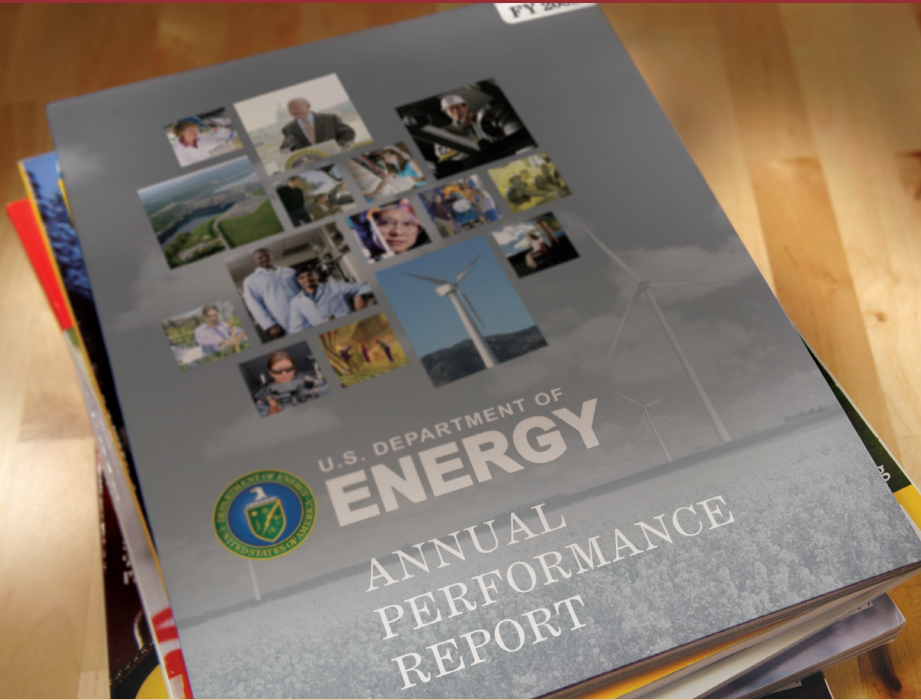




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Increasing Transparency and Accountability in Federal Performance Reporting: Lessons from the OMB Pilot Program

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What is the Performance and Accountability Report (PAR) Pilot Program?

In 2006, the Office of Management and Budget (OMB) authorized the Performance and Accountability Reporting (PAR) Pilot Program, which permitted executive branch agencies to use an alternative approach to reporting financial and performance information.

The goal of the PAR Pilot Program was to explore alternative means of reporting financial and performance information to those that have a stake in the financial soundness and operational effectiveness of federal agencies. The specific purposes of the pilot were to:

- Increase agency and program accountability for performance by making financial and performance information more transparent and accessible;
- Give the government an opportunity to find the best way to present complete and candid financial and performance information that is useful to its many stakeholders; and
- Allow agencies to explore different formats to enhance the presentation of financial and performance information and to make this information more meaningful and transparent to the public.

The FY 2007 pilot program required participating agencies to prepare three documents:

- *Agency Financial Report* (AFR) (submitted November 15, 2007)
- *Annual Performance Report* (APR) (submitted February 4, 2008)
- *Highlights Document* (submitted February 1, 2008)

The Performance and Accountability Report (PAR) Pilot Program made the following changes from traditional practice. The PAR Pilot Program:

- Permitted preparation of a separate *Agency Financial Report* and *Annual Performance Report*. Traditionally, the reports had been consolidated into a single performance and accountability report (PAR).
- Permitted the *Annual Performance Report* to be issued at the same time as the Congressional Budget Justification, which allows for a more complete performance report.
- Added a *Highlights Document* intended to be a brief, user-friendly, and easily understood report that summarizes key performance and financial results for the novice reader.

Eleven departments and agencies volunteered to participate in the FY 2007 PAR Pilot Program (see Appendix I for a list of agencies participating in the pilot). For the FY 2008 Pilot Project, the *Highlights Documents* was renamed *Citizens Report*.

Why the PAR Pilot Program?

