiencies if warranted in the opinion of the auditor. Although agency heads must certify compliance with FFMIA in the MDA, their certification does not have to agree with the independent auditor’s assessment of the agencies’ degree of compliance. The GAO has repeatedly challenged the OMB position on compliance with the FFMIA (2008a).

The GAO 2007 Federal Managers Survey and related Reports

Secondary data sources such as the GAO 2007 Federal Managers Survey (2008b; Steinhardt, 2008) and related GAO reports were employed as indicators of the potential extent of comprehensive output measurement and reporting among public service managers across the 13 cabinet-level agencies reviewed. The GAO conducted surveys of federal public service managers across the 24 CFO Act agencies regarding performance information in 1997, 2000, 2003, and 2007. The GAO used the surveys to determine 1) the extent to which the GPRA was being implemented, 2) trends in federal managers’ use of performance information, 3) methods of encouraging use of the information, and 4) lessons learned from the development of performance measurement and management (Steinhardt, 2008). The GAO 2007 Managers Survey “was designed to obtain observations ... on ... the presence and use of performance measures, hindrances to measuring performance and using performance information, and agency climate” (GAO, 2008b). Detailed data is available from the 2007 GAO Federal Managers Survey only and is accessible on-line (GAO, 2008b). This project employed the Federal Managers Survey data to assess what it revealed as practices relative to Research Questions RQ1, RQ3, and RQ4 (p. 31).

The 2007 Survey used a “stratified random probability sample of 4,412 persons from a population of approximately 107,326 mid-level [GS-13-15] and senior-level [SES] civilian

managers and supervisors working in the 24 Executive Branch agencies covered by the [1990 CFO Act].” The survey yielded useable responses “from about 70 percent of the eligible sample ... [that] ranged from a low of 55 through 84 percent” of the surveyed organizations. The 2007 Survey also collected data on five sub-agency component organizations including the U.S. Forest Service (Agriculture) and the Federal Aviation Administration (Transportation), two of the three organizations selected for analysis in this research. The third sub-agency organization in this project, the U.S. Geological Survey, was not separately identified in the 2007 Survey.²⁹

In addition to ‘tombstone’ questions for identifying participant information such as agency, type of employment and level, the 2007 Federal Managers Survey consisted of fourteen questions comprised of 140 specific survey items expanding on the questions. Seven questions with 105 items were of particular value to this research. The purpose of this research is narrower than that of the 2007 Survey; this research is interested in output efficiency and effectiveness reporting as an element of performance information reporting and content within the 13 Cabinet-level agencies. For example, the 2007 GAO Survey questions do not correspond to the research questions developed for this project. Nevertheless, the 2007 Survey questions provide valuable indicators of management practices and systems at a point in time prior to the 2011 GPRA reports (primary data for this project). Management practices extant in 2007 were likely to exist in 2011. Table 2 lists the 2007 Managers Survey questions and items of relevance to this research. The “Notes” to Table 2 below on page 85 link the 2007 GAO Managers Survey items to the Research Questions for this project

²⁹ The GAO Strategic Issues office that conducted the survey confirmed in a telephone conversation on Friday, 7 Sep 2012 that no data was available on survey responses below the agency level on any sub-agency component other than the five pre-selected for survey purposes. The USGS was not among the selected sub-agency component organizations and no data specific to the USGS was available.

<i>Table 2 - Extracts from 2007 GAO Managers Survey Questionnaire</i>
2007 Federal Managers Survey on Performance and Management Issues (GAO-08-1036SP, July 2008), an E-supplement to GAO-08-1026T
Q5. For those program(s)/operation(s)/project(s) that you are involved with, to what extent, if at all, do you consider your agency's strategic goals ... in the following activities?
a. Setting program priorities (Note 1)
b. Allocating resources (Note 1)
c. Adopting new program approaches or changing work processes (Note 1)
d. Developing or refining program performance measures (Note 1)
Q7. To what extent, if at all, do you agree with the following statements as they relate to performance measures for the program(s)/operation(s)/project(s) you are involved with?
a. We have performance measures that tell us how many things we produce or services we provide. (Output measures) (Note 1*)
b. We have performance measures that tell us if we are operating efficiently. (Efficiency measures) (Note 1*)
c. We have performance measures that tell us whether or not we are satisfying our customers. (Customer service measures)
d. We have performance measures that tell us about the quality of the products or services we provide. (Quality measures)
e. We have performance measures that would demonstrate to someone outside of our agency whether or not we are achieving our intended results. (Outcome measures) (Note 1)
f. We have performance measures that link our product or service costs with the results we achieve. (Benefit-cost measures) (Note 1*)
Q8. For those program(s)/operation(s)/project(s) that you are involved with, to what extent, if at all, do you use the information obtained from performance measurement when participating in the following activities?
a. Developing program strategy (Note 1) [GAO Index Item]
b. Setting program priorities (Note 1)
c. Allocating resources (Note 1) [GAO Index Item]
d. Identifying program problems to be addressed [GAO Index Item]
e. Taking corrective action to solve program problems [GAO Index Item]
f. Adopting new program approaches or changing work processes (Note 1)
g. Coordinating program efforts with other internal or external organizations
h. Refining program performance measures (Note 1)
i. Setting new or revising existing performance goals (Note 1)
j. Setting individual job expectations for the government employees I manage or supervise
k. Rewarding government employees I manage or supervise [GAO Index Item]
l. Developing and managing contracts
m. Identifying and sharing effective program approaches with others. [GAO Index Item]

Table 2 - Extracts from 2007 GAO Managers Survey Questionnaire

Q9. Based on your experience with the program(s)/operation(s)/project(s) that you are involved with, to what extent, if at all, have the following factors hindered measuring performance or using the performance information?
a. Difficulty determining meaningful measures
b. Different parties are using different definitions to measure performance
d. Difficulty obtaining data in time to be useful
e. Lack of incentives (e.g., rewards, positive recognition)
f. Difficulty resolving conflicting interests of stakeholders, either internal or external
g. Difficulty distinguishing between results produced by the program and results caused by other factors
h. Existing information technology and/or systems not capable of providing needed data
i. Lack of staff knowledgeable about gathering and/or analyzing performance information
j. Lack of top executive commitment/support for using performance information to make program/funding decisions
k. Lack of ongoing Congressional commitment or support for using performance information to make program/funding decisions
l. Difficulty determining how to use performance information to improve the program
m. Concern that OMB will micromanage programs in my agency
Q10. To what extent, if at all, do you agree with the following statements?
a. Agency managers at my level have the decision making authority they need to help the agency accomplish its strategic goals.
b. Agency managers at my level are accountable for accomplishment of strategic goals. .
c. Agency managers at my level are held accountable for the results of the program(s)/operation(s)/project(s) they are responsible for. (Note 1)
d. Agency managers at my level use performance information to recognize employees for their performance. [GAO Index Item]
e. Employees in my agency receive positive recognition for helping the agency accomplish its strategic goals.
f. My agency is investing the resources needed to ensure that its performance data is of sufficient quality.
g. My agency's top leadership demonstrates a strong commitment to achieving results. (Note 1)
h. My agency's top leadership demonstrates a strong commitment to using performance information to guide decision making. (Note 3)
i. My agency invests in resources to improve capacity to use performance information.
j. Agency managers at my level take steps to align program performance measures with agencywide goals and objectives. (Note 1)
k. Agency managers at my level effectively communicate performance information on a routine basis. (Note 3)
l. Agency managers at my level take steps to ensure that performance information is useful and/or appropriate. (Note 1)
m. Agency managers at my level use performance information to share effective program approaches with others. [GAO Index Item]

Table 2 - Extracts from 2007 GAO Managers Survey Questionnaire

Q11. To what extent, if at all, do you agree with the following statements?
a. The individual I report to periodically reviews with me the results or outcomes of the program(s)/operation(s)/project(s) that I am responsible for. (Note 3)
b. Funding decisions for the program(s)/operation(s)/project(s) I am responsible for are based on results or outcome-oriented performance information. (Note 3) [GAO Index Item]
c. Staffing and personnel decisions for the program(s)/operation(s)/project(s) I am responsible for are based on results or outcome-oriented performance information. (Note 3)
d. Changes by management above my level to the program(s)/operation(s)/project(s) I am responsible for are based on results or outcome-oriented performance information. (Note 3)
e. It is easy to motivate employees to be more results-oriented in the program(s)/operation(s)/project(s) I am responsible for.
f. I have sufficient information on the validity of the performance data I use to make decisions
Q12. To what extent, if at all, do you believe that the following persons or entities pay attention to your agency's use of performance information in management decision making?
a. Department Secretary (if applicable)
b. Agency head other than Department Secretary (if applicable)
c. The individual I report to
d. Managers and supervisors at my level
e. Employees that report to me
f. Office of Management and Budget (OMB)
g. Congressional committees
h. The audit community (e.g., GAO, Inspectors General)
i. The general public
Source: http://www.gao.gov/special.pubs/gao-08-1036sp/toc.html

NOTES to Survey Questions:

1. Items 5a-d, 7e, 8a-c, f, h, i, 10c, g, j, l, imply output effectiveness assessment in achieving outcomes. (RQ1)
2. Items 7a,b&f imply output cost and efficiency measurement. (RQ1)
3. Items 10c, h, k, 11a-d imply *reporting* of output, cost, efficiency and effectiveness measures. (RQ1)
4. Items marked [GAO Index Item] were used in GAO measurement of management use.
5. Question 9 concerns data impediments to output reporting, with 9h of special relevance to this study. (RQ3)
6. Questions 10 and 11, if answered negatively, reflect organizational impediments to reporting; (RQ3)
7. Question 12 concerns use of performance information by the executive-levels through operational management levels, OMB, Congress, and the general public. Positive responses imply reporting of results, particularly responses to 12.c, d, and e. The operational management levels are more likely to use output measures. Negative responses imply disincentives to measurement and reporting. (RQ1)

The GAO 2007 Survey invited responses under seven characterizations describing the extent to which different elements of performance information were used (Figure 3). To develop an index score, the seven response characterizations were assigned values on a five point Likert-type scale (GAO, 2008b, E-Supplement to Steinhardt, 2008). “To a very great extent,” was assigned a value of five. The characterizations “To no extent” and “No basis to judge” were combined and assigned a value of one. The GAO index excluded “No response” values. The percent response for each characterization, adjusted to account for the “No Response” category, was multiplied by the value assigned and the values summed to provide an index score. GAO-09-676, Appendix II, p.56, Notes 1 and 2. (2009) contains further explanation of the methodology. Figure 3 displays an example of the methodology for question item 5a for “All Agencies.”

Figure 3- Example of Index methodology employed in GAO-09-676

Q5. For those program(s)/operation(s)/project(s) that you are involved with, to what extent, if at all, do you consider your agency's strategic goals when participating in the following activities?								
a. Setting program priorities (Data source: http://www.gao.gov/special.pubs/gao-08-1036sp/q5a.html)								
	To a very great extent	To a great extent	To a moderate extent	To a small extent	To no extent	No basis to judge or NA	No response	Number of respondents
	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	
All Agencies	37.5	38.5	15.8	4.2	1.5	2.1	0.4	2,943
Value	5	4	3	2	1		0	
Index Score	1.875	1.54	0.474	0.084	0.036		0	4.01

Index scores between: 1 and 2.99 reflect use of performance information at a “small” to “no extent” level; 3 to 3.99 at the “moderate” level; 4 to 4.99 to a “great extent” and 5 “to very great extent” levels respectively. In the example, the weighted index developed in GAO-09-676 indicated ‘all agencies’ as having used ‘strategic goals’ to ‘set program priorities’ at the ‘great extent’ level, with a score of 4.01 in 2007. This is relevant to Research Question RQ1 in that

comprehensive output reporting as defined for this research (p. 28) demands a link to strategic goals or objectives as outcomes.

To use the GAO 2007 Survey to assess the potential state of *comprehensive output measurement and reporting* in 2007, this project adapted the responses to items in Table 2 from the 2007 GAO Survey to create indices of the potential extent of *comprehensive output reporting* at the time of the survey. Comprehensive reporting of output efficiency and effectiveness requires an explicit link between the quantity of output produced, the accrued inputs costs of outputs and a linkage of outputs to desired policy outcomes—the content of performance information. Items specifically relevant to *comprehensive output measurement* are:

1. Item 7.a. We have performance measures that tell us how many things we produce or services we provide. (Output measures)
2. Item 7.b. “We have performance measures that tell us if we are operating efficiently (Efficiency measures).” (Note: *This response can be positive only if item 7a is answered positively and if costs are measured as fully accrued costs.*)
3. Item 7.f. “We have performance measures that link our product or service costs with the results we achieve” (Note: The GAO Survey did not specify *accrued full cost* in “product or service costs.” There is a risk that respondents could have assumed budgetary cost as oppose to *accrued full cost.*).

Importantly, and unlike the GAO methodology, a “no response” was assigned the same value as “to no extent” and “No basis to judge” responses. This approach was adopted because within the Survey, a “No response” did not indicate a “No response” to the Survey or the headline question; it meant “No response” only to the particular sub-question item and was interpreted the same as “To no extent.” The addition of “no response” as equivalent “to no extent” or “no basis to judge”

increased the weighting of the lower value categories. Index values less than 2.99 would still indicate little or no *comprehensive output measurement*.

To further exploit the GAO 2007 survey data for use in this research, additional indices were constructed from the GAO questionnaire data. These additional indices were intended to indicate 1) the measurement of output effectiveness in achieving outcomes, 2) the measurement of the propensity to report on output measurement, and 3) the nature of impediments to development, reporting and use of performance information. As example for this latter case, an index was developed from responses to all the items in question 9 in Table 2 (“factors hinder[ing] measuring performance or using the performance information”). An additional focus was then placed on responses to question item 9h. While Question 9 focused on a wide range of impediments to performance measurement and the use of performance information, item 9h focused exclusively on information systems as impediments, which would encompass information and accounting systems in general and MCA systems in particular. These measures were used to determine the extent to which perceived impediments to performance reporting existed and, for question 9h, the degree to which inadequacies in financial and management information systems impeded *comprehensive output measurement and reporting*.

The Mercatus Center 10th Annual Performance Report Scorecard

The George Mason University Mercatus Center *10th Annual Performance Report Scorecard* (McTigue, et al., 2009) provided another secondary data source on performance reporting. The Mercatus Center (MC) assessed annual GPRA reports over ten years beginning with fiscal year 1998 and ending in 2008 with the last report, the 10th, issued in 2009.

The MC used a fundamentally different analysis method. The GAO analysis employed a survey of individual managers while the MC undertook a subjective analysis of the quality of agencies' GPRA reports. MC criteria focused on what agencies reported, not on what or how agency managers assessed their use of the performance information included in the reports. The comparison of how the agencies ranked under the two methods is in Table 3 (the GAO reported on five additional non-CFO Act sub-agency organizations). With respect to Research Question 4, the differences in the rank ordering vary substantially more than expected. Managers' use of performance information (GAO analysis) were expected to be more positively correlated with report content and quality (Mercatus Center analysis) than is revealed in the comparison. The boldface type in Table 3 identifies the agencies examined in this project.

The GAO (2008b, 2009; Steinhardt, 2008) and the Mercatus Center reports (McTigue, et al., 2009) informed the coding structure employed for the primary data sources (i.e., the review of PARs and the interviews) as well as in choosing the sub-agency organizations for development as case studies. For example, at Table 19, in Appendix I to GAO-09-676, the GAO identified the FAA as an agency with those managers reporting the highest level of change in use of performance information (GAO, 2009, p. 53, Figure 19). The Forest Service was ranked midway and both it and the FAA were ranked ahead of their parent agencies, USDA and DoT respectively, in their increased use of performance information. The Department of Interior, from which the USGS was selected, was reported among the least improved in its use of performance information. Conversely, in the overall GAO ranking based on use of performance information, the Forest Service rated as the worst, well below its parent agency, the USDA. The FAA ranked 17 out of 29, ahead of the DoT. Interior rated 27 of 29 and at the bottom of the 15 cabinet-level agencies whose managers were surveyed.

TABLE 3
Comparing GAO 2007 Survey Response on Performance Measurement
to Mercatus Center 2008 Performance Report Scoring

GAO-09-676, Appendix II: Agency Rankings Based on Index of 2007 Survey Results^a.		Mercatus Center 10th Annual Performance Scorecard Report^b.	
Fig. 20 Agency Ranking Based on 2007 [Managers'] Survey Results on Use of Performance Information		Table 2- Ranking for FY2008 based on "Public Benefits & Leadership" Scores ONLY	
Rank	Agency or Component	Department or Agency	Public Benefits
1	National Aeronautics & Space Administration	Transportation	20
2	Nuclear Regulatory Commission	Labor	19
3	Veterans Affairs	Veterans Affairs	16
4	Social Security Administration	Homeland Security	13
5	National Science Foundation	NRC	13
6	General Services Administration	Health & Human Services	13
7	Energy	Education	12
8	Housing & Urban Development	GSA	12
9	Education	Energy	11
10	Treasury (excl IRS)	EPA	11
11	Internal Revenue Service ^c	Treasury	10
12	Environmental Protection Agency	State	10
13	Small Business Administration	Interior	10
14	Centers for Medicare & Medicaid Services ^c	USAID	10
15	Commerce	Agriculture	10
16	Office of Personnel Management	Commerce	10
17	Federal Aviation Administration^c	Social Security	8
18	Agency for International Development	NASA	8
19	Labor	Justice	8
20	Agriculture (excl Forest Service)	OPM	8
21	Homeland Security (excl FEMA)	Housing & Urban Development	8
22	Defense	SBA	8
23	State	NSF	7
24	Transportation (excl FAA)	Defense	7
25	Justice		
26	Health & Human Services (excl CM&MS)		
27	Interior		
28	Federal Emergency Management Agency ^c		
29	Forest Service^c		

- a. Government Accountability Office (2009). "Results-Oriented Management: Strengthening Key Practices at FEMA and Interior Could Promote Greater Use of Performance Information." Government Accountability Office. Washington, DC, U.S. Government Printing Office. **GAO-09-676**: 76. P. 56, Note 1 and Fig. 20, p. 57.
- b. McTigue, M., H. Wray, J, Ellig. (2009). "10th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public?" Arlington, VA, Mercatus Center, George Mason University: 112.
- c. McTigue, et al did not assess component agencies not required to report under CFO Act/GPRA.

The Mercatus Center ranked agency PARs using three categories: 1) Transparency; 2) Public Benefits, and 3) Leadership. Each category was equally rated in the overall scores with a maximum score of 20 points possible in each category and 60 points overall. Each category was scored based on four criteria with a maximum score of five (5) points possible under each criterion. ‘Public Benefits’ was the category of primary interest for this research. ‘Public Benefits’ were defined as “How well does the report document the outcomes the agency produces for the public and compare them with costs?” (McTigue, et al., 2009, p. 5). The Public Benefits scores were used to rank order the agencies in terms of the likelihood of output measurement and reporting. Table 4 lists the four criteria the authors used to develop the Public Benefits score. Similar to the GAO data, this project analyzed the Public Benefits category to focus on *comprehensive output measurement and reporting*; only the last three criteria were used (i.e., items 6, 7 and 8). The Mercatus-based ordering was compared to the ordering of agencies developed from the 2007 Federal Managers’ Survey (2008b) and the revised rankings for this research based on the questions most relevant to output measurement and reporting.

Table 4 - Mercatus Center 'Public Benefits' Criteria		
<u>Measure</u>	<u>Criterion</u>	<u>Author's Remarks</u>
5. Outcome Goals:	Are the goals and objectives stated as outcomes?	<i>Outcomes provide strategic focus for activities and outputs.</i>
6. Outcome Measures:	Are the performance measures valid indicators of the agency's impact on its outcome goals?	<i>'Outcome measures' are likely to be activities or outputs that contribute to outcomes.</i>
7. Agency-Affected Outcomes:	Does the agency demonstrate that its actions have actually made a significant contribution toward its stated goals?	<i>'Actions' imply activities or outputs linked to desired outcomes.</i>
8. Linkage to Costs:	Did the agency link its goals and results to costs?	<i>'Goals and results' linked to costs of 'outcome measures' (i.e. activities or outputs).</i>

The latest GAO Managers Survey results (2007-2008) are now five to six years old and reflect management practices under the performance reporting regime of the previous administration that included GPRA, PMA and PART reporting. Similarly, the 10th Annual Mercatus Center (2009) report analyzes the 2008 GPRA reports, which were also prepared under the conditions that pertained at the time of the GAO 2007 Managers Survey. The methodology employed in this report utilizes further analysis of the GAO survey data and the details of the Mercatus Center scoring under their ‘Public Benefits’ category to examine more specifically what this research has defined as *comprehensive output reporting* and then examines thirteen of the cabinet level agencies’ 2011 annual GPRA reports for evidence of *comprehensive output reporting*. The use of the secondary data in conjunction with the primary data, i.e., the 2011 GPRA reports, provides the potential for identification of a trend between 2007 and 2011.

Chapter 4

Analysis and Discussion

This research assumed that the overall effectiveness of a performance management regime rests on a foundation of comprehensive efficiency and effectiveness reporting of outputs—how effective is what government does in achieving policy aims or outcomes and how efficient is government in being effective. *Comprehensive output reporting* is a proxy for output efficiency and effectiveness measurement in government. Consistent with the definition of *comprehensive output reporting* and common to analysis of both the secondary and primary data is a determination of whether, and the extent to which, agencies and managers identified their work outputs to desired policy outcomes. Secondly, did they measure and report on the extent of effort, cost, and efficiency of contributing to a policy outcome?

The analysis is organized in chronological order as follows: 1) the 2007 *Federal Managers Survey on Performance and Management Issues* (GAO, 2008b), 2) the 2009 Mercatus Center *10th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public?* (McTigue, et al., 2009), 3) the review of the 2011 GPRA mandated Performance and Accountability Reports (PARs) for the agencies listed at Appendix A, and finishing up with 4) the analysis of the 22 interviews conducted within the GAO, the Mercatus Center, OMB, the Departments of Agriculture (and U.S. Forest Service), Interior (and U.S. Geological Survey), and lastly Transportation (and the Federal Aviation Administration).

This sequence was chosen because the analysis of the secondary data varies somewhat from that of the primary data. The secondary data consists of two components—a survey of

management practitioners (the 2007 GAO Managers Survey) and an analysis (2009 Mercatus Center Report) of reporting practices extant in fiscal year 2008. The secondary data provides a view into the opinions and practices of operational managers prior to analysis of the reporting practices revealed in the 2011 GPRA reports. The secondary data analysis responds directly to the four principal research questions in Chapter 1. Alternatively, the analysis and discussion of the primary data is centered on the indicators developed in Chapter One for use in classifying the 2011 GPRA reports in a manner that answers the Research Questions. The indicators provide a measure of the degree to which the 2011 GPRA reports indicate *comprehensive output reporting*.

Revisiting the Literature and Documents Review

Prior to starting the analysis of the secondary and primary data sources, it is useful to revisit the results of the literature review using the analysis framework from Chapter 3. The literature and documentary review found that the federal government performance measurement systems were predominantly focused on outcomes and were incomplete. Although accrual-based financial statements, as required by the CFO Act, are in place at the agency level, the accrual-based managerial cost accounting systems essential to comprehensive cost-based performance measurement and reporting systems are not in place within agencies. Chart 1 below summarizes the results of the literature and documents review in the context of the Research Questions from Chapter 1 and the “Indicators” developed in Chapter 3 to determine the extent of *comprehensive output reporting*. Chart 1 places the literature and documents review within the same framework used to analyze the primary and secondary data.

Chart 1: Summarizing ‘Indicator’ Results of the Literature and Documents Analysis				
RQ: <i>To what extent do the cabinet-level Executive Branch agencies named in the CFO Act/GPRA and their component bureaus measure and report on the efficiency and effectiveness of their work products, i.e., outputs?</i>				
Indicators		Internationally focused Literature	US focused Literature	US Law & Mgmt Policy
I-1	Policy outcomes or strategic goals identified & linked to sub-agency outputs.	Outcomes: NPM & OECD transitioned to Y, Outputs: NPM-Y; OECD-Y	Prior to 1992: Not discussed. 1992-2012: Outcomes dominate; Schick, Behn, GAO Peterson-Pew suggest balance.	Outcomes: GPRA-Y, OMB policy-Y Outputs: CFO Act-Y; FFMIA-Y; GPRA-N/A; OMB policy-N
I-2	MCA at sub-agency for <i>comprehensive output measurement and reporting</i>	NPM-Y; OECD-Y; Accrual accounting literature-Y.	Accrual accounting literature-Y; Other literature- Not discussed (N/D).	CFO Act-Implied; GPRA-N/D; FFMIA-Y; GAO-Y. Output Report: FFMIA-Y; OMB policy-N/D; GAO-Y
I-3	CFO professionally accredited	Not discussed (N/D)	Not discussed.	CFO Act-Y; FFMIA-Implied. OMB policy-Y; OMB practice-N
I-4	Sub-agencies publish PAR or AFR & APR	NZ, Australia, Sweden inferred; Not discussed in other literature.	Not discussed.	PAR: CFO Act-N/D, Inferred PAR: FFMIA Implied Y,
I-5	‘Overt ‘performance culture’	NPM, NZ & Australia-Y; OECD	Not discussed.	CFO Act-Implied; FFMIA Y.
I-6	Substantial Fee revenue (accrual MCA system Req’d)	Not discussed,	Not discussed.	Not discussed.
I-7	Agency/sub-agency is production or procedural (Wilson)	NPM, NZ-Y; OECD-Y	Some authors acknowledge.	FAA, USPTO, & various others not identified in this research.
I-8	Agency/sub-agency is ‘performance-based organization’	Not discussed.	Not discussed.	Only USPTO, ATO, & Federal Student Aid (FSA) Office.

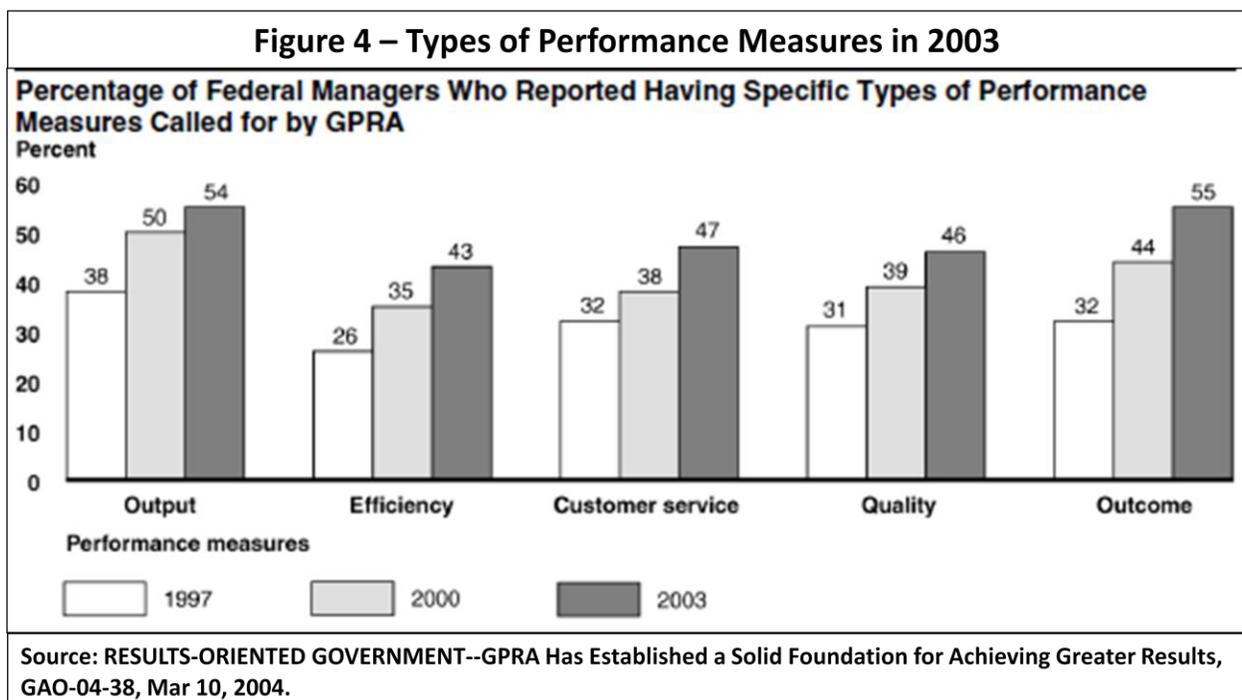
The GAO 2007 Federal Managers Survey

The GAO Managers Survey provided an instrument and data for examining operational managers’ access to and use of performance information—components of output reporting. It

also provided a basis for examining the extent to which managers had access to information on costs of production and, importantly, information on impediments to measurement and reporting.

How Comprehensive is Cost and Efficiency Measurement

For example, with regard to the potential probability of *comprehensive output reporting* occurring, the GAO (2004) observed from 2003 Managers Survey data that 54 percent of managers employed output measures, 43 per cent employed efficiency measures, and 55 percent employed outcome measures to a great or very great extent (Fig. 4 below). At first glance, this appears to be an encouraging set of metrics—efficiency measures require access to costs. However, the report (2004, p. 64) also stated “Only 31 percent of federal managers ... reported having [cost effectiveness] measures to a great or very great extent, lower than any of the other types of measures ... by at least 12 percent”.



The subsequent 2007 Federal Managers Survey results (Figure 5 below) indicated no statistically significant change between 2003 and 2007. In 2007, 54 percent of federal managers

also employed output measures “to a great or very great extent” (2008b, survey item Question 7a).³⁰ Similarly, 44 percent reported a “great extent or higher” use of *efficiency measures* (Q7b)³¹; 49 percent indicated a “great extent or higher” use of *outcome achievement* measures (Q7e)³². Measures of cost effectiveness remained in line with 2003 in that only 29 percent reported a “great extent or higher” use of *benefit-cost measures* (Q7f)³³. The GAO contrasted the 2007 Federal Managers Survey results with the 1997 results in testimony to Congress in 2008. Figure 5 below presents the results. (NB: Figure 5 compares 1997 to 2007; Fig. 4 compares 2003 to 1997 and 2000).

Efficiency, cost-effectiveness and benefit-cost measures are all highly relevant to this research in that all require measurement of costs incurred to produce outputs. Comprehensive output production costs demand measurement of *ALL* the input costs (i.e., fully accrued costs as per FASAB SFFAS No. 4) incurred to produce the outputs as well as measurement of the output quantity. Comprehensive cost measurements provide the basis for *comprehensive output reporting*. The fact that survey data for both 2003 and 2007 indicates about 44% of federal managers engaged to “a great extent” or more in cost and output measurement implies *potential* for a significant level of *comprehensive output reporting*—a response to Research Question RQ4. However, these measures are only *indicative* of the possible presence of managerial cost accounting (MCA) systems³⁴ (RQ6), which facilitate *comprehensive output reporting*.

³⁰ See 2007 survey results for Q7a, “All Agencies” under “To a very great extent” and “To a great extent”; these two categories sum to 54%. Output measures, <http://www.gao.gov/special.pubs/gao-08-1036sp/q7a.html>.

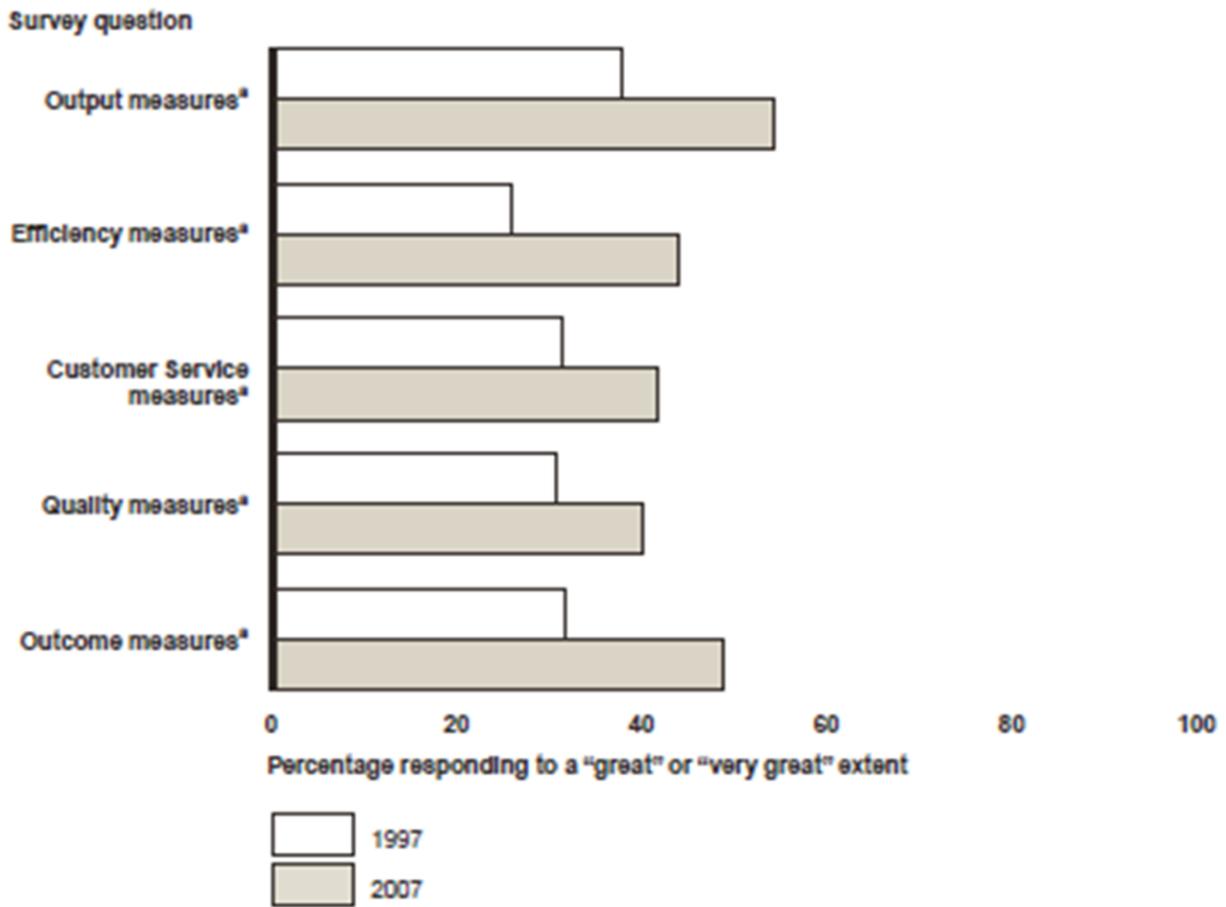
³¹ Q7b, Efficiency measures, <http://www.gao.gov/special.pubs/gao-08-1036sp/q7b.html>

³² Q7e, Output to Outcome measure, <http://www.gao.gov/special.pubs/gao-08-1036sp/q7e.html>

³³ Q7f, Cost-Benefit Measures, <http://www.gao.gov/special.pubs/gao-08-1036sp/q7f.html>

³⁴ Efficiency measures of outputs or activities can be provided ad hoc without implementing comprehensive managerial cost accounting systems to routinely provide such information. Output costing done quarterly for

FIGURE 5: Managers' Access to Performance Information, 1997 to 2007



Source: GAO.

Notes: Data are from GAO 1997 and 2007 surveys.

*There is a statistically significant difference between 1997 and 2007 surveys. Hereafter, the differences in percentages reported are statistically significant unless otherwise indicated.

Source: Bernice Steinhardt, Results-Oriented Management, GAO-08-1026T, July 24, 2008

Notwithstanding the positive indicators of output and efficiency measurement in the GAO reports, the disparity between responses on output measurement (Q7a, 54%) and efficiency measurement (Q7b, 44%) is problematic. Output quantification without cost measurement reveals nothing about efficiency and would not enable *comprehensive output reporting*. More

example, using ad hoc information gathering techniques, can be as reliable and useful as those generated routinely by automated accounting systems.

positively, an effort to measure outputs relative to outcomes (Q7e, 49%) is a useful measure of effectiveness. Conversely, 51% of managers did not relate outputs to outcomes; this obviates *comprehensive output reporting* and any likelihood of reliability in outcome efficiency measures. Production of outputs not related to outcomes—*potentially* stranded outputs—is an indicator of *potentially* gross inefficiency. It raises again the question of “efficiency for what” (Waldo, 1948).

More problematic is the fact that neither of the GAO surveys indicates the accounting basis (accrual or cash accounting—see pp. 24-25) employed by those managers reporting efficiency measurement (output in relation to cost). For efficiency measurement at the standard of *comprehensive output reporting* defined for this project, accrual-based accounting systems are critical. Concurrent with the GAO report on the 2007 survey results, the GAO published reports on FFMIA compliance (2007a) and implementation of MCA systems (2007b) by the 1990 CFO Act named agencies. The GAO (2007a) cited “troublesome” compliance failures with three specific accounting standards highly relevant to accrual based cost accounting systems.³⁵ With respect to MCA systems, the GAO (2007b) noted “many agencies do not yet have the accurate, reliable, and timely data needed for MCA systems to ensure the outputs are useful and reliable.”

The deficiencies in cost accounting and performance measurement systems described in the literature and government documents review in Chapter 2 seriously constrain the utility and effectiveness of output reporting (RQ3, p.27). The extent to which MCA systems exist at the operational management level is pertinent to this research (RQ2, p. 27). Without accrual-based MCA systems to assign costs to outputs, there is no ability to report accurately on outputs and

³⁵ “[The] 4 that were most troublesome for agencies were SFFAS No. 1, *Accounting for Selected Assets and Liabilities*; SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment*; and SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*.” (GAO-07-914, pp. 25-26). SFFAS No. 7 is not relevant to *comprehensive output measurement*.

therefore a diminished purpose to reporting. Outcome performance reporting is useful in demonstrating the effectiveness of outputs but provides no cost and efficiency measurement. Reporting of this nature is inadequate for assessing the cost or efficiency of government. The benefit-cost of taxpayer resources remains largely unmeasured, unreported and unknown.

Is Performance and Cost Measurement Accurate?

The GAO used the 2007 Managers Survey results to construct an index to rate and rank how the managers within the 29 organizations surveyed “perceived their own use of performance information for various managerial functions and decisions as well as that of other managers in the agency” (GAO, 2009). The GAO based their index on question items 8a, 8c, 8d, 8e, 8k, 8m, 10d, 10m, and 11b. Table 5 shows the items selected for rating use of performance information.

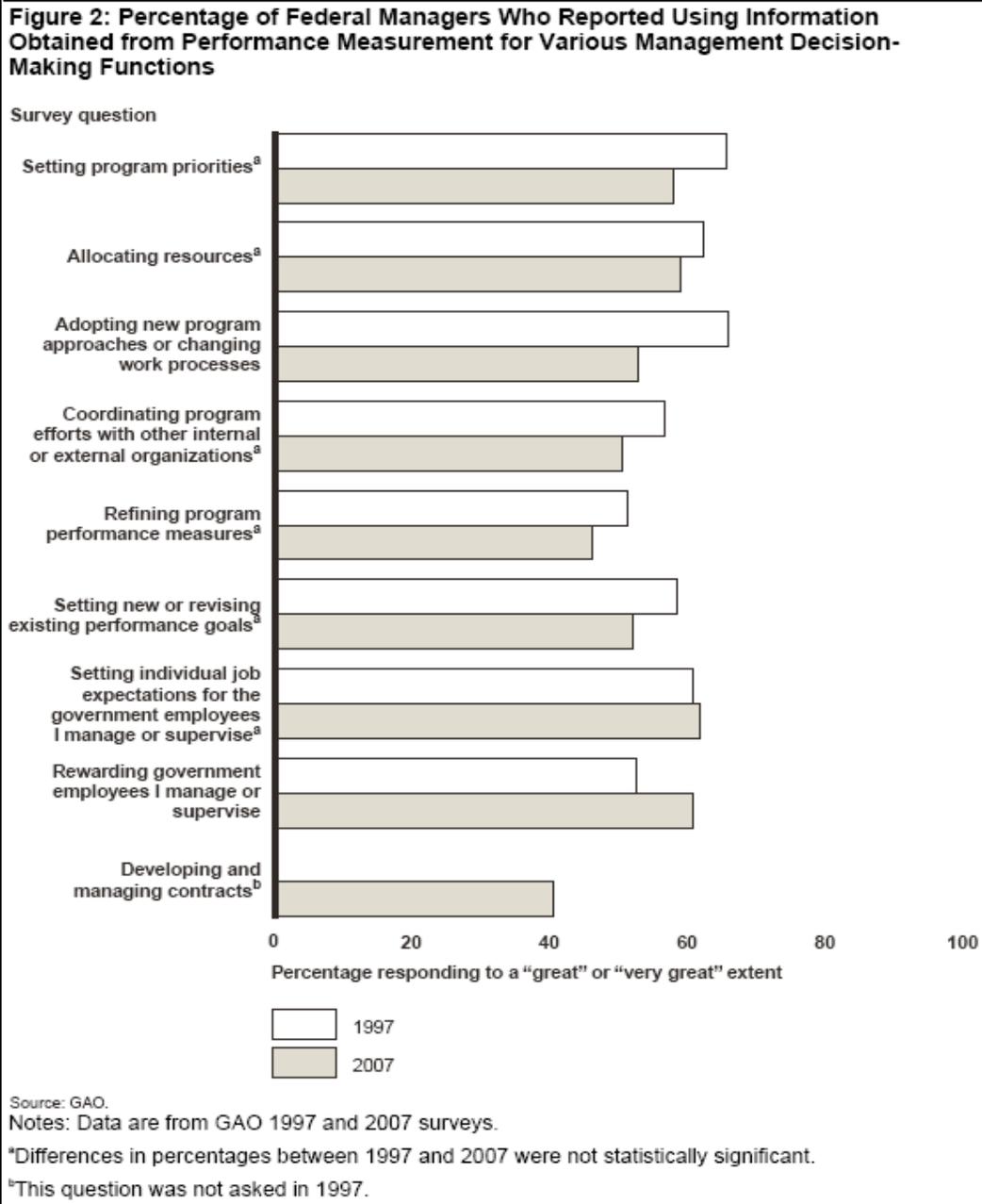
<i>Table 5</i> <i>Question Items Employed by GAO to Assess the Extent to Which Performance Measurement Was Used in Management Decisions</i>
Source: 2007 GAO Federal Managers Survey on Performance and Management Issues. GAO 09-676 and GAO-08-1036SP, an E-supplement to GAO-08-1026T
Q8. For those program(s)/operation(s)/project(s) that you are involved with, to what extent, if at all, do you use the information obtained from performance measurement when participating in the following activities?
a. Developing program strategy
c. Allocating resources
d. Identifying program problems to be addressed
e. Taking corrective action to solve program problems
k. Rewarding government employees I manage or supervise
m. Identifying and sharing effective program approaches with others.
Q10. To what extent, if at all, do you agree with the following statements?
10. Agency managers at my level use performance information to recognize employees for their performance.
m. Agency managers at my level use performance information to share effective program approaches with others.
Q11. To what extent, if at all, do you agree with the following statements?
b. Funding decisions for the program(s)/operation(s)/project(s) I am responsible for are based on results or outcome-oriented performance information.

To assess trends in managers' use of performance information, the GAO constructed indices on a five-point Likert-type scale to nine particular items in the 2007 Managers Survey. The GAO then constructed charts using the questionnaire items and response levels as differentiators in describing results (GAO, 2009; Steinhardt, 2009). Figure 6 indicates the added availability of performance information for all 24 CFO Act agencies, including the 13 cabinet-level agencies of interest. It indicates the use of performance information changed little over the 10-years 1997 to 2007. Steinhardt (2008, pp. 4, 7) observed that although managers who reported "Having Reporting Measures to a 'Great' or 'Very Great' Extent" had increased significantly over the 10-year period, "the extent to which managers make use of this information to improve performance has remained relatively unchanged." Steinhardt added, "there was a significant decrease in the percentage of managers who reported that their organizations used performance information when adopting new program approaches or changing work processes."

The GAO offered no explanation either as to the possible reasons for changes. Increased access to information was expected to lead to increased changes to program or work processes. *Supply* of information was thought to induce its use or *demand* (Brito & Perrault, 2009; Cavalluzzo & Ittner, 2004; Matheson, 2002; D. Moynihan, 2010). Potential explanations are 1) the measurement results were not reported; 2) managers lacked authority to change program approaches and work processes; or 3) the reporting of measures was not reliable or did not add new insights to operations.³⁶ The second item, "lack of authority" may be an impediment to reporting (RQ3). The third reason may imply that the measurements were of no value.

³⁶ Changes might also be attributable to reasons other than those listed. The survey questions, the respondents, as well as perceptions of "use," and the respondents themselves may have changed significantly.

Figure 6 - Managers' Use of Performance Information, 1997 to 2007
(GAO, 2009; Steinhardt, 2008)



These results notwithstanding, the GAO analysis also indicated “there was a significant increase in the percentage of managers who ... reward employees ... based on performance information” and that rewarding employees on a performance basis “can play a role in getting managers to pay attention to their performance” (Steinhardt, 2008, p. 6). The observation implies

that some performance reporting took place, but not *comprehensive output reporting*. Employees may have been rewarded for achieving outputs or outcomes but, if the costing methodology is invalid, the rewards would not have been for measuring or improving efficiency in doing so.

Given the focus of this work on output efficiency and effectiveness measurement, the GAO data was used to develop another index to indicate the extent of comprehensive output measurement. Output measurement provides for reporting but does not ensure reporting occurs. The index at Table 6 indicates *comprehensive output measurement* extant in agencies in 2007. In Table 6, only the Nuclear Regulatory Commission reported “Output Quantity” measurement at the *great extent* level. Eight of the cabinet-level agencies were assessed at a *moderate extent* level and five achieved only a *small extent*. This implies cost data is not widely used or available and calls into dispute the comprehensiveness of reporting.

Efficiency, benefit-cost, and effectiveness measures, are among the primary reasons for “adopting new program approaches or changing work processes;” a low level of efficiency and benefit-cost measures may partially explain the decline in use of performance measures in management decisions (Steinhardt, 2008, p. 6). Importantly, there is no reference in the GAO survey data as to the nature of cost measurement. If ‘cost,’ as measured, is appropriated ‘budget’ cost, as opposed to ‘full accrued cost,’ the ‘efficiency’ and ‘benefit-cost’ measurements are of little utility—in fact they are useless since personnel costs, often a separate budget line item, are usually the most significant cost element. Facilities costs, another major cost, are also part of ‘fully accrued cost’ but would only have been included in prior budget appropriations long since expended. If costs were not accrued costs, responses to RQ1 and RQ 2 will be negative.

Table 6 – Output Quantity, Efficiency, and Cost Measurement Index							
Agency*		GAO Questionnaire Data Source					
Type	Name	Q7a - Output Quantity	Q7b - Output Efficiency	Q7f Output Benefit-cost	Mean Index	Sort Order Basis	
						Index	GAO
C	Veterans Affairs	3.72	3.51	2.98	3.41	3	10
C	Treasury (Excl IRS)	3.69	3.42	3.06	3.39	4	29
C	HUD	3.82	3.26	2.83	3.30	8	5
C	Energy	3.43	3.38	2.85	3.22	9	4
Csub	FAA	3.49	3.16	2.84	3.16	11	26
C	Commerce	3.56	3.14	2.67	3.12	12	1
C	Education	3.41	3.28	2.64	3.11	13	3
Csub	IRS	3.43	3.52	2.29	3.08	14	28
C	Agriculture (Excl FS)	3.37	3.04	2.74	3.05	16	13
C	Defense	3.28	3.11	2.76	3.05	15	2
C	DHS (Excl FEMA)	3.33	3.04	2.63	3.00	17	19
C	Labor	3.60	3.10	2.26	2.99	18	8
C	HHS (Excl CM&MS)	3.40	2.97	2.42	2.93	21	17
Csub	CM&MS	3.31	2.96	2.49	2.92	22	16
C	Transport (Excl FAA)	3.28	2.83	2.41	2.84	24	27
C	Interior	3.20	2.68	2.57	2.82	25	6
C	State	3.10	2.78	2.37	2.75	26	9
Csub	Forest Service	3.51	2.42	2.15	2.69	27	12
C	Justice	3.05	2.82	2.10	2.66	28	7
Csub	FEMA	3.14	2.56	2.04	2.58	29	18
Mean (Cabinet Agencies)		3.41	3.05	2.55	3.00		
	NRC	4.33	3.69	2.64	3.55	1	22
	GSA	3.57	3.76	3.14	3.49	2	15
	NASA	3.62	3.36	3.13	3.37	5	20
	SSA	3.83	3.47	2.73	3.34	6	25
	OPM	3.62	3.38	2.94	3.31	7	23
	SBA	3.92	3.10	2.61	3.21	10	24
	NSF	3.38	3.32	2.18	2.96	19	21
	EPA	3.61	2.85	2.38	2.95	20	14
	AID	3.43	2.61	2.58	2.87	23	11
Mean (non-Cab Agencies)		3.70	3.28	2.60	3.23		
Score Interpretation:		0-1.99 = "To no extent, No basis to respond/NA, or No Response"					
		2.00-2.99 = "To a small extent"			3.00-3.99 = "To a moderate extent"		
		4.00-4.99 = "To a great extent"			5.00-5.99 = "To a very great extent"		
*Notes: "C" indicates Cabinet-level agency. "Csub" indicates sub-Cabinet agency. Agencies in 'bold' are those examined as part of this project.							

Although extraneous to this project, it is also interesting that Table 6 reveals that the non-cabinet level agencies score better than cabinet-level agencies in output, efficiency and benefit-cost measurement; six of the top ten are non-cabinet agencies (see “Sort Order Basis” by “Index” in Table 6). It is an interesting research question as to why this might be so.

Table 7 below indicates managers’ opinions of the effectiveness of outputs in achieving outcomes. The effectiveness of government in achieving results from outputs is the most important component of government performance. Managers’ opinions of the effectiveness of outputs to achieve outcomes score at only the *moderate extent* level. Table 7 indicates that government managers are only ‘moderately’ convinced of the relevance of their work outputs to achieving their agencies’ stated outcomes. This implies ‘stranded outputs’ exist and provides credence to Waldo’s (1948) critique, “efficiency for what,” and Williams’ (2003) assertion that even an output efficient government “may yet perform poorly if the outputs do not contribute to [outcomes]”. Boyle’s findings (2009) that outcomes are predominantly aspirational and not reliably attributable to the work agencies perform are reinforced. An inability to link outputs to outcomes renders *comprehensive output reporting* impossible, a negative indicator to RQ1.

There also exists a significant variation in the rank ordering of agencies based on output measurement (Table 6) and output effectiveness (Table 7) criteria and in comparison to the GAO rank ordering based on “Performance Information Utilization” (see “Sort Order Basis” by “Index” v. “GAO” in Table 7). A potential conclusion from Tables 6 and 7 is that those agencies’ managers making the most use of performance information are those without high quality efficiency, benefit-cost, and effectiveness information. In essence, the managers using the information are not those with access to *comprehensive output reporting*.

Table 7 – Output Effectiveness Measurement Index Score

Agency (C= Cabinet-level)		GAO Questionnaire Data Source													Mean Index	Sort Basis	
Type	Name	Q5a	Q5b	Q5c	Q5d	Q7e	Q8a	Q8b	Q8c	Q8f	Q8h	Q8i	Q10c	Q10g		Index	GAO
C	Energy	4.23	3.96	4.03	3.87	3.71	3.31	3.47	3.44	3.45	3.50	3.64	4.10	4.17	3.76	4	4
C	Veterans Affairs	4.08	3.95	3.84	3.83	3.83	3.52	3.67	3.52	3.58	3.26	3.37	3.91	3.79	3.70	6	10
C	Treasury-Excl IRS	4.18	4.05	4.00	3.78	3.59	3.21	3.37	3.34	3.28	3.16	3.20	3.98	3.96	3.62	9	29
Csub	CM&MS	4.16	3.97	3.92	3.83	3.36	3.20	3.36	3.32	3.33	3.27	3.40	3.95	3.75	3.60	11	16
C	Education	4.03	3.90	3.94	3.83	3.54	3.28	3.43	3.33	3.39	3.38	3.46	3.81	3.48	3.60	12	3
C	HUD	4.07	3.87	3.88	3.91	3.63	3.38	3.47	3.27	3.30	3.14	3.22	3.96	3.50	3.58	13	5
C	Commerce	4.18	3.84	3.99	3.80	3.32	3.29	3.40	3.23	3.20	3.06	3.05	3.91	3.64	3.53	15	1
C	Transport (Excl FAA)	4.04	3.84	3.84	3.72	3.21	3.09	3.31	3.15	3.11	3.12	3.21	3.89	3.76	3.48	17	27
Csub	IRS	4.04	3.84	3.90	3.28	3.35	3.10	3.26	3.23	3.36	2.72	2.90	4.15	4.03	3.47	18	28
Csub	FAA	3.85	3.95	3.76	3.64	3.22	2.98	3.16	3.21	3.15	2.92	3.14	3.80	3.69	3.42	19	26
C	Labor	3.91	3.66	3.72	3.46	3.29	3.06	3.24	3.15	3.26	2.86	2.94	4.01	3.71	3.40	20	8
C	DHS (Excl FEMA)	3.98	3.85	3.81	3.66	3.20	2.98	3.18	3.07	3.20	2.88	3.04	3.68	3.59	3.39	21	19
C	Interior	3.98	3.86	3.89	3.86	2.97	2.98	3.11	2.99	2.92	2.96	3.10	3.93	3.56	3.39	22	6
C	Defense	3.96	3.88	3.92	3.69	3.16	3.04	3.06	3.20	3.03	2.80	2.87	3.74	3.74	3.39	23	2
C	Agriculture (Excl FS)	3.94	3.70	3.65	3.59	3.25	2.89	3.18	3.06	3.13	2.96	3.07	3.95	3.52	3.38	24	13
C	State	4.04	3.79	3.81	3.62	3.10	2.96	3.06	3.09	3.25	2.99	2.98	3.45	3.64	3.37	25	9
Csub	FEMA	3.98	3.75	3.92	3.89	2.81	2.99	3.07	2.92	3.11	2.88	2.97	3.53	3.39	3.32	26	18
C	HHS-Excl CM&MS	3.82	3.60	3.63	3.50	3.13	2.99	3.07	3.00	3.06	2.97	3.01	3.74	3.61	3.32	27	17
Csub	Forest Service	3.88	3.70	3.60	3.45	2.89	2.94	3.18	3.16	2.82	2.79	2.93	3.78	3.38	3.27	28	12
C	Justice	4.05	3.78	3.84	3.55	2.84	2.80	2.83	2.91	2.83	2.70	2.78	3.77	3.60	3.25	29	7
	NRC	4.36	4.18	4.11	4.17	3.91	3.58	3.77	3.79	3.66	3.68	3.75	4.28	4.39	3.97	1	22
	NSF	4.31	4.13	4.25	4.16	3.66	3.45	3.38	3.40	3.61	3.17	3.39	4.37	4.18	3.80	2	21
	NASA	4.28	4.15	3.89	3.80	3.72	3.39	3.45	3.48	3.53	3.38	3.54	4.21	4.31	3.78	3	20
	GSA	4.17	3.99	4.02	4.06	3.61	3.42	3.50	3.40	3.45	3.18	3.37	4.10	3.97	3.71	5	15
	SSA	4.28	3.93	4.14	3.59	3.35	3.35	3.64	3.39	3.54	2.76	2.98	4.07	4.15	3.63	7	25
	AID	4.57	4.33	4.27	4.07	3.25	3.34	3.19	3.13	3.37	3.29	3.36	3.36	3.65	3.63	8	11
	EPA	4.06	3.88	3.82	3.73	3.40	3.35	3.45	3.18	3.45	3.21	3.41	4.00	3.92	3.60	10	14
	OPM	4.11	3.96	3.87	3.84	3.40	3.07	3.12	3.18	3.15	2.99	3.19	4.28	4.11	3.56	14	23
	SBA	3.93	3.76	3.87	3.72	3.31	3.28	3.37	3.29	3.41	2.99	3.13	3.87	3.97	3.53	16	24
Mean (all agencies)		4.08	3.90	3.90	3.76	3.34	3.18	3.30	3.24	3.27	3.07	3.19	3.92	3.80	3.53		
Score Interpretation		0-1.99 = "To no extent, No basis to respond/NA, or No Response"										2.00-2.99 = "To a small extent"					
		3.00-3.99 = "A moderate extent"					4.00-4.99 = "To a great extent"					5.00-5.99 = "To a very great extent"					

Table 8 explores which agencies are likely to be doing performance reporting. Table 8 responds to Research Question RQ3. It develops an index on the propensity for performance reporting based on agencies in which:

- a. more senior levels of management were reported to be the most interested in performance reporting (Question items 10h, 10k and 11a); and
- b. performance reporting appeared to influence funding and staffing levels and program organization and processes (Question items 11b, 11c and 11d).

It was germane to determine if the agencies with the strongest measures of output efficiency and effectiveness correlated with the agencies whose managers had the strongest incentives to report. The expectation was a positive correlation between performance reporting and the use of performance information as developed and reported by the GAO (2009)

Table 8, like Tables 6 and 7, displays little correlation in the rank ordering between the propensity for output reporting and the reported use of performance information. This again raises questions as to the utility of the output reporting and the reliability of the performance information used by managers. No CFO Act agency achieves a level of output reporting beyond the *moderate extent* level. The data raises the question as to whether *comprehensive output reporting* is an ‘impossible’ state. The response is that it is possible with reporting based on accrual-based accounting and with outputs linked to outcomes. Absent an increased emphasis by OMB on a more comprehensive implementation of the FFMIA and accounting standards that enable MCA systems, *comprehensive output reporting* will not be achieved. The international literature indicates other governments have been successful in implementing comprehensive measurement and reporting regimes; the U.S. is an outlier.

Table 8 — Output Reporting Index Score

Agency*		GAO Questionnaire Data Source						Mean Index	Sort Basis		
Type	Name	Q10h	Q10k	Q11a	Q11b	Q11c	Q11d		Index	GAO	
Csub	Forest Service	3.39	3.89	4.52	2.51	3.41	3.26	3.49	1	12	
C	Treasury-Excl IRS	3.20	3.70	4.19	2.77	3.49	3.25	3.43	3	29	
C	Energy	3.25	3.76	4.05	2.81	3.37	3.34	3.43	4	4	
C	Commerce	3.34	3.52	4.42	2.73	3.26	3.26	3.42	5	1	
C	Transport (Excl FAA)	3.36	3.65	4.12	2.40	3.51	3.41	3.41	6	27	
C	Defense	3.36	3.71	4.67	2.46	3.03	3.19	3.40	8	2	
C	Interior	3.30	3.51	4.46	2.71	3.21	3.11	3.38	9	6	
Csub	FAA	3.31	3.68	4.29	2.61	3.36	3.00	3.38	10	26	
C	DHS (Excl FEMA)	3.46	3.71	4.53	2.21	3.25	3.08	3.37	11	19	
C	Justice	3.24	3.55	4.33	2.40	3.35	3.35	3.37	12	7	
C	Agriculture (Excl FS)	3.40	3.59	4.43	2.36	3.14	3.04	3.33	14	13	
Csub	CM&MS	3.19	3.53	4.15	2.32	3.19	3.32	3.28	16	16	
C	Labor	3.05	3.57	4.09	2.20	3.22	3.44	3.26	17	8	
Csub	IRS	3.12	3.73	4.24	2.22	3.15	3.08	3.26	18	28	
C	Veterans Affairs	2.88	3.25	3.92	2.84	3.33	3.23	3.24	19	10	
C	State	3.26	3.50	3.92	2.54	3.03	3.16	3.24	20	9	
C	HHS-Excl CM&MS	3.12	3.35	3.78	2.43	3.02	3.11	3.14	26	17	
C	Education	3.29	3.52	3.98	2.14	2.89	2.88	3.12	27	3	
Csub	FEMA	3.01	3.37	3.75	2.25	3.17	3.12	3.11	28	18	
C	HUD	2.94	3.38	3.89	2.37	3.18	2.88	3.11	29	5	
Mean (Cabinet Agencies)		3.22	3.58	4.17	2.45	3.23	3.17	3.30			
	NASA	2.95	3.64	4.03	3.01	3.52	3.50	3.44	2	20	
	AID	3.51	3.41	4.18	2.67	3.36	3.31	3.41	7	11	
	GSA	3.34	3.37	4.10	2.78	3.36	3.10	3.34	13	15	
	EPA	2.82	3.50	4.23	2.71	3.21	3.42	3.32	15	14	
	NRC	3.04	2.91	3.70	2.84	3.43	3.49	3.24	21	22	
	SBA	3.04	3.38	4.15	2.24	3.11	3.19	3.18	22	24	
	SSA	2.97	3.37	4.28	2.36	3.04	3.07	3.18	23	25	
	OPM	2.92	3.43	3.72	2.36	3.28	3.23	3.16	24	23	
	NSF	3.04	3.49	3.31	2.91	2.98	3.16	3.15	25	21	
Mean (non-Cab Agencies)		3.07	3.39	3.97	2.65	3.25	3.27	3.27			
Score Interpretation:		0.00-1.99 = "To no extent, No basis to respond/NA, or No Response"									
		2.00-2.99 = "A small extent"					3.00-3.99 = "To a moderate extent"				
		4.00-4.99 = To a great extent					5.00-5.99 = "To a very great extent"				
*Notes: "C" indicates Cabinet-level agency. "Csub" indicates sub-Cabinet agency. Agencies in 'bold' are those examined as part of this project.											

Output Measurement Quality and Reporting Frequency

Table 9 below compares the indices and rank orderings of Tables 6, 7 and 8 and the GAO rank orderings on the use of performance information. The expectation was that the rank ordering based on index scores in Tables 6 (the quality of output measurement) and Table 7 (the effectiveness of outputs in contributing to outcomes) would reflect a somewhat positive correlation with rank ordering based on index scores in Table 8 (propensity to report performance information). There is little correlation of the rank ordering between Tables 6, 7 and 8 and the GAO rank ordering on use of performance information. None of the CFO Act agencies achieves a level of output measurement and reporting above a *moderate extent* level.

Table 9 provides an important indicator of the extent of implementation of the legislation for improved performance and the effect of OMB's diminished standard of implementation of the legislation. The legislative intent of the 1990 CFO Act and the 1996 FFMIA was improved efficiency and effectiveness in government operations—outputs. However, the 1993 GPRA and the 2010 GPRAMA, given OMB's implementation emphasis on results, focused more on effectiveness of government (*outcomes*) as opposed to the efficiency or the benefit-cost of government in achieving policy outcomes. Nevertheless, the implementation of effectiveness measures as of 2007 (prior to the GPRAMA) does not appear to have achieved a meaningful level of output effectiveness in improving outcomes, assuming that *meaningful* should be interpreted as something at or above the *great extent* level. The GAO analysis of the 2007 Managers Survey found performance information had achieved a level of use at the *great* and *very great extent* level by about 30% of managers. This analysis of the performance information indicates the performance reporting was not at the level of *comprehensive output reporting*; i.e., the response to RQ1 would be largely negative.

Table 9 — Comparison of Output Measurement, Effectiveness Measurement, and Output Reporting Indices/Rank Ordering and GAO Performance Information Use Rank Ordering

Agency*		Output Measurement Table 6		Effectiveness Measurement Table 7		Output Reporting Table 8		GAO Performance Information Use
Type	Name	Index	Rank	Index	Rank	Index	Rank	Rank Order
C	Commerce	3.12	12	3.53	15	3.42	5	1
C	Defense	3.05	15	3.39	23	3.40	8	2
C	Education	3.11	13	3.60	12	3.12	27	3
C	Energy	3.22	9	3.76	4	3.43	4	4
C	HUD	3.30	8	3.58	13	3.11	29	5
C	Interior	2.82	25	3.39	22	3.38	9	6
C	Justice	2.66	28	3.25	29	3.37	12	7
C	Labor	2.99	18	3.40	20	3.26	17	8
C	State	2.75	26	3.37	25	3.24	20	9
C	Veterans Affairs	3.41	3	3.70	6	3.24	19	10
Csub	Forest Service	2.69	27	3.27	28	3.49	1	12
C	Agriculture (Excl FS)	3.05	16	3.38	24	3.33	14	13
Csub	CM&MS	2.92	22	3.60	11	3.28	16	16
C	HHS (Excl CM&MS)	2.93	21	3.32	27	3.14	26	17
Csub	FEMA	2.58	29	3.32	26	3.11	28	18
C	DHS (Excl FEMA)	3.00	17	3.39	21	3.37	11	19
Csub	FAA	3.16	11	3.42	19	3.38	10	26
C	Transport (Excl FAA)	2.84	24	3.48	17	3.41	6	27
Csub	IRS	3.08	14	3.47	18	3.26	18	28
C	Treasury (Excl IRS)	3.39	4	3.62	9	3.43	3	29
Mean (Cabinet Agencies)		3.00		3.46		3.31		
Median (Cabinet Agencies)		3.02		3.41		3.35		
	AID	2.87	23	3.63	8	3.41	7	11
	EPA	2.95	20	3.60	10	3.32	15	14
	GSA	3.49	2	3.71	5	3.34	13	15
	NASA	3.37	5	3.78	3	3.44	2	20
	NSF	2.96	19	3.80	2	3.15	25	21
	NRC	3.55	1	3.97	1	3.24	21	22
	OPM	3.31	7	3.56	14	3.16	24	23
	SBA	3.21	10	3.53	16	3.18	22	24
	SSA	3.34	6	3.63	7	3.18	23	25
Mean (all CFO Act Agencies)		3.07		3.53		3.30		
Median (all CFO Act Agencies)		3.05		3.53		3.32		
Score Interpretation:		0.00-1.99 = To no extent, No basis to respond/NA, or No Response						
		2.00-2.99 = To a small extent			3.00-3.99 = To a moderate extent			
		4.00-4.99 = To a great extent			5.00-5.99 = To a very great extent			
*Note: "C" indicates a Cabinet-level agency. "Csub" indicates a sub-Cabinet agency.								
Agencies in ' bold ' are those examined as part of this project.								

Impediments to Performance Reporting

Notwithstanding this assessment of inadequate reporting, few agencies reported significant impediments to performance measurement and reporting (RQ3). Table 10 below provides indices for items relevant to impediments to measurement reporting. Analysis of the GAO Survey data indicates no agency had a significant issue with impediments above the *small extent* level—the maximum average index for impediments to reporting at any agency was scored at 2.89—to a *small extent*. The greatest difficulty faced by managers within agencies was in *determining meaningful measures* (GAO Survey, Item 9a) for performance management purposes. This was assessed as an impediment at the *moderate extent* level only. Item 9k measured *Congressional commitment* and Item 9m measured the potential that *OMB will micromanage* as impediments—these are the two lowest scored ‘impediments.’

This research also wished to question the extent that inadequate information systems might be an impediment to effective performance measurement and reporting. Item 9h in Table 10 measured the extent to which managers viewed “Existing information technology and/or systems ...” as an impediment by to performance measurement. Like the previous measures, Item 9h was assessed also to be at the *small extent* level—this is surprising given the perceived absence of MCA systems in particular. However, it is possible that managers do not regard inadequacies in information systems, particularly financial systems, as impediments because managers were not reporting *comprehensive* information such as *fully accrued costs* that would normally be available from financial MCA systems. If there were little or no effort or institutional mandate for *comprehensive output reporting*, those systems that do not provide the required information would not likely be viewed as impediments.

Table 10 - Impediments to Measuring or Using Performance Information Index Score															
Agency		GAO Questionnaire Data Source													Avg
Type	Name	9a	9b	9c	9d	9e	9f	9g	9h	9i	9j	9k	9l	9m	
C	Commerce	2.98	2.52	2.67	2.25	2.41	2.30	2.39	2.19	2.32	2.35	2.27	2.32	1.99	2.38
C	Defense	3.01	3.05	2.80	2.55	2.72	2.78	2.59	2.79	2.86	2.46	1.83	2.24	1.58	2.56
C	Education	3.22	2.93	2.94	2.60	2.93	2.75	2.92	2.33	2.60	2.66	2.43	2.34	2.06	2.67
C	Energy	3.12	2.63	2.67	2.45	2.38	2.58	2.56	2.51	2.40	2.05	1.91	2.11	2.07	2.42
C	HUD	2.86	2.56	2.47	2.39	3.01	2.50	2.63	2.85	2.72	2.37	2.38	2.34	2.40	2.58
C	Interior	3.53	2.95	2.97	2.61	2.46	2.57	2.64	2.61	2.62	2.27	2.15	2.54	2.42	2.64
C	Justice	3.00	2.82	2.70	2.46	2.73	2.44	2.43	2.70	2.63	2.32	2.22	2.37	1.81	2.51
C	Labor	2.96	2.54	2.61	2.30	2.47	2.35	2.68	2.28	2.22	2.07	2.01	2.24	1.96	2.36
C	State	3.13	2.79	2.82	2.52	2.67	2.67	2.76	2.35	2.51	2.51	2.14	2.22	1.93	2.54
C	Veterans Affairs	2.92	2.79	2.85	2.89	2.89	2.72	2.68	2.84	3.21	1.99	2.05	2.18	2.18	2.63
Csub	Forest Service	3.38	3.10	3.30	3.11	2.70	2.47	3.20	2.68	2.79	2.83	2.47	2.44	2.87	2.87
C	Agriculture (Excl FS)	3.47	3.05	2.82	2.75	2.73	2.69	2.52	2.74	2.61	2.64	2.56	2.71	2.99	2.79
Csub	CM&MS	3.12	2.78	2.84	2.65	2.71	2.43	2.62	2.74	2.44	2.56	2.46	2.44	2.59	2.64
C	HHS-Excl CM&MS	3.51	2.96	3.15	3.04	2.66	2.83	3.03	2.85	2.64	2.18	2.33	2.52	2.81	2.81
Csub	FEMA	2.87	2.67	2.62	2.41	2.56	2.61	2.61	2.61	2.62	2.18	2.00	2.42	2.27	2.50
C	DHS (Excl FEMA)	3.33	2.94	3.06	2.88	2.78	2.75	2.74	2.94	2.95	2.40	2.32	2.61	2.25	2.76
Csub	FAA	3.00	2.90	2.91	2.70	2.72	2.63	2.88	2.91	2.88	2.59	2.18	2.49	2.23	2.69
C	Transport (Excl FAA)	3.11	3.40	3.16	2.95	3.06	2.96	2.85	2.73	3.19	3.09	2.60	2.41	2.06	2.89
Csub	IRS	3.05	3.09	2.91	2.57	2.82	2.77	2.65	2.71	2.96	2.48	2.34	2.60	2.07	2.69
C	Treasury-Excl IRS	3.14	2.87	2.72	2.51	2.42	2.53	2.30	2.48	2.52	2.08	1.92	2.26	2.17	2.45
	AID	3.62	2.45	2.93	2.39	2.18	2.25	2.55	2.74	2.07	1.96	2.01	2.20	2.55	2.45
	EPA	3.09	2.51	2.59	2.49	2.27	2.31	2.36	2.74	2.36	1.82	1.76	2.10	1.76	2.32
	GSA	3.02	2.96	2.91	2.74	2.69	2.50	2.57	2.89	2.68	2.19	1.87	2.21	2.61	2.60
	NASA	2.83	2.80	2.69	2.62	3.14	2.60	2.78	2.86	2.94	2.47	2.50	2.44	2.27	2.69
	NSF	2.55	2.43	2.34	2.15	2.44	2.11	2.10	2.40	2.56	1.99	2.71	2.14	1.86	2.29
	NRC	2.85	3.00	2.82	2.79	2.92	2.93	2.60	2.66	2.74	2.52	2.39	2.52	2.23	2.69
	OPM	3.27	2.76	2.89	2.65	2.50	2.59	3.14	2.64	2.70	2.13	2.34	2.48	1.93	2.62
	SBA	3.05	2.92	2.82	2.56	2.85	2.88	2.95	2.81	2.65	2.27	2.32	2.44	1.91	2.65
	SSA	2.83	2.56	2.48	2.31	2.41	2.26	2.38	2.33	2.36	2.00	1.79	2.09	1.67	2.27
Median (all agencies)		3.05	2.82	2.82	2.57	2.70	2.59	2.63	2.71	2.63	2.32	2.27	2.37	2.17	
Score Interpretation		0.00-1.99 = To no extent, No basis to respond/NA, or No Response													
		2.00-2.99 = To a small extent							3.00-3.99 = To a moderate extent						
		4.00-4.99 = To a great extent							5.00-5.99 = To a very great extent						
Note: "Csub" indicates sub-agency of a Cabinet agency. Agencies in ' bold text ' are those examined as part of this project.															

To conclude, analysis of the 2007 Managers Survey indicates that about 30% of managers reported use of performance management information. However, that information did not meet the standards of *comprehensive output reporting*. This leads to a finding that there was

little to no effective or meaningful efficiency and effectiveness monitoring or reporting in the cabinet-level CFO Act agencies in 2007.

The Mercatus Center 10th Annual Report (McTigue, et al., 2009)

For the purposes of this research, the most relevant component of the Mercatus Center's report was the analysis of the "Public Benefits," one of three categories of analysis used for assessing the 2008 and prior annual GPRA reports. The Mercatus Center (MC) scored "Public Benefits" using four criteria, numbered 5 through 8:

- a) MC Criterion 5 - Are the goals and objectives stated as outcomes?
- b) MC Criterion 6 - Are the performance measures valid indicators of the agency's impact on its outcome goals?
- c) MC Criterion 7 - Does the agency demonstrate that its actions have actually made a significant contribution toward its stated goals?; and
- d) MC Criterion 8 - Did the agency link its goals and results to costs?

Note: The above 'Mercatus Criteria' are not be confused with the Research Question "Indicators" used in this project to analyze the 2011 GPRA reports and interview results.

The MC criteria most relevant to the analysis of *comprehensive output measurement and reporting* are Criteria 7 and 8 within the "Public Benefits" category. Criterion 7 represents *output effectiveness* and Criterion 8 represents *output efficiency*. Agencies were scored on a five-point scale with the top score of "5" characterized as "Outstanding, Greatly exceeds expectations ... [and] Sets a standard for a best practice." The lowest score of '1' was characterized as "Fails to meet expectations; Does not meet standards for adequate disclosure; Shows no process or plans

to overcome problems; [and] Omits critical information” (McTigue, et al, 2009, pp. 33-54). MC Criteria 7 and 8 are further elaborated:

- MC Criterion 7: “The report should explain how agency outputs create or enhance outcomes for the public and describe the nature and extent of influence so that outcomes can be attributed (at least in part) to specific agency actions.”
- MC Criterion 8: “Does the report link its *budget* resources to individual performance measures, thereby permitting cost-effectiveness analysis? [and] Do the linkages include *all* budget resources, *including indirect costs*?” (Author’s emphasis added.)

The Report does not provide a score for each criterion within the ‘Public Benefits’ category, only an overall score for the category. Scores of 18 to 20 points were rated ‘excellent,’ 14-17 ‘good,’ and 11-13 ‘acceptable.’ Scores of 10 and below were rated ‘Fair’ or ‘Poor.’ Only the departments of Transportation and Labor, scores of 20 and 19 respectively, were considered ‘excellent’ (see Table 4, p. 80). A total of 14 departments were rated as ‘Fair’ and none were rated as ‘Poor.’ The ‘Public Benefits’ scores (Mean = 10.9; Median = 10.0) are generally lower than the scores accorded the other two categories employed in the Report, i.e., Transparency (Mean = 13.8; Median = 14.0) and Leadership (Mean = 11.5; Median = 11.0).