Three longstanding issues with the traditional approach to performance and accountability reporting motivated the OMB to offer the PAR Pilot Program:

- The preparation process
- The value of the process
- The usefulness of the resulting reports

Preparation Process

In the past, numerous federal agencies voiced concerns about the preparation process. First, agencies expressed a desire for OMB to revisit the time and effort required to gather, analyze, and present financial and performance information. Second, agencies have argued that the shortened timeframe between gathering performance data and publishing the reports is a significant challenge to developing meaningful documents. Agencies also reported that the shortened timeframe is a barrier to having all of the data available and analyzed in time for inclusion in the published report.

Value of the Process

Analysts and agencies noted that an important by-product of the preparation process is an opportunity to improve agencies' self-discipline and self-awareness. Stakeholders and analysts from the financial community identified a need to shift the perception within reporting agencies from one of just reporting financial information externally to an activity that values the process as a vehicle for maintaining and continuing to improve financial management and accountability.

Usefulness of Resulting Reports

Some agencies and stakeholders expressed concerns about the usefulness of the reports. Some stakeholders have complained about the lack of transparency in the reporting documents and agency accountability. Other stakeholders and some agencies have questioned how often reports are used, for what purposes, and by whom. Both agencies and stakeholders have voiced a desire for specific answers to such questions as:

- Who are the users of the reports?
- Will the core group of users remain constant or evolve over time?
- Where does the detailed information belong? And how can it be located?

Stakeholders continue to communicate concerns about the readability of the reports and the reliability of the data contained within the reports. Agencies have also described the arduous task of integrating budget and performance information as problematical, and they have further reported the challenge of integration as a contributing factor to concerns about the usefulness of these reports.

Federal Reporting on Financial and Performance Information

Statutorily, agencies are required to submit annual audited financial statements, annual performance reports, and other management reports. The reporting requirements for financial and performance information can, and do, vary. The history and evolution of reporting financial and performance information spans nearly two decades. Specifically, the following statutes mandate reports:

- **The Chief Financial Officers (CFO) Act of 1990** [Public Law 101-576], as amended by the **Government Management Reform Act (GMRA) of 1994** [Public Law 103-356], directed federal agencies to prepare and submit audited annual financial statements. The intent of the CFO Act was to improve financial management, internal control, and accounting systems throughout government. The CFO Act required agencies to make available timely, complete, reliable, and consistent financial information so that both the legislative and executive branches could make more informed program performance and spending decisions.
- **The Government Performance and Results Act of 1993** (Public Law 103-62) placed significant emphasis on program performance reporting and sought to hold the federal government accountable to the public for program results. Through the preparation and sharing of program performance plans and reports, federal managers would be better able to improve internal program management and delivery of program services.
- **Federal Financial Management Improvement Act (FFMIA) of 1996** [Public Law No. 104-208, title VIII] mandated financial management systems within government agencies covered by the CFO Act to comply with federal accounting standards and system requirements. The report required is by the auditor who must report non-compliance with the Act in his or her auditor's report.
- **The Reports Consolidation Act (RCA) of 2000** [Public Law 106-531] helped to address the multiple, but separate, reporting requirements that had emerged during the 1990s. The purposes of the Act were to:
 - Authorize and encourage the consolidation of financial and performance reports;
 - Provide financial and performance management information in a more meaningful and useful format;
 - Improve the quality of reporting documents; and
 - Enhance coordination and efficiency on the part of the reporting agency in reporting financial and performance management information.
- **Federal Managers Financial Integrity Act of 1982** (Public Law 97-255) amended the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

What Was Learned from the PAR Pilot Program?

The section below presents findings from the three initiatives which assessed the PAR Pilot Program:

- An Open Forum sponsored by the Office of Management and Budget at the National Academy of Public Administration in April 2008.
- An evaluation conducted by the Mercatus Center at George Mason University as part of their Annual Scorecard Project.
- An evaluation conducted by the Association of Government Accountants.

OMB Open Forum at the National Academy of Public Administration (NAPA)

The OMB held an open forum at NAPA to discuss the PAR Pilot Program in April 2008. Agencies participating in the PAR Pilot Program identified a number of benefits that were derived as a result of participating in the pilot. Benefits identified centered around two areas: process and contents.

Process. Several pilot agencies said that they had realized efficiencies and improved integration as a result of the improved preparation process. One agency stated that the pilot improved data availability. That same agency predicted future improvements in data integration. Another agency stated that the pilot reduced workloads, generated some limited cost savings, and reduced the burden on preparers. Another reporting agency cited a decrease in the time required for completing annual audits. Agencies participating in the pilot program further reported that the pilot resulted in the establishment of a reporting model that will facilitate continued improvements in information quality and completeness in future years.

Contents. Some of the participating agencies stated that presenting financial and performance information differently resulted in more meaningful reports for the stakeholders. One agency stated that the needs of targeted audiences were more easily met since different documents were tailored to specifically address different audiences. Another stated that the *Highlights Document*, as a more concise and readable document without unnecessary jargon or technical footnotes, enhanced the value to the external reader. Some agencies stated that the inclusion of extensive, high-level summary of performance, budget, and financial information was a positive benefit for the potential readers of the reporting documents. A few of the pilot agencies stated that the inclusion of graphics, photos, charts, tables, and color was an improvement in report readability.

The Mercatus Center at George Mason University Annual Scorecard Project

The Mercatus Center at George Mason University has evaluated performance reports for the 24 major CFO Act agencies since the first performance reporting cycle (fiscal year 1999). For FY 2007, the Mercatus research team evaluated reports from both CFO and pilot agencies.

The Mercatus assessment found that the non-pilot agencies scored higher than the pilot agencies. Only two pilot agencies increased their scores. Mercatus attributes the change in scores not to their participation in the Pilot Program, but rather the issuance of new strategic plans.

The Mercatus researchers examined whether delaying the submission deadline for the pilot agencies from November to February allowed the pilot agencies to improve the usefulness or completeness of the data. The Mercatus researchers concluded that the change yielded little or no increase in the percentage of performance measures with complete data, and no significant or new information was found that could not have been provided in November. In addition, “The later release date meant the public had to wait longer to get any performance information; and second, and independent of the first, was that the information once released was difficult to locate.” (Wray 2008).

The Mercatus research team found that all three documents (*Agency Financial Report*, *Highlights Document*, and *Annual Performance Report*) were readily accessible for only two of the nine pilot agencies. Seven of the nine pilot agencies had posted the *Highlights Document* online in compliance with the posting deadline. Eight of the nine pilots produced financial reports that were available, with the one exception that did not reference the financial report in the *Highlights Document*. Finally, three of the nine pilots produced stand-alone, detailed performance reports. Another three embedded their detailed performance reports in their Congressional Budget Justifications (CBJs). A major disadvantage to the general public of embedding the performance report in the CBJ is that the document is not easily accessible or negotiable for the lay reader. Most *Highlights Documents* lacked user-friendly links to other source documents that may have provided more useful and meaningful information.

Based on the Mercatus scoring, two pilot agencies achieved substantial improvements and several developed new “best practices” for the *Highlights Document* that other agencies could emulate. The Mercatus Scorecard concluded that the principal benefit of the pilot format was that it induced more agencies to prepare a *Highlights Document*.

Association of Government Accountants’ Assessment

In their assessment of the *Agency Financial Report* and the *Highlights Document* submitted as part of the PAR Pilot Program, the AGA study reached four major conclusions about the impact of the Pilot Program on agencies participating in the pilot:

- Agencies have moved fairly well along the path of establishing systems and collecting and organizing the information necessary to provide transparency, assure internal control, and provide decision-useful and reliable information
- Progress was made in financial reporting
- Performance and accountability reporting has moved beyond its formative years
- Performance information and its acceptance has matured enough such that it is time to seek greater use of performance information in the budget-allocation process (Steinberg 2008)

Summary

Not all pilot reporting agencies were equally effective in presenting performance and financial information. However, using alternative reporting formats was genuinely considered as an opportunity to continue to move closer to achieving the collective purposes and intents of the Acts listed on page three. A primary lesson learned from the PAR Pilot Program is that it is possible for agencies to submit performance and financial information using alternative formats without diminishing the statutory purposes of performance and financial reporting documents.