Although the Mercatus researchers did not develop scores for each criterion, their report notes that 14 of the 24 agencies achieved scores of 2-points out of five under Criterion 7 (effectiveness of outputs to outcomes) and 11 agencies achieved scores of ‘1-point’ under Criterion 8 (linkage of outputs and outcomes to *budget* costs). “[Agency] reports that scored 1 for this criterion *either failed* to link *budget* resources to their performance metrics at any level or provided linkages only at the strategic goal level.” The Mercatus Report provides narrative

comment supporting the score assigned each criterion for each agency (McTigue, et al, 2009, pp. 58-81). The narrative comments permit probable identification of those agencies with very low scores on costs; see applicable comments in Table 11 below (p. 122-123) in bold-face type. The Mercatus authors also required, under Criterion 8, that “linkages include *all budget resources, including indirect costs*” (emphasis added). *Budget resources*, by definition, significantly understate the real costs, even if they include *budgeted indirect costs*. However, the narrative provides no information on the application of that standard—the phrase “all budget resources” does not appear in the comments. The above analysis of the Mercatus ‘Public Benefits’ category indicates that in 14 of the 24 CFO Act agencies there was *comprehensive output reporting* (RQ1) evident in the 2008 GPRA reports. However, the lack of reliable cost definition calls into doubt the quality of output reporting in all of the other agencies. The Mercatus Center data indicates that for most agencies, the responses to Research Questions RQ1 and RQ 2 would be “no.”

In Table 11 below, the Mercatus Report’s Public Benefits Criteria 7 and 8 scores on each agency were compared to the indices developed from the GAO Managers Survey for Output Measurement (Table 6) and Output Effectiveness (Table 7). There is little correlation between the Public Benefits’ scores (and narrative comments) and the indices of managers’ opinions on agencies’ outputs from the GAO Survey data. The two highest scoring agencies in the Mercatus Report score below or near median scores in the GAO Managers Survey data for output measurement quality (Table 6) and for output effectiveness (Table 7). In addition, this project’s analysis of Mercatus Center’s Criteria 7 and 8 finds no evidence of efficiency and effectiveness measurement of outputs using accrued full costs and therefore no indication of *comprehensive output reporting*. The Mercatus Center’s assessment of agency reporting are inconsistent with the results of the responses to the GAO 2007 Managers Survey

Table 11
Mercatus Center 10th Annual Report Public Benefits vs Output Analysis from the 2007 GAO Managers Survey
(Cabinet-level Agencies)

Agency	Mercatus Center Public Benefits (McTigue et al, 2009, pp. 58-81)		Analysis of Outputs (GAO Managers Survey**)	
	Commentary	Score	Measurement Index (rank)	Effectiveness Index (rank)
Transportation* (p. 60)	Most of 32 ... performance measures depict end or intermediate outcomes ... performance section [narratives] complement the highly results-oriented performance metrics ... highly effective in elaborating upon the department's performance results. [No comment made on costs.]	20	2.84	3.48
Labor (p. 58)	Strong, outcome-oriented performance metrics [and] ... links costs to strategic and performance goals, as well as to numerous individual performance measures	19	2.99	3.40
Veterans Affairs (p.59)	... performance measures are outcome oriented ... links budget costs to ... strategic goals and objectives .[and] 7 of the 25 key performance measures.	16	3.41	3.70
DHS* (p. 61)	... strategic goals and objectives are highly outcome oriented ... measures are much less outcome oriented than the goals ... performance results need to better explain the significance of the measures [Implied score Criterion 8 = 1].	13	3.00	3.39
HHS* (p. 69)	... performance metrics are highly outcome oriented ... report links funding to each strategic goal and strategic objective. Implied score Criterion 8 = 1]	13	2.93	3.32
Education (p. 63)	... measures are very outcome oriented ... report does not allocate budget resources to the performance metrics, but explains ... [difficulty] to link ... funds to ... results. [Implied score Criterion 8 = 1]	12	3.11	3.60
Energy (p. 67)	... objectives are mainly outcome oriented, capturing clear outcomes of obvious public importance ... only a few outcome-oriented performance measures; most of the 220 measures are technical and activity oriented ... budget is linked to its programmatic strategic goals and also to the annual performance goals. Implied score Criterion 8 = 1]	11	3.22	3.76
Treasury* (p. 66)	Less than 20 percent of the performance measures clearly capture outcomes ... majority focus on efficiency, cost effectiveness, or customer satisfaction ... weak performance metrics ... have limited effectiveness in demonstrating public benefits ... report innovatively allocates performance costs to strategic goals, strategic objectives, and performance goals.	10	3.39	3.62

Table 11
Mercatus Center 10th Annual Report Public Benefits vs Output Analysis from the 2007 GAO Managers Survey
(Cabinet-level Agencies)

Agency	Mercatus Center Public Benefits (McTigue et al, 2009, pp. 58-81)		Analysis of Outputs (GAO Managers Survey**)	
	Commentary	Score	Measurement Index (rank)	Effectiveness Index (rank)
Commerce (p. 71)	... strategic goals and objectives need more specificity ... About one-third of ... performance measures seem outcome oriented ... [remainder] are activity, output, efficiency, and customer-satisfaction measures ... report links budget costs to the department's strategic goals and objectives. [Implied score Criterion 8 = 1]	10	3.12	3.53
Interior (p. 64)	... about half of the representative measures (13 of 25) are outcome oriented ... report allocates budget costs to the 25 ...performance measures and analyzes the impact of funding levels on performance ... a potential best practice.	10	2.82	3.39
Agriculture* (p. 73)	... outcomes are at such a high level that measurement and attribution ... pose challenges ... annual performance goals mix outcomes and intermediate outcomes, activity and output, and efficiency measures ... report links program obligations and staff years to the strategic goals only. [Implied score Criterion 8 = 1]	10	3.05	3.38
State (p. 65)	... output and activity measures do not provide a strong foundation to demonstrate contributions toward its outcome goals ... report links budget costs to the strategic goals and to the strategic objectives. [Implied score Criterion 8 = 1]	10	2.75	3.37
HUD (p. 79)	Most ... performance measures deal with outputs, activities, or efficiencies; few are outcome measures. Budget resources are linked to the performance metrics at the strategic goal level only. [Implied score Criterion 8 = 1]	8	3.30	3.58
Justice (p. 72)	... goals and ... objectives ... [need] greater specificity ... performance measures generally relate directly to the applicable goals and incorporate important outcomes ... report links performance metrics to costs only at the strategic goal level. [Implied score Criterion 8 = 1]	8	2.66	3.25
Defense (p. 80)	The performance metrics presented in the report are limited in scope and weak in outcome orientation. The report has no content linking performance to costs. Implied score Criterion 8 = 1]	7	3.05	3.39

* Output analysis for: Agriculture excludes Forest Service; HHS excludes CM&MS; DHS excludes FEMA; Transport excludes FAA; Treasury excludes IRS. **GAO Managers Survey index scores less than 3.0 indicate "To a small extent."

Agency name in bold text indicates agencies analyzed in this research project.

Incidentally, the Mercatus Center authors also report, “scores tended to improve more at agencies where lower percentages of managers surveyed by the [GAO] identify ‘lack of ongoing congressional commitment and support for using performance information ... [and that] scores tended to improve more at agencies where lower percentages of managers surveyed by GAO identify ‘concern that [OMB] will micromanage programs.’” Congressional interest appeared to be an incentive to improved reporting while the OMB was assessed as an impediment. This refers to Items 9k and 9m in Table 10 (p.119); which were measured in the GAO data as the two least significant of impediments by managers—a response to Research Question RQ3.

There is no consistency between the results of the GAO Managers Survey and the Mercatus Center report regarding the overall *quality* of output reporting (Research Question RQ4). However, the scores and indices represent two very different things and given the analysis by this project, the differences are explicable. The Mercatus Center’s research analyzes the 2008 annual GPRA reports for information *disclosure, not the underlying quality* of the data. In contrast, the GAO Survey represents managers’ opinions, which may or may not have been reflected in the data as published in the annual GPRA reports. However, this project’s analysis of the GAO Managers Survey and the Mercatus Center’s report yields a largely consistent result—there is little to no comprehensive output measurement and therefore little to no *comprehensive output reporting* (a response to RQ1) based on the analysis of both the GAO Managers Survey and analysis of the Mercatus Center “Public Benefits” scoring.

Chart 2 below summarizes the findings drawn from the 2007 GAO Managers Survey in contrast to the findings of the analysis of the Mercatus Center’s 10th Annual report against the Indicators relevant to Research Questions 1 and 2.

Chart 2: Summarizing ‘Indicator’ Results of the 2007 GAO Managers Survey and Mercatus Report Analyses			
RQ: <i>To what extent do the cabinet-level Executive Branch agencies named in the CFO Act/GPRA and their component bureaus measure and report on the efficiency and effectiveness of their work products, i.e., outputs?</i>			
Criteria		2007 GAO Managers Survey	Mercatus Center 10th Annual Report
I-1	Policy outcomes or strategic goals identified & linked to sub-agency outputs.	Outcomes: Managers, 49%-Y; i.e., 51% no link to outputs, indicates possible ‘stranded outputs.’ Outputs: Managers, 54%-Y	DoT & DoL: ‘Excellent’ on Outcomes; DVA: ‘Good. Educ, DoE, HHS: ‘Acceptable.’ Agric, Commerce, Interior, State, Treas: Fair. Hud & Justice: Poor.
I-2	MCA at sub-agency level for <i>comprehensive output measurement and reporting</i>	Managers, 44%-Outputs w/ efficiency measures; 29% benefit-cost. Accounting basis for costs not defined; comprehensive MCA not indicated.	No MCA mentioned for any agency. DoT: no ‘costs;’ DoL ‘costs’ not defined. DVA, DoE, Commerce, Interior, HUD: ‘budgetary costs’ only. Agric, Educ, HHS: ‘costs’ not measured.
I-3	CFO professionally accredited	Not Applicable	Not Applicable
I-4	Sub-agency organizations produce PAR or AFR & APR	Not Applicable	Not Applicable
I-5	Overt ‘performance management culture’	Not Applicable	Not Applicable
I-6	Substantial Fee revenue (accrual MCA system Req’d)	Not Applicable	Not Applicable
I-7	Agency/sub-agency is production or procedural	Not Applicable	Not Applicable
I-8	Agency/sub-agency is ‘performance-based’	Not Applicable	Not Applicable

The Review of the 2011 Annual GPRA Reports

This research reviewed the 2011 GPRA reports for 13 of 15 cabinet-level Executive Branch agencies. As stated in *Chapter 3 – Methodology*, the Departments of Homeland Security and Defense were excluded from the analysis. The reports for the 13 agencies reviewed consisted of either a consolidated *Performance and Accountability Report (PAR)* or a separate *Agency*

*Financial Report (AFR) and Agency Performance Report (APR).*³⁷ In terms of GPRA requirements, the combined PAR or the separate AFR and APR are equivalent. The splitting of the PAR into two reports enabled less lengthy publications and timelier financial reporting. The AFRs are published within two months of the fiscal year-end and the APRs about three months later. The contents of the PAR or AFR and APR reports were coded using Indicators 1 through 8 articulated in *Chapter 1 – Performance Reporting*. The summarized results of the coding of each agency’s reports against each indicator are in Table 12 below. The detailed coding results on each agency/department or sub-agency component are at Appendix B.

Table 12 below reveals that, other than the Treasury Department, none of the cabinet-level CFO Act agencies reports satisfied a significant number of this project’s eight indicators for *comprehensive output reporting*. The same applies to the three sub-agency organizations examined as case studies: the US Forest Service (USFS), the US Geological Survey (USGS) and the Federal Aviation Administration (FAA). Indicator 1-Outputs to Outcomes and 2c-MCA Systems identify the indicators that this research assumed would be the most critical to *comprehensive output reporting*. Only the Treasury Department fully satisfied these indicators with Commerce and HUD partially satisfying them. Indicator 1- Outputs to Outcomes assumed the articulation of strategic goals or objectives. All the cabinet-level CFO Act agencies have established strategic objectives and most exhibited *some* capacity to allocate costs to sub-agency organizations and strategic objectives or outcomes as per Indicator 2a, b-MCA Systems.

³⁷ The GPRAMA of 2010 renamed the “Annual” Performance and Financial Reports to “Agency” reports (Brass, 2012).

Table 12 -Assessment of Agencies' Reports against Indicators of Comprehensive Performance Reporting

Indicator (I)/Agency	Agriculture		Com- merce	Educ- ation	DoE	HHS	Interior	
	Sub-Agency	USFS						USGS
I-1 Policy outcomes or strategic goals identified to programs' and sub agencies' outputs.	No	No	Partial	No	No	No	No	Yes
I-2 MCA systems w/ Net, Direct & Indirect (O/H) costs by outcome, program, org and output.	No*	No	Partial	Partial*	No	No*	No	No
I-3 CFO professionally accredited in accounting and financial management	Un- known	No	No	No	Yes	No	No	No
I-4 Sub-agency organizations produce PAR or AFR & APR w/ Net, Direct & Indirect (O/H) costs by outcome, program, org and output.	(USFS)	N/A	(USPTO)	No	No	CMS	No	N/A
I-5 Overt 'performance management culture'	No*	Yes	Yes	Yes*	No	No*	No	No
I-6 Substantial Fee revenue (implies accrual MCA)	No	No	Yes	Yes	Yes	No	Yes	Yes
I-7 Agency/sub-agency is production or procedural	No	No	Some	No	No	Yes	No	No
I-8 Organization is 'performance-based'	No	No	No	No	No	No	No	No

Indicator (I)/Agency	HUD	Justice	Labor	State	DoT		Treas	(DVA)
	Sub-Agency					FAA		
I-1 Policy outcomes or strategic goals identified to programs' and sub agencies' outputs.	Partial	No	Yes	No	No	Partial	Yes	No
I-2 MCA systems w/ Net, Direct & Indirect (O/H) costs by outcome, program org and output.	Partial*	No	No*	No*	No	No	Yes*	No*
I-3 CFO professionally accredited in accounting and financial management	Un- known	No	No	Un- known	No	Yes	No	No
I-4 Sub-agency organizations produce PAR or AFR & APR w/ Net, Direct & Indirect (O/H) costs by outcome, program, org and output.	Partial	No	No	No	FAA	N/A	Some	No
I-5 Overt 'performance management culture'	Yes*	No	No*	No*	No	Yes	Yes*	Yes*
I-6 Substantial Fee revenue (implies accrual MCA)	Yes	No	No	Yes	No	No	Yes	No
I-7 Agency/sub-agency is production or procedural	Yes	No	No	No	No	Yes	Some	Some
I-8 Organization is 'performance-based'	No	No	No	No	No	No	No	No

* Independent auditor found financial systems NOT COMPLIANT with 1996 FFMIA.

Aside from Treasury, Commerce, and HUD, none of the agencies exhibit evidence of allocation of costs to output activities or attempts to measure organizational efficiency. The capacity to measure and cost outputs or any work activity at any of the agencies is close to non-existent. Therefore, although agencies allocate costs to outcomes and strategic objectives, the absence of a capacity to cost outputs, activities or the actual assignment of FTEs to outputs calls into question the validity of cost assignments to outcomes and/or strategic objectives. This is particularly the case where different organizational components contribute to the same outcomes or objectives.

This finding is inconsistent with the results of this project’s analysis of the 2007 GAO Managers Survey wherein Table 9 indicates most agencies scored “To a moderate extent” on output measurement and reporting. This score also conflicts with the conclusion above of “all but non-existent” output costing. However, the difference is explicable in that the GAO Managers Survey question did not specify the nature of cost required for a meaningful “efficiency” measurement.³⁸ A number of agency budget submissions (the Green Book) reflect “budgetary costs,” not fully accrued costs, for agency activities or outputs when justifying budget appropriations. These “budgetary costs” do not meet the standards implied by the indicators for *comprehensive output measurement*, whether or not reported. Agencies are reporting appropriation or budget costs; this is a measure of appropriation spending effectiveness—i.e., appropriations spent as intended— not economic efficiency. If and when such costs are used as a measure of economic efficiency, it is invalid and therefore misleading.

³⁸ Using item Q7f as example, the GAO Survey appears to be in search of ‘efficiency’ measures, “To what extent, if at all, do you agree ... We have performance measures that tell us if we are operating efficiently.” But the Survey does not explain what is meant by efficiency in terms ‘cost,’ i.e., accrued total cost or program budget cost. (<http://www.gao.gov/special.pubs/gao-08-1036sp/q7b.html>).

The findings for **Indicator 2** on Treasury, Commerce and HUD are consistent with the 2007 GAO Managers Survey data in that these three agencies were ranked two through four using the Measurement Index (Table 9) developed from the GAO Managers Survey. These findings are partially inconsistent with the Mercatus Centre scoring; the Mercatus Center report scored these three agencies in the lower half, allocating them 10 out of 20 possible points under “Public Benefits.” This inconsistency, similar to the issue with Table 9 above, is partially explained by the fact that the Mercatus Center Report allocated higher scores for agencies that measured annual appropriation (i.e., cash) expenditures against outcomes. This research, focused on accrued full costs; appropriated expenditures only measure cash outlays in the fiscal year, which usually significantly understates or overstates costs in any given year. Cash costs are useful to legislators for determining the spending effectiveness of programs but are not an appropriate measure of economic efficiency or the overall effectiveness of programs. In most agencies performance reports, program costs were only provided in terms of appropriated funds spent, i.e., what this research terms as ‘spending effectiveness.’ The same approach was used in bureau-level ‘Budget Justifications.’ It is not a measure of economic efficiency.

The review of the GPRA reports supports the finding that, other than in the Treasury Department, there is a dearth of *comprehensive output measurement*, and by logical extension *comprehensive output reporting*, in the federal government, at least with respect to the data in annual agency reports for the cabinet-level agencies. This latter point, *the data in annual reports*, is important. As noted earlier, OMB has emphasized that agencies must focus performance management on outcomes. A focus on outcomes does not necessitate, although it may encourage, the measurement of the outputs that contribute to an outcome. Additionally and conversely, while a focus on outcomes does not preclude the existence of *comprehensive output reporting*, it

would probably result in such reporting not being in evidence in annual GPRA reports. Accordingly, Indicators 1 and 2 are indicative of the absence of the *comprehensive output reporting* in the annual GPRA reports. However, these indicators are not definitive that *comprehensive output reporting* is *not* occurring within the agency and subordinate bureaus. Nevertheless, *comprehensive output reporting* is not showing up in annual GPRA reports.

To assess Indicator 3, *CFO professionally accredited in accounting and financial management*, agency websites were searched for Curricula Vitae (CV) or other forms of personal qualifications statements for CFOs. Those CVs or biographical statements were searched for professional qualification information. However, the absence of a qualification being cited is not definitive; the appointee may not have listed all qualifications.

Based on the biographical statements available, only the Departments of Energy and the FAA have CFOs professionally accredited in accounting and/or financial management. Curricula Vitae, biographical statements or other forms of personal qualifications statements for CFOs were not available on another three agency websites. Based on the reviews of the existing biographical data, the remaining nine cabinet-level agencies and the USFS and USGS do not have CFOs professionally accredited in accounting or financial management. Nevertheless, four of these cabinet-level agencies (Commerce, Education, HUD and Treasury) show some evidence of MCA systems, which are essential to *comprehensive output reporting*, notwithstanding that their CFOs do not list professional accounting certifications on their website-published CVs. Conversely, the Department of Energy (DoE) had a professionally accredited CFO and Deputy CFO but those agencies showed no evidence of any MCA systems in place at any level. The *DOE 2011 Annual Financial Report* (DoE AFR, 2011, pp. 38, 77) does not even attribute costs

to all strategic objectives (there were no cost allocations for “Goal 4: Management and Operational Excellence”—a potential source of efficiency measures). DOE only partially attributes costs to programs and not at all to sub-agency organizations (Ibid, DOE, Appendix B).

Even though most agency CFOs were not professionally accredited in accounting and financial management, all CFOs’ biographical statements (where published) reflected extensive experience in government budgets and financial management and all but one showed evidence of other graduate credentials or related professional certifications. In conclusion, professional accreditation in accounting or financial management as an indicator for *comprehensive output reporting* was not demonstrated.

Indicator 4, publication of annual financial and performance reports by sub-agencies, was regarded at the beginning of this research as potentially a ‘practice diffusion’ (Sabatier, 2007) influence on more comprehensive reporting practices at the cabinet agency and sister-sub-agency levels. Indicator 4 also was not demonstrated. There was no evidence indicating that the performance measurement and reporting practices or publication of annual performance and financial reports by the US Forest Service in Agriculture, the USPTO in Commerce, the CMS in HHS or the FAA in Transportation had any bearing on reporting practices in their parent agencies. That is, there is no evidence of diffusion of these “best practices” to other organizational components. In fact, one interviewee asserted that their parent agency suggested that their sub-agency should discontinue publishing a PAR separately from the parent agency since the sub-agency aggregated data was included in the agency level report and was sufficient for OMB and GPRA purposes. In one respect, ‘diffusion’ has declined; when the PART regime was in place during the latter part of the Bush administration, the USGS published an annual

PAR between 2004 and 2008 inclusive. The USGS website indicates that the USGS had also developed Activity-Based Costing (ABC) systems,³⁹ a very comprehensive form of MCA. The last USGS PAR was published in 2008⁴⁰ and the website indicates that ABC systems have not been sustained.

Indicator 5, an “Overt performance management culture” turned out to be more subjective than expected; it was not a reliable indicator. The following attributes were included in assessing the presence of an *overt performance management culture*:

- I5-1) the CFO and the Chief Performance Officer (CPO) reported directly to the agency head (the Secretary) or the sub-agency head (Assistant or Deputy Secretary);
- I5-2) financial and performance reporting staffs were integrated within the same organization;
- I5-3) the agency was in compliance with the 1996 FFMIA (which requires development of MCA systems as per SFFAS No. 4 *Managerial Cost Accounting Standards and Concepts*); and
- I5-4) Operational efficiency and effectiveness were among the agency’s “strategic objectives” and explicitly discussed in the “Management Discussion and Analysis” section of the annual reports.

Sub-Indicator 5-1 assumed that a CFO reporting directly to the agency chief executive would more aggressively pursue an economic efficiency agenda and would enjoy executive

³⁹ See USGS Office of Budget, Planning and Integration, “Activity Base Costing” (<http://www.usgs.gov/budget/abc/abc.asp>), accessed August 2012.

⁴⁰ See USGS Office of Budget, Planning and Integration, U.S. Geological Survey Performance and Accountability Report (PAR), <http://www.usgs.gov/budget/par.asp>, accessed August 2012.

management support in doing so. In two cases,⁴¹ although the nominal CFO reported to the Secretary, the financial leadership, systems development, and execution were performed one or two levels below. In another case,⁴² the CFO nominally reported to the Secretary but was not listed in the agency's organizational material as a member of the "Principal Staff" or "Executive Leadership" of the agency. In four cases,⁴³ the CFO reported to the Assistant or Deputy Assistant Secretary level. As revealed by this report, *comprehensive output reporting* is not very common and there was no reliable evidence that the nature of a CFO's reporting relationship to the chief executive of an agency improved the quality of measurement or reporting.

Sub-Indicator 5-2 assumed that if financial and performance staffs were part of the same organization, there would be greater integration of financial and performance reporting and therefore a stronger likelihood of *comprehensive output reporting*. In fact, in all but two⁴⁴ of the cases examined, the performance measurement staffs are under the CFO and the CFO is responsible for publication of the combined PAR or distinct AFR and APR. But, as noted in the analysis of the 2007 GAO Managers Survey, the Mercatus Center report, and the PARs or AFRs and APRs (Table 12), there is little evidence of *comprehensive output reporting* irrespective of the organizational structure of the performance and financial reporting staffs.

Sub-Indicator 5-3 concerned implementation of the 1996 FFMIA and was expected to be the pivotal indicator in determining an 'overt performance management culture.' This expectation was grounded in the fact that the FFMIA requires development and implementation of financial systems in compliance with FASAB standards; SFFAS No. 4 is the standard

⁴¹ See Appendix B, Departments of Interior and Justice

⁴² See Appendix B, Housing and Urban Development and Department of Labor.

⁴³ See Appendix B, Departments of Agriculture, Energy, State, Treasury, and Veterans Affairs.

⁴⁴ See Appendix B, Department of Education, CFO is NOT responsible for Performance or Budget.

applicable to MCA systems. An ‘overt performance management culture’ would readily adopt the type of practices articulated in the FFMIA. Table 12 reveals that independent auditors found eight of the 13 cabinet-level agencies examined were not in compliance with the 1996 FFMIA. Three of the eight, Agriculture, HUD, State, and Treasury were specifically faulted for inadequate or absence of MCA systems as well as other FFMIA shortfalls. However, as previously mentioned, the OMB has stated that compliance with the FFMIA does not require agencies to develop MCA systems. The OMB Circular A-127 *Financial Management Systems* (Office of Management and Budget, 2009a, 2009b) in effect during 2011 GPRA submissions only required implementation of the FFMIA to the extent that agency financial statements contain no *material* misstatement of the financial condition of the agency. Managerial information and data for the assessment of efficiency such as costs of particular activities or agency components are drawn from the financial systems, but they do not necessarily alter the recording of revenues, costs, assets or liabilities of the agency as stated in the financial statements. Accordingly, although MCA systems can improve the accuracy of costs, the absence of such systems does not *materially* affect the financial condition of the agency. OMB has therefore deemed the absence of MCA systems not to be a FFMIA compliance issue.

For example, the Secretary of HUD, in applying OMB guidance, certified HUD to be in compliance with the FFMIA (Indicator 5-3) in the *2011 Annual Financial Report* (HUD AFR, 2011, pp. 57, 61). Conversely, the independent auditor found “HUD did not substantially comply with the ... [FFMIA]” (HUD AFR, p.143). The CFO asserted that “HUD strives [for] ... utmost effectiveness and efficiency by cutting waste and increasing the efficiency of ... operations” (HUD AFR, p. 63). In contrast, the independent auditor attests “HUD has limited ... information to assist ... in effectively managing operations” (HUD AFR, p.159).

The independent auditor for the Treasury similarly assessed its *2011 Annual Financial Report* (Treasury AFR2011, pp. 29, 31, 41). The Treasury Secretary affirmed the independent auditor's assessment on MCA systems but noted that Treasury met the FFMIA compliance standard defined by OMB (Treasury AFR, 32). For Transportation (DoT), both the Secretary and the independent auditor certified compliance with FFMIA as per OMB guidance notwithstanding the DoT's non-compliance with SFFAS No. 4 *Managerial Cost Accounting Standards and Concepts* (U.S. Department of Transportation, 2011, pp. 19-20, 31, 35-36, (DoT AFR)).

Given the inconsistency in FFMIA certification by auditors and the OMB guidance that FFMIA compliance does not require MCA systems, 'certified' compliance with FFMIA is not a reliable indicator for Sub-Indicator 5-3. For example, the agency that evidenced the most progress with respect to implementing MCA systems, Treasury, was assessed as non-compliant with FFMIA while the agency with the least evidence of adopting MCA systems, Justice, was assessed as compliant. Consequently, *certified* compliance with the FFMIA, by either independent auditors or agency Secretaries, is not reliable as an indicator of *comprehensive output reporting*. While the FFMIA has resulted in an overall improvement in the quality of financial reporting, it has not resulted in the cost controls and the efficiency measurements envisaged in Sections 802(b)(2) and (4) the Act, specifically to:

(2) require Federal financial management systems to support full disclosure of ... the full costs of Federal programs and activities ... so that programs and activities can be considered based on their full costs and merits; ...

(4) improve performance, productivity and efficiency of Federal Government financial management; [and]

(5) establish financial management systems to support controlling the cost of Federal Government

- Federal Financial Management Improvement Act (FFMIA, 1996)

Sub-Indicator 5-4 concerned the degree to which operational efficiency and effectiveness were the focus of executive management. It was a subjective measure in that it relied on the researcher's judgment, inter alia, as to the strength of the rhetorical statements included in *Management Discussion and Analysis* (MDA) section of the annual GPRA reports in either of the annual PAR or AFR. A second indicator was whether improvement in internal management was one of the performance objectives. The degree of emphasis on achieving improvements in operational efficiency and effectiveness was expected to be a further indicator of the presence of MCA systems and *comprehensive output reporting*.

This research identified four of 13 cabinet level CFO Act agencies, namely Commerce, Education, HUD, and Treasury in Table 12 as exhibiting an “overt performance management culture.” Substantiating conditions for this finding were as follows:

- 1) explicit statements on efficiency and effectiveness in the MDA section of the AFRs and in the agency's strategic objectives or outcomes;
- 2) strategic goal on improving agency management efficiency and effectiveness;
- 3) the APRs of each agency reflected progress on efficiency and effectiveness goals; and
- 4) agencies demonstrated more progress on implementation of MCA systems than other agencies notwithstanding that, other than Treasury, none engaged in *comprehensive output reporting*.

Although another five agencies had strategic goals internally focused on management improvement, these agencies were not assessed as exhibiting an “overt performance management culture” due to the absence of any corroborating evidence or activities with regard to MCA systems for providing cost allocation and output measurement.

Notwithstanding the subjectivity of Indicator 5, the indicator represented by it, in conjunction with Indicator 2, are among the more reliable for predicting partial implementation as well as an intent to implement *comprehensive output reporting*.

Indicator 6, Substantial Fee Revenue, was selected as an indicator based on the hypothesis that *substantial* fee revenues would necessitate a comprehensive MCA system, which in turn, would support *comprehensive output reporting*. The underlying assumption is that collection of fees from the public demands credible, reliable and auditable cost information and therefore credible, reliable and auditable costing systems. ‘Substantial’ with respect to the amount of fee revenue for this study was arbitrarily determined to be those cases where fee revenues were evident at 20% or greater of agency gross costs. Eight of the 13 cabinet-level agencies had revenues at this level or greater. Nevertheless, only four of these agencies exhibited evidence of at least partial implementation of MCA systems (Indicator 2). The same four qualified under Indicator 5 as having an ‘overt performance management culture.’ The analysis reveals that Indicator 6 is a reliable predictor of *comprehensive output reporting* only in conjunction with Indicator 2 and 5.

Indicator 7 stated that organizations that fit Wilson’s (2000, pp. 158-171) typology of *production or procedural* organizations are more likely to engage in comprehensive output reporting. This assumption turned out to be impossible to apply in this research. The cabinet-level CFO-act agencies are such conglomerates of sub-organizations and activities that none were an obvious fit to Wilson’s typology. That said, two obvious examples below the cabinet agency level are worth comparison. Although the USPTO (Dept. of Commerce) was not examined in detail as part of this research, its PAR indicates a comprehensive level of output

reporting. The USPTO can be characterized as a production agency. In comparison, much of what the FAA does, particularly the Air Traffic Organization (the largest component of the FAA with about two-thirds of the FAA budget), would classify it as a procedural organization. Although the FAA has not reached the level of output reporting exhibited by the USPTO, interviews indicated it was striving for comprehensive output reporting and efficiency measures.

Indicator 8 stated that agencies that are classified and operate as ‘performance-based organizations’ (PBO) or under similar criteria⁴⁵ are more likely to produce comprehensive output reports. The PBO criteria apply to only three sub-cabinet agencies: the USPTO, the Air Traffic Organization (ATO) within the FAA, and the Federal Student Aid Office (FSA) in the Department of Education. Only the USPTO, which was not examined in detail in this project, appears to satisfy Indicator 8. The examination of the FAA (includes the ATO) revealed an intent that was frustrated in practice by inadequate MCA systems. The FSA (Education) was not examined. Under Indicator 4, agencies with sub-agencies that published annual financial and performance reports were more likely to adopt similar practices (i.e., best practices diffusion), therefore, some evidence of *comprehensive output reporting* was expected at the Departments of Commerce, Transportation and Education. As stated previously, this was not the case.

Comprehensive Output Reporting is all but Absent from 2011 GPRA Reports

In summary, the testing of the 2011 annual GPRA reports against the indicators deemed indicative of *comprehensive output reporting* for this project substantiated that, excepting the Treasury Department, there is little to no *comprehensive output reporting* in evidence in the 2011 annual GPRA reports of the 13 Executive Branch CFO Act agencies examined. There is little to

⁴⁵ See Note 1 on p. 2 of this document.

no evidence of *comprehensive output reporting* taking place within the 12 of the 13 agencies reviewed.

Indicator 1 (outcomes stated with specific links to outputs) and **Indicator 2** (MCA systems in place for costing outputs as per FFMIA) were the essential indicators in the examination of the 2011 GPRA reports. Although the Treasury Department satisfied both these indicators, the independent auditor still assessed the department as “not in substantial compliance” with the FFMIA (Treasury AFR, 2011, pp. 29, 31, 41). Seven other departments were also assessed as “not in substantial compliance” with the FFMIA (see Table 12). Of the three case study sub-agency organizations, the USGS satisfied Indicator 1 but does not publish an annual GPRA report; the FAA partially satisfied Indicator 1 and publishes an annual PAR. The US Forest Service did not satisfy Indicator 1. None of the three sub-agencies satisfied Indicator 2.

Indicator 3 (professionally certified CFO) proved irrelevant. Only two agencies websites indicated a professionally certified accountant as CFO and neither of those agencies satisfied either of Indicators 1 or 2. Nor was the Treasury CFO professionally certified in accounting or financial management, but that department satisfied both Indicators 1 and 2.

Indicator 4 (sub-agency publishes annual PAR) proved to be non-demonstrative. Commerce and Transportation had sub-agencies that published a PAR but neither parent agency satisfied Indicators 1 or 2. Of the three sub-agencies examined, only the FAA produces a PAR and it only met Indicator 1 and did not meet Indicator 2. The USPTO, which was not examined in detail in this research, publishes an annual PAR and appears to meet Indicators 1 and 2.

Indicator 5 (‘overt performance management culture’) was judged to be too highly subjective to be of significant use in predicting the presence of *comprehensive output reporting*. This project assessed five agencies and two of the sub-agencies examined as having such a culture. However, of those five, only Treasury met Indicator 1 and 2; HUD and Commerce partially met Indicators 1 and 2, Education partially met Indicator 2, and the FAA partially met Indicator 1.

Indicator 6 (substantial fee revenue) also proved to be not indicative of *comprehensive output reporting*. Five of the 13 agencies had fee revenues in excess of 20 per cent of gross costs but only one, Treasury, had implemented MCA systems.

Indicator 7 (agency is ‘procedural’ or ‘production’ (Wilson, 1989)) was not useful since all thirteen agencies are ‘conglomerates’ and defy such classification. The USPTO and FAA both satisfied Wilson’s criteria and both produce PARs.

Results of Interviews

A total of 22 interviews were conducted. Eight of the interview subjects worked within oversight or review organizations (OMB, GAO, and Mercatus Center) and 14 were from three operating agencies and three of their respective sub-agency bureaus (Department of Agriculture and the U.S. Forest Service; Department of the Interior and U.S. Geological Survey; and Department of Transport and the Federal Aviation Administration). One of the OMB interviewees had recently left the OMB but was interviewed based on employment in OMB. Within the Executive Branch agencies, two interviewees were employed in financial management, one in budget management, five in performance management, and six in a line-management capacity.

Because of the small number of interviews in each organization and of each classification, the interviews are not identified to specific organizations to maintain confidentiality on behalf of interviewees. Additionally, because the Research Questions RQ1 through RQ4 refer to the term *comprehensive output reporting*, which was specifically defined for this project but had little relevance to interviewees, interrogation of interviewees, like the review of the GPRA reports, also employed the Indicators developed in Chapter 1 (pp. 32-36).

Interviews focused on developing information relevant to: Indicator I-1 (Linkages from outcomes or strategic objectives to sub-agency organizations' programs and outputs); I-2 (MCA systems that identify FTEs, O/Hs, and direct operating costs); I-4 (Sub-agency reporting with respect to financial management, performance, efficiency, and comprehensive output reporting); and I-5 (performance management culture). To determine if systems were focused on efficiency and effectiveness, interviews attempted to develop information on the nature of reporting related to the fully accrued costs of work activities including the cost of FTEs employed, other operational costs, and overheads for facilities, equipment, management, and overheads for support functions such as personnel, financial, and information systems.

There were no significant differences in the remarks by interviewees within what this project labeled 'review and oversight organizations' (OMB, GAO and Mercatus Center) and those in the 'line' agencies and bureaus. Substantially, comments by all subjects centered around Indicator I-2 and I-4 regarding MCA systems and I-5 regarding attitudes towards comprehensive performance reporting of outputs relative to outcomes.

Interviews within OMB, GAO and Mercatus Center

A total of 51 separate relevant comments were distilled from the eight interviews conducted within those organizations identified under the rubric of ‘oversight and review organizations.’ The text of the paraphrased commentary garnered from the interviews along with the coding of remarks against the relevant indicators is at Appendix D. The categorization of interviewee comments reflects a degree of ambivalence by interviewees, i.e. both positive and negative separate remarks in response to the questions. Summary results derived from interview comments follow:

‘Oversight and review’ organizations’ interviews

- a) Indicator I-1: Reporting of outcomes linked to outputs;
 - 1) nine comments by five of eight subjects;
 - 2) two subjects made six remarks coded as positive (+) towards outcome reporting and its effects (one of which also made a negative (-) comment);
 - 3) four subjects made four comments coded as negative towards the utility of outcomes and/or outcomes reporting relative to outputs (one of which also made a positive (+) comment).
- b) Indicator I-2: MCA systems incorporating accrued cost accounting of operating expenses and assignment of overhead costs (i.e., systems supportive of *comprehensive output reporting*);
 - 1) 27 negative (-) comments from eight of eight subjects on the existence, utility, practicality, and benefit-costs of such systems,
 - 2) one interviewee, although commenting negatively, thought that such systems would be beneficial for decision-making under fiscal reductions.

- c) Indicator I-3: CFO professionally accredited. Only one subject commented stating that professional accounting credentials were not relevant to performance reporting but that strong leadership from any executive was very relevant to effective performance management.
- d) Indicator I-5: Presence of an overtly positive performance management culture;
 - 1) 19 negative (-) comments from five subjects on the effectiveness and utility of performance measurement, related to non-use by Congress, the support from and contributions by financial staffs, the lack of leadership support, and lack of benefit to operations;
 - 2) Three positive comments focused on positive attitudes developing within agencies as a result of performance measurement from one subject that had also offered three negative (-) comments.