Some view the PAR Pilot Program as having the potential to improve the reporting of financial and performance information. The PAR Pilot Program also has the potential to offer reporting agencies a uniform path for complying with statutory requirements to provide timely, complete, reliable, and consistent financial and performance information.

Beyond meeting statutory requirements there was a general recognition that there are benefits that extend beyond improved performance and financial information, accountability, and transparency. Some of the studies which examined the PAR Pilot Program determined that the preparation process itself has value. The preparation process was thought to provide agencies with the opportunity to better understand their functions and services, and force agencies to build self-discipline, as well as to use performance goals and measures to manage public programs.

Today's era of limited resources and monumental challenges mandates reliable, timely, and useful financial and performance information. Allowing agencies to use alternative methods for presenting these data presents an important opportunity to improve transparency and accountability throughout government, goals emphasized by the Obama administration.

How Can Federal Performance Reporting be Improved?

The six recommendations presented below for improving financial and performance reporting documents via the OMB pilot program reflect suggestions and comments from pilot reporting agencies and stakeholders, as well as the OMB Forum and the Mercatus and AGA reports summarized in the previous section.

Recommendation One: OMB should continue to allow alternative approaches to reporting financial and performance information, and enhance the presentation of this information in ways that make the information more transparent and accessible.

There was clear consensus among the pilot agencies and those examining the PAR Pilot Program that supported continuation of alternative approaches to reporting financial and performance information. These studies indicated that the *Agency Financial Reports* and the *Highlights Documents* were often concise and readable, and when done well, they could achieve many of the same goals as the traditional PAR. Fundamental recommendations for improving transparency from the Mercatus Center and AGA were for agencies to include:

- Specific key performance results;
- Descriptions of important results over multiple years;
- Substantive messages from agency heads; and
- Narratives in plain language.

Recommendation Two: Agencies should prepare a separate, identifiable annual performance report that accompanies their Congressional Budget Justification.

The Mercatus Center and AGA found that integrating the performance report into the Congressional Budget Justification made it difficult to understand the performance of an agency. This had the unintended effect of obscuring its transparency and meaningfulness. It is recommended that annual performance reports be submitted as a separate, identifiable document that accompanies the Congressional Budget Justification. Absent this change, agencies may be inclined to use the pilot format as an excuse to diminish transparency.

Recommendation Three: Agencies should provide users a choice of several forms of presentation, each of which would vary in the level of detail contained.

There was agreement among scholars, stakeholders, and agencies that there was a clear need to balance reporting requirements with audience interests and allow agencies to respond to the diversity of needs and interests of their users and stakeholders. One of the participants from a pilot agency attending the OMB Open Forum offered two helpful questions:

- Who is the audience and are we (the agencies) in fact writing the report for them?
- How best can a public-sector organization describe its results in a way that is meaningful and useful to that audience?

Deciding on the type and extent of information that belongs in each document is a major challenge. Agencies and analysts agreed upon adopting broader avenues for expanding opportunities for accessing variations in levels of detail. Expanded opportunities to access

variations in content offers the potential reader the option of accessing a document that most closely parallels their specific levels of interest.

Who reads a particular agency's report will vary from agency to agency. Stakeholders interested in one agency generally are not equally interested in all federal agencies. Some have suggested that agencies should expect that documents most likely will not be read by the general public; but rather, reports will more likely be read by those with specific interests and a stake in the agency's unique offering of specific federal services. The consensus of those assessing the PAR Pilot Program was that the reporting documents do not have to contain everything for everyone if the documents can clearly point the reader to where other performance and financial information can be found.

Recommendation Four: Financial reports, annual performance reports, and highlight documents should all be easily accessible from agency home pages.

Direct and user-friendly links to contents of these three key source documents were offered as solutions for improving access. Other suggested means to increase accessibility were the inclusion of links, on the agency's website homepage, that offer the reader access to other plans and performance reports. The lack of certainty regarding whether the reporting documents are read and accessed by parties other than agency managers and a select few stakeholders should not be viewed as a limitation.