In summary, the interview results somewhat contradict the positive aspects in testimony to Congress by GAO staff (Steinhardt, 2009) emanating from the 2007 GAO Managers Survey and the comments on progressive improvement in GPRA reports within the Mercatus Center 10th Annual Report Scorecard. Instead, the interview results parallel this project's analysis of the annual GPRA reports of the Executive Branch CFO Act agencies. The secondary analysis of the Mercatus Center's reviews of the ten-year period up to 2008 indicated little cost measurement beyond links to appropriated program funds. Opinions expressed in the course of interviews of the Mercatus Center's authors substantiated that indication. There was a dearth of, if any, periodic, or systematic *comprehensive output reporting* and efficiency and effectiveness measurement within the agencies or their subordinate bureaus.

The interviewees within the oversight and review organizations also did not foresee much prospect for the development of MCA systems and therefore *comprehensive output reporting*. Efficiency, productivity, and benefit-cost analysis of outputs relative to outcomes, in the assessments of the GAO and OMB interviewees, are not desired by OMB. Within the OMB hierarchy there was little enthusiasm, if not antipathy, for implementation of *comprehensive output reporting* and therefore it is unlikely to occur. Paraphrased interview comments reflect a considerable measure of disdain for implementing the 1996 FFMIA, a profound disinterest both by, and attributed to, financial staffs in further facilitating the development of MCA systems and performance reporting, and an absence of interest in the potential utility of efficiency and productivity analysis. A selection of comments, one from each interviewee, follow—see Appendix D for a more complete summary of interviewee comments:

GPRA and FFMIA articulate the necessity to measure and assign cost and determine efficiencies. But rarely, if ever do efficiency measures show up. Some agencies had some examples for some measures but there were no agencies capable of comprehensive reporting of costs, outcomes and efficiencies.

Interview 1

Comprehensive MCA systems are almost nonexistent. E.g., In [department X], the former CFO pushed the MCA agenda. New CFO has not emphasized it. The new approach appears to be to wait until user agencies ask. The new CFO is not proactive on MCA systems.

Interview 3.d

The OMB focus is on outcomes, not on systems. OMB approach does not get to the issue of how well government is performing to achieve outcomes. It does not ensure in-depth economic and performance analysis.

Interview 7.c

There is a disassociation between performance output/outcome reporting and financial reporting. The financial side is more interested in clean audits and compliance than managerial reporting. Performance and financial reporting are not well linked. Auditors and CFO staffs are not very interested in cost performance.

Interview 9.b

Leadership matters a great deal in performance measurement and reporting. FFMIA/CFO “types” have a different focus than performance folks. Financial reporting is more formulaic and compliance focused.

Interview 10.e

The separation between finance and performance staffs is substantial. CFO approach has been financial compliance, not efficiency, nor effectiveness. Correspondingly, rarely was performance related to financing, i.e., cost.

Interview 11.a

Most of government and most agencies regard the accrual-based financial statements as essentially useless. What matters is the appropriation and cash-based accounting and the commitment of managers at every level to do the right things right.

Interview 17.g

FFMIA is an interesting law that really does not serve much value. Law states you need the information available to do “MCA” full cost. It doesn’t say you have to do it. FFMIA, more and more, is having less and less of a purpose.

Interview 20.a

Interviews within the Departments of Agriculture (and US Forest Service), Interior (and the US Geological Survey), and Transportation (and the Federal Aviation Administration)

A total of 100 relevant comments were distilled from the 14 interviews conducted within three line agencies and their three respective subordinate bureaus. The categorization of these interviewee comments also reflects a degree of ambivalence by interviewees, i.e. both positive and negative separate remarks in response to the questions. Summary results derived from interview comments follow:

- a) Indicator I-1: Reporting of outcomes linked to outputs;
 - 1) 11 comments by seven of eight subjects;
 - 2) Three subjects made three remarks coded as positive (+) towards outcome reporting, one of whom also made two negative (-) comments;
 - 3) Five subjects made eight negative (-) comments, one of whom also made one positive remark.

- b) Indicator I-2: MCA systems incorporating accrued cost accounting of operating expenses and assignment of overhead costs (i.e., systems supportive of *comprehensive output reporting*). Comments related to I-4, MCA systems at the bureau level were incorporated into I-2 to avoid identification of subjects;
- 1) 68 comments by fourteen of fourteen subjects;
 - 2) six subjects offered 10 positive comments. Two subjects stated MCA systems were in place. One of those stated their systems were *automated MCA systems*; another stated their systems were manual. The remaining comments did not state they had MCA systems, their remarks were aspirational or normative as to the need and benefit of such systems.
 - 3) 14 subjects offered 58 negative comments, six of whom offered five or more such comments. Many comments referenced inadequate support by financial systems, the absence of any interest by Congress in anything other than appropriations, the meaninglessness of fully accrued costs because there was no flexibility to manage other than program appropriation line items, and the lack of interest in efficiency and effectiveness measurement. These latter points were also reflected in comments relevant to I-5 regarding the overt culture of performance measurement.
- c) Indicator I-3: CFO professionally accredited. As in the previous interview group, only one subject commented in stating that their bureau-level CFO was not a professional accountant but that the incumbent was “very cost conscious.” CFO credentials were assessed as not relevant to the existence of MCA systems.

- d) Indicator I-5: Presence of an overtly positive performance management culture;
- 1) 65 comments by 14 of 14 subjects; 22 comments were ‘standalone’ in that they were comments that were interpreted as concerning the performance management culture in isolation of also being comments on I-2-MCA systems or another indicator;
 - 2) Seven subjects rendered positive comments on the performance measurement culture. The same seven also offered comments interpreted as negative (-).
 - 3) 14 subjects contributed 49 remarks interpreted as reflecting a negative assessment of the performance reporting culture.

The results of the interviews of agency and bureau finance and performance staff and line management are largely congruent with the interview results from the oversight and review organizations. Two of the 14 interviewees (from two different bureaus) claimed their bureaus had comprehensive cost accounting systems for outputs (Indicator I-2). One of the two stated the cost and performance information was largely drawn from automated systems. In neither case were these assertions supported by other interviewees elsewhere in the bureau. About 25% of all comments reflect explicit or implicit criticism of finance staffs for providing little assistance in providing cost or efficiency information. Nine of the 14 interviewees identified Congress as an impediment to efficiency and effectiveness reporting. Many interviewees indicated there was little coordination between performance measurement and financial staffs. A number of interviewees asserted that there was little evident interest from the financial staff in assisting in or integrating performance and financial information. However, at both the bureau and agency level, performance measurement and financial staffs both report through the CFO.

Operational line managers reported in interviews that they did not benefit from either of the CFO's accounting systems or the Chief Information Officer's information systems for their performance reporting purposes. The interviews with the few financial staff members corroborated this perspective; accounting-system based MCA systems do not exist and financial systems are focused on compliance, not managerial purposes of efficiency and effectiveness. For the most part, managers assert that performance measurement systems are solely focused on relative period-to-period performance, not the cost of or efficiency in achieving performance targets and that these systems will have no utility in deciding where to reduce costs in times of fiscal constraint. Most managers assemble and analyze performance data using manual methods supported only by their personal computer-based tools. All interviewees within the FAA confirmed that they perform *comprehensive cost analyses* on an ad hoc basis for program and decision analysis when it is deemed important or essential to do so.

A selection of comments from a number of the interviews follow—see Appendix D for other interview comments:

Having full cost systems available is meaningless to line managers [who view accrued costs as 'fixed' or 'beyond their control']. IT management is done by IT, FTEs by HR or others, not line managers. Line managers think about cash outlays, not costs. It would be valuable to have full cost awareness at line management level but only if line managers perceive that they have effective control and responsibility for it.

Interview 2g

CFOs do not want to give line managers authority/responsibility for full or net cost. We are not getting, nor do we expect to get, what is implied or required by the FFMIA.

Interview 2h

Currently outcomes have inadequate relevance to line management outputs. Rolling up outputs in a meaningful fashion, i.e., with a cost effectiveness balance, to outcomes is inadequate.

Interview 8f

Outcomes at departmental or bureau have little effect at division level. Benefit cost-benefit decision-making is a constant but is not system supported. It would be 'nice' if systems were more collaboratively developed than imposed by financial community.

Interview 13d

GPRA measurement will not aid in deciding what to cut or retain in upcoming budget reductions. GPRA is a cost and burden to the bureau. The real effort goes into sustaining appropriations from Congress. Eyes 'glaze over' in appropriations committee on GPRA measurements.

Interview 14a

GPRA reporting provides little to no basis for resource allocation decisions, either funding, or FTEs, or facilities. GPRA also does not recognize maintenance or infrastructure/capacity sustainment needs.

Interview 16c

Financial reporting in APR is only in appropriations, not even FTE resources. Financial management systems simply do not exist. Resources to develop such systems simply do not exist. Congress has shown no interest in funding such systems.

Interview 18f

CFOs recognize the need but have exhibited little desire for comprehensive MCA systems. Conglomerate nature of government and the Executive Branch agencies imply little value of output-focused MCA systems at agency level. The best place for MCA systems is bureau or output level. But bureaus have exhibited little interest in comprehensive MCA systems.

Interview 18h

Do not expect a closer tie between finance and performance, beyond the appropriation. It's too complicated for most executives and finance staff; they [finance] are too focused on accounting.

Interview 19i

Full cost attribution is not done routinely. Agency has a full cost accounting system that enables us to assign cost to a fairly low level if we need to do so. We have an activity based costing system that can track overhead—we have the capability.

Interview 21b

Our system allows metrics to be used in cutback management including effect on RoI [Return on Investment]. But, budget cuts continue to be made "across-the-

board.” Budget cuts are not being allocated on a cost-effectiveness basis. Cut back in financing means [unnecessary] cut backs in services.

Interview 22f

Financial and IT systems support is inadequate. Systems are not responsive to needs. Users respond to systems, not systems to users. Managers are forced to build their own systems.

Interview 22k

Summary of Interview Results

In general, the content analysis of the interviews substantiate and reinforce the evidence drawn from:

- a. the analysis of the GPRA mandated 2011 Performance and Accountability Reports (PARs) and the separate Agency Financial Reports (AFRs) and Agency Performance Reports (APRs);
- b. the secondary analysis of the Mercatus Center *10th Annual Performance Report Scorecard*; and
- c. the secondary analysis of the results of the GAO *2007 Federal Managers Survey on Performance and Management Issues*.

The interviews support the finding that there is little to no evidence of *comprehensive output reporting* for performance management or accountability reporting purposes having been done or systematically implemented within the three agencies and subordinate bureaus examined. The results of interviews within the GAO and OMB and confirm that this situation pertains across the cabinet-level agencies.

Chart 3 below summarizes and compares the analysis of the 2011 GPRA reports with the analysis of the 22 interviews within the DoA and the USFS, the DoT and the FAA, the DoI and the USGS.

Chart 3: Summarizing ‘Indicator’ Results of the 2011 GPRA Reports and the 2012 Interviews Analyses			
RQ: <i>To what extent do the cabinet-level Executive Branch agencies named in the CFO Act/GPRA and their component bureaus measure and report on the efficiency and effectiveness of their work products, i.e., outputs?</i>			
Criteria		2011 GPRA Reports	2012 Interviews
C1	Policy outcomes or strategic goals identified & linked to sub-agency outputs.	Outcomes: Y Outputs: N	Outcomes: Y Outputs: N
C2	MCA at sub-agency level for <i>comprehensive output measurement and reporting</i>	Treasury: Y Other Cabinet Agencies: N	DoA, USFS: N DoT, FAA: N DoI, USGS: N
C3	CFO professionally accredited	DoE	CFO qualifications Not relevant
C4	Sub-agency organizations produce PAR or AFR & APR	FAA, USPTO, OPM	FAA
C5	Overt ‘performance management culture’		No
C6	Substantial Fee revenue (accrual MCA system Req’d)	No evidence of MCA for fees	Not Applicable
C7	Agency/sub-agency is production or procedural (Wilson typology)	FAA, USPTO	Not Applicable
C8	Agency/sub-agency authorized as ‘performance-based organization’	USPTO, FSA Office	Not Applicable

Comparative Analysis of the Secondary and Primary Data Sources

This project’s analysis of the GAO 2007 Managers Survey (GAO, 2008b; Steinhardt, 2008) data and the Mercatus Center *10th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public?* (McTigue, et al., 2009) revealed no evidence of meaningful measurement of efficiency in terms of the total accrued costs of agencies up to and including the 2008 Agency Performance Accountability Reports. It is not material that Tables 6 and 8 in this report analyzing the GAO Survey revealed a “moderate extent” of output measurement and output reporting across the cabinet-level agencies. Table 6 also indicates benefit-cost reporting.

However, as noted frequently in this work, the quality and comprehensiveness of output and benefit-cost reporting is highly suspect. The Mercatus Center report detail on “Public Benefits” suggests that none of the cost reporting included use of fully accrued total cost; outcomes were measured against programs’ appropriated expenditures, i.e., cash costs. This truncated use of cost data does not result in a meaningful measurement of total program cost or production efficiency.

Although both the 2003 and 2007 GAO Federal Managers Surveys indicated about 30% of federal managers reported using benefit-cost measures, the relevance and validity of those responses is suspect. Meaningful benefit-cost analysis demands comprehensive output and outcome measurement supported by comprehensive total accrued cost measurement. However, there was no evidence that the essential supporting comprehensive total accrued cost measurements were routinely available and certainly not on a scale indicative of a 30% rate of use. This research found little to no evidence of *comprehensive output reporting* and therefore efficiency measurement within the cabinet-level agencies. The 2007 GAO Managers Survey item Q7b is not sufficiently explicit to ensure that responses reflected efficiency measurement in terms of costs as articulated in the 1996 FFMIA and the related FASAB SFFAS No. 4, the most meaningful measure of organizational costs and efficiency.

The GAO Survey item on ‘impediments to performance reporting’ warrants special comment (see Table 10 in this report, Index for Item 9h). The results from the 2007 GAO Managers Survey regarding ‘impediments to reporting’ contrast sharply with the 2012 interview results of agency managers in Agriculture (including the USFS), Interior (including the USGS) and Transportation (including the FAA). The 2007 GAO Survey, conducted across all agencies of government, regarding “Existing information technology and/or systems not capable of

providing needed data,” generated responses indicating information systems were impediments only “to a small extent.” In contrast, interview results for this project reflected an opposite and overwhelmingly negative viewpoint. Every agency level interviewee in 2012 criticized the lack of support from accounting and information systems and their personnel. In the 2007 GAO Survey, only 20-30% of personnel⁴⁶ in these three agencies identified accounting and information systems as significant impediments. Why the 2012 interviewees in this study identified these systems as impediments to reporting with considerably more vehemence than reflected in the GAO Survey results cannot be explained with any confidence.

The review and analysis of the 2011 agency Performance Accountability Reports indicated that the reporting conditions that pertained as of 2008 (based on the 2007 GAO Survey and Mercatus analysis) had not changed as of 2011. No evidence was found within the Performance Accountability Reports or Agency Financial Reports, and Agency Performance Reports to indicate that *comprehensive output reporting* or the requisite Managerial Cost Accounting (MCA) systems to enable such reporting were in place in any agency in a comprehensive manner aside from the Department of the Treasury. The interviews conducted within the OMB, GAO, the Mercatus Center, the three sub-agencies, and their parent CFO Act agencies sustain the same conclusion; there is little to no evidence of *comprehensive output reporting* within the Executive Branch agencies and sub-agencies within which interviews were conducted.

⁴⁶ Further detailed examination of the responses to Item 9h in the GAO survey revealed that 25% of respondents in Interior (includes the USGS), 28% in Agriculture, 30% in the USFS, 22% in Transportation, and 21% in the FAA considered “existing information systems” as impediments “to a great [and] very great extent.”

The only ‘efficiency’ measurements that were evident related only to expenditures of the annual program ‘cash’ appropriations for bureau activities in substantiation of budget submissions. Such measurements identify the efficiency and effectiveness of the expenditure process, not the efficiency or effectiveness of agencies in carrying out their programs or the cost effectiveness of those programs. The Annual Performance Reports of cabinet agencies often cite program budget cost performance information only because, as was asserted in interviews, ‘*that is only what Congress is interested in seeing.*’ Interviewees broadly asserted that Congress has little interest in the measurement of the total cost efficiency or effectiveness of the agencies.⁴⁷ Whether that is sufficient reason for agency executive management not to be more concerned about efficiency and effectiveness is a matter for separate examination.

One of the more surprising results from the interviews was the broad sense of disdain for the financial management and accounting function for providing so little support to performance management and operations managers. All interviewees with the executive branch operating agencies, even those employed within financial management offices, reflected on the lack of support and assistance from financial systems and financial personnel in attributing and measuring costs and contributing to efficiency and benefit-cost analyses. “We are not getting, nor do we expect to get, what is implied or required by the FFMIA.”⁴⁸ In total, 16 of 22 interviewees commented negatively on the financial system and the lack of utility for and contribution to operations and performance management.

Aggregating the information gleaned from all of the secondary and primary data sources reveals little or no evidence of systematic and sustained *comprehensive output reporting* within

⁴⁷ King, David L. interview notes.

⁴⁸ See Appendix D, Interview comment 2h.

12 of the 13 cabinet-level Executive Branch CFO Act agencies examined. The only agency-level exception was the Treasury Department; the only sub-agency level exception appears to be the USPTO (it was not examined as part of this research). There is no evidence of cost or efficiency measurement of outputs in other than the Treasury Department. This circumstance possibly pertains because of the OMB decision not to fully implement the 1996 FFMIA and the concomitant Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 4 on managerial cost accounting systems.

The Federal Financial Management Improvement Act (FFMIA) reads, in part,:

SEC. 802. FINDINGS AND PURPOSES. ...

(b) PURPOSE—The purposes of this Act are to— ...

(2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits; ...

(4) improve performance, productivity and efficiency of Federal Government financial management;

(5) establish financial management systems to support controlling the cost of Federal Government; [emphasis added]

*-1996 F110 STAT. 3009–389 Public Law 104–208—Sept. 30, 1996,
Title VIII—Federal Financial Management Improvement*

A decision not to not fully implement the FFMIA is the purview of the Director OMB who “shall prescribe the form and content of the financial statements” (CFO Act, 1990, Sect. 3515(c)) and the executive “Head of an agency ... [to] determine whether the financial management systems of the agency comply with the requirements of [the Act]” (FFMIA, 1996, pp., Sec. 803(c)). In this circumstance, this is analogous to *turning the institution over to the inmates*.

Summarizing the Analysis and Discussion

The findings articulated in this chapter suggest that there is little to no evidence of the existence of systematic and sustained *comprehensive output reporting* and therefore comprehensive cost and efficiency measurement within 12 of the 13 cabinet-level Executive Branch agencies examined in this study; the Department of the Treasury is the lone exception at the agency-level. As previously stated, there *appears* to be one notable exception at the sub-agency level—the USPTO a performance-based organization in the Department of Commerce, publishes an annual PAR and appears to have in place comprehensive MCA systems. The USPTO was not part of this study.

The weak measurement and performance reporting circumstance pertains largely because the 1996 FFMIA and the related requirements of the FASAB SSFAS No. 4 (MCA systems) have not been implemented in other than the Treasury. There is no evidence of cost measurement based on comprehensive accrued cost accounting methods in the other agencies examined. One element of the reason that the FFMIA and related accounting standards have not been implemented is that the OMB (2009b) has promulgated policy that compliance with the FFMIA does not require implementation of comprehensive managerial cost accounting (MCA) systems. Correction of this situation will likely only result from pressure emanating from a much more highly informed public incensed by perceptions of an inefficient or ineffective government or action from a similarly incentivized Congress.

Chapter 5

A Summary of the Conclusions from this Research

This chapter consists of three distinct parts. Part I summarizes the genesis of this research, briefly reviews the methodology, and the state of performance measurement, reporting, and management as revealed by this project. The findings from the literature and documents review are re-stated with a focus on a comparison between selected OECD nations and the U.S. That is followed by a review of the findings emanating from the analysis of the primary and secondary data sources predicated on the selectively defined indicators of the practice of *comprehensive output measurement and reporting*. The rubric, *comprehensive output reporting* served as a proxy for an effective performance measurement, management and reporting regime.

Part II offers a comment on a potentially different future of an improved performance management regime based on the findings of this research. This part is somewhat anomalous to the normal structure for research reports. It discusses what might improve implementation of the legislation and thereby the microeconomic efficiency of the cabinet level agencies. This discussion examines: 1) the potential of an expanded role for OMB; 2) what might result from a more comprehensive implementation of the FFMIA and related regulations and management policies; 3). the potential benefit of deeper implementation of the FFMIA down into the subcomponents of the cabinet-level agencies; and 4) how improved transparency through third party analysis might benefit a more thorough implementation of the FFMIA. This examination was prompted by the finding the cabinet-level agencies are at too high an organizational level to be effective in reporting efficiency information.

Part III returns to the more traditional structure for a research project of this nature in summarizing areas for future research and then wraps up with concluding remarks.

PART I – THE PROJECT REVISITED AND SUMMARIZED

What this Project Intended

The intent of this project was to examine the extent to which the practice of performance measurement and management had focused on improved efficiency and effectiveness. As pointed out in Chapter 1, since the advent of GPRA reporting, notwithstanding the previously cited OMB ‘measurement’ policies (OMB Circulars A-11, 127, and 136), the focus of performance reporting has been on outcomes (Steinhardt, 2008), i.e., effectiveness, not efficiency. Political leaders need to demonstrate effectiveness for electoral success. An outcome approach assumes that voters and taxpayers are mostly concerned about effectiveness.

In contrast, this research focused on the efficiency and effectiveness measurement of outputs—the work agencies produce—and the effectiveness of those outputs in contributing to outcomes. It sought to find, within the federal agencies’ practice of performance measurement and reporting, those elements and measures that might result in operating efficiencies. Although this approach was not new (Kamensky & Morales, 2006; van Dooren, 2005, 2011), it was different from the practice that has developed since GPRA reporting commenced in 1998. In contrast to outcomes (effectiveness), which have been the principal concern of policy makers and legislators for the last decade, efficiency of outputs is the concern of operational management. Ultimately, efficiency, along with and as part of effectiveness of outputs in achieving outcomes, should also be a concern of executive management and the legislators responsible for

appropriations. However, as recently as June 2013, Kamensky (2013) noted that the current emphasis remains on the evaluation of outcomes and effectiveness.

The Origins of the Government Efficiency Issue and this Project

The efficiency and effectiveness of American government has been a long-standing concern of public administration scholars and the American public since, at least, the Progressive Era (Hopkins, 1912; Williams, 2003), i.e., for more than 100 years. Initially, the concern was at the state and local level. That concern shifted with the Great Depression and the birth of Keynesian economics as a facilitator of economic growth and well-being. The Great Depression was the incubator of today's federal bureaucracy. In 1929, federal government expenditures constituted less than three per cent of national output (Gosling, 1992, p. 63)—the federal government was an insignificant player in the national economy. The circumstances shifted dramatically as a result of the Great Depression, World War II, and the consequent geometric growth of government as a dominant influence within the whole of the national economy. “Big government was here to stay ... Federal outlays averaged 18 percent of Gross Domestic Product (GDP) during the 1950's” (Schick & LoStracco, 2000, pp. 16-17). Today, federal outlays constitute 23 percent of GDP (Council of Economic Advisers, 2013). The sheer size of the federal government and its effect on the whole of the economy have made its efficiency an issue of national importance and economic well-being.

In the four decades following World War II, there were three Presidential Commissions, the 1949 and 1956 Hoover Commissions, convened by Presidents Truman and Eisenhower respectively, and the Grace Commission under President Reagan. President Reagan followed up the Grace Commission with his Productivity Improvement Initiative (Congressional Budget

Office, 1989). All three presidents focused on efficiency, effectiveness and financial management and recommended adoption of some form of performance management in conjunction with the business sector practice of accrual accounting to better account for government spending and to facilitate microeconomic efficiency (J. L. Chan, 1994, 2009; GAO, 1986). With the passage of the 1990 CFO Act, the 1993 GPRA and the 1996 FFMIA, many of the recommendations embodied in the three commissions and related GAO reports became law. These three laws provided the core components of a comprehensive *legislative package* that defined the requirement for a system of accrual accounting, managerial cost accounting, and performance measurement and reporting.

The Office of Management and Budget (OMB) followed up the legislation over the ensuing two decades with repeated and specific management policies and explicit direction to agency executives intended to improve the efficiency and effectiveness of agency operations. OMB Circulars A-11(2011c, Sect. 51-- Basic [Budget] Justification Materials), A-127 (2009a, Financial Management Systems), and A-136 (2011d, Financial Reporting Requirements) provided annual specific implementation instructions. In particular, Circular A-136 on Financial Reporting, for each of 2008, 2009, 2010, and 2011, states, “[Agencies] should report the full cost of each program’s output, which consists of (a) both direct and indirect costs of the output, and (b) the costs of identifiable supporting services ... and assign costs in accordance with ... SFFAS No. 4.” These explicit OMB management policies and directives provided a foundation for this research into the substance of their implementation within the cabinet-level agencies of the Executive Branch.

The Development of the Methodology for Research

In order to execute the research, it was necessary to define an indicator that encompassed the elements of efficiency and effectiveness measurement and reporting. Accordingly, this project defined and employed a proxy, *comprehensive output reporting*, as a measure to determine if and how effectively the federal government had adopted practices that would contribute to measuring and reporting on the microeconomic efficiency of its operations. Importantly, the substance of the proxy, *comprehensive output reporting*, was already embodied in legislation, the 1996 FFMIA, and also in OMB operating direction to the Executive Branch agencies in the annual updates to Circulars A-11, 127, and 136. The research sought evidence of *comprehensive output reporting* in 13 of 15 cabinet-level Executive Branch agencies named in the 1990 CFO Act. Two departments, the Departments of Homeland Security and Defense were excluded for reasons articulated earlier in this paper.

The project definition for this research noted that in order for *comprehensive output measurement and reporting* to be enabled, the Executive Branch departments would have to have implemented accrual accounting and Managerial Cost Accounting (MCA) systems throughout each agency down to the operational management level. The 1996 FFMIA, as expanded on by Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) No. 4, requires the implementation of such systems. Accordingly, one element of this research was to determine if and to what extent accrual accounting and MCA systems had been implemented throughout the agencies and bureaus down to the operational management level. The extent of MCA implementation was ultimately found to be the governing factor on the extent of *comprehensive output reporting*.

Out of the foregoing, two research objectives and a comprehensive research question were developed in Chapter 1 to guide the research methodology as developed in Chapter 3. To facilitate analysis of the primary and secondary data sources in the context of the research question, eight indicators⁴⁹ were developed for use in coding the various components of the data to identify and distinguish the presence of the elements of the research question. These indicators were important in making distinctions and drawing conclusions concerning the degree to which agencies had implemented performance measurement in a manner that enabled *comprehensive output reporting*. The research questions and defining indicators provided the foundation for assessing the state of comprehensive output and outcome efficiency and effectiveness measurement and reporting within the 13 cabinet-level agencies assessed as part of this project.

Having established the background and the research questions for the project, the relevant scholarly literature and existing government policy documents, management directives, and reports were reviewed in greater detail and assessed for evidence of comprehensive efficiency and effectiveness measurement and reporting of government activity.

The State of Efficiency and Effectiveness Measurement and Reporting

The Literature Relevant to Efficiency and Effectiveness Measurement

The literature reviewed for this project filled a number of purposes. It provided a chronology of the development of performance measurement and management, revealed its relatively recent roots in the New Public Management (NPM) movement, and explored the diffusion of its implementation and practice across a variety of OECD countries (e.g., Pollitt &

⁴⁹ See pp. 27-32 of this paper.

Bouckaert, 2004). The experience of most countries chronicled in the literature reflected the essentiality of measuring outputs in terms of all inputs for efficiency measurement and linking them to outcomes for efficiency and effectiveness assessment (Curristine, 2005b; Curristine, et al., 2007). The NPM literature also highlighted the necessity of accrual accounting and the importance of integrated financial and performance information for the effective implementation of efficiency measurement as a component of comprehensive performance management (Caiden, 2010; J. L. Chan, 2003, 2009; Curristine, et al., 2007; Heald, 2005; Lee, 2008; Marty, et al., 2006; Pallot & Ball, 1996; Schick, 2009; Sterck & Scheers, 2006).

Pollitt and Bouckaert (2004, pp. 71-72) further noted that accrual accounting systems needed to be implemented deeply within the organizational components of agencies down to the operational management level to be effective. Pollitt (1999) had earlier observed that in many cases the integration of financial and performance information had not occurred and that “performance management and financial management ... operate in separate spheres” Similarly, notwithstanding the obvious link between efficiency and microeconomic theory, few researchers, beyond those from the previously noted ‘early adopter’ countries (e.g., Boston, et al., 1996; Scott, 2001), comment on or analyze performance management in terms of microeconomic theory. Others noted the “paucity of empirical research ... on the systems and processes used ... [to] measure and manage performance” (P. Micheli & Neely, 2010).

The Experience of Other Nations

The foundation of the most comprehensive form of performance management is in the NPM initiatives of the four early adopter countries. Throughout the mid to late 1980s and 1990s, somewhat in parallel with the development of American practice, the NPM movements in

Australia, New Zealand, Sweden and the UK gained momentum. Efficiency and effectiveness of government formed the core rationale of NPM and the development of performance measurement and management in these early adopter countries. These four countries experimented through trial and error with measurement and reporting regimes that shifted the emphasis from the long-standing practice of input management to an emphasis on outputs (what government does) and outcomes (what government outputs achieve). New Zealand and the UK initially focused predominantly on outputs (Aucoin, 1995; Boston, et al., 1996; N. Carter & Greer, 1993; Pallot, 2002; Scott, 2001; Zifcak, 1994), an efficiency measurement, while Australia began with an outcomes-focused approach, an effectiveness measure (Curristine, 2005b, p. 90, Note 3). Sweden followed a balanced approach incorporating both outputs and outcomes (Pollitt & Bouckaert, 2004, pp. 287-288).

However, within the span of a few years, all four countries migrated to a balanced and integrated approach that measured efficiency through outputs linked to outcomes to determine effectiveness. Their experimentation confirmed the essentiality of comprehensive measurement and reporting of outputs as efficiency measures using accrual accounting with outputs then linked as directly as possible to political outcomes for both effectiveness purposes and as the ultimate test of efficiency. Most OECD countries adopting performance management have followed a similar model of measuring and relating outputs to outcomes (Curristine, 2005b; Curristine, et al., 2007). This provided a benchmark for comparison with the U.S. experience.

The U.S. Experience

The scholarly literature indicates the genesis of 21st century performance management in the U.S. is in 20th century state and local government—it begins in the Progressive Era with the

New York Bureau of Municipal Research and its various off-shoots (Williams, 2003)—where the practice has an established and successful role (M. P. Aristigueta & Zarook, 2011; J. L. Chan, 2003, 2009; Ho, 2011; Melkers, 2006; Melkers & Willoughby, 2004; D. P. Moynihan, 2006; D. C. Smith, 2009). That has not been the case at the federal level. Notwithstanding the passage of the Budget and Accounting Act as early as 1921 (P.L. 67-13, 42 Stat. 20, 1921), with its reference to “greater economy or efficiency in public expenditures,” formal performance measurement, reporting, and management was non-existent at the federal level until the late 1990s.

The passage of the 1990 CFO Act, the 1993 GPRA and the 1996 FFMIA presaged the development of performance management within the federal government. This legislation had as background an increasing concern for the accountability of public funds (Bowsher, 1991), the efficiency and effectiveness of federal expenditures (Wholey & Hatry, 1992), and continuing government deficits along with a growing public indebtedness.⁵⁰ For the twenty-plus years leading up to the legislation, the American scholarly literature was predominantly focused on efficiency—an output dependent measure (M. H. Baker, 1972; Bouckaert, 1990; Congressional Budget Office, 1989; Diamant, 1967; Gissler, 1972; Hatry, 1972; Kendrick, 1963; Mercer & Koester, 1978; Newland, 1972; Parkinson, 1955; Peterson, 1972; Schick, 1966; Vandermeulen, 1950; Wildavsky, 1966; Yamada, 1972). Those concerns were reflected in the CFO Act and the FFMIA. The 1993 GPRA dealt with effectiveness.

The financial and performance related legislation of the 1990s and the related government management policy documents contained specific and separate reporting

⁵⁰ See “Timeline” *Slaying the Dragon of Debt*, Bancroft Library, University of California, Berkeley. <http://bancroft.berkeley.edu/ROHO/projects/debt/timeline.html>.

requirements for efficiency (output) and effectiveness (outcome) measurement and reporting. The financial legislation, the 1990 CFO Act and the 1996 FFMIA, mandated efficiency reporting based on activity or output measurement (CFO Act, 1990, Sect. 902(a)(3)(D); GAO, 1991; FFMIA, 1996, Sec 802, “Findings and Purposes”). These mandates were prescribed within federal government accounting standards (FASAB SFFAS No. 4) and OMB policies and procedures (OMB Circulars A-11, A-127, and A-136).

The 1993 GPRA mandated effectiveness reporting based on outcomes of government (Breul, et al., 1999; GAO, 1996; 2008). The five purposes of the GPRA as articulated in Section 2(b) prescribed reporting on “results,” “objectives,” and “effectiveness” to ensure that agencies were held accountable for outcomes in the ‘public interest.’ Although both the CFO Act and the GPRA mandated annual reporting, efficiency and effectiveness of agency outputs, even if measured as required under the CFO Act and FFMIA, were not specifically enumerated as required to be reported in the annual GPRA reports (GPRA, 1993, SEC. 4).

All three pieces of legislation, the CFO Act, the GPRA, and the FFMIA, are administered through OMB. However, within OMB, the CFO Act and the FFMIA are administered by the Office of Financial Management while the GPRA and performance reporting is administered by the Performance Management Division. Although the three pieces of legislation are essentially complementary and imply an integrated approach, implementation and reporting practices have not reflected that. This research has found that reporting under the GPRA has not been cognizant of the requirements of the CFO Act and FFMIA. As first observed by Pollitt (1999), there appears to be a long-standing bureaucratic wall in U.S. federal government practice separating financial and output efficiency reporting from outcome effectiveness reporting.

The U.S. sourced scholarly literature since the 1990s reflects that separation. It reveals a preference for outcome or effectiveness reporting over output or efficiency reporting. Since the first GPRA reports were published in 1999 the focus has been predominantly on outcomes or effectiveness (Boyle, 2009; Breul, et al., 1999). Researchers continue to favorably review the GPRA preference for outcome reporting (Curristine, et al., 2007; Hatry, 2008; Hatry & Kopczynski, 1997; KPMG, 2011; K. Mark & Pfeiffer, 2011; Perrin, 2006; Van Dooren, 2011). There has been some criticism of the exclusion of output and efficiency analysis but without significant effect on reporting practices (Bahler, 2003; Behn, 2004; Diamond, 2005; GAO, 2001a 2010; Lee, 2008; Peterson-PEW Commission, 2011; Williams, 2003). “The U.S. approach to performance reports has been to focus almost exclusively on outcomes” (Boyle, 2009); there remains an inadequate emphasis on efficiency (GAO, 2010; Steinhardt, 2009).

The literature review, particularly the U.S. component, suggests that very little efficiency measurement and reporting existed in federal agencies; this set the stage for this research project.

Analysis of the Primary and Secondary Data Sources

As stated earlier in this chapter, this project sought to determine the existence of specific evidence of the extent of efficiency and effectiveness measurement and reporting. In order to establish a standard for what would comprise *specific evidence of efficiency and effectiveness measurement, reporting*, the term *comprehensive output reporting* was defined. The definition of *comprehensive output reporting* and the indicators employed to identify it were developed from policy documents such as accounting standards (FASAB, 2007), previous GAO work (1998a, 2001a; 2004, 2005), and other related work (Martin, 2005a, 2005b).

The secondary and primary data sources selected for this research were then examined for *comprehensive output reporting* using the identifying indicators. The secondary data sources consisted of GAO survey data from their 2007 Managers Survey (2008b) and the results of the Mercatus Center’s 10th Annual Performance Report Scorecard (McTigue, et al., 2009). The primary data sources were the 2011 editions of thirteen of the fifteen executive branch cabinet-level agency annual GPRA reports and 22 interviews of senior managers in three agencies. The GPRA reports consisted of either an agency Performance Accountability Report (PAR) combining financial and performance data or separate Agency Financial Reports (AFR) and Agency Performance Reports (APR).

Results from the GAO 2007 Federal Managers Survey

The GAO (GAO, 2009; Steinhardt, 2008) concluded from the survey that use of output and efficiency measures were used “to a great or very great extent” by 54 and 44 percent, respectively of federal managers. However, 51% of managers did not relate outputs to outcomes; this precludes *comprehensive output reporting* as defined for this project as well as any prospect of reliability in efficiency measures. A failure to link outputs to outcomes renders *comprehensive output reporting* impossible. Production of outputs not related to outcomes—*potentially* stranded outputs—is a potential indicator of the worst form inefficiency. It validates Waldo’s (1948) assertion of “efficiency for what?”

Significantly, the GAO did not define in their survey instrument the nature of cost measurement, i.e., whether cost measurement was based on fully accrued cost or budgeted program appropriations. When cost is measured on the basis of only program appropriated ‘cash’

or ‘budget’ cost, as opposed to ‘full accrued cost,’ ‘efficiency’ measurements are useless since agency facility, overhead and most personnel costs, the most significant output and outcome cost elements, are excluded and efficiency is overstated. The GAO analysis of the 2007 Managers Survey found performance information had achieved a level of use at the *great* and *very great extent* level by about 30% of managers. This project’s analysis of the GAO survey data indicates that the 30% of managers who reported using performance information were not benefiting from *comprehensive output reporting*. This analysis found that there was little to no effective or meaningful efficiency and effectiveness monitoring or reporting evident in most of the cabinet-level CFO Act agencies in 2007.

The Mercatus Center 10th Annual Report

The analysis of the Mercatus Center’s 10th Annual Report (McTigue, et al., 2009) revealed results similar to those for the GAO Managers Survey. This project’s analysis of Mercatus Center’s report reveals no evidence of efficiency and effectiveness measurement of outputs using accrued full costs and therefore no indication of *comprehensive output reporting*.

The 2011 Annual GPRA Reports

GPRA reports for 13 of 15 cabinet-level Executive Branch agencies were reviewed. With the exception of the Treasury Department, most of the cabinet-level CFO Act agencies reports satisfied a significant number of the eight indicators for *comprehensive output reporting*. The same applies to the three sub-agency organizations examined as case studies: the US Forest Service, the US Geological Survey, and the Federal Aviation Administration. Only the Treasury Department fully satisfied the indicators for outputs linked to outcomes and for costing using

MCA systems. Commerce and HUD partially met the indicators. Aside from Treasury, Commerce, and HUD, none of the agencies exhibit evidence of allocation of costs to output activities or attempts to measure organizational efficiency. The capacity to measure and cost outputs or work activity at any of the other agencies was close to non-existent. Some agencies' budget submissions reflect 'budgetary costs,' not fully accrued costs, for agency activities or outputs when justifying budget appropriations. 'Budgetary costs' do not satisfy the standards for *comprehensive output measurement*; 'budgetary costs' are a measure of appropriation spending efficiency and effectiveness—i.e., appropriations spent on time and as intended— not economic efficiency. Although many agencies allocate costs to outcomes and strategic objectives, the absence of a capacity to assign accrued costs calls into question the validity of cost assignments to outcomes and/or strategic objectives in the 2011 GPRA reports.

However, the review of GPRA reports is only indicative of the absence of *comprehensive output reporting* in the annual GPRA reports. It is not definitive that *comprehensive output reporting* is *not* occurring within any agency or subordinate bureaus; it only demonstrates that *comprehensive output reporting* is not evident in the annual GPRA reports. However, the absence of such measures in the GPRA reports combined with the analysis of the 2007 GAO Managers Survey (albeit, four years earlier) was further indication of a possible widespread absence of meaningful efficiency measurement.

Interviews of Departmental and Oversight and Review Agency Personnel

Twenty-two interviews were conducted. Eight of the interview subjects worked within oversight or review organizations (OMB, GAO, and Mercatus Center) and 14 were from three operating agencies and three of their respective sub-agency bureaus (Department of Agriculture

and the U.S. Forest Service; Department of the Interior and U.S. Geological Survey; and Department of Transport and the Federal Aviation Administration). There were no significant variations in the substance of remarks between interviewees within the review and oversight organizations such as OMB and GAO and those in the ‘line’ agencies and bureaus. Substantially, interview comments centered around the absence of MCA systems and attitudes towards *comprehensive output reporting*.

Interview results contradicted the positive aspects of the testimony to Congress by GAO staff (Steinhardt, 2009) emanating from the 2007 GAO Managers Survey as well as the comments on progressive improvement in GPRA reports within the Mercatus Center 10th Annual Report Scorecard. Interview results parallel this project’s analysis of the annual GPRA reports of the Executive Branch CFO Act agencies. There is a dearth of *comprehensive output reporting* and efficiency and effectiveness measurement within the agencies or their subordinate bureaus represented by the interviewees. Nor did interviewees expect to see the development of MCA systems or *comprehensive output reporting*. Comments reflected a disdain for the 1996 FFMIA, a profound disinterest both by, and attributed to, financial staffs in the development of MCA systems and performance reporting, and little utility in efficiency and productivity analysis. Many interviewees indicated there was little coordination between performance measurement and financial staffs and asserted that there was little interest from the financial staff in assisting in or integrating performance and financial information.

Operational line managers reported that they did not benefit from either of the CFO’s accounting systems or the Chief Information Officer’s information systems for performance reporting purposes. Accounting-systems supported MCA systems did not exist and the financial

systems were focused on compliance, not managerial effectiveness and efficiency. Interviewees communicated a broad sense of disdain for the financial management and accounting function. Many interviewees commented on the absence of assistance from financial systems and financial personnel in efficiency and benefit-cost analyses. “We are not getting, nor do we expect to get, what is implied or required by the FFMIA.”⁵¹ In total, 16 of 22 interviewees commented negatively on the financial system and the lack of utility for and contribution to operations and performance management. These latter comments contradicted the response to the GAO 2007 Managers Survey regarding impediments to reporting.

Synthesis of the Results from the Primary and Secondary Data

The analysis of the 2007 GAO Managers Survey and the analysis of the 2009 Mercatus Center 10th Annual Performance Report Scorecard found strong indicators that there was little to no *comprehensive output reporting* and little to no efficiency measurement or effectiveness analysis of agency outputs to outcomes in the 2008 reporting cycle. The further analysis of the 2011 GPRA reports revealed that those reports, the Treasury Department excepted, contained little to no evidence of comprehensive output reporting. That said, and as previously articulated, such measurement could have occurred in the absence of the measurement or reporting results showing up in agency GPRA reports. For example, indications exist of measurement and reporting with the USPTO (Department of Commerce) and selected other sub-cabinet agencies that were not examined in the course of this research. However, the subsequent interviews of 22 management personnel from the OMB, GAO, Mercatus Center, the Departments of Agriculture, Interior and Transportation, and the FAA, USFS and USGS all similarly confirmed the absence

⁵¹ See King, David L., Appendix D, Interview comment 2h.

in the selected departments and bureaus of any evidence of accrual accounting-based MCA systems, efficiency measurement and *comprehensive output reporting*. This compilation of indicators supports the finding of this research that other than in the Treasury Department, there is little to no comprehensive output measurement or reporting in the cabinet-level agencies of the Executive Branch.

PART II – A DIFFERENT FUTURE FOR PERFORMANCE MANAGEMENT IN THE FEDERAL GOVERNMENT

Part II examines the potential for a more efficient and effective future for the U.S. federal government in the context of what this study has revealed about performance measurement, reporting and management practices. The literature reviewed for this project provides evidence that other nations have been more successful in implementing performance measurement and management. Indeed, some have moved on to performance budgeting (M. Aristigueta & Justice, 2006; Curristine, et al., 2007; OECD, 2007; Schick, 2007; Sterck & Scheers, 2006). That said, none of the other nations reviewed in the literature are of similar population or government size. Furthermore, all are parliamentary systems with combined executive-legislative governance models. The political structure of U.S. federal government, with the separate powers of the executive and legislative branches and the dominance of a separate legislative branch on funding issues, makes changes in process or practice more demanding. Nevertheless, the results of this study indicate that there is room for improvement and cause to expect more from the cabinet-level Executive Branch agencies in terms of a more comprehensive implementation of performance measurement and management within the federal bureaucracy.

Financial and Performance Reporting and Microeconomic Efficiency

This project defined and employed *comprehensive output reporting* as a methodology for determining if efficiency and effectiveness measurement and reporting existed within the cabinet-level agencies of the Executive Branch. The underlying assumption of such measurement and reporting is that it leads to an endogenous improvement in the efficiency and effectiveness of public administration. That is, the financial and performance reporting and related management practices resulting from the existence and prevalence of *comprehensive output reporting* practices would emulate to some degree the efficiency generating results inherent in a market economy. This was the initial hypothesis for and has been the experience of, albeit qualified in a number of respects, New Zealand (Scott, 2001) and the other OECD governments that pursued similar initiatives (OECD, 2005; Pollitt & Bouckaert, 2004).

The objective of this project was to find evidence of reporting, and thereby evidence of microeconomic efficiency and effectiveness measurement within the cabinet-level agencies of the federal government. This objective was legitimated by the specific statements in the “findings and purposes” of each of the 1990 CFO Act, the 1993 GPRA, and the 1996 FFMIA. The 1996 FFMIA is the legislation most focused on the specifics of efficiency measurement. It led to creation of the FASAB and the promulgation of several financial accounting standards for measurement and reporting of efficiency, particularly SFFAS No. 4 on Managerial Cost Accounting (MCA) Systems. Such systems are essential to measurement of microeconomic efficiency.

This project has found that implementation of the relevant legislation has not corresponded to the “findings and purposes”—there is little to no comprehensive measurement

for efficiency and effectiveness purposes in accordance with the legislation and financial accounting standards within 13 of 15 of the federal government cabinet-level Executive Branch agencies. Consequently, there are no meaningful indicators of microeconomic efficiency in the cabinet-level agencies of the federal government and little or no basis upon which to assess and improve efficiency and effectiveness of those agencies.

What Might Improve Implementation of the Legislation and Microeconomic Efficiency?

Reflection on what this research has found leads to a number of recommendations and ideas on how improvement in agency efficiency and effectiveness measurement and reporting might be achieved. These recommendations include discussion of:

- 1) reconsideration of the OMB role in and emphasis on performance measurement and monitoring;
- 2) implementation of a more comprehensive application of the 1996 FFMIA to include implementation of FASAB SFFAS No.4 *MCA Standards and Concepts* (FASAB, 2007);
- 3) increasing the organizational depth and scope of formal financial and performance reporting within the cabinet-level agencies; and
- 4) improving the external oversight and analysis of agency reports by means other than changing the scope of OMB review and additional bureaucratic process.

Each of these recommendations is discussed in sequence below.

1. Reconsidering the OMB Role in and Emphasis on Performance Measurement

In the course of this study, particularly during the interviews, it was inferred through personal observation that the effectiveness of the OMB in its performance oversight role might

be somewhat impaired by its structure. Three separate offices, 1) the Budget Review, 2) the Performance and Personnel Management (P&PM) staffs and 3) the Resource Management Offices of the OMB have shared performance policy and oversight responsibilities for performance management and budget analysis of the agencies. A fourth OMB office, the Office of Federal Financial Management separately established under the CFO Act, has statutory responsibility for financial reporting, distinct from performance reporting (OMB, 2013). That is, although within the OMB, financial management and financial reporting are separated from budget and performance reporting.

How does OMB execute its Responsibilities for GPRA Reporting

The OMB analysts within the Resource Management Offices (RMOs) review performance plans, reports, and budget submissions from agencies and their subordinate bureaus and administrations. The P&PM and Resource Management staffs have no responsibility for oversight of financial reporting—that is the responsibility of the OMB Office of Federal Financial Management. This separation in oversight responsibilities has contributed to a fundamental disconnect between performance management and financial management to the detriment of *comprehensive measurement and output reporting* and thereby, agency efficiency and effectiveness. The experience of other governments with performance management is that financial management is part of performance management and the two must be integrated to be effective (GAO, 2011a; Pollitt & Bouckaert, 2004; Scott, 2001).

The RMO staff within the OMB has had a long-standing primary focus on effectiveness—ensuring agencies are focused on achieving policy outcomes—as opposed to efficiency of the underlying outputs. The emphasis on outcomes is grounded in the 1993 GPRA

and was further reinforced by the 2010 GPRAMA (Brass, 2012; Kamensky, 2011a). Various directors of OMB across administrations have further emphasized effectiveness through OMB management policy directives (Gilmour, 2007; Lew & Zients, 2011a; Metzenbaum, 2009; OMB, 2010; Shea, 2008).

The bias in favor of effectiveness management to the detriment of efficiency management is reinforced in management policy documents. Among the relevant policy guidance documents referenced on the OMB P&PM website (OMB, Performance and Personnel Management, 2012c) are the Accountable Government Initiative (Zients, 2010), which states “the best way to achieve meaningful performance improvement is to focus on outcomes.” The Presidential Executive Order on “Delivering an Efficient, Effective, and Accountable Government” (Executive Order 13576, 2011) and related memoranda to the Executive Heads of Agencies (Lew & Zients, 2011a, 2011b) also emphasize outcomes, strategic goals, effectiveness, accountability and the traditional *de riguer* mantra for excising “fraud, waste, and abuse.” Although the continuing operating efficiency of the agencies is encompassed in the foregoing policy documents, there is rarely significant emphasis on its measurement. The terms “output” and “costing” are relegated to the “definitions” section and do not appear elsewhere within the principal policy and management guidance documents. The essentiality of a primary emphasis on policy outcomes is not in dispute. However, as assessed throughout this work, the emphasis on outcomes and effectiveness has crowded out considerations of efficiency (Boyle, 2009; GAO, 2010; Heinrich, 2012; White, 2012). Effectiveness in pursuit of outcomes is only one component of efficiency—agencies also need to be efficient in achieving effectiveness (Williams, 2003).

This research has found that OMB oversight of performance of the Executive Branch agencies and their component bureaus does not extend beyond monitoring of strategic objectives and outcomes; it does not include oversight over the efficiency and effectiveness of agency outputs or activities in achieving objectives or outcomes. Agencies are actively discouraged from including outputs in their performance plans. RMO reviewers assiduously excise outputs from agency performance plans and bureau level contributions to those plans, insisting on enumeration of objectives and outcomes only. Interviews⁵² of OMB and agency personnel and review of OMB policy documents confirmed this emphasis. The literature review for this project portended this result.

The foregoing aside, efficiency does receive some corollary attention in sundry OMB management documents with responsibility assigned to various senior executives in the agencies and bureaus, e.g., “members of the Senior Executive Service (SES) play a pivotal role in executing this agenda” (Zients, 2010). Senior executives are enjoined to “actively engage in re-directing resources ... to deliver results in more effective and efficient ways ... and finding lower-cost ways to operate” (Lew & Zients, 2011b). Furthermore, in accordance with the 2010 GPRAMA, the Director OMB has mandated that all CFO Act agencies designate Chief Operating Officers (COO), Performance Improvement Officers (PIO), and Goal Leaders at the SES level. “For agencies with 500 or more full-time-equivalent employees (FTEs), a senior executive should be considered at the Executive Schedule, Senior Executive Service, or equivalent level [for these appointments]” (Lew & Zients, 2011a).

⁵² King, David L., Interview Notes, Appendix D.

The Director of OMB also enjoined financial executives to participate, “Chief Financial Officers are expected to lead agency efforts ... in accordance with guidance issued by the [OMB] Controller on June 28, 2011.” (Lew & Zients, 2011b). The Controller’s guidance (Werfel, 2011a), citing Presidential Executive Order 13576, exhorted CFOs to “Establish ... tactics for ... promoting practical approaches to eliminating unnecessary costs and inefficient practices.” However, the memo makes no mention of deepening the implementation the 1996 FFMIA or the accounting and measurement standards contained in FASAB SFFAS No. 4 on Managerial Cost Accounting systems or other accounting standards enhancing financial measurement.

What have OMB Oversight and the Management Initiatives Achieved?

The findings of this project are that, as of the 2011 annual GPRA reports and the interviews conducted in mid-2012, the expanded assignment of executive responsibility and the proliferation of bureaucratic offices, processes and oversight bodies as exemplified in COOs, CIOs, PIOs and Goal Leaders has not delivered any evidence of efficiency monitoring or improvement. This research has concluded that, absent the comprehensive measurement and reporting required in the legislation, the existence of inefficiency will remain undocumented and efficiency improvement unlikely.

Nevertheless, whether or not agencies and bureaus undertake improvement in efficiency measurement and reporting, expanding the role and capacity of OMB to augment or substitute for agency-based executive-level management in monitoring is unlikely to be efficient in itself. OMB, as presently structured, has not led to *comprehensive output measurement and reporting* as a complement to outcome or effectiveness-based performance reporting. To impose yet

another layer of administrative oversight or review process by OMB is more likely to contribute more to non-productive overhead than to improved efficiency measurement. Moreover, although not explicitly explored as part of this project, OMB personnel appear already significantly burdened with monitoring of the agencies' and their bureaus' performance plans and reports. Lastly, monitoring of bureau-level and operating management is probably more appropriately a function and responsibility of their parent agency executive level superiors and agency-level COOs, CFOs, and PIOs. It seems redundant and perverse that OMB analysts be assigned oversight responsibilities for the performance of SES level executive managers.

In conclusion, there is little practical reason to expand the role of OMB into more comprehensive oversight of *comprehensive output reporting* and performance measurement in general within the agencies. The capacity of OMB to add-value to managerial process and practice is limited, and perhaps deleterious. It is more appropriate to hold agency-level executive management responsible for improved efficiency through *comprehensive output measurement and reporting*.

2. Implement a More Comprehensive Application of the 1996 FFMIA

In testimony to Congress, the OMB Controller (Werfel, 2010, 2011b) noted the inadequacies of federal financial management systems in providing “cost information that reflects the cost of doing business” and in producing “the right information to support decision-making.” He also stated “A key factor to achieving a high level of performance ... is focusing on obtaining cost information that reflects the cost of doing business ... with cost accounting as the foundation of what is reported” (Werfel, 2010). This research has confirmed the absence of useful organizational, program and output cost information. However, it is important to recognize that the OMB Controller, his testimony notwithstanding, is a contributor to that inadequacy in conjunction

with the Director OMB. The OMB policy of weakening the legislative intent of the FFMIA in stating that compliance “will only be applicable to the core financial system” (OMB, 2009a, p. 8, Applicability of FFMIA) relieves agencies of the legislative requirement to establish MCA systems within their subordinate agencies. Unsurprisingly, there is a dearth of such systems throughout the federal bureaucracy. Interviews for this project indicated that the current OMB ‘hands-off’ policy towards implementation of operational level cost accounting will be continued.

Notwithstanding the presumption that such systems do not detract from the functioning of the core financial system, the lack of such systems does affect the ‘core financial system’ to some degree, for fee revenues in particular, although perhaps not ‘materially’ for most agencies. The basis for revenue collection is potentially miscalculated in the absence of cost systems and those paying the fees are rewarded with below cost fees or penalized with above cost fees; but of course, the reality is unknown. Additionally, agency appropriations are likely higher than necessary because of the unmeasured cost of inefficiencies. The fact that the USPTO makes extensive use of comprehensive MCA systems, and whose operations are almost totally fee-revenue funded, speaks to the relevance and importance of such systems. The OPM is in a similar circumstance in that it charges other agencies for its services.

More than 20 years after the 1990 CFO Act and 15 years after the 1996 FFMIA the Federal Government has benefited little beyond the (important) ability to produce auditable financial statements; “CFOs are concerned about integrity of financial systems, not performance, and not cost effectiveness or efficiency.”⁵³ Interviewees within the ‘oversight and review’

⁵³ See Appendix D, Part II, Interview comment 2.c

components commented “financial reporting serves a bureaucratic purpose, not a performance, effectiveness or efficiency purpose” and another “FFMIA, more and more, is having less and less of a purpose. It has driven a lot of cost without much benefit beyond improving accounting.”⁵⁴ Both comments reflect how implementation of the 1996 FFMIA has not respected its more robust and comprehensive legislative intent as expressed in §802(a) and (b) of the Act.

From an effectiveness and efficiency perspective, the financial systems themselves have not been assessed based on benefit-cost. Given the limited information on the cost effectiveness and efficiency of government in PARs or AFRs and APRs, the comment that the financial and other information systems have not served operational managers well is justified. “We are not getting, nor do we expect to get, what is implied or required by the FFMIA.”⁵⁵ A number of interviewees stated that their agency performance measurement systems provided no basis for managing reductions in funding. FTE costs are not assigned to programs and reductions in programs often do not alter FTE assignments; i.e. personnel costs stay in place although programs are reduced or closed. One interviewee that claimed his/her agency had a capacity to manage reductions on a rational benefit-cost basis but noted that cuts continue on an ‘across-the-board’ percentage basis. Others stated financial systems support is so inadequate that they must build their own local systems and that financial and information systems impose a burden on management as opposed to assisting management.⁵⁶ As highlighted earlier in this report, the FAA, one of the sub-agencies that are more comprehensive in terms of financial reporting, employs expensive personnel-intensive ad hoc costing methods in the absence of a financial system capability for routine reporting or analysis of organizational or program operating costs.

⁵⁴ See Appendix D, Part I, Interview comments 17.g and 20.a.

⁵⁵ Ibid, comment 2.h.

⁵⁶ See Appendix D, Part II, Interview comments 19g, 21b, 22a, 22f, 22k

The view that implementation of the FFMIA has been inadequate is shared by the Chief Financial Officers Council (CFO Council) and The Council of the Inspectors General on Integrity and Efficiency (CIGIE). In their 20-Year review of the CFO Act, the CFO-CIGIE (2011, p. 15) found that “Federal financial managers can improve current reporting on past information by linking strategic goals, performance information, and financial information” and that “the financial management community should increase efforts to make financial information more relevant to all of its stakeholders, including decision-makers” (Ibid, 16). To ameliorate the shortcomings of the financial systems and management the Report recommends, “Congress should consider directing OMB, GAO, and FASAB ... to evolve the financial reporting model ... to better meet the needs of all stakeholders” (Ibid, 17). Similarly, the Association of Government Accountants (AGA), in their concurrent 20-year review (2011), opined “Overall, questions remain about the utility and usefulness of the collective financial information reported. One of the target areas where financial reporting can be improved is in the area of program cost.” These are interesting observations in that the source is the CFO Council membership, which is composed of the agency CFOs who are currently not doing what they are asking to be mandated.

It is informative from a perspective of the potential for improvement among the cabinet-level agencies that the non-cabinet level Executive Branch agencies named in the 1990 CFO Act achieved a higher compliance rate with the 1996 FFMIA (GAO, 2011b) than the cabinet-level agencies. Given the unevenness of how different audit firms have interpreted the OMB mandate regarding FFMIA compliance, a higher compliance rate may not be a reliable indicator of better efficiency measurement. However, this research noted that the non-cabinet-level agencies generally scored higher in Tables 6, 7, 8, and 9 in Chapter 4 of this report than the cabinet-level agencies in the analysis of the 2007 GAO Managers Survey.

Issues regarding the inadequacies in financial reporting and support to line management will continue to militate against effectiveness and efficiency measurement and reporting as well as effective cost management until the implementation of the FFMIA is broadened to encompass its legislative intent. Implementing the 1996 FFMIA in the manner prescribed in its “Findings and Purposes” is essential to *comprehensive output measurement and reporting*. OMB’s interpretation of what constitutes compliance with the FFMIA needs to be revised and expanded to achieve the intent of the FFMAI. Furthermore, OMB’s authority “to determine the ‘form and content’ of financial statements” and thereby determine the implementation of accounting practices in place of the Comptroller-General, as granted by the 1990 CFO Act, should probably be rescinded. That authority was granted on the premise that the “Financial management functions of the [OMB] need to be significantly enhanced to provide overall direction and leadership in the development of a modern Federal financial management structure and associated systems” (CFO Act, 1990, Sec. 102. Findings and Purposes.). The conclusion of this discussion is that OMB “leadership” with respect to the “financial management ... and associated systems” has not contributed to the “efficiency ... of the Federal Government” (Ibid).

3. Increase the Organizational Depth of Financial and Performance Reporting

This report examined the annual PARs or AFRs and APRs of the selected cabinet level agencies for indications of *comprehensive output reporting*. Aside from the fact that there was little evidence of such reporting within these agencies or their component bureaus, this examination of the agency level reports led this researcher to the opinion that the cabinet-level agency reports are inappropriate for reporting output efficiency. The cabinet-level agencies are conglomerate organizations—agglomerations of disparate sub-organizations with distinct operational responsibilities and functions. While cabinet-level agency reports are important in

demonstrating an acceptable level of organizational accountability and compliance, they are at too high a level and represent too diverse a mix of output producing and outcome contributing sub-organizations to provide a reasonably comprehensive assessment of operational performance or efficiency and effectiveness. The most that might be expected in the cabinet-level agency reports in this context are observations on the efficiency and effectiveness of their sub-agency components.

Furthermore, to include detail in the agency annual GPRA reports on the specific efficiency measures of agency sub-component organizations would undoubtedly make the reports very daunting to read and analyze. For the 13 cabinet-level agencies examined, the PARs or AFRs and APRs varied between 132 pages for the shortest and 468 pages for the longest. Realistically, the most that should be expected for reporting from a cabinet-level agency is an aggregation of costs by: 1) sub-cabinet agency organizations; 2) strategic performance objectives or outcomes; 3) individually appropriated programs in excess of some benchmark amount, with the ‘amount’ to be determined through further research; and 4) agency executive management comment on the efficiency efforts of their sub-agency organizations.

Most cabinet-level agencies already aggregate costs by sub-agency organizations and strategic objectives or outcomes. Of the 13 cabinet-level agencies examined, only the Department of Transportation (DoT) did not publish costs by sub-agency organizations in its PAR (DoT, 2011, pp. 51, Note 19, p. 81) although costs are allocated to major program categories. The Department of Labor AFR (2011a, pp. 70, Note 15, p. 112) reported sub-organizations’ costs and the costs of the agency’s “cross-cutting programs,” but, the DoL AFR was inconsistent with the APR (DoL, 2011b, pp. 20-97, see Table of Contents). The APR

measured progress on “Strategic Goals” without any cost reporting on the goals. This exemplifies the ‘great divide’ that appears to exist between performance and financial measurement and reporting. In contrast to reporting on sub-agencies and strategic outcomes, few agencies report on the total costs of appropriated programs. However, and importantly, the cost aggregations are of highly suspect quality, particularly for strategic objectives and outcomes, given the weaknesses in existing MCA costing systems or the total absence of such systems.

If efficiency and cost reporting are to be improved to match the requirements of the 1996 FFMIA, financial accounting and reporting will likely have to be extended into the sub-agency organizations down to “street-level management” (GAO, 2011a; Pollitt & Bouckaert, 2004, pp. 71-72). Accordingly, the various bureaus and administrations that comprise the cabinet-level agencies would also prepare financial statements with cost attribution to activities, outputs, and programs. Sub-agency organizations will need MCA systems as envisioned by the 1996 FFMIA that enable routine measurement and reporting of the costs of their outputs in terms of strategic outcomes if outcome performance is to be reliably assessed for efficiency as well as effectiveness.

This raises two questions: 1) given the current financial systems inadequacies in supporting cost and efficiency measurement, why should government further extend these systems; and 2) how far down into the organization structure might financial and MCA systems be beneficially extended? The answer to the first question, why should government further extend these systems, will rely on:

- 1) ‘belief,’ in the efficacy of such systems given the absence of data within the cabinet-level agencies;

- 2) the more positive examples that exist in the USPTO, OPM, FAA, and the non-cabinet-level CFO Act named agencies;
- 3) the knowledge that state and local governments (J. L. Chan, 2003, 2009) and the private sector appear to have abundantly demonstrated the efficacy of cost measurement, the latter since the advent of double-entry accounting in 15th century renaissance Italy;⁵⁷
- 4) research on other OECD countries practices, particularly with respect to accrual accounting practices, previously cited in this document;
- 5) the facts that such direction already exists in the FFMIA and the FASAB accounting standards and that the inadequacies in the current system result from OMB's dilution of the legislative intent of the FFMIA and the singular focus on 'clean' audits.

On balance, the answer is probably to proceed on the basis of the legislation, the international experience, and the experience of state and local governments. The GAO, and successive Comptrollers-General beginning with Charles Bowsher in 1986, have repeatedly stated over the past 25 years that more comprehensive accounting systems are required (GAO, 1986; 2011b).

There is some evidence of this approach working in the examples of the USPTO and the FAA, notwithstanding the absence of an explicit benefit-cost analysis. A recent *Excellence in Government Online* (M. Micheli, 2013) survey found that "63 percent of middle managers said achieving operational efficiency was their top priority" as did 67 percent of agency executive leadership. There is also evidence in the interviews for this project that operational level management would appreciate and make use of more information on their efficiency and

⁵⁷ Most historical accounts attribute the original codification of double entry accounting to a Franciscan Friar Luca Pacioli in 1494. For a recent account, see Gleeson-White, J. (2012). Double Entry: How the Merchants of Venice Created Modern Finance. New York, W. W. Norton.

effectiveness if it were provided through the accounting systems as mandated by the FFMIA; i.e., without the implementation and sustainment cost being imposed on operational level managements. As cited earlier in this work,⁵⁸ H.J. ter Bogt (2008) also found a positive response to MCA-based information among operational managers in Dutch local government. In contrast, there is no evidence revealed by this research that suggests Congress would be interested. Additional measures would probably be required to engender interest within the public. This subject would benefit from additional research.

The answer to the second question, “how far down into the organization structure,” can be predicated to some extent on organizational size and an *assumption of potential benefit-cost*. Given the weak state of federal government *management* accounting as opposed to *financial* accounting, the question of benefit-cost of a financial accounting system that does not provide management accounting information might benefit from further research. Given the unknown but considerable costs incurred for financial systems since the 1990 CFO Act, is it appropriate and efficacious to be satisfied with ‘clean audits’ and not expect more as envisaged and required in the 1996 FFMIA? “If the head of the agency only gets numbers from [the CFO] — the only things [a CFO] can talk about are clean opinions and things of that nature — the agency may be paying a little too much for the CFO.”⁵⁹

As previously stated, a number of sub-agency organizations already publish an annual PAR or AFR and APR. This research found a greater degree of cost consciousness in those sub-

⁵⁸ See Ch. 2, pp. 59-60, of this report.

⁵⁹ Clarence Crawford, Director, Federal Financial Management Solutions Center, Deloitte Consulting; and former CFO of the U.S. OPM; as reported by Jack Moore, *Rise of the Money People: 5 trends and hurdles for the future of effective financial management*, Federal News Radio, April 12, 2013. <http://www.federalnewsradio.com/1125/3282677/5-trends-and-hurdles-for-the-future-of-effective-financial-management>

agency organizations that produce annual PARs or AFRs and APRs. The FAA, a bureau of 48,262 FTEs in 2011 (FAA, PAR, 2011) and the USPTO, with 10,210 FTEs in 2011 (USPTO, PAR, 2011) both currently produce an annual PAR. The US Geological Survey (5,434 FTEs in 2011) published a PAR from 2004 through 2008 (USGS, Office of Budget website, 2012). The Office of Personnel Management (OPM) with about 5,700 FTEs also publishes an AFR and APR although not required to by the CFO Act. The FAA, USPTO and OPM appear to represent a higher level of cost and efficiency focus than other agencies and bureaus. The USPTO 2011 PAR indicates a continuous effort to improve efficiency and reduce costs (USPTO, PAR, 2011, pp. 17, 27). The USPTO has been partially fee-revenue funded since 1991. Additionally, the USPTO was “established [in statute] ... as an agency with performance-based attributes” in 1999 and was granted “fee-setting authority” in September 2011 under the America Invents Act (Ibid, , p. 9). For 2011 the OPM had MCA systems in place for its “Revolving Fund” that enabled it to recover costs for “3,109 FTEs ... financed by other agencies' payments for OPM services” (OPM, 2010, p. 17).

There are a number of “Revolving” and “Working Capital Funds” established throughout the federal government for the purpose of highlighting cost transparency and increasing cost effectiveness, although their success will be constrained by the absence of reliable MCA systems. Extending financial management reporting to the sub-agency organization level is an extension of the principal that cost transparency increases efficiency. Although costing of activities was not supported by the formal financial system in the FAA, managers within the FAA stated that they regularly undertake ‘ad hoc’ cost and efficiency examinations to support management decision making. Managers in both the USGS and USFS stated that they regularly

examined project costs, but also without the benefit of useable financial information from existing financial systems.

However, the fact that some sub-agencies are more financially accountable than others is insufficient argument that all others should emulate them. That decision is best driven by a benefit cost metric—can the efficiencies to be derived and sustained by a more comprehensive implementation of the FFMIA and *comprehensive output reporting* offset the cost of the financial and performance information systems required to enable the outcome? A reasonable metric for determining which sub-agency organizations might benefit from producing their own financial and performance reports could be their size based on full-time equivalent (FTE) employee costs.

OMB practice for determining the complexity of management oversight provides one potential metric. To improve managerial focus, the Director of OMB (Lew & Zients, 2011a) recommended that agency components with 500 or more FTEs appoint a Chief Operating Officer (COO) and a Performance Improvement Officer (PIO); that recommendation was subsequently embedded in the 2012 edition of OMB Circular A-11 (2012b, Part 6, s.200). The metric of 500 or more FTEs might be an appropriate metric in determining those agency sub-components that might benefit more from producing component-level financial statements in accordance with the 1996 FFMIA and the FASAB published standards. Using the 500 FTE metric would probably entail extending GPRA-type reporting to another 80 to 100 sub-agency bureaus. This implies a considerable cost; therefore, this level of reporting should demonstrate an equivalent efficiency and effectiveness benefit.

The most significant cost element in most federal programs is personnel (aside from direct federal transfers to state and local governments and excluding major defense or similar equipment procurements). Using Bureau of Labor Statistics (BLS) data from the Occupational Employment Statistics (OES) program (BLS, 2011), a federal government Executive Branch 500-person organization would incur direct labor costs of approximately \$38 million (i.e., exclusive of costs for facilities, equipment, other overheads, etc) annually. If the extension of FFMIA requirements into an organization of this size resulted in cost efficiencies of only 5% of direct labor costs (i.e., excluding all the overhead costs), the annual cost of extending an agency's financial system and operating it in a FFMIA compliant manner would need to be less than two million dollars annually. Of course, potential efficiencies beyond direct labor costs could also be identified through a comprehensive MCA and output measurement system, as highlighted in the literature concerning accrual accounting in government. The widespread use of these systems in the commercial sector serves as ongoing example, if not testimony, to the efficacy of such systems in cost control. Although the existential need to reduce costs below revenues provides incentive for such systems in the commercial sector, the absence of a similar threat within government does not preclude or obviate the value of cost management and improved productivity, i.e., efficiency, within government and to taxpayers.

There is international evidence that comprehensive financial management reforms have a positive effect. Some of these were cited earlier in the literature review. The OECD, in commenting on such reforms in Canada noted the "federal government recorded an annual surplus ... a year ahead of forecasts, the debt-to-GDP ratio began to fall, and programme (sic) spending was reduced to its lowest levels in almost 50 years. The federal public sector workforce was reduced in size by about 16%" (OECD, 2010, p. 220). The literature review for this project

pointed out similar gains in New Zealand. However, it would likely be an overstatement to attribute all the reductions to financial and management reforms. Undoubtedly, many of the reductions resulted from more arbitrary political decisions to reduce programs and staffing.

4. Improve the External Oversight and Analysis of Agency Reports

One of the more important benefits to *comprehensive output reporting* is what it enables in terms of comprehensive analysis and the potential for greater participation of citizens' in informed oversight as consumers of government services.' *Comprehensive output reporting* links what government does, at what cost, to what it is trying to achieve—outcomes. Citizens are primarily interested in outcomes, what government achieves on their behalf for the taxes rendered. As stated by Alan Schick (2003, p. 74) “outcomes are the most important dimension of performance.” However, as this research has demonstrated, outcomes by themselves, are insufficient for assessing government performance. Citizens, members of Congress as their agents, and even federal managers within the cabinet-level agencies have not yet benefited from access to the kind of elementary output cost and effectiveness information that most private sector managers view as essential and have access to as a matter of routine. This situation pertains within the cabinet-level agencies notwithstanding the 1990 CFO Act, the 1993 GPRA, the 1996 FFMIA and the 2010 GPRAMA.

This circumstance is both a reporting and a transparency issue. Transparency in performance measurement and reporting is an essential element of a more effective and efficient government. Irene Rubin (2007) cited greater transparency “and a willingness to embarrass elected officials” as an essential component of government reform. Embarrassment of public officials through transparency has been a factor in improving the efficiency of public

administration since at least the earliest days of the New York Bureau of Municipal Research (Hopkins, 1912; Schick, 2003; Williams, 2003). Absent the type of comprehensive output reporting that began with the New York Bureau, agency GPRA reports lack transparency, comprehensiveness, and any ability “to embarrass.” Nevertheless, transparency in government reporting has not been in high demand.

To date, Congress has not exhibited much interest in the oversight of agency performance as provided in GPRA reporting as currently presented. A search of the websites of both the House Committee on Oversight and Government Reform and the Senate Committee on Homeland Security and Governmental Affairs (and the Senate Subcommittee on the Efficiency and Effectiveness of Federal Programs & the Federal Workforce)^{60,61} yields nothing on the topic of operational efficiency and effectiveness of federal agencies and nothing approaching an annual review or analysis of agency reports. The opinions of government managers confirm Congress’ lack of interest. Most interviewees for this project report little to no interest by Congress in agency GPRA reports.⁶² One interviewee stated (paraphrased), ‘Members of Congress show no interest in effectiveness and efficiency—only the returns to a member’s district or a particular initiative in which a member has a political interest.’⁶³ This is not unique to U.S. legislators; Pollitt (2006) cited “extensive if patchy evidence that ministers, legislators and citizens rarely make use of the volumes of performance information now thrust upon them.” The Comptroller-General’s testimony to Congress highlights ‘fraud, waste and abuse’ and similar

⁶⁰ See <http://oversight.house.gov/>, accessed March 12, 2013.

⁶¹ See <http://www.hsgac.senate.gov/subcommittees/fpfw>, Website notice: “We’re sorry there are no ... media releases pertaining to this subcommittee.” Accessed March 12, 2013

⁶² See Appendix D, Interview Notes.

⁶³ See Appendix D, paraphrased from Interview Notes.

high visibility issues,⁶⁴ but virtually no attention is paid to the ‘meat and potatoes’ issues of operational efficiency and effectiveness in achieving outcomes. This circumstance pertains even though public opinion polling reveals that taxpayers are unhappy with waste at the federal government level.⁶⁵ As noted earlier, Tom Davis (2009), a former Chair of the House Committee on Oversight and Government Reform, asserted that members use GPRA reports only for partisan political gain.

Approximately 20 percent of the references for this project cite transparency as an important element of a more efficient and effective government. Metzenbaum (2006) assessed that outcomes and accountability improve with transparency because it encourages “intelligent, honest and diligent efforts.” A joint report by the IBM Center for the Business of Government and the Mercatus Center of George Mason University (Richardson, 2009) recommended that to enhance transparency, agencies needed to provide information that integrates performance and costs and “meaningful analysis of financial information.” McTigue, et al (2009) asserted, “Full transparency brings praise and criticism of results—and eventually change—based upon maximizing outcomes and minimizing expenditures.” The Peterson-Pew Commission (2011) stated one of its four goals in reforming public budgeting was to “increase transparency and improve public understanding.”