Placing more material on agency websites is an opportunity to present information in a manner that can be understood by the lay readers as well as the more sophisticated readers (such as stakeholders) with higher levels of interest. This balance could be met by making certain that generally understandable reporting documents, no matter the size, offer the reader links and easy access to more detailed information should the reader wish to learn more about the agency.

Recommendation Five: Agencies should strengthen the reliability of the data presented in their *Agency Financial Reports*, increasing confidence in the data by both overseers and stakeholders.

To enhance data transparency and accountability in *Agency Financial Reports*, the AGA recommends that agencies provide:

- Balance and candor in the agency head's message;
- Streamlined reporting of management and performance challenges;
- Independent assessment of the performance information's reliability;
- Information that reports the integration of performance and costs;
- Meaningful analysis of the financial information;
- Responses to all control weaknesses and deficiencies;
- Forward-looking information that addresses critical matters; and
- Clarification on the reporting of improper payments.

Recommendation Six: The Office of Management and Budget should prepare Best Practice Reports and provide clear guidance to agencies to refine the reporting process.

Definitive guidance from OMB is necessary to more effectively eliminate inconsistency in component documents submitted. Clarification of the level of performance information required in the management discussion and analysis section of the PAR would be helpful in establishing uniformity in compliance with statutory reporting requirements.

Departments and Agencies Participating in the FY 2007 PAR Pilot Program

- Department of Defense
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of State
- Agency for International Development
- National Aeronautics and Space Administration
- National Science Foundation
- Small Business Administration

Non-CFO Act Agencies*

- Denali Commission
- National Community Service Corporation

** These two agencies were not included in the three assessments of the PAR Pilot Program presented in this report.*

Key Sources for Report

Open Forum: National Academy of Public Administration

The Office of Management and Budget held an open forum at NAPA to discuss the PAR Pilot Program in April 2008. Stakeholders and reporting agencies both attended. Attendees included chief financial officers, inspectors general, auditors, and other representatives and presenters from various federal departments, agencies, and offices (State, Health and Human Services, Energy, OMB, and the GAO) and non-governmental organizations (NAPA, Mercatus, and the AGA). The purpose of the forum was to broadly discuss the effectiveness of the fiscal year 2007 PAR Pilot.

For more information: See Hoffman, Jay. “PAR Pilot Discussion.” Presented at the OMB 2007 PAR Pilot Open Forum hosted by the National Academy of Public Administration, Washington, DC. April 10, 2008.

Report: The Mercatus Center at George Mason University Annual Scorecard Project

The Mercatus Center at George Mason University has evaluated performance reports for the 24 major CFO Act agencies since the first performance reporting cycle (FY 1999). The Mercatus Scorecard evaluates reports on twelve evaluation criteria, grouped under three general categories of transparency, public benefits, and leadership.

The Mercatus evaluation of the FY 2007 PAR Pilot Program started with the *Highlights Document* for the pilot agencies. Other source documents were evaluated if the documents were specifically referenced in the *Highlights Document* and available in a format that could also be easily accessed by the general public.

For more information: See McTigue, Maurice, H. Wray, and J. Ellig. *9th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public?* Arlington, VA: Mercatus Center at George Mason University. May 2008.

Report: Association of Government Accountants

AGA conducted its assessment of the FY 2007 pilots by: (1) adopting OMB’s basic premise for the pilot program; and (2) establishing the reasons for performance and accountability reporting. AGA’s main focus was how the AFR could enhance performance and accountability reporting.

AGA evaluated each section of the AFR to determine compliance with AFR reporting requirements. Twenty-one reporting areas of the annual financial report were evaluated. The sections and areas assessed were size, message explaining participating in the pilot program, organization of the AFR, electronic versions of the report, readability and related elements, agency head message, overall management discussion and analysis, eight sub-sections of the MD&A, the Chief Financial Officer letter, financial statements and auditor’s report, and other accompanying information dealing with management and performance challenges, the summary of financial statement audit and management assurances, Improper Payments Information Act reporting details, and