The OMB, as the principal agent of Executive Branch management policy, has frequently cited the importance of transparency in reporting⁶⁶, notwithstanding OMB’s previously

⁶⁴ See Gene L. Dodaro, “Exploring GAO’s High Risk List and Opportunities for Reform” House Committee on Oversight and Government Reform, February 14, 2013, <http://oversight.house.gov/hearing/exploring-gaos-high-risk-list-and-opportunities-for-reform-2/>, accessed March 10, 2013.

⁶⁵ See Gallup Politics, “Americans Say Federal Gov’t Wastes Over Half of Every Dollar,” September 19, 2011.

⁶⁶ “On his first full day in office, President Obama issued a [Memorandum on Transparency and Open Government](#) that called for “an unprecedented level of openness in Government.” The President identified two purposes of

documented weak implementation of the 1996 FFMIA. The Director OMB has repeatedly cited “communicating performance information clearly and concisely to improve results and transparency” as one of three Executive Branch performance improvement strategies (2011b; 2012b, Part 6, s200). The previous OMB Controller (Werfel, 2010, 2011b) in testimony to Congress has acknowledged that the government’s current financial reporting model does not meet acceptable standards of transparency. Jeffery Zients (2010), a recent former Director of OMB, when Deputy Director of Management for OMB, claimed that OMB had “established an unprecedented degree of transparency” and that the website Performance.gov would provide the public “unmatched transparency on government performance and will help create the clarity and the culture of accountability required to achieve meaningful improvements.” In addition to the routine monitoring of annual PARs or AFRs and APRs by OMB analysts, the OMB created the Performance Improvement Council (Lew & Zients, 2011b, p. 7) “to help make performance management and improvement policies and principles operational.” Joyce (2011a), however, has highlighted that the rhetoric overstates the outcome; “there is less transparency ... concerning high priority performance goals” and that “readers of the 2012 budget cannot find any information on actual performance to date, relative to the set of 12- to 24-month performance goals unveiled [in 2010].”

These circumstances highlight that transparency is important in terms of what information is available and reported but also how it is provided and made available. If information is provided in a manner such that it does not inform, few are aware of it, few read it, and few can understand it, transparency is not well served. Steinberg (2009), for example, in

greater openness: to “strengthen our democracy,” and to “promote efficiency and effectiveness in Government.” (<http://opengov.performance.gov/>, accessed September, 2013)

acknowledging the value of transparency, warned that, by design or accident, the “enormous push toward transparency risks the possibility of information overload” and therefore less transparency. Ezzamel et al (2004) made the same point with respect to the UK’s implementation of cost-based performance reporting. Steinberg’s warning has salience for GPRA reporting. Richardson (2009) found that GPRA reports “most likely will not be read by the general public; but ... more likely ... by those with specific interests and a stake in the agency’s unique offering of specific federal services.”

These circumstances raise the questions of benefit-cost for GPRA reporting as it is currently done and the question of what might be done to raise policy makers’ and executive-level managers’ interest in the annual performance reports of government agencies. Unless executive and public interest in agency reporting can be enlivened, there is likely to be little impetus for change. As previously noted, Irene Rubin’s observation on “a willingness [and ability] to embarrass elected officials” is an essential element of government reform. OECD (2010) research has noted, “When the state is efficient *enough* [emphasis added] to avoid major crises, support for change is much lower, even if reforms could make it more effective and efficient.” Although the popular opinion of Congress appears to have breached new lows,⁶⁷ satisfaction with government rests at only 36%,⁶⁸ and “trust in government” at 26%,⁶⁹ current practice and citizen involvement suggests the “state is efficient enough” in that there appears to be little impetus for financial reporting reform within the federal bureaucracy. Pollitt (2008)

⁶⁷ See Gallup Politics, Congress Approval Holding Steady at 15%, February, 19, 2013, <http://www.gallup.com/poll/160625/congress-approval-holding-steady.aspx>, accessed March 12, 2013.

⁶⁸ See Gallup, “Americans Similarly Dissatisfied with Corporations, Gov’t,” January 17, 2013. <http://www.gallup.com/poll/159875/americans-similarly-dissatisfied-corporations-gov.aspx>, accessed March 12, 2013.

⁶⁹ The PEW research Center assessed “Trust in Government,” which is broader than financial management, at 26% on Feb 13, 2013 (<http://www.pewresearch.org/daily-number/trust-in-government-in-washington-remains-low/>).

identified a variety of impediments to the rational outcomes expected from effectiveness, efficiency and performance measurement which he labeled “performance blight” and “the tyranny of light.”

Does the Private Sector ‘third party analysis’ Provide a Model for Increasing Transparency?

In contrast to the public’s access to government performance information, shareholders benefit from a substantial community of ‘third-party’ professional analysts that review corporate reports and financial statements on their behalf. Similar to the case for the annual agency GPRA reports, research has found that few shareholders read (or understand) annual corporate reports. (Securities and Exchange Commission & Abt SRBI, 2008). Instead, shareholders are able to rely on a large community of professional analysts⁷⁰ to review company reports and financial statements in detail for both effectiveness (revenue growth) and efficiency (cost control and productivity). For government, however, no equivalent such community of analysts exists to examine annual GPRA reports. How might such a community be created?

There has been at least one attempt at ‘third party’ analysis of agency PARs. The Mercatus Center reviewed agency reports for the 10-year period from 1999 through 2008; their independent analyses of the GPRA reports failed to generate much interest beyond the agencies’ performance measurement staffs. The Mercatus’ authors acknowledged that their reviews never really caught on with the public, the Congress, or any particular audience beyond OMB.⁷¹ Nevertheless, the Mercatus authors saw substantial value in independent assessment and ranking

⁷⁰ The cited 2008 SEC report found 3% of investors relied on annual reports. An investor relations web article of unknown provenance citing the SEC and polling in Canada found that between 3% and 12% of investors read annual reports ; see Dominic Jones, *More evidence that few read annual reports*, IR Web Reports, July 13, 2011, <http://irwebreport.com/20110713/few-read-annual-reports/>.

⁷¹ King, David L., Interview Notes, Appendix D.

of agency reports with ranking as the most effective result. They reported that ranking of agencies inspired competition between agencies to improve reporting. One interviewee stated that since the termination of the Mercatus annual review program, the focus on cost within agencies has deteriorated substantially.⁷² However, this research found that any focus on cost has been minimal and never approached the level of *comprehensive output reporting*; in essence, the observed deterioration was not material.

This research has demonstrated that there is very little to no measurement of the operational efficiency and effectiveness of government and consequently little to no *comprehensive output reporting* occurring within the cabinet-level agencies of the federal government. Therefore, there is no effective transparency on the efficiency of government. However, even if such reporting was taking place, it would be insufficient in itself to contribute to any meaningful degree to transparency or to a better informed and more interested public able to “to embarrass elected officials” (Rubin, 2007) into improvement in public management. How information is communicated matters for its effectiveness and therefore transparency. To achieve ‘effective transparency’ requires other initiatives to facilitate more analysis and oversight of agency continuing operations.

One of these ‘other initiatives’ has already been mooted; extend the requirement to publish annual reports to the lower level bureaus within the cabinet-level agencies. However, these additional reports, as well as the agency-level reports, would benefit from more external third-party scrutiny. Therefore, secondly, it would likely be beneficial to renew third-party assessment of annual GPRA reports, similar to the efforts exemplified by the Mercatus Center.

⁷² King, David L., Interview Notes, Appendix D.

However, this nature of analysis and review needs to be more comprehensive, comparative and more highly publicized than the Mercatus Center was able to achieve.

While the agency ranking by the Mercatus Center provided some impetus for improved reporting, reaction to their assessments by as narrow an audience as a select few within the rated agencies themselves was demonstrably insufficient to prompt any widespread movement to improve substantially efficiency and effectiveness measurement and disclosure. A broader audience that includes more citizen participation and media interest is required. Achieving an audience sufficient to enable application of an ‘expanded’ Rubin criterion, i.e., “a willingness [and ability] to embarrass elected officials” and political executives would likely be beneficial to improved efficiency and effectiveness. Their highly commendable efforts notwithstanding, that was not the case for the Mercatus reports. They drew little to no media or public attention. GAO reports draw some attention when highlighting the more flagrant levels of ‘fraud, waste and abuse’ but otherwise also attract little public attention. How can public attention and scrutiny of government performance be raised to a level similar to that achieved in the private sector when a firm falls short of expected results?

This perhaps is achievable through development of a government-focused analytical community similar to the private sector financial analysis services offered by Reuters Finance, Bloomberg, etc. Importantly, the purposes of public agency analysis would not be well served if analysis were by a community of one, such as was the case with the Mercatus Center assessments. Better analysis would result if analysts of government find themselves in competition with each other for public attention and the comprehensiveness and quality of their analyses. In the private sector, analysts must compete for the interest of (and revenue from)

potential and current shareholders and lenders to survive. A similar level of economic interest in performance information on government agencies is unlikely (i.e., analysts could not expect to ‘sell’ their analyses). Nevertheless, having a community of four to six independent competing analysis organizations may improve the quality of analysis, the response of government agencies to the external critiques, and, most importantly, the interest and response of the public and, more particularly, Congress.

Public administration schools in research universities may be among the best places to undertake such work. The Mercatus Center at George Mason University terminated their work because, paraphrasing interviewees, ‘after 10 years it was time.’⁷³ If between four and six respected research universities with schools offering graduate public administration programs undertook and released analytical assessments of the agency GPRA reports in conjunction with the annual spring budget resolution, perhaps there would be more political, press and public interest engendered in operational efficiency and effectiveness. Public administration program faculties might have to work more closely with accounting and business school faculties to enable such analysis, which would likely benefit public administration graduates when employed in either government or non-profit organizations.

To incentivize research universities with graduate programs to take on such work on a continuing basis may require funding as an incentive. That would mean taxpayer support through government. Political support for funding would likely have to come from the House Committee on Oversight and Government Reform and/or the Senate Committee on Homeland Security and Governmental Affairs. Alternatively, perhaps the GAO might be a source of funding.

⁷³ King, David L., Interview Notes, Appendix D..

Another option would be support from non-profit organizations focused on government. The Pew Charitable Trusts sponsored the “Government Performance Project” to improve state government management for 14-years, but terminated the program in 2010.⁷⁴ Perhaps the Pew Trust or another similarly positioned non-profit organization may be willing to take on responsibility for federal government performance improvement by funding public administration schools to undertake GPRA reporting analysis in a push for more substantive reform of government operations. The Sunlight Foundation (Miller, 2013), whose mission is to “catalyze greater government transparency by engaging individual citizens and communities -- technologists, policy wonks, open government advocates and ordinary citizens ... to hold government accountable” is one such organization.

There is also potential to make better use of a more coercive approach as embodied in the mandated annual independent audit of agency GPRA reports. In the current context of GPRA, the role of auditors is quite circumscribed. Typically, it is limited to providing “reasonable assurance about whether the financial statements are free of material misstatement,”⁷⁵ i.e., a ‘clean financial audit opinion.’ Typically an auditor’s report will state “the objective of our audit was not to provide an opinion on compliance with FFMIA.”⁶⁴ As noted earlier, OMB has substantially weakened the compliance standard for implementation of the 1996 FFMIA.⁷⁶ The Association of Government Accountants (AGA, 2011) has stated that a “clean financial audit ... is not a comprehensive ... indicator of ... management effectiveness.” The OMB audit

⁷⁴ Pew Government Performance Project, archived at <http://www.pewstates.org/projects/government-performance-project-328600>. Accessed March 28, 2013.

⁷⁵ Quoted as example from “Independent Auditor’s Report, Dept. of VA PAR, p. III-76”

⁷⁶ See p. 51.

standards⁷⁷ could be modified to require auditors to comment on a more comprehensive implementation of the FFMIA and the MCA requirements, notwithstanding the absence of a material effect on “reliable and timely financial information” as required by the OMB (2009b). This nature of comment is exemplified by the observation offered by the independent auditor for HUD (who went beyond OMB audit standards) in stating, “HUD has limited ... information to assist ... in effectively managing operations” (HUD AFR, 159).

Furthermore, only financial statements themselves are audited, not the PAR or AFR and APR in total. The ‘Management Discussion and Analysis’ sections of GPRA reports are not audited. Nor are the performance claims of cost, efficiency, effectiveness and goal achievement audited for accuracy and relevance. This shortcoming is shared with the business sector but there is movement to mitigate that. The Public Companies Accounting Oversight Board (PCAOB) has proposed including an ‘Auditor’s Discussion and Analysis’ in the annual audit reports (PCAOB, 2011), analogous to the Management Discussion and Analysis required in the Annual Financial Statements. This would broaden the commentary of independent auditors to discuss matters beyond the financial data in the annual financial reports. The Wall Street Journal (Rapoport, 2013) recently reported that the PCAOB is continuing its push for auditors “to disclose more about its views on a company” to include the "Auditor's Discussion and Analysis" section of the annual report in which the auditor would offer its views about a company in more detail.” The GAO has opposed the change in its comment to the PCAOB.⁷⁸

As identified in this research, the shortcomings in efficiency and effectiveness reporting are legion; performance reports say little to nothing about efficiency but almost always claim

⁷⁷ OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, August 25, 2008.

⁷⁸ See GAO comment letter of Sept 30, 2011 at <http://www.gao.gov/assets/590/585558.pdf>

increased effectiveness in meeting goals and objectives. When agencies do report on efficiency, the reporting is based on a misleading and inappropriate foundation for costs, i.e., cash costs only. The AGA (2011) has stated concern “about the integrity of detailed spending and performance information being reported.” In effect, the performance claims in agency PARs and APRs lack credibility—if efficiency is not reliably measured, performance claims are likely of questionable reliability. Highlighting such elementary management reporting shortcomings might be a useful step in applying a ‘Rubin Criterion’ and would perhaps attract the attention of Congress.

Summarizing the Possibilities

The objective of this chapter was to review the data and findings presented by this project and identify the potential for improved microeconomic efficiency within the cabinet-level agencies of the federal government through improved performance measurement, reporting and management. In general terms, this project has found that the legislative framework for improved microeconomic efficiency and performance management within the federal government is appropriate to the intent of improved microeconomic efficiency as an outcome. The problem with achieving the outcome rests predominantly with the manner in which the legislation has been implemented within the Executive Branch. This chapter explored how implementation of the existing legislation might be enhanced within the stated “intents and purposes” of, particularly, the 1990 CFO Act and the 1996 FFMIA. Four major approaches to improving the implementation of the legislation and subsequently microeconomic efficiency were examined.

The first of these was consideration of the role of OMB as the principal ‘executive agent’ for oversight and review of management practices within the Executive Branch agencies. The

discussion in this chapter concluded that OMB probably lacks the organizational capacity for more effective oversight of performance measurement and management practices within the cabinet-level agencies. OMB now focuses overwhelmingly on outcomes, i.e., the effectiveness of agencies, to the exclusion of the efficiency of the agencies in achieving outcomes. That OMB focus is appropriate in that the discussion also concluded that the management of efficiency and effectiveness within the cabinet-level agencies is more appropriately addressed by the executive management of the agencies themselves. Nevertheless, one particular area of OMB discretion that was construed as an impediment to improved efficiency within the cabinet-level agencies is the OMB interpretation of what constitutes compliance with the 1996 FFMIA. That issue was dealt with in the second approach—a more comprehensive implementation of the FFMIA.

The discussion on the need for and benefits from a more comprehensive implementation of the FFMIA drew upon three broad sources. One source was the collective professional opinions of the OMB Controller, the Chief Financial Officers Council (CFO Council), The Council of the Inspectors General on Integrity and Efficiency (CIGIE), and the Association of Government Accountants (AGA). The discussion highlighted that the existing body of financial executives throughout the cabinet-level agencies all belong to these various professional organizations. The second source behind the conclusion for a more comprehensive implementation of the FFMIA was the results of interviews of the operational line managers within the agencies. All of these managers cited the lack of useful accounting data on costs as an impediment to efficiency reporting. Lastly, this research project has found that there was little to no *comprehensive output reporting* extant within cabinet-level agencies and in the 2011 GPRA reports. The discussion concluded that absent a greater emphasis on a more comprehensive implementation of the FFMIA in line with the legislative intent as expressed in §802(a) and (b)

of the Act, further improvement in efficiency through performance reporting and management was unlikely.

A third approach discussed was the benefit to be accrued from extension of GPRA reporting down to the sub-cabinet-level bureaus, administrations and offices. This discussion hinged on the hypothesis that the cabinet-level agencies are conglomerate organizations—agglomerations of disparate sub-organizations with distinct operational responsibilities and functions. These organizations are at too high a level, too disparate in composition and represent too diverse a mix of output producing and outcome contributing sub-organizations to provide a reasonably comprehensive assessment of operational performance or efficiency and effectiveness. The discussion advanced the premise that if efficiency and cost reporting is to be improved to match the requirements of the 1996 FFMIA, financial accounting and reporting will likely have to be extended into the sub-agency organizations down to “street-level management” (Pollitt & Bouckaert, 2004, pp. 71-72). There are issues of benefit-cost in such a proposal. Nevertheless, on balance, the legislation already supports such a need. Furthermore, experience of other OECD governments and selected federal agencies indicate that more comprehensive performance measurement and management systems were possible, were successful and would likely satisfy a benefit-cost challenge.

Lastly, the potential for greater transparency and public awareness of GPRA reporting was discussed in the context of providing an incentive for agency management to improve both performance and performance reporting. The hypothesis, and potential focus of future research, was that it may be possible to engender a more efficiency-focused public or congressional reaction to GPRA reporting through competitive analyses of federal agency GPRA reports by

public administration and policy graduate schools or suitably focused public policy research organizations. In a similar context, the discussion explored the potential for more effective use of annual audits of GPRA reporting as a way of facilitating more meaningful and useful content in those reports.

PART III – FUTURE RESEARCH AND CONCLUDING REMARKS

What is the Significance of this Project for Future Research

This research has led to a finding by the author that very little output efficiency or effectiveness measurement and reporting is occurring within 12 of 15 cabinet-level agencies of the federal government. The failure to measure performance in this manner is to the considerable detriment of operational efficiency, effectiveness and cost reduction within the federal government. Significant elements of the CFO Act and the FFMIA have not been implemented as stated in the legislation and as intended by Congress. This situation led to the FFMIA (Sec. 802(a) Findings, (1) and (2)) but the enactment of the FFMIA has not corrected it. Only the Treasury Department reflects substantive progress in adherence to the legislation. Among the most beneficial future research projects would be to determine why there has been such a broad failure in implementing legislation that is now more than 20 and 15 years old, respectively.

One potential explanation for further research is that the failure is institutional. This research revealed, as have others (Davis, 2009; Pollitt, 2006), that there is no overt interest exhibited by members of Congress in achieving efficiency in government.⁷⁹ Additionally, OMB, since the publication of the first GPRA reports in 1999 has predominantly emphasized a focus on

⁷⁹ King, David L., Interview Notes, Appendix D, See Interviews 2-4, 8-11, 14, 15, 17, 18, and 21.

effectiveness, i.e., what government achieves as outcomes (Shea, 2008). It has done so as a matter of management policy (OMB, 2009b) and has actively discouraged analysis of output efficiency in GPRA reporting. Nor has there been much enthusiasm within the cabinet-level agencies themselves, notwithstanding the radical expansion in executive management and presidential appointees in these agencies cited by Paul Light (2012).

It seems incongruous that such a predominant private sector practice as cost and efficiency management has not achieved a higher priority within federal public administration as a result—there has been very little practice diffusion between government and non-government sectors. Every Agency has appointed a CFO as required by the 1990 CFO Act. The intent of appointing CFOs was to facilitate the introduction of accounting systems that would support efficiency and effectiveness reporting and analysis. Although federal agencies have adopted accrual accounting and annual financial reporting on an accrual basis as required by the CFO Act, that has only occurred at the agency level. The agency CFOs appear to have had very little impact on cost and efficiency measurement for managerial purposes as outlined in the CFO Act and the FFMIA. In fact, interviewees for this project largely regarded financial staffs as an impediment to cost and efficiency measurement. Why that is so might also be worthy of research; why haven't MCA systems been implemented given the emphasis on appointment of CFOs and the development of financial systems? One of the specified intents of the CFO Act (Sec. 102, Findings and Purposes) was to increase efficiency. One potential explanation might be that agency CFOs may have been appointed from within the existing professional public service budget staffs and do not have the cost and efficiency culture that CFOs within the private business sector are often presumed to embrace. This research did not reveal CFO professional qualifications to be pertinent but perhaps commercial sector business experience might be.

Another reason might be that implementation of the existing legislation has been impeded by an undeclared self-interest of political executives and legislators with respect to transparency. This idea generates two possible lines of inquiry for further research. The first would be, does the self-interest of political executives and legislators inhibit Executive Branch transparency? The second and related line of research might be: is public opprobrium and embarrassment of political executives an essential ingredient to a more efficient and effective government? Although the results were ephemeral, ‘public embarrassment’ appeared to work for FEMA on at least two occasions: post Hurricane Andrew in 1992 and post Hurricane Katrina in 2005. Public embarrassment appeared to play a role in the work of the New York Bureau of Municipal Research and similar organizations in the Progressive Era (Stivers, 2002; Williams, 2002, 2003, 2004).

It is worthwhile asking why agency executive management, both political and career officials, have not been more proactive on cost and efficiency issues. OMB’s management policy direction (2009b) exempting agencies from comprehensive compliance with the legislative intent of the FFMIA and related accounting standards for financial statement audit purposes need not relieve agencies of the responsibility to respect the legislative intent and the public interest in efficiency. The Treasury Department went beyond OMB requirements in its 2011 AFR (2011, pp., 122-127); what might be the reasons for other public management minded political appointees and public service professionals not to follow the example? Furthermore; both executive (67 per cent) and operational (63 per cent) managers within government have articulated a need for greater operational efficiency (M. Micheli, 2013). What then explains why the legislation and the related accounting standards have not been implemented? Some reasons, such as an absence of Congressional interest and a lack of management discretionary authority

over the resources to be managed, have been articulated in this research. While these explanations might account for a lack of enthusiasm for the law, it does not adequately explain the failure of the public bureaucracy to respect the public interest and adhere to the law or respond to Micheli's findings. Public governance would be well served by research into why the federal bureaucracy has acquiesced to OMB's guidance (2009b) that compliance with the FFMIA should be at a level well short of the legislative intent. Adherence to legislation that increases transparency in government is clearly in the public interest.

One issue might be cost and the absence of resources; i.e., more comprehensive compliance may not be possible given resource constraints. If so, research into how existing information systems or other methods or processes might meet the need in a way that does not increase the time and resources burden on line management would be beneficial. That is, can existing or improved automated data collection and data management systems be employed in a manner that would facilitate more comprehensive application of the FFMIA and provide useful information on operational efficiency and effectiveness? If not, perhaps the premise of the laws, the FFMIA in particular along with the current cost accounting standards contained in FASAB SFFAS No. 4, should be subjected to further research. This would entail inquiry into the benefit-cost of expanding implementation of the FFMIA and implementation of the FASAB SFFAS No. 4 within the existing financial management systems in order to better serve operational efficiency, performance reporting and the public interest. This line of enquiry falls within the purview of the GAO as well as executive management.

Another potential institutional factor is the organizational level at which reporting of cost and efficiency is practical. As commented on within this report (and by selected interviewees),

the Executive Branch CFO Act agencies are largely conglomerates and detailed output efficiency reporting is likely impractical, notwithstanding that the Treasury Department does it. However, that should not preclude a desire to report accurately costs for programs and subordinate organizations' activities or projects targeted at outcomes. From the perspective of this research, such costs as are currently reported at the agency level have no substantiated reliability. Output and efficiency reporting in many respects, is more efficacious at the operational management level within the bureaus. To achieve that may require annual reports at the bureau level such as already produced by the USPTO and the FAA, notwithstanding the measurement deficiencies evident within the FAA. This is another area of prospective research.

Public governance may also benefit from further research into different methods for improving the effective transparency of government financial and performance reporting in order to engender a greater citizen/taxpayer/stakeholder interest in government efficiency and effectiveness. Transparency might be more easily enhanced by research into increasing the responsibilities of independent auditors beyond the simple pass/fail assessment of financial reporting to include comments on the reliability of performance reporting. The Public Companies Accounting Oversight Board (PCAOB) has proposed including an 'Auditor's Discussion and Analysis' in the annual audit reports (PCAOB, 2011), analogous to the Management Discussion and Analysis required in the Annual Financial Statements.⁸⁰ This would broaden the commentary of independent auditors to discuss matters beyond the financial data in the annual financial reports.

⁸⁰ The GAO has opposed the change; see GAO comment letter of Sept 30, 2011 at <http://www.gao.gov/assets/590/585558.pdf>

Additionally, as previously mentioned in Chapter 4, although annual financial statements are subjected to audit, neither of the Management Discussion and Analysis section of the Annual Financial Report (AFR) nor the contents of the Annual Performance Reports (APR) are subject to audit or third party commentary. Third party independent audit is limited to the financial statement component of the AFR only. The performance claims and projections of Executive Branch agencies are rarely challenged and are not subject to tests for accuracy, veracity and continuity. Transparency might improve if performance claims were subjected to the level of third party scrutiny from which shareholders of publicly traded businesses benefit. Making government more like business in that respect might be beneficial.

Concluding Remarks

This dissertation has explored the practice of performance measurement and management within 13 of the 15 cabinet-level Executive Branch Agencies of the federal government. It was undertaken because of the long history of criticism of the efficiency and effectiveness of the federal government. The U.S. federal government was not unique in this criticism. Such criticism was a common thread amongst the member countries of the OECD and was thought to be the main impetus behind what was then the New Public Management movement. The 1980s, 1990s and 2000s brought forth legislation and reform practices across the OECD that have substantially improved the efficiency and effectiveness of these countries. The U.S. federal government has passed the requisite legislation but has not benefitted from a similar set of reforms in practice. The decade of the 1990's witnessed the passage of legislation in the Congress intended to specifically address and improve upon the efficiency and effectiveness of the federal government. Practice has fallen well short of the legislative intent.

This project was undertaken to examine how effective that legislation has been in improving performance measurement, reporting and management and microeconomic efficiency and effectiveness within the cabinet-level Executive Branch Agencies. The literature reviewed in preparation for undertaking this research was not encouraging. As stated in the opening chapter, the performance measurement, reporting, and management regimes implemented over the past 20 years as a result of the legislation have yet to yield substantive positive efficiencies (Boyle, 2009; Curristine, et al., 2007; G.L. Dodaro, 2011c; Government Accountability Office, 2010; Metzenbaum, 2009; D. P. Moynihan, 2009; Van Dooren, 2011; Yang, 2011).

This research has found that the efficiency and effectiveness of government outputs and activities within 12 of 13 of the selected Executive Branch agencies remain substantially unmeasured and therefore are highly unlikely to have been improved. One positive ancillary observation emerging from the project is that the effectiveness of these agencies in achieving outcomes has been subjected to a concentrated focus as a result of the 1993 GPRA. Effectiveness is one component of efficiency. Nevertheless, the efficiency and effectiveness of what government does or produces, i.e., its outputs, to achieve outcomes remains largely unmeasured and unreported. Given today's straightened fiscal circumstances, that is unfortunate. Hopefully, this research will provide some impetus for further research and further management reform with the potential for the U.S. to emulate the success of state and local governments and that of other OECD members.

Appendix A

CFO Act ‘named’ Agencies and Agencies Selected for Output Reporting Research

1990 CFO Act ‘named agencies’ subject to 1993 GPRA Annual Reporting

(As stated in the FY 2011 Financial Report of the United States Government
(see: <http://www.gao.gov/financial/fy2011financialreport.html>,
[Appendix A: Significant Government Entities](#))

- | | |
|--|--|
| 1. Department of Agriculture | 13. Department of Transportation |
| 2. Department of Commerce | 14. Department of the Treasury |
| 3. Department of Defense | 15. Department of Veterans Affairs |
| 4. Department of Education | 16. Agency for International
Development |
| 5. Department of Energy | 17. Environmental Protection Agency |
| 6. Department of Health and Human
Services | 18. General Services Administration |
| 7. Department of Homeland Security | 19. National Aeronautics and Space
Administration |
| 8. Department of Housing and Urban
Development | 20. National Science Foundation |
| 9. Department of the Interior | 21. Nuclear Regulatory Commission |
| 10. Department of Justice | 22. Office of Personnel Management |
| 11. Department of Labor | 23. Small Business Administration |
| 12. Department of State | 24. Social Security Administration |

Cabinet-level Agencies & Subcabinet Organizations Selected for Research on Comprehensive Output Reporting

- | | |
|--|--|
| 1. Department of Agriculture (PAR)
a. U.S. Forest Service | 7. Department of the Interior
a. U.S. Geological Survey |
| 2. Department of Commerce | 8. Department of Justice |
| 3. Department of Education | 9. Department of Labor |
| 4. Department of Energy | 10. Department of State |
| 5. Department of Health and Human
Services | 11. Department of Transportation
a. Federal Aviation Administration |
| 6. Department of Housing and Urban
Development | 12. Department of the Treasury |
| | 13. Department of Veterans Affairs |

Appendix B

Assessment of Department and Bureau-level Performance

Accountability Reports (PAR) or Agency Financial/Performance

Reports (AFR/APR) against Research Indicators

1. Department of Agriculture	214
a. U.S. Forest Service	215
2. Department of Commerce	216
3. Department of Education	217
4. Department of Energy	218
5. Department of Health and Human Services	219
6. Department of Housing and Urban Development	220
7. Department of Interior	221
a. U.S. Geological Survey	222
8. Department of Justice	223
9. Department of Labor	224
10. Department of State	225
11. Department of Transportation	226
a. Federal Aviation Administration	227
12. Department of Treasury	228
13. Department of Veterans Affairs	229

<u>Agriculture (PAR)</u>		
Indicators	Comment	
I-1	Policy outcomes or strategic goals identified.	Four Strategic Goals linked to Objectives, and Outcomes and then sub-agency organizations in SNC. (PAR, 1, 31, 49, 64,67)
	Work outputs identified and assigned to	No. Work outputs to achieve Outcomes, Objectives and Goals not specified.
	• Strategic Goals or Outcomes	Programs and Strategic Objective conflated.
	• programs	Objectives and outcomes only, no outputs
I-2	MCA systems (see AFR SNC & Note 19 to statements)	All O/H and indirect costs assigned to 'Departmental Offices' (DO) (PAR, 171).
	• 'Net Cost' (&'direct & indirect) by : - sub-agency organization - by strategic objective or outcome - by program	Net Costs, No O/H, etc allocation (PAR, 166-171) Net Costs, No O/H, etc allocation (PAR, 116, Programs not specifically linked to objectives
I-3	CFO professionally accredited	No professional qualifications provided on website.
I-4	Sub-agency organizations produce PAR or AFR & APR	New FMMI implemented in 25 of 29 sub-agency entities (PAR, 19), USFS produces PAR but no sub-agency org or outcome, no output cost information.
	• Net Cost' (&'direct & indirect) by: - sub-subagency organization - outputs	Net cost only, no indirect, O/H outcome or output cost detail (PAR 166-171) NO
I-5	Overt 'performance management culture'	Not evident
	• CFO & CPerFO report to Agency Head)	No, ⁸¹ CFO is 3-levels below Sec Agriculture
	• Integrated Financial & Performance staff	Yes ⁸²
	• FFMIA 1996 compliance	SecAg certified compliance (PAR, 4) except as noted by auditors; IG states "Lack of substantial compliance" (PAR, 24-26, 106). None of the FFMIA non-compliance issues concern MCA systems.
	• Operational efficiency & effectiveness discussed in MDA	Improved operational effectiveness and efficiency is not a prominent theme in MDA.
I-6	Substantial Fee revenue (billing requires accrual MCA system)	No, 6% of Gross Costs (PAR, 171)
I-7	Agency/sub-agency is production or procedural (Wilson typology)	No
I-8	Agency/sub-agency authorized as 'performance-based organization'	No

⁸¹ CFO reports to A/Sec Admin (<http://www.dm.usda.gov/docs/DM-Directory.pdf>) who reports to DepSec to Sec, <http://www.usda.gov/documents/AgencyWorkflow.pdf>.

⁸² CFO responsible for PAR; <http://www.ocfo.usda.gov/>.

<u>Forestry Service (FS AFR, FS Budget Justification)</u>		
Indicators	Comment	
I-1	Policy outcomes or strategic goals.	USFS AFR contains 'PAR-like' performance section (FS AFR, p. A13 to A22). 2011 Performance Report in 2012 Budget Justification (BJ), (see FS BJ, p. 3-1 to 3-44). USFS goals linked to USDA goals (FS AFR, p. A-22; BJ, p. 3-5)
	Work outputs indentified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	No outputs, SGs linked to FTEs and appropriations (BJ, 3-5/6) and outcomes.
	<ul style="list-style-type: none"> • programs 	Programs linked to SGs and to FTEs and appropriations
	<ul style="list-style-type: none"> • sub-agency orgs 	No explicit linkage of SGs to sub-component organizations.
I-2	MCA systems (see AFR SNC & Note 13 to statements)	Net Cost of SGs (FS AFR, p. E5).
	<ul style="list-style-type: none"> • 'Net Cost' (&'direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	No breakout of indirect, no outputs Yes (FS AFR, p. A-27, B49) Org is same as program Yes, (FS AFR, p. E4) Yes, (FS AFR, p. B49, Note 13), Org = Program
I-3	CFO professionally accredited	No, BA (Business); see Donna Carmical
I-4	Sub-agency organizations produce PAR or AFR & APR	N/A, FS is a sub-agency of Dept of Agriculture.
	<ul style="list-style-type: none"> • Net Cost' (&'direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - -outputs 	Net costs by org, program and SG. No, outputs not identified to SGs or programs.
I-5	Overt performance management culture'	Yes, developing
	<ul style="list-style-type: none"> • CFO & CPerFO report to Agency Head) 	Yes (FS AFR, p. A3)
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Yes, Performance staff part of CFO org.
	<ul style="list-style-type: none"> • FFMIA 1996compliance 	Chief USFS and Auditor confirm 'substantial' compliance (FS AFR, p. A-30, B-16).
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	Not significantly. Auditor found that "[FS] may not be able to identify ineffective or inefficient services provided by service providers" (AFR, B-11)
I-6	Substantial Fee revenue (billing requires accrual MCA system)	Revenues 11.6% of Gross Costs (FS AFR, p. B20)
I-7	Agency/sub-agency is production or procedural (Wilson typology)	Mixed
I-8	Agency/sub-agency authorized as 'performance-based organization'	No

Commerce (PAR, OrgChart)		
Indicators	Comment	
I-1 Policy outcomes/strategic goals identified.	Six “Themes,” four external, two internal, each theme supported by Strategic Goals. Theme 5 is “Organizational Excellence” (PAR, 163).	
	Work outputs identified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	Sub-agency bureau-level outcomes/outputs linked to Strategic Goals (PAR, 13-14)
	<ul style="list-style-type: none"> • programs 	FTEs and budget amounts linked to “Themes.”
	<ul style="list-style-type: none"> • sub-agency orgs 	External themes and objectives linked to sub-agency orgs; Internal management themes linked to Dept-level offices only, to be extended in 2012.
I-2 MCA systems (see SNC & Note 17 to statements)	<ul style="list-style-type: none"> • ‘Net Cost’ (& direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	Dept accounting system has capacity for financial analysis at bureau level, Not yet implemented. (PAR, 181-183). Expansion planned in 2012.
		Net Costs assigned to five of 12 sub-agencies and “Dept Mngt” by Strategic Objective (PAR, 201, 238). FTEs and funding linked to Themes (PAR, 17-26). No Net Cost for Management Themes
I-3 CFO professionally accredited	No; MGA, BA and NASD Certification; USPTO, Yes, CGFM, MPA	
I-4 Sub-agencies publish PAR or AFR & APR	<ul style="list-style-type: none"> • Net Cost’ (& direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - outputs 	One sub-agency (USPTO) of 12 publishes own PAR <u>Except USPTO</u> , no sub-agency operational efficiency measures and no output measurement
I-5 Overt ‘performance management culture’	<ul style="list-style-type: none"> • CFO & CPerfO report to Agency Head 	Yes
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	CFO reports to Sec. (PAR, 2) No ‘performance’ executive identified (See Commerce Leadership website).
	<ul style="list-style-type: none"> • FFMIA 1996 compliance 	PAR prepared by CFO staff
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	Auditors found “no instances of noncompliance that are required to be reported.” (PAR, 297)
I-6 Substantial Fee revenue		Overt reference to efficiencies in Performance Section, Themes 4-6 (PAR, 3, 25-26, 163). See also USPTO (PAR, VIII).
I-7 Agency/sub-agency is production or procedural (Wilson typology)		Commerce (excl USPTO), revenues at 26% of gross costs. USPTO revenues = 104% of gross costs.
I-8 Agency/sub-agency authorized as ‘performance-based organization’		No; USPTO, Yes
		No, USPTO claims PBO status

Dept of Education (Ed.gov , OrgChart , AFR , APR)	
Indicators	Comment
I-1	Policy outcomes/strategic goals identified.
	Six strategic goals/outcomes (AFR, APR). Goal 6 is "Improve the organizational capacities of the Department" (AFR, 10, 24-26; APR, 27-29)
	Work outputs identified and assigned to
	<ul style="list-style-type: none"> • Strategic Goals or Outcomes
	Goals 1-6 with indicators (APR, 14-28), Related outputs not identified or assigned to sub-agencies.
	<ul style="list-style-type: none"> • programs
	Outcomes assigned (AFR, 16-26); related outputs not identified
	<ul style="list-style-type: none"> • sub-agency orgs
	Outcomes assigned (AFR, 16-26); outputs not identified
I-2	MCA systems (see AFR SNC & Note 13 to statements)
	<ul style="list-style-type: none"> • 'Net Cost' (direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program
	No breakdown by FTE, O/H, or indirect costs Net Cost for FSA, OESE, OESRS, (AFR, 70, Note 13) Program costs by strategic goal, (AFR, 38) Gross and net cost (AFR, 70, Note 13)
I-3	CFO professionally accredited
	No, Master's in Gov ⁸³ , DepCFO has JD
I-4	Sub-agency organizations produce PAR or AFR & APR
	No
	<ul style="list-style-type: none"> • Net Cost' (& direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - outputs
	No breakdown by FTE, O/H, or indirect costs Net Cost for FSA, OESE, OESRS, (AFR, 70, Note 13) No
I-5	Overt 'performance management culture'
	Yes
	<ul style="list-style-type: none"> • CFO & CPerFO report to Agency Head
	Yes ⁸⁴ . Performance & Budget not under CFO ⁸⁵
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff
	Confused reporting structure, See Note 1-3 below
	<ul style="list-style-type: none"> • FFMIA 1996 compliance
	"FMSS is in compliance with FFMIA, ... No remediation actions are necessary." (AFR, 34)
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA
	SecEd statement (AFR, ii; APR, ii)
I-6	Substantial Fee revenue
	Revenues calculated at 22.7% of Gross Costs (AFR, 4, Consolidated SNC)
I-7	Agency/sub-agency is production or procedural (Wilson typology)
I-8	Agency/sub-agency authorized as 'performance-based organization'
	No

⁸³ [CFO](#) is also Director of the Budget Service

⁸⁴ [OCFO](#): Reports to SecEd. Responsible for financial management, financial control, and accounting

⁸⁵ [OPEPD](#): Office reports to SecEd. Budget Service & Performance Information Management Service.

[OCIO](#): Office reports to SecEd . Responsible for "efficiency and effectiveness of agency operations."

Energy (AFR, APR, OrgChart)	
Indicators	Comment
I-1 Policy outcomes or strategic goals.	Three externally focused Strategic Goals (SG); SG 4 “Operational Excellence” (AFR, 15; APR, 30-31).
	Work outputs indentified and assigned to
	• Strategic Goals or Outcomes
	• programs
• sub-agency orgs	No cost assignment to sub-agency orgs (AFR, 77)
I-2 MCA systems (see AFR SNC & Note 21 to statements)	MCA systems not extended to capture sub-agency organizations’ costs..
	• ‘Net Cost’ (&’direct & indirect) by : - sub-agency organization - by strategic objective or outcome - by program
I-3 CFO professionally accredited	Yes, 2011 CFO, CMA (UK); A/CFO 2012, Yes, BSA, CPA
I-4 Sub-agency organizations produce PAR or AFR & APR	None in evidence.
	• Net Cost’ (&’direct & indirect) by: - sub-subagency organization - outputs
I-5 Overt performance management culture’	Strong rhetoric; no evidence in reporting
	• CFO & CPerfO report to Agency Head)
	• Integrated Financial & Performance staff
	• FFMIA 1996compliance
	• Operational efficiency & effectiveness discussed in MDA
I-6 Substantial Fee revenue (billing requires accrual MCA system)	Operating revenues at 30% of gross operating costs. (AFR, 38)
I-7 Agency/sub-agency is production or procedural (Wilson typology)	No
I-8 Agency/sub-agency authorized as ‘performance-based organization’	No

Health & Human Services (HHS, OrgChart) (AFR, APR, Budget Justification)		
Indicators	Comment	
I-1 Policy outcomes or strategic goals	Five strategic goals. Goal 4 "Increase Efficiency, Transparency, and Accountability" (AFR, I-4).	
	Work outputs indentified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	Strategic goals linked to quantitative outcome measures. No outputs identified.
	<ul style="list-style-type: none"> • programs 	No
	<ul style="list-style-type: none"> • sub-agency orgs 	Outcome measures assigned
I-2 MCA systems (see AFR SNC & Note 9 to statements)	"... limited program, operating divisions, and/or consolidated department level financial data available" (AFR, II-42)	
	<ul style="list-style-type: none"> • 'Net Cost' (&'direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	Net Cost only, no direct, FTE, & indirect (AFR, II-48) No costs; 'fully loaded cost' (APR, 36, Obj. 2.A) Net Cost only, no direct, FTE, & indirect (AFR, III-5)
I-3 CFO professionally accredited	HHS CFO-Economics and Law; CMS CFO is CPA	
I-4 Sub-agency organizations produce PAR or AFR & APR⁸⁶	CMS publishes AFR. "HHS staff constantly strive to achieve meaningful progress and find lower-cost ways to achieve positive impacts ... (APR, 6).	
	<ul style="list-style-type: none"> • Net Cost' (&'direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - outputs 	Except CMS, No costs below sub-agency components No costs attributed to work outputs or outcomes
I-5 Overt 'performance management culture'	Focused on program effectiveness, not organizational efficiency (APR, 75-85).	
	<ul style="list-style-type: none"> • CFO & CImprovO report to Agency Head) 	A/Sec Financial dual-tasked; reports to Sec HHS
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Yes
	<ul style="list-style-type: none"> • FFMIA 1996compliance 	"... systems are not yet in substantial conformance with the [FFMIA]" (AFR, I-28, MDA; II-6, II-26, II-42). A 'material weakness' (III-43-44)
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	Sec HHS statement (AFR, iii); Strat Goal 4 (AFR, I-4; APR, 75-85). Minor focus on efficiency.
I-6 Substantial Fee revenue	CMS publishes segment financial statements. CMS had most significant revenues within HHS at <8% of costs. (APR II-48) BUT funded by FICA revenues.	
I-7 Agency/sub-agency is production or procedural (Wilson typology)	Yes	
I-8 Agency/sub-agency authorized as 'performance-based organization'	No	

⁸⁶ Centers for Medicaid and Medicare Services (CMS) have CFO and publish financial statements, "As of FY 2010, CMS substantially compliant with [FFMIA]." (CMS Financial Report, 2011, MDA, p. 20, http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/CFOReport/Downloads/2011_CMS_Financial_Report.pdf).

<u>Housing and Urban Development</u>⁸⁷ (AFR, APR, Budget Justification)		
Indicators	Comment	
I-1	Policy outcomes or strategic goals identified.	Four externally focused strategic goals w/ four Priority goals and 18 sub goals One internal management goal w/ 5 outcomes “transform business” (AFR, 41; APR, 11)
	Work outputs indentified and assigned to	Some, all goals & sub-goals linked to sub-agency organizations and gross costs. (APR 74-86)
	• Strategic Goals or Outcomes	
	• programs	Some, linked to organizations, APR 75-86
	• sub-agency orgs	Some, linked to programs & goals, APR 75-86
I-2	MCA systems (see AFR SNC & Note 19 to statements)	SNC (AFR, 66; Note 19, 112) No MCA systems, see FFMIA compliance
	• ‘Net Cost’ (& direct & indirect) by : - sub-agency organization - by strategic objective or outcome - by program	No output or efficiency measures, but: - Budget, FTE, Salaries & Expenses; APR, 75-86 - Budget, FTE, Salaries & Expenses; APR, 74-86 - Budget, FTE, Salaries & Expenses; APR, 74-86
I-3	CFO professionally accredited	No qualifications indicated.
I-4	Sub-agency organizations: PAR; AFR & APR	No
	• Net Cost’ (& direct & indirect) by: - sub-subagency organization - outputs	FTE, Salaries & Expenses, & discretionary budget authority identified to every office. Goals and sub-goals identified to sub-agency organizations.
I-5	Overt ‘performance management culture’	Yes, developing– see below
	• CFO & CPerFO report to Agency Head (HUD, No CPerFO; see CFO website org chart)	A/CFO reports to Sec HUD, (Chart at AFR, 10), but NOT listed as “Principal Staff” on website. CIO does not report to Sec-listed; as Principal Staff
	• Integrated Financial & Performance staff	CFO prepares APR
	• FFMIA 1996compliance	Sec HUD: Dept in compliance w/FFMIA. Auditor: “HUD did not substantially comply” (AFR, 57). “has limited ... information to assist ... in effectively managing operations” (AFR 159, 169)
	• Operational efficiency & effectiveness discussed in MDA	CFO “HUD strives [for] ... utmost effectiveness and efficiency by cutting waste and increasing the efficiency of ... operations. (AFR, p. 63) Goal 5:” Transform the ... Business (APR, 50, 85)
I-6	Substantial Fee revenue (billing requires accrual MCA system)	FHA fees 38% of costs; GNMA fees exceed costs by a ratio of 9:1. No evidence of MCA systems.
I-7	Agency/sub-agency is production or procedural (Wilson typology)	Yes
I-8	Agency/sub-agency authorized as ‘performance-based organization’	No

⁸⁷ **Notes:** HUD consists of 9,467 FTEs, 17 HQ offices, 8 sub-agency organizations. (APR, 6-9; AFR, 7-10)

Interior (AFR , APP&R)		
Indicators	Comment	
I-1 Policy outcomes or strategic goals.	Five "Mission Areas" (MA) with 18 Goals, four MAs externally focused. MA5-"Building a 21 st Century Department the Interior," internally focused.	
	Work outputs indentified and assigned to	
	<ul style="list-style-type: none"> • Strategic Goals or Outcomes 	APP&R organized by Mission Area, Goal, and Strategy (APP&R, 4-5, 8-218). No costs reported.
	<ul style="list-style-type: none"> • programs 	By MA, Goal, and outputs. No costs reported.
<ul style="list-style-type: none"> • sub-agency orgs 	Bureau contributions to MAs, Goals and outputs identified (APP&R, 8-218). No costs reported.	
I-2 MCA systems (see AFR SNC & Note 17 to statements)	MCA systems in place to identify sub-agency, and MA costs. Outputs not costed.	
	<ul style="list-style-type: none"> • 'Net Cost' (&'direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	Net Cost only, no indirect (O/H) cost breakdown. Net costs (AFR, 34, 45, 116-117), FTEs (AFR, 37-38) Outputs by MA (AFR, 11-21; APP&R), no costs. Net Cost by MA (program equivalent, AFR, 33, 69).
I-3 CFO professionally accredited	No, BA, MEd	
I-4 Sub-agency organizations produce PAR or AFR & APR	No	
	<ul style="list-style-type: none"> • Net Cost' (&'direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - -outputs 	No indirect cost allocation identified. No costs below sub-agency level. No output cost, benefit-cost, efficiency measures.
I-5 Overt performance management culture'	Not with respect to operational efficiency.	
	<ul style="list-style-type: none"> • CFO & CPerfO report to Agency Head) 	ASec PBM is CFO (AFR, 49)
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Dep Perf Improv Officer and the Deputy CFO both report to the A/Sec for PBM, who is also CFO.
	<ul style="list-style-type: none"> • FFMIA 1996compliance 	Compliant except for contingent liabilities (AFR, 25, 27, 162). Not material for cost reporting.
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	Discussed in MA 5 (AFR, 7, 18, 19, 34, 39, 48, 50). Emphasis is on IT; some discussion of overall operational efficiency and effectiveness. IG assesses operational efficiency as a 'management challenge' (AFR, 47, 158-160)
I-6 Substantial Fee revenue (billing requires accrual MCA system)	Revenues constitute 20% of Gross Costs	
I-7 Agency/sub-agency is production or procedural (Wilson typology)	No	
I-8 Agency/sub-agency authorized as 'performance-based organization'	No	

USGS (2013 Budget Justification and Performance Information (BJ&PI))	
Indicators	Comment
I-1 Policy outcomes or strategic goals.	USGS serves solely DOI Mission Area 6-‘Provide Science.’ USGS identifies six Science Activity or Program Areas and two ‘overhead’ Activities. FTE and appropriation amounts are allocated to each (BJ&PI, p. D-1). Full accrued costs NOT provided.
Work outputs indentified and assigned to	High Priority Performance Goals (HPPGs) identified as scientific studies outputs. (BJ&PI, p. A3-A7)
<ul style="list-style-type: none"> • Strategic Goals or Outcomes • programs 	Six Scientific Activity Areas. Outputs are reports. Science Activity Areas contribute to other DOI Mission Areas.(BJ&PI, p. E2, F2, G2, H1, I2, J2) Two Overhead Activities: Administration (p. K1) and Facilities (L1). Outputs defined
<ul style="list-style-type: none"> • sub-agency orgs 	
I-2 MCA systems (see AFR SNC & Notes)	No accrual basis financial statements provided.
<ul style="list-style-type: none"> • ‘Net Cost’ (&‘direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	No
I-3 CFO professionally accredited	No, BA (H), History (See AssocDir-Budget)
I-4 Sub-agency organizations PAR or AFR	No
<ul style="list-style-type: none"> • Net Cost’ (&‘direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization/outputs 	N/A
I-5 Overt performance management culture’	Not evident.
<ul style="list-style-type: none"> • CFO & CPerfO report to Agency Head) 	Yes. BJ&PI, p. iv
<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Performance staff report to Budget Director.
<ul style="list-style-type: none"> • FFMIA 1996compliance 	No financial statements, no FFMIA audit.
<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	BJ&PI, p. A9-A10, identifies only administrative efficiencies as directed by DOI and OMB.
I-6 Substantial Fee revenue	Revenue 29.6% of gross costs.
I-7 Agency/sub-agency is production or procedural (Wilson typology)	Production in sense that output is scientific reports and knowledge.
I-8 Agency/sub-agency authorized as ‘performance-based organization’	No

Justice (PAR)		
	Indicators	Comment
I-1	Policy outcomes or strategic goals identified.	Strategic Goals & related Strategic Objectives identified; none are internally focused on management improvements (PAR, I-2).
	Work outputs identified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	No outputs specified. Outcomes linked to Strategic Goals, but not to Objectives. (PAR, I-2, II-3 to II-48). Many “Outcomes” are outputs.
	<ul style="list-style-type: none"> • programs 	None articulated.
	<ul style="list-style-type: none"> • sub-agency orgs 	“Financial Structure” – Nine bureaus plus “Offices, Boards & Divisions” (OBD) (PAR, I-5)
I-2	MCA systems (see PAR SNC & Note 18 to statements)	No indicators of MCA or comprehensive costing at outcome or output level. No operational efficiency measures in evidence.
	<ul style="list-style-type: none"> • ‘Net Cost’ (& direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	No FTE, O/H or other indirect costs indicated Costs by organization, OBDs consolidated as one Costs by ‘Strategic Goal’ only (PAR, III-55). No programs, no costs..
I-3	CFO professionally accredited	No, incumbent AAG holds MBA,
I-4	Sub-agency organizations produce PAR or AFR & APR	There are no indicators of financial reporting in any of the sub-agency bureaus or offices. Scant documentary evidence of performance reporting.
	<ul style="list-style-type: none"> • Net Cost’ (& direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - outputs 	Net costs by sub-agency in agency-level PAR only No output reporting or costing.
I-5	Overt ‘performance management culture’	No compelling evidence. cursory statement by AAG Admin/CFO
	<ul style="list-style-type: none"> • CFO & CPerFO report to Agency Head) 	AAG Administration is CFO, reports to Dep AG
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	DAAG Controller : Budget & Performance, Finance & Reporting
	<ul style="list-style-type: none"> • FFMIA 1996 compliance 	Audit: “substantial compliance” (PAR, III-14)
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	Little specific reference to improved efficiency and effectiveness. Mention is in context of improved capacity with UFMS introduction.
I-6	Substantial Fee revenue (billing requires accrual MCA system)	Consolidated revenues are about 8% of gross costs (PAR, III-55)
I-7	Agency/sub-agency is production or procedural (Wilson typology)	Craft and mixed production/procedural
I-8	Agency/sub-agency authorized as ‘performance-based organization’	No

Labor (AFR, APR)		
Indicators	Comment	
I-1	Policy outcomes or strategic goals.	Five goals identified in APR, NOT in AFR. None internally focused on improving efficiency and effectiveness.
	Work outputs identified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	Yes, APR, none in AFR
	<ul style="list-style-type: none"> • programs 	AFR ONLY
	<ul style="list-style-type: none"> • sub-agency orgs 	Yes, APR, none in AFR
I-2	MCA systems (see AFR SNC & Note 19 to statements)	AFR & APR use different measures for financial accountability (“Cross Cutting Programs”) and performance (“Strategic Goals”) respectively. AFR reports “relationship between ... goals and ... programs” but provides no cost data. (APR, 76)
	<ul style="list-style-type: none"> • ‘Net Cost’ (& direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	AFR makes no linkage between bureaus’ Net Costs and Strategic Goals (AFR, 70 (SNC), 108-115, Note 15)). The APR makes no linkage between performance and cost—there are no allocative or operational effectiveness or efficiency measures.
I-3	CFO professionally accredited	Incumbent holds BA, MPA
I-4	Sub-agency organizations produce PAR or AFR & APR	No
	<ul style="list-style-type: none"> • Net Cost’ (& direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - outputs 	Neither of the APR nor AFR documents discuss cost attribution to bureaus, management overhead, capital or process costs.
I-5	Overt performance management culture’	No
	<ul style="list-style-type: none"> • CFO & CPerFO report to Agency Head) 	Reports to DepSec who reports to Sec
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	No, Budget, CIO, CMO under A/Sec for Admin & Management . CFO is responsible for financial accounting and reporting
	<ul style="list-style-type: none"> • FFMIA 1996 compliance 	Sec, DepSec, CFO, A/Sec A&M/CIO jointly certify compliance (AFR, 30). Auditor concluded DoL not in compliance (AFR, 35, 37).
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	MDA states ‘activity-based’ MCA systems are in place IAW SFFAS No. 4 “for costing programs and performance indicator results.” (AFR, 24)
I-6	Substantial Fee revenue (billing requires accrual MCA system)	Revenues of \$4.4B are 3% of gross costs. (AFR, 70, SNC)
I-7	Agency/sub-agency is production or procedural (Wilson typology)	Mixed
I-8	Agency/sub-agency authorized as ‘performance-based organization’	No

[State \(AFR, Budget Justification](#) pp. 813-851)

Indicators		Comment
I-1	Policy outcomes or strategic goals.	Seven Strategic Goals (SG) plus Exec Direction (O/H)
	Work outputs indentified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	Outputs below the SG level NOT identified in AFR or “Performance Overview and Analysis” of “Budget Justification” (Budget Justification, 815-838).
	<ul style="list-style-type: none"> • programs 	No, SGs and Programs conflated
	<ul style="list-style-type: none"> • sub-agency orgs 	Note 15 to SNC (AFR, 109) allocates costs of SGs to sub-agency orgs but no measurements indicated. Audit found cost allocation methodology to be invalid (AFR, 60, 70-71).
I-2	MCA systems (see AFR, 77, SNC & Note 15 to statements)	Department lacks a “valid cost allocation methodology” (AFR, 60, 70-71)
	<ul style="list-style-type: none"> • ‘Net Cost’ (& direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	Gross costs, revenues and net costs (AFR, 109) Gross cost, revenues and net cost by SG (AFR, 77) Programs and SG are conflated (AFR, 40, 77, 109)
I-3	CFO professionally accredited	Professional qualifications unknown
I-4	Sub-agency organizations produce PAR or AFR & APR	No
	<ul style="list-style-type: none"> • Net Cost’ (& direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - -outputs 	No performance, financial, efficiency, cost, or FTE reporting by Under-Secretariats or Bureaus or offices within each.
I-5	Overt performance management culture’	No
	<ul style="list-style-type: none"> • CFO & CPerFO report to Agency Head) 	No, CFO reports to USec Mngt to DepSec Mngt to SecState (AFR, 9)
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Yes. Performance assigned to CFO (AFR, 122)
	<ul style="list-style-type: none"> • FFMIA 1996 compliance 	Auditor: “systems did not substantially comply” with FFMIA (AFR, 48, 59-60). Departmental management considers shortfalls as “deficiencies” vs. substantial noncompliance (AFR, 48-49).
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	New Quadrennial Diplomacy and Development Review Process suggests emphasis on efficiency and effectiveness; but, no indicators of operational efficiency and effectiveness, or output measurement and reporting. MCA systems are “invalid” (AFR, 60, 70-71; Budget Justification, 813-838)
I-6	Substantial Fee revenue (billing requires accrual MCA system)	Revenues constitute 22.7% of Gross Costs (AFR, 77)
I-7	Agency/sub-agency is production or procedural (Wilson typology)	No
I-8	Agency/sub-agency authorized as ‘performance-based organization’	No

<u>Transportation (AFR, APR)</u>		
Indicators	Comment	
I-1 Policy outcomes or strategic goals.	“Organization Excellence” strategic objective does not mention efficiency (AFR, 11).	
	Work outputs indentified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	No, Outcomes only (AFR, 12-14; APR, 9-11)
	<ul style="list-style-type: none"> • programs 	No, neither outcomes nor outputs
	<ul style="list-style-type: none"> • sub-agency orgs 	No, neither outcomes nor outputs
I-2 MCA systems (see AFR SNC & Note 19 to statements)	No cost attribution to sub-agencies or strategic objectives. "Management provided a limited analysis of its costs ... several [operating agencies] ... material to ... DOT have not implemented cost accounting / allocation methodology" (AFR, 35)	
	<ul style="list-style-type: none"> • ‘Net Cost’ (&'direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	No (AFR, 51, 81) No (AFR, 51, 81) Yes (AFR, 51, 81)
I-3 CFO professionally accredited	No, neither CFO nor any direct reports (see office of A/Sec for Budget & Programs and CFO).	
I-4 Sub-agency organizations produce PAR or AFR & APR	FAA publishes own PAR . No other sub-agency organization reports costs or performance.	
	<ul style="list-style-type: none"> • Net Cost' (&'direct & indirect) by: <ul style="list-style-type: none"> - subcomponent organization -- program or strategic objectives - -outputs 	NO, FAA only FAA, yes (FAA PAR, 116, Note 11) FAA, yes (FAA PAR, 116, Note 11) No
I-5 Overt performance management culture’	No	
	<ul style="list-style-type: none"> • CFO & CPerfO report to Agency Head) 	CFO reports to SecDoT (AFR, 9; see also office of A/Sec for Budget & Programs and CFO)
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Dir Program Performance reports to CFO
	<ul style="list-style-type: none"> • FFMIA 1996compliance 	SecDoT and Auditor state DoT in compliance (AFR, 19-20, 31, 98) as per OMB audit guidance notwithstanding non-compliance with SFFAS No. 4 for MCA systems (AFR, 35)
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	Audit noted shortfalls in implementation of SFFAS No. 4, MCA systems (AFR, 36)
I-6 Substantial Fee revenue (billing requires accrual MCA system)	Revenues are 3% of Gross Costs (AFR, 51)	
I-7 Agency/sub-agency is production or procedural (Wilson typology)	Mixed	
I-8 Agency/sub-agency authorized as ‘performance-based organization’	“The FAA is required to prepare its own financial statements,” <i>Audit Requirements for Federal Financial Statements</i> ” (FAA PAR , 28).	

FAA (PAR)		
Indicators	Comment	
I-1 Policy outcomes or strategic goals.	Four Strategic Goals (SGs) w/ 29 Performance Measures (PAR, 39). Three SGs externally focused; one SG, 'Organizational Excellence' is internal.	
	Work outputs indentified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	Measures are predominantly Outcome oriented. More Outputs in International Leadership and Organizational Excellence,
	<ul style="list-style-type: none"> • programs 	Programs correspond to "Lines of Business/orgs
	<ul style="list-style-type: none"> • sub-agency orgs 	No, No explicit linkage between SGs and organizational components/"Lines of Business."
I-2 MCA systems (see AFR SNC & Note 11 to statements)	MCA systems do not provide for comprehensive output measurement. Benefit cost and ROI measures are ad hoc, not supported by financial systems capabilities. O/H not assigned.	
	<ul style="list-style-type: none"> • 'Net Cost' (&'direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization component - by strategic objective or outcome - by program 	Yes, (PAR, 27, 31, 98, 116-117) Yes (PAR, 27, 116-117)) Programs and "Lines of Business" conflated.
I-3 CFO professionally accredited	Yes, MBA Finance, B. Eng ⁸⁸	
I-4 Sub-agency organizations produce PAR	FAA is 'sub-agency.'" No PAR below this level.	
	<ul style="list-style-type: none"> • Net Cost' (&'direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - -outputs 	Output costing not supported by financial system.
I-5 Overt performance management culture'	Yes,	
	<ul style="list-style-type: none"> • CFO & CPerFO report to Agency Head) 	No, CFO reports to Asst Administrator for Fin & Mngt who reports to Administrator FAA ⁸⁹
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Yes, under CFO
	<ul style="list-style-type: none"> • FFMIA 1996compliance 	Management assures "substantial Compliance" with FFMIA (PAR, 35, 139). Independent Auditor: FAA in substantial compliance with FFMIA (PAR, 91). Findings are notwithstanding absence of effective MCA systems as per SFFAS No. 4.
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	Yes, (PAR, 4, Message from the Administrator) PAR, 18, 26
I-6 Substantial Fee revenue (billing requires accrual MCA system)	Revenues 4.1% of Gross Costs (PAR,	
I-7 Agency/sub-agency is production or procedural (Wilson typology)	Yes	
I-8 Agency/sub-agency authorized as 'performance-based organization'		

⁸⁸ See "FAA Key Officials (http://www.faa.gov/about/key_officials/house/)

⁸⁹ See FAA Organization Chart, http://www.faa.gov/about/office_org/media/FAA_Org_Chart.pdf

Treasury (AFR , APR , Budget Justification)	
Indicators	Comment
I-1 Policy outcomes or strategic goals identified.	Strategic goals, objectives & outcomes. Goal 4 is Management and Org Excellence (AFR, 10-25)
	Work outputs indentified and assigned to
	<ul style="list-style-type: none"> • Strategic Goals or Outcomes
	<ul style="list-style-type: none"> • programs • sub-agency orgs
I-2 MCA systems (see AFR SNC & Note 21 to statements)	APR ⁹⁰ links Goals, programs & outcomes to outputs
	APR links programs & outcomes to outputs
I-3 CFO professionally accredited	APR links orgs, programs, outcomes to outputs
	Explicit reference to FASAB/SFFAS 4 and OMB A-136. Dept employs “(1) direct costs, (2) cause and effect, and (3) cost allocation.” (AFR, 122; APR).
I-4 Sub-agency organizations produce PAR or AFR & APR	FTE, O/H & other indirect costs allocated ¹
	Yes, (AFR, pp. 4-5, 60, Note 21, pp. 124-127 Yes. (APR) Yes, (AFR, Note 21, pp. 124-127; APR)
I-5 Overt ‘performance management culture’	No, Public Policy and MBA, Wharton ⁹¹
	Some sub-agency organizations provide Annual Finance/Performance Reports
I-6 Substantial Fee revenue (billing requires accrual MCA system)	Sub-agency net costs by program, APR provides operational efficiency measures for outputs linked to outcomes and strategic goals.
	Yes. Efficiency & effectiveness persistent themes.
I-7 Agency/sub-agency is production or procedural (Wilson typology)	No, reports to DepSec to Sec (AFR, 10),
	Yes, CFO, CMO CPerFO, CIO combined ⁹²
I-8 Agency/sub-agency authorized as ‘performance-based organization’	Does NOT substantially comply (AFR 29, 31, 41). FFMIA compliance meets OMB standards (AFR, 32)
	Efficiency, effectiveness, cost savings are constant themes (AFR, 3, 9, 16, 18, 27, 21, 22, 33). Office of Financial Innovation & Transformation (OFIT) created to develop ... solutions to lower ... financial transaction costs (AFR, 12).
I-9	Yes, revenues identified to agency programs and sub-agency organizations.
I-10	Some parts, e.g., IRS
I-11	No

⁹⁰ “[PAR Appendix Report FY2011](#)” lists outputs with efficiency and performance measures by Strategic Goals and Objectives, Outcomes, and sub-agency organizations. Departmental Offices “Salaries & Expenses” (i.e., O/H) identified and allocated to Outcomes. Other O/H allocated through the ASecM’s, “Treasury Franchise Fund.”

⁹¹ See D. Tangherlini, http://en.wikipedia.org/wiki/Dan_Tangherlini#Education (accessed last on 12Nov2012)

⁹² See D. Tangherlini, <http://www.treasury.gov/about/organizational-structure/Pages/tangherlini-p.aspx> (

Veterans Affairs (PAR ⁹³)		
Indicators	Comment	
I-1 Policy outcomes or strategic goals.	Complex “six-tiered performance management” system of four Strategic Goals (SGs), three Integrated Objectives (IOs) and 14 Integrated Strategies (PAR, I-36 to I-38)	
	Work outputs indentified and assigned to <ul style="list-style-type: none"> • Strategic Goals or Outcomes 	No, outcome measures only
	<ul style="list-style-type: none"> • programs 	No
	<ul style="list-style-type: none"> • sub-agency orgs 	No
I-2 MCA systems (see AFR SNC & Note 19 to statements)	“The Department faces challenges in building and maintaining financial management systems that comply with FFMIA” (PAR, I-99, III-78).	
	<ul style="list-style-type: none"> • ‘Net Cost’ (&’direct & indirect) by : <ul style="list-style-type: none"> - sub-agency organization - by strategic objective or outcome - by program 	Yes, (PAR, III-4, III-55) Some cost measures in terms of “Obligations,” not full cost. Financial systems not capable.
I-3 CFO professionally accredited	No, BA (Economics) See A/Sec for Management and CFO, “W. Todd Grams bio”	
I-4 Sub-agency organizations produce PAR or AFR & APR	No	
	<ul style="list-style-type: none"> • Net Cost’ (&’direct & indirect) by: <ul style="list-style-type: none"> - sub-subagency organization - -outputs 	N/A
I-5 Overt performance management culture’	Mixed	
	<ul style="list-style-type: none"> • CFO & CPerFO report to Agency Head) 	No, reports through DepSec/COO to SecVA (DVA Organization Chart)
	<ul style="list-style-type: none"> • Integrated Financial & Performance staff 	Yes, see VA Org Briefing Book June 2010
	<ul style="list-style-type: none"> • FFMIA 1996compliance 	“The Department faces challenges in building and maintaining financial management systems that comply with FFMIA” (PAR, I-99, III-78).
	<ul style="list-style-type: none"> • Operational efficiency & effectiveness discussed in MDA 	PAR reflects a concerted attempt to improve efficiency and service is spite of weak systems.
I-6 Substantial Fee revenue (billing requires accrual MCA system)	Revenues 5% of Gross Costs (before Actuarial charges)	
I-7 Agency/sub-agency is production or procedural (Wilson typology)	Mixed	
I-8 Agency/sub-agency authorized as ‘performance-based organization’	No	

⁹³ Access to 2011 PAR is through “Fiscal Year 2011 Archive” link to ‘zip’ file at http://www.va.gov/budget/docs/report/archive/FY-2011_VA-PerformanceAccountabilityReport.zip

Appendix C

Interview Questionnaires

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VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

GAO

Questionnaire for Research Project

Title of Project

Outputs: The ‘Missing Link’ in U.S. Federal Government Performance Reporting

Investigator: David L. King, PhD Candidate

Interview No: _____ Interview Time/Date: _____; _____
Time Date

THIS INTERVIEW IS/IS NOT RECORDED ON A DIGITAL AUDIO DEVICE

1. The emphasis in the GPRA has been on outcome reporting. How has that emphasis affected reporting of output or work activity at the operational management level?
2. Agency X’s PAR does not reflect much work activity efficiency and effectiveness reporting. The 2007 GAO survey reported low and declining use of efficiency measures. Does that still apply? Why or why not? Are the results of bureau-level measures not reported for a reason?
3. Do you see differences in focus among the agency’s bureaus or offices on process, activity and/or output reporting? If so, to what do you attribute those differences?
(Use the following “prompts” if necessary:
 - a. Agency leadership and culture?
 - b. Nature of work an agency performs, e.g., fee-based, physical production, etc?
 - c. Access to comprehensive automated information and accounting systems?
 - d. Appointment of CFOs with credentials/experience in the 1990 CFO Act?
 - e. The standards of compliance with the FFMIA applied by OMB A136?)
4. Has the appointment of agency CFOs (and bureau-level CFOs, if applicable) made a difference in performance and accountability reporting? Do you think that qualified CFOs at the bureau level, as per the Dept level, would improve reporting?
5. Where there is bureau-level reporting, have you seen a shift away from some work activities or outputs in favor of others that have a greater effect on policy or other outcomes?
6. Can you offer any further comment on how agency and component sub-agency reporting might be changed to contribute to a greater focus on output efficiency and effectiveness reporting?
7. Can you suggest anyone within the component bureaus or agency that I could benefit from interviewing?

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OMB

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Interview No: _____ Interview Time/Date: _____; _____

Time

Date

THIS INTERVIEW IS/IS NOT RECORDED ON A DIGITAL AUDIO DEVICE

1. Would you please briefly explain your role in the oversight of the preparation of the annual PARs or APRs and AFRs by the 24 CFO Act agencies?
2. Can you explain the extent to which OMB attempts to influence the level of detail called for by the 1996 FFMIA and that is included in the annual reports.
 - a. GAO has noted an insufficient focus on efficiency and also called for a more comprehensive implementation of the 1996 FFMIA than is currently articulated in A136. What is OMB’s view on FFMIA and efficiency and effectiveness reporting?
 - b. Do departments/agencies have in place managerial cost accounting systems sufficient to measure efficiency and effectiveness of their organizational components? Can you comment on the adequacy of those systems?
3. Many department/agency level PARs (APRs/AFRs) don’t appear to assign costs beyond/below the aggregate program level or the component organization level. Do their individual component organizations report internally in greater detail on outputs or activities that contribute to programs? If so, do they report:
 - a. on a full cost accrual basis;
 - b. separately on direct labor, capital cost, and component, dept/agency overheads;
 - c. on efficiency and effectiveness measures of the outputs/activities in relation to the program outcomes that the outputs/activities are intended to influence?
4. Do you think that the 1990 CFO Act, The 1993 GPRA and the 1996 FFMIA have made a material difference in financial management, the effectiveness, the cost and efficiency of depts/agencies? Can you comment on how that is made evident?
5. GAO has found that executive leadership is the most important element in performance measurement and management. Do you think the depts exhibit an effectiveness and efficiency culture? How that is manifest or made evident?
6. Does the cost of overhead (the unallocated costs in the SNCs) in depts/agencies attract observation or attention on your part? Why or why not?
7. Do depts/agencies make recommendations for changes in processes, staffing or other cost drivers that could lead to improved efficiency and effectiveness? How has OMB responded to the suggestions?

8. What has been the primary source of dept/agency cost reductions, efficiencies or effectiveness improvements since the advent of GPRA reporting? Externally mandated budget/FTE cuts? Or internally generated efficiencies?
9. Do you think a greater emphasis on output or work activity (as opposed to outcome) reporting within component organizations would lead to greater emphasis on efficiency and effectiveness? Can you comment on how that might be achieved?
10. Can you offer any other insights on efficiency and effectiveness of output/work activity reporting and management beyond our discussions to this point?

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Chief Financial/Information/Management/Performance Officers

Questionnaire for Research Project

Title of Project

Outputs: The 'Missing Link' in U.S. Federal Government Performance Reporting

Investigator: David L. King, PhD Candidate

Interview No: _____ Interview Time/Date: _____; _____
Time Date

THIS INTERVIEW IS/IS NOT RECORDED ON A DIGITAL AUDIO DEVICE

1. Would please briefly explain the process used for how the information for the quarterly reports to OMB and the annual PAR or APR/AFR is collected, aggregated, and assembled? Who prepares the performance and financial sections?
2. The department's PAR (or APR/AFR) does not appear to report the work activity or output costs of the various component bureaus/agencies relevant to departmental strategic objectives or policy outcomes. Do the bureaus, offices, or agencies report internally in greater detail on outputs or activities that contribute to programs?
3. Do the bureaus, offices, or agencies report:
 - a. on a full cost accrual basis;
 - b. separately on direct labor, capital cost, component, dept/agency and intra-governmental level overheads;
 - c. on efficiency and effectiveness measures of the outputs/activities in relation to the program outcomes that the outputs/activities are intended to influence?
4. Do all the department's component bureaus or offices have in place comprehensive managerial cost accounting systems that meet FFMIA and OMB requirements?
5. As a result of performance measuring and reporting, do the bureaus or agencies recommend changes in processes, staffing or other cost drivers that could improve efficiency and effectiveness? How has OMB responded to such suggestions?
6. Do you see a need for a greater level of detail in reporting, such as full cost reporting, for efficiency and effectiveness purposes?
7. Do you think that the quarterly and annual performance and financial reporting has made a material difference in financial management, the effectiveness, the efficiency, and the overall cost of this dept/agency?

8. Have any of the bureaus or agencies appointed chief financial officers with the qualifications required by the 1990 CFO Act? In the absence of bureau-level CFOs, who is accountable for the quality of performance and cost accountability reporting?
9. Can you offer any other insights on efficiency and effectiveness of output/work activity reporting and management beyond our discussions to this point?
10. Can you suggest who in agency X you might recommend for me to interview?

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Line management

Questionnaire for Research Project

Title of Project

Outputs: The ‘Missing Link’ in U.S. Federal Government Performance Reporting

Investigator: David L. King, PhD Candidate

Interview No: _____ Interview Time/Date: _____; _____
Time Date

THIS INTERVIEW IS/IS NOT RECORDED ON A DIGITAL AUDIO DEVICE

1. Would you please briefly describe what you and the employees you manage are responsible for doing or producing?
2. How does the annual GPRA Performance and Accountability Report for the Department affect your work group? Do you see a similar effect within the bureau?
3. Are you required to regularly report on your work activity or output? How frequently? To whom? [If “NO,” go to question 9]
4. How do you report workload activity (spreadsheet, submit in e-mail, performance management system, etc)? Who is the data reported to? Is the data linked to a strategic goal or objective?
5. When reporting on work activity, do you link what you do to a Department or Bureau objective, target, or strategy? Do you think it is useful to do so?
6. Does your reporting include financial costs? Budgeted appropriations, ‘Total’ accrued costs, or both? How are the costs calculated? Is there a standard methodology? If so, how often is the methodology reviewed/changed?
7. Would you please explain the methods you use to measure the work activity of your employee group for reporting purposes? For example, are you supported by information systems that track costs assigned to your group for:
 - a. the personnel (FTEs);
 - b. office space or other capital costs;
 - c. management overhead and information or other systems costs; and/or
 - d. other costs not directly accounted for in your costs or appropriated funds?
8. How is the data you provide used? Management decisions? External reporting requirements only?
9. Do you think GPRA reporting improves (or would improve) efficiency and effectiveness of your operations? Those of the bureau?
10. Are you periodically called upon to reduce costs or increase work activity/output? How have you responded to those requests? Is benefit cost-analysis considered in cost reduction?

11. Does (or would) regular reporting under GPRA reduce the likelihood of cost or FTE reduction requests?
12. Do you have any further comments, questions, or other discussion items related to performance reporting that you would like to discuss in light of my questions?

Appendix D

Selected Paraphrased Commentary from Interviews

Selected paraphrased comments from oversight and review personnel in OMB, GAO and the Mercatus Center at George Mason University.

- a) Interview numbers 1, 3, 7, 9, 10, 11, 17 and 20, a total of eight, were with subjects in OMB, GAO and the Mercatus Center.
- b) An assessment of (-) under an indicator means that the comment was interpreted as indicating that the indicator was either not present, not properly implemented, not required or in general negatively affected *comprehensive output reporting*.
- c) An assessment of (+) under an indicator means that the comment was interpreted as indicating that the indicator item was either present, under implementation, or in general positively affected *comprehensive output reporting*.
- d) Summary of results:
 - 1) I-1 Reporting of outcomes and outputs;
5 (+) comments from 2 subjects; 4 (-) comments from 3 subjects.
 - 2) I-2 MCA systems with operating and O/H cost assignment
27 (-) comments from 8 subjects; no (+) comments.
 - 3) I-3 CFO professionally accredited.
1 (=) comment from 1 subject—no relevance to *comprehensive output reporting*.
 - 4) I-5 Presence of an overtly positive performance management culture.
19 (-) comments from 5 subjects; 3 (+) comments from 1 subject that had also offered 3(-) comments.

Interview 1	Comment	Indicators
a	Efficiency measures are very rare. Some agencies had some examples for some measures but there were no agencies capable of comprehensive reporting of costs, outcomes and efficiencies.	I-2(-)
b	GPRA and FFMIA articulate the necessity to measure and assign cost and determine efficiencies. But rarely, if ever do efficiency measures show up. Not clear that CFOs deliver the best results. Those responsible for performance reporting had the main reporting role	I-2(-)
Interview 3	Comment	Indicators
a	PAR-type reports are, on some level, an incentive to perform. Financial Statement itself doesn't matter, but it creates an environment for performance.	I-5(+)

Interview 3	Comment	Indicators
b	Accounting, whether or not full-cost accrual, needs to roll up for budget purposes in the way Congress wants to see it, which is often incompatible with the “best way” to manage resources. CFO Act and FFMIA are out-of-step if not incompatible with what Congress wants for appropriation purposes. A previous GAO report on performance budgeting in a non-cabinet CFO Act agency highlighted that performance budgets do not provide what Congress wants.	I-2(-)
c	Congress and public do not use the [PAR, AFR and APR] reports. The CFO and Chief Performance Officers, or more senior executive management, need to create demand for cost effectiveness information.	I-5(-)
d	Comprehensive MCA systems are almost nonexistent. E.g., In [department name removed], the former CFO pushed the MCA agenda. New CFO has not emphasized it. The new approach appears to be to wait until user agencies ask. The new CFO is not proactive on MCA systems.	I-2(-) I-5(-)
e	Financial officers are almost wholly focused on compliance management, e.g., ‘clean audits,’ as opposed to MCA systems and performance related to cost.	I-5(-)
f	We have no idea or visibility of overhead, politically imposed overheads or any disaggregation of other costs. Experience with non-cabinet agencies that disaggregated responsibility for costs & O/H shows they did achieve some efficiencies.	I-2(-)
g	PAR reports and [external independent] assessments of those reports, are more the “trappings” of effort rather than the substance. Agencies with more “outcome” focus scored higher. Outcomes are often not related to work efficiency and effectiveness, even though given time, a focus on outcomes does permeate the work effort.	I-1(-)
h	Agencies are excited about quarterly statement process. OMB has given more ownership to agencies to define it. PART had NOT permeated Agencies because they had no ownership—it was imposed. PART was more measurement and “feeding the beast” than substance.	I-5(+)
i	Agencies are more excited about looking at themselves for their internal reasons. Congressional ‘consultation’ has not worked. Congress doesn’t use [PAR, AFR & APR] reports. So, redesign for internal agency purposes.	I-5(-)
j	CFO Act demands qualifications but those qualifications seem to make little difference in implementation of comprehensive MCA systems. Proactive CFOs and leadership at any level makes a real difference.	I-3(=) I-5(+)

Interview 7	Comment	Indicators
a	OMB determines what is meant by "compliance" for IGs and independent auditors. Most audit reports on PARs and AFRs cite the OMB standard. OMB has “set the bar low” and that in revising A-127, OMB has moved to further lower the bar—further away from what FFMIA requires.	I-2(-)

Interview 7	Comment	Indicators
b	Main intent of FFMIA was to ensure agencies had systems that produce reliable timely info for day-to-day decision-making. Having full cost of activities etc was but one intent, one of about six intents, of FFMIA. MCAs fall under the third requirement of FFMIA. The requirement is for agencies to comply with FASAB #4--the one most frequently NOT complied with. However, there is a lot of flexibility written into "compliance" by OMB with respect to FASAB #4. An agency would have to be "pretty bad" not to be compliant. Assessment of compliance is made by IG or independent auditors.	I-2(-)
c	The OMB focus is on outcomes, not on systems. OMB approach does not get to the issue of how well government is performing to achieve outcomes. It does not ensure in-depth economic and performance analysis.	I-2(-)

Interview 9	Comment	Indicators
a	OMB constantly pushes performance. OMB pushes agencies to focus on outcomes to shape outputs. Output reporting is important but outcomes important to shape direction. For parochial reasons Congress wants outputs.	I-1(+)
b	There is a disassociation between performance output/outcome reporting and financial reporting. The financial side is more interested in clean audits and compliance than managerial reporting. Performance and financial reporting are not well linked. Auditors and CFO staffs are not very interested in cost performance.	I-2(-) I-5(-)
c	Financial staff interest is not in MCA systems. Focus is entirely in resolving audit opinions, not taking a holistic approach to managerial issues. Lack of adequate systems is only part of the problem; interest in MCA is not there.	I-2(-) I-5(-)
d	There is no pressure within or on OMB to achieve greater alignment of Financial and Resource Management divisions. Financial Management remains focused on technical accounting issues.	I-5(-)
e	The recent split in AFR and APR contributes to lack of integration and coordination. So does OMB lack of attention to integration of performance and finance. There is no effort at cost allocation to outcomes or outputs. There is recognition of an ultimate need to link outputs explicitly to outcomes and to allocate costs to outcomes.	I-5(-) I-2(-)
f	Performance reporting can be important in reductions but we will need better cost systems. Outcome based reporting remains the most important because that is what focuses effort. Will eventually lead to identification and eliminating 'stranded outputs,' those that do not contribute to an outcome. Stranded outputs certainly exist. Outputs must be identified to the outcome and marginal benefit of competing outputs to the outcomes need to be assessed. Government is more effective but not necessarily efficient in being effective.	I-1(+) I-2(-)
g	Line managers are not interested in MCA systems; they have little to no control or interest beyond appropriations. Fiscal pressures mounting on govt may force a shift to a greater interest in MCA and cost.	I-2(-)

Interview 9	Comment	Indicators
h	GAO helped put GPRA in place and contributed to improved implementation. GAO has not been as proactive on performance issues. Nor has OMB pushed efficiency; focus is on effectiveness and financial integrity or compliance. OMB lacks capacity to go beyond the technical compliance issues and a clean audit. GAO, IGs and auditors do not audit for cost effectiveness; only for technical compliance. Congress is ‘budget line item’ focused; performance on an outcome basis is not their interest.	I-5(-)
i	Process improvements are not an issue and not offered or pursued. Agencies protect existing FTE and funding. New projects are examined in cost benefit context but once approved, inertia keeps them and FTE & funding structure in place.	I-5(-)
j	Almost all cuts are on a budget line-item basis, not on a holistic benefit-cost to achieve outcomes. OMB not in a position to examine agencies for overall cost benefit.	I-5(-)

Interview 10	Comment	Indicators
a	GPRA is perhaps focused at too high a level of generality; it calls up efficiency analysis requiring a nature of output analysis that is inappropriate at the Agency level. GPRA and reporting in general have never been an interest of Congress. Some in Congress/staff were openly hostile to GPRA	I-1(-) I-5(-)
b	GPRA reporting has never really caught on with public or any audience beyond OMB. A great disappointment for the effort involved—reports contain a lot of good information that has been very work intensive to assemble. Efficiency measurements have more relevance internally rather than externally.	I-5(-)
c	Agencies, in general, took reports and their improvement seriously. Bureau level works hard on reports but see little benefit; appropriations and authorization committees show no interest. Independent analysis of reports might be helpful but Congressional interest is essential. The “Hill” needs to be engaged.	I-5(-)
d	Very important that within bureaus that outputs be specifically related to outcomes and be measured for efficiency and effectiveness purposes. No evidence of any improvement in work methods, resource allocation etc.	I-1(-) I-2(-)
e	Leadership matters a great deal in performance measurement and reporting. FFMI/CFO “types” have a different focus than performance folks. Financial reporting is more formulaic and compliance focused.	I-5(-)

Interview 11	Comment	Indicators
a	The separation between finance and performance staffs is substantial. CFO approach has been financial compliance, not efficiency, nor effectiveness. Correspondingly, rarely was performance related to financing, i.e., cost.	I-5(-)

Interview 11	Comment	Indicators
b	Most crucial thing to have is measures of effectiveness—outcomes. Once effectiveness is in place, the need is to measure efficiency of achieving effectiveness—outputs. GPRA has put effectiveness in place over the past fifteen years. Outcomes are very difficult to measure and to attribute to those who facilitate or claim to deliver them. Efficiency remains unmeasured and effectiveness of outputs relative to outcomes is unknown.	I-1(+) I-2(-)
c	Congress has not insisted upon productivity or efficiency gains. The success of the U.S. economy over the past three decades has been in productivity — but not in government. If government services had achieved the same level of productivity as evident in the private service economy, government would be much more efficient and much less costly.	I-2(-)
d	The political appointments process imposes an inefficiency burden--for several months of a new administration, departments are often missing important members of the executive and senior management leadership. There is a leadership vacuum. Career civil servants will not change processes absent political management approval.	I-5(-)
e	The view of cost in government is one of “last year plus,” never that it should be less. Some countries have exacted a productivity penalty in budgets, taxing total operating cost for a 2% productivity gain plus not granting any inflationary increase.	I-5(-)
f	Reporting has made a difference. The issue is not who reads it, it matters that agencies are reporting, writing down for posterity what was to be done and what was done. It improves managerial efficiency and effectiveness. The disappointing part was that it made no difference in appropriations.	I-1(+) I-5(+)
g	The quality of leadership in establishing outcomes and outputs or objectives is critical. Sometimes political executives change goals and objectives to make the President/Dept Sec look good as opposed to achieving the desired outcomes. Members of Congress show no interest in effectiveness and efficiency—only the “returns” to members' districts or an initiative in which they have a political interest.	I-5(-)
h	There is substantial value in independent assessment of reporting using standard Indicators combined with ranking of the agencies. This develops inter-agency competition that contributes to improvement in all agencies. Ranking is the most effective part—others strive for top place. But, ranking requires standardized reporting.	I-1(+)
Interview 17	Comment	Indicators
a	Performance focus is primarily at agency level. There is also a need at the bureau level. Integration of financial and performance management is consciously not pursued. Cost allocation and cost performance is based on a theoretical accounting construct that has yet to deliver measurable cost benefit.	I-2(-)

Interview 17	Comment	Indicators
b	The level implied by FASAB Standard 4 is too ambitious if not impractical. Policy is made on values, political gains, etc., such that performance metrics and empirical benefit-cost is only an interesting, not a decisive, factor. Unlikely to be based on an empirical efficiency or effectiveness basis.	I-2(-)
c	Improving effectiveness is the best way to use performance reporting for budgetary purposes. Improved financial and performance information both assume 'reporting drives change.' It doesn't. 'Supply model' simply does not produce information management needs. Performance is demand driven.	I-2(-)
d	Private sector reporting and analysis model is founded on a level of comparability that does not exist in government. Accrual accounting has yielded no comparable benefit for government; there is nothing to compare.	I-2(-)
e	Broad systemic change in government premised on accrual-based holistic benefit-cost performance focused data is not going to happen. A theoretically 'right' structure for an accounting and performance model as per the CFO, GPRA, FFMIA is neither practical nor cost effective. Accounting profession has not subjected accrual accounting systems to a cost benefit analysis.	I-2(-)
f	Performance management and improvement doesn't offer much. Resources come down to political values. Stranded outputs are probably rare and exist for political purposes, not because of mismanagement. Evaluations are the best way to get at the practicality of what government does, not better management or financial and performance information.	I-1(-) I-2(-)
g	Most of government and most agencies regard the accrual-based financial statements as essentially useless. What matters is the appropriation and cash-based accounting and the commitment of managers at every level to do the right things right. Political will is the driving factor. Building an accounting infrastructure premised on the assumption that Congress will use it is a large risk. Financial reporting serves a bureaucratic purpose, not a performance, effectiveness or efficiency purpose.	I-2(-)
Interview 20	Comment	Indicators
a	FFMIA and CFO Act envisaged a full cost approach. FFMIA is an interesting law that really does not serve much value. Law states you need the information available to do "MCA" full cost. It doesn't say you have to do it. FFMIA, more and more, is having less and less of a purpose. It has driven a lot of cost without much benefit beyond improving accounting.	I-2(-)
b	Cost accounting has always been a vague area. Output measurement and cost accounting systems are not practical at "conglomerate agency level." More meaningful at bureau level but there are many problems, even there.	I-2(-)
c	We have tried [unsuccessfully] to engage the CFO staff to have the financial systems produce information to better manage agencies.	I-5(-)
d	OMB is wrapped up in "[nonsense] memos" – high visibility negative issues and their correction.	I-5(-)
e	Our mission is not to create MCA systems or increase financial measures of performance. Our focus is on creating data-focused accounting models that MIGHT facilitate broader use of financial information. Problem with	I-2(-)

Interview 20	Comment	Indicators
	performance reporting is that we do not have any capacity to extract useful information from financial systems for performance.	
f	Private sector needs information to concentrate on the most profitable work. That isn't the issue in government. Transparency in cost is not the issue in government; it's transparency in budget spending, transactions and what you are doing. Cabinet agency CFOs are not doing what the law requires because they can't. They are doing what they need to do to meet political objectives.	I-2(-)
g	We are not capturing specific FTE costs in the accounting systems—that is no different from commercial entities.	I-2(-)

**Selected paraphrased comments from Agency and sub-agency Bureaus Financial, Budget
and Performance Staff and Line Management Personnel**

- a) Interview numbers 2, 4, 5, 6, 8, 12, 13, 14, 15, 16, 18, 19, 21 and 22, a total of 14 interviews, were with subjects in three line agencies and three bureaus within those agencies.
- b) A total of 100 unique comments relevant to indicators I-1 through I-5 were extracted from the 14 interviews. Each comment was then assessed as reflecting positively (+) or negatively (-) upon the related indicator In a number of cases, a comment was interpreted as reflecting upon two or three of the indicators.
- c) A negative (-) assessment relative to an indicator means that the comment was interpreted as indicating that the item was either not present, not properly implemented, not required or, in general, negatively affected *comprehensive output reporting*.
- d) A positive (+) assessment relative to an indicator means that the comment was interpreted as indicating that the indicator item was either present, under implementation, or, in general, positively affected *comprehensive output reporting*.
- e) Summary of results:
 - 1) I-1 Reporting of outcomes and outputs; comments by 9 subjects, 7 (+) comments from 4 subjects; 10 (-) comments from 9 subjects; 3 subjects made both (+) and (-) comments..
 - 2) I-2 MCA systems with operating and O/H cost assignment; comments by 14 subjects (within this summary, comments on I-2 and I-4 were compiled as I-2 comments to ensure anonymity of respondents); 10 (+) comments from 6 subjects, 61 (-) comments from 14 interview subjects; 6 subjects offered both (+) and (-) comments.
 - 3) I-3 CFO professionally accredited. 1 (=) comment from 1 subject—no relevance to *comprehensive output reporting*.
 - 4) I-5 Presence of an overtly positive performance management culture. 16 (+) comments from 8 subjects; 48 (-) comments from 14 subjects; 8 subjects offered both (+) and (-) comments.

Interview 2	Comment	Indicators
a	Principal performance representatives' in each bureau serve as de facto chief performance officers, sometimes in budget offices, rarely in the finance office. Bureau level CFOs are not involved in performance issues	I-2(-)
b	There are no efficiency measures based on full cost because managers do not have any control over full costs, whether overhead, personnel, capital depreciation, facilities, etc. Some interest in personnel costs but generally these are also regarded as beyond managerial control, therefore there is no interest in their measurement.	I-2(-) I-5(-)

Interview 2	Comment	Indicators
c	CFOs are concerned about integrity of financial systems, not performance, and not cost effectiveness or efficiency. Financial management is focused on financial integrity, compliance, and process for ensuring ‘proper’ handling, not efficiency. Financial community does not ‘account’ by programs and performance,	I-2(-) I-5(-)
d	Talking to the financial people about performance measures will not gain much. They will defer to the performance people for matching financials to performance. Performance people have a better understanding of the financial issues that matter to performance.	I-5(-)
e	Financial people think Net Cost is ‘magic.’ Net cost is simply not relevant to line management. Congress doesn’t understand or have an interest in Net Cost. Financial Statements matter to attest to the financial viability of the Agency, but not to the ‘program’ or line management.	I-5(-)
f	IT, as a service, is not charged to or responsive to users. It is managed centrally as an end in itself. IT costs are not allocated to users and benefit to users is limited to what IT wants it to be, not what users are willing to pay. IT is not and will not be cost efficient.	I-2(-) I-5(-)
g	Line managers have their hands full with what they do. Financial people have their hands full with accounting and finance issues. Having full cost systems available is meaningless to line managers [who view accrued costs as ‘fixed’ or ‘beyond their control’]. IT management is done by IT, FTEs by HR or others, not line managers. Line managers think about cash outlays, not costs. It would be valuable to have full cost awareness at line management level but only if line managers perceive that they have effective control and responsibility for it.	I-5(-)
h	CFOs do not want to give line managers authority/responsibility for full or net cost. We are not getting, nor do we expect to get, what is implied or required by the FFMIA.	I-2(-) I-5(-)
Interview 4	Comment	Indicators
a	The consolidated PAR is better method. Split in AFR and APR equals disconnect. PAR is a more informative document; performance is more closely linked to financial data.	I-5(-)
b	We have comprehensive cost accounting systems in [our bureau]. Originates from legislative requirement to publish separate fin stmts. Bureau is farther ahead than others in [MCA] systems.	I-2(+) I-5(+)
c	Line managers concentrate on appropriated budgets, not full cost. Bureau continues to try to move to a full cost culture. Appropriations still dominate; Congress is the primary factor. The “budget is still King.” FTEs are fixed.	I-2(-) I-5(-)
d	Line managers do not have a full cost perspective, they concentrate on budget; BUT when given full cost information via MCA system, they do consider it. Overheads, in general, are not assigned.	I-2(+)
e	The financial function rarely has the lead in integrating finance and performance data. Emphasis in reporting is on improving performance; NOT reducing cost or improving cost effectiveness.	I-2(-)

Interview 4	Comment	Indicators
f	CFO is not an accountant; BUT very cost conscious, especially with regard to labor costs—the biggest cost in government. Previous CFO was a “traditional” CFO and was also keen on MCA systems.	I-3(=)
g	We have a monthly performance reporting regime. ‘Budget people’ attend performance meetings, not financial management. Line managers do suggest efficiency and effectiveness changes.	I-4(+) I-5(+)
Interview 5	Comment	Indicators
a	Performance section is fairly closely tied to budget & finance. There is no evident split in focus between performance and financial staffs. Performance reporting is closely tied to budgets/appropriations.	I-5(+)
b	None of the bureau’s report data shows up in the agency AFR or APR.	I-1(-) I-5(-)
c	The bureau has been driven by output tracking for a long time. Systems for recording outputs are quite comprehensive. Performance information is largely drawn from automated information systems, NOT manual reporting. Performance accountability systems have been in place for six or seven years. In a few cases, data is developed for input separate from automated inputs. Little need to physically interact with people.	I-5(-)
d	There is little complaining about ‘feeding the beast.’ There is a lot of interest in new and additional measures and wanting to get them incorporated. Most line people appear to want and use the measures. There may be some tension from reporting burden but not at the leadership level.	I-5(+)
Interview 6	Comment	Indicators
a	Efficiency measures and MCA have certainly been a challenge. The agency's financial management modernization program will help. We THINK the intent is to incorporate MCA systems. Useful for the future; full costing has been difficult and is NOT done. Focus is on budget line items.	I-2(-)
b	Performance reporting and measures have not been used in reducing expenditures; might be as things get tougher. Overheads are not reported-- they might lead to integrating program managers and simplifying organizations & reporting structure.	I-4(-)
c	‘Time & billing’ is a common practice, using ‘job codes.’	I-2(+)
d	OMB focus has been on reducing specific budget line items as opposed to looking comprehensively at managing a program for less cost.	I-5(-)
Interview 8	Comment	Indicators
a	Bureaus report on a full accrual basis. Emphasis in financial reporting is on compliance, improper payments, receivables and payables controls and, foremost, getting a ‘clean audit.’ Reporting is viewed as ‘feeding the beast’ in that little ‘real benefit’ accrues to operations or bureaus from reporting.	I-2(-) I-5(-)
b	There is little tie between financial and performance reporting but more is desirable. A benefit-cost analysis is incorporated into the AFR but at high level; the benefits are expressed in broad ‘social terms’ by component bureau.	I-2(-)

Interview 8	Comment	Indicators
	There is not an explicit empirical cost benefit.	
c	Interview subject was not aware of MCA requirements of the FFMIA. Auditor comments in the AFR cite a “material weakness” in implementation of the FFMIA.	I-2(-)
d	There is not a lot of interest in comprehensive managerial cost accounting (MCA) systems, largely because of the lack of an obvious benefit-cost to line management.	I-2(-)
e	Managers control and manage annually appropriated funds, not overheads, facilities, or FTEs. There is little understanding or interest in ‘Net Cost.’ There is little likelihood of authority to use existing resources differently.	I-2(-)
f	The ‘return’ on MCA systems is at best unknown and speculative and more probably not worth the effort. It is an interest of financial staffs, not operations managers. However, the new financial system being implemented across the Dept will provide more capacity for managerial costing and marginal benefit-cost decision-making.	I-2(-)
g	Congress is not interested in efficiency. Emphasis is totally on appropriated funds. Cost cutting focused on the visible categories or budget line items, such as FTEs, travel, conferences, IT etc. There is little consideration of benefit-cost issues.	I-2(-) I-5(-)

Interview 12	Comment	Indicators
a	GPRA has made no difference--handled by budget shop. Difficulty relating outcomes to what we do. Trying to demonstrate outcomes through the budget process is very hard. Investment in capacity maintenance is ignored, i.e., making progress often results in maintenance being ignored, e.g., stopping something from being worse is difficult to defend or promote. This group wants to see outputs; the outcomes focus has come from 'above' and is really an 'add-on.'	I-1(-) I-2(-) I-5(-)
b	Reporting is a burden. Reporting on outcomes has made reporting burden worse. Tough time converting practical work outputs to meaningful outcome measures.	I-5(-)
c	Role of 'full cost' v. appropriation has declined: We cannot tell what a project costs. Overhead or infrastructure costs are not tracked. When Congress decides on a 5 or 10% cost reduction, after O/H, which is ‘fixed,’ is paid, reduction far exceeds the 5 or 10% target.	I-2(-)
d	New financial system will not provide for managerial flexibility. Cannot track costs (other than the appropriation line item) of any activity and therefore cannot manage cost effectiveness. Managers will set up their own systems. Cost effectiveness of financial systems themselves needs to be questioned.	I-2(-) I-5(-)
e	New financial system will not facilitate 'cutback' management. Congress wants output improved but we lack measures to make an empirical assessment of how best to do it. We have no strategy for cutback management. And many choices that make economic sense are bound by political constraints.	I-2(-) I-5(-)

Interview 12	Comment	Indicators
f	Currently outcomes have inadequate relevance to line management outputs. Rolling up outputs in a meaningful fashion, i.e., with a cost effectiveness balance, to outcomes is inadequate.	I-1(-) I-2(-);
Interview 13	Comment	Indicators
a	Effect of GPRA on work production has not been tangible. GPRA helps little for benefit-cost analysis, cutback management, etc. Systems for making marginal benefit are locally developed or ad hoc to meet a particular circumstance or event-based need.	I-2(-) I-5(-)
b	Financial management systems have not yet benefited this division. Cost data is partially attributed. There is no cost pressure, only focus is on appropriations. Not accountable for costs. Accountable for and allocates both FTE and appropriations to regions/staff. Salary cost can be balanced against contracting, etc. but flexibility is more theoretical than actual. No flexibility on capital investment.	I-2(-) I-5(-)
c	Burden of reporting has not changed materially. Reporting is primarily aimed more at accountability rather than performance, benefit-cost, etc. Focus is more on compliance than management. Reporting systems are not viewed as beneficial at field level; they are "feeding the beast."	I-2(-) I-5(-)
d	Outcomes at departmental or bureau have little effect at division level. Benefit benefit-cost decision-making is a constant but is not system supported. It would be 'nice' if systems were more collaboratively developed than imposed by financial community.	I-1(-) I-2(-)
Interview 14	Comment	Indicators
a	GPRA has not been useful for management purposes. GPRA measurement will not aid in deciding what to cut or retain in upcoming budget reductions. GPRA is a cost and burden to the bureau. The real effort goes into sustaining appropriations from Congress. Eyes 'glaze over' in appropriations committee on GPRA measurements.	I-1(-) I-5(-)
b	GPRA can do us more harm than good. Specifically, OMB can decide based on GPRA data what to budget or not budget in terms of work effort. We are interested in GPRA to the degree that it can help OMB see what's important. We would not be unhappy to see GPRA go away, certainly happy that PART went away, but we clearly understand that the Bureau has to deliver what benefits the public.	I-1(-) I-5(-)
c	We rely on substantial 'reimbursables.' Activity-based costing is so 'un-useful,' we pay no attention to it. The Finance folks put together the data that is required for reporting. Does not cover facilities cost and some data costs for downloads from systems; it is a not full cost accounting..	I-2(-) I-5(-)
d	Track products or reports more than resources used. The financial system tracks the resources used. We have built systems that show what is done for whom. Customer focus of work effort is now paramount	I-2(-)
e	Articulation of outcomes has led to some changes in work priorities and outputs.	I-1(+) I-5(+)

Interview 15	Comment	Indicators
a	GPRAs, performance measurement, etc has not done much in terms of changing or improving internal practices. From a management efficiency standpoint, not much has happened. Executive management displays some interest in efficiency measurement; internally there is some interest in doing more in the future. GPRAs has not led to a ‘cost-effectiveness’ focus in decision-making at any level, including Congress.	I-1(-) I-2(-) I-5(-)
b	Bureau no longer does its own PAR. Earlier administrations did a lot more measuring and efficiency assessments—that effort has declined. There has been no measuring of FTE effort per staff report. Not a lot of value-added to having our own PAR report. The focus on budget is more useful	I-2(-) I-5(-)
c	Budget submission ties performance reports to appropriations. There is not much review at any level. Bureau senior executives do not make much use of performance information—info is really for external use only, i.e., OMB & budget.	I-2(-) I-5(-)
d	There is quite a bit of information that could be used for both budget submissions and management, thereby easing the data collection. Although performance info data collection remains mostly a burden, some recognize the data submitted has management, budget, or Congressional utility as well.	I-5(+)
e	There is no specific set of measures that lend themselves to managing reductions in funding. Relationships concerning the effectiveness of outputs to outcomes is nebulous. Very suspicious of specific claimed empirical evidence of output to outcome linkage.	I-1(-) I-2(-)
f	At Dept level, there is a clear separation between financial management and performance offices and outcomes. Less so at bureau level but still exists. OMB is similarly very distinctly separated. Financial management remains almost totally focused on ‘accounting compliance’ issues as opposed to financial and performance integration.	I-2(-) I-5(-)
g	We hope to use new financial system for both performance and financial purposes—it’s needed for reimbursables, which require a ‘full-cost’ approach. There is some recognition of importance of full cost for all activities but it is more important for reimbursables.	I-2(+)
h	We have an executive level efficiency team that is giving more consideration to full cost, to ensure maintenance is funded, etc. The long range view and desire is to move to a full cost approach. Overhead and allocation is a potentially touchy issue.	I-5(+)
i	Financial management for performance and efficiency is more appropriate at the bureau level, than Agency or OMB. Agency is just a ‘holding company.’	I-5(+)
Interview 16	Comment	Indicators
a	Program officers are very well aware of GPRAs and budgetary relationships. We work closely with performance and budget staffs. GPRAs did little to shift focus of work. Professional assessments are the output, the outcome has always been knowledge for economic and political decision making	I-5(+)

Interview 16	Comment	Indicators
b	GPRAs have had little positive effect on the bureau. One positive aspect is that we had to think 'hard' on the outcomes supported by our work. We have not made any decisions based on GPRAs reporting data. Negatively, it has been a burden.	I-5(-)
c	Bureau level executive management makes scant use of GPRAs reporting data for management. Agency use of data is also questionable. GPRAs reporting provides little to no basis for resource allocation decisions, either funding, or FTEs, or facilities. GPRAs also does not recognize maintenance or infrastructure/capacity sustainment needs.	I-2(-) I-5(-)
d	Efficiency and effectiveness of expenditures remains a constant issue, aside from GPRAs. Efficiencies and effectiveness are not measured.	I-2(-) I-5(-)
e	Products produced are measured. Project systems track costs and 'peer review success' of work. Systems are useful but not integrated in a way that satisfies GPRAs reporting. Reporting is based on manual extracts from other systems. Measures are more for internal benefit, driven by internal desire to improve contribution rather than for GPRAs or reporting purposes.	I-2(-) I-5(-)

Interview 18	Comment	Indicators
a	OMB stops short of making a "hard efficiency linkage." OMB looks to the Dept to guide use of output data in relation to outcomes.	I-1(+) I-2(-)
b	Financial management focus, such as it is, becomes more vague or disassociated from performance and management as it gets down to the bureau and administration level	I-2(-) I-5(-)
c	Not clear that separate AFR and APR contributes to disassociation of financial management and performance. However, the PAR did force the two staffs, finance and performance, to work together.	I-5(-)
d	OMB delivers mixed messages on the need or value of better MCA systems. Performance and budget side are not too interested; financial management folks less so. OMB is more focused on performance. Output cost (efficiency) at the Agency and OMB level is a non-starter.	I-2(-) I-5(-)
e	GAOs are too detailed focus to comment much on cost accounting. IG is also more compliance focused rather than on cost effectiveness.	I-2(-) I-5(-)
f	Financial reporting in APR is only in appropriations, not even FTE resources. Financial management systems simply do not exist. Resources to develop such systems simply do not exist. Congress has shown no interest in funding such systems.	I-2(-) I-5(-)
g	Congress pays only "some" attention to performance data, even though budget submissions closely tie budget and performance. Congress' interest is where, how and on what appropriations will be spent, not in efficiencies of spending.	I-5(-)
h	CFOs recognize the need but have exhibited little desire for comprehensive MCA systems. Conglomerate nature of government and the Executive Branch agencies imply little value of output-focused MCA systems at agency level. Best place for MCA systems is bureau or output level. But bureaus have exhibited little interest in comprehensive MCA systems.	I-2(-)

Interview 18	Comment	Indicators
i	Performance and financial reporting is highly, if not wholly, budget focused, not on cost.	I-2(-)
j	At lower levels there is movement towards efficiencies. There is a potential & desire for more systems but those systems will be developed and operated locally on local initiative, usually driven by shrinking resources. Efficiencies will be driven by high level across-the-board cuts.	I-2(-) I-5(-)
k	Resource constraints are going to result in increased private ownership. Benefit-cost analysis is essential to these decisions. Better output reporting is dependent upon better financial systems; there is some desire in agencies for better systems.	I-2(+)
l	Performance reporting as currently executed seen as a plus by senior management but that there is an absence of cost and efficiency information.	I-2(-)

Interview 19	Comment	Indicators
a	Performance staffs do not follow finances; they are very separate from the CFO staff. Performance staff have no awareness of the development, application or utilization of financial management systems. No full cost accounting of performance objectives, only budgetary expenditures. Performance objectives used to obtain budgets.	I-2(-)
b	Budget presentations, resource allocation, monitoring and performance is done apart from financial management. Financial staffs are focused on expenditure monitoring, control and compliance, not financial management in a larger sense.	I-2(-) I-5(-)
c	The connection between “Net Cost” attribution to performance objectives is anecdotal. Financial management staffs are more like observers and followers rather than active partners in decisions.	I-2(-)
d	The decisions on what to do or put in the budget have little to do with performance reporting. But poorly performing activities are subjected to scrutiny, correction, or elimination.	I-2(-) I-5(-)
e	On occasion, management employs performance measures to “strong arm” the component bureaus to change the focus of their efforts. Performance measures are changed to force behavioral change. Direction is top-down to change behavior.	I-5(-)
f	OMB focus on outcomes is a “good thing.” The challenge is relating outputs, activities, performance objectives to outcomes. Component bureaus do NOT like outcomes, or even performance measures. All bureaus do a better more relevant job having had outcomes ‘forced’ on them. Bureaus are re-focusing their efforts to meet outcomes. Enthusiasm builds as a result. GPRA has ‘absolutely’ changed the nature of the work, improved the outputs and the outcomes.	I-1(+) I-5(+)

Interview 19	Comment	Indicators
g	Change in focus of work effort does not result in FTE re-alignment. FTEs don't show up in cost reports; there is no linkage. There is a belief that people should be kept even if the job has been diminished. But if there is a 'performance improvement,' staff are hired, new resources acquired, and become permanent. When a cut to a program occurs, money is pulled in to sustain the capacity previously created, 'just in case.' Every year some resource re-allocation is done, but not for FTEs.	I-2(-)
h	When you mention managerial cost accounting systems, "I am glad I didn't take that course in college." We do a very poor job of tracking FTEs. We cannot relate funding to jobs created or FTEs beyond knowing that we have them.	I-2(-)
i	Do not expect a closer tie between finance and performance, beyond the appropriation. It's too complicated for most executives and finance staff; they are too focused on accounting.	I-2(-)
j	Reporting is not transparent and there is a real hesitation to making it public. Website has still not been made public. If we were serious, we could put out more information. Transparency, 'sunlight,' is a good thing. American public does not trust government.	I-5(-)
Interview 21	Comment	Indicators
a	We make a distinction between internal and external metrics for GPRA. The internal metrics are not GPRA outcome based. Internal metrics are output focused, not satisfactory for agency level.	I-2(+)
b	Business process systems are still under development. We are looking at the cost of FTEs as an option for accountability. Full cost attribution is not done routinely. Agency has a full cost accounting system that enables us to assign cost to a fairly low level if we need to do so. We have an activity based costing system that can track overhead—we have the capability.	I-2(+)
c	Costs are often not assigned to projects or organizations with the fidelity that might be useful. A lack of fidelity results in an inability of serviced organizations to challenge the cost.	I-2(-)
d	Congress has no interest in PAR and full cost, OMB has some interest in cost as well as budget appropriations and is willing to allow and seek flexibility.	I-5(-)
e	In theory, FTE trade-off exists but in practice, it RARELY happens. Bureau has system that allows marginal benefit, marginal cost decision on what we think is best to cut. Politics will defeat economic logic. Special interests abound and are prioritized over economic benefit.	I-2(+) I-5(-)
Interview 22	Comment	Indicators
a	Performance metrics are measured monthly and affect compensation. Reporting is bottom up. Linkages between business plan and work activities integrate reasonably well with Agency strategic objectives. Financials are tracked to business plans. Reporting is largely manual, not supported by automated systems.	I-2(+) I-5(+)

Interview 22	Comment	Indicators
b	OMB insisted on development of activity tracking of projects. Performance focused. There has been a cultural shift in organizational attitudes towards work activity and performance of work.	I-5(+)
c	We have a focus on cost saving, RoI. We “somewhat operate like a private corporation.”	I-5(+)
d	Funding remains highly political. Need to report to Congress very frequently. Politics trumps efficiency in Congress.	I-5(-)
e	CFO has had a negative effect; pushes cost without regard to effect or effectiveness. Can’t reduce work force, can only use attrition and service-level reductions.	I-5(-)
f	Our system allows metrics to be used in cutback management including effect on RoI. But budget cuts continue to be made “across-the-board.” Budget cuts are not being allocated on a cost-effectiveness basis. Cut back in financing means [unnecessary] cut backs in services. We do not administer fees to users; no fees or user costs assigned – refused by Congress.	I-5(-)
g	Outcome focus is starting to alter attitudes on performance. Fears of sequestration and past furloughs have really focused attention on performance. Reporting regime has measurably improved work attitudes and performance. Feedback loop is working. Staff are watching targets and performance metrics.	I-5(+)
h	Taking a look at costing of work output activities. Does not see “time & billing” in the organization's future.	I-2(-)
i	O/H assessments are assigned for IT, management, HR on per capita or pro rata share. Use PLAs/SLAs to ensure service level but assigned costs of services are not negotiable.	I-2(-)
j	Objectives for the organization are “managed” to achieve success. Stretch goals are avoided.	I-5(-)
k	Financial and IT systems support is inadequate. Systems are not responsive to needs. Users respond to systems, not systems to users. Managers are forced to build their own systems.	I-5(-)

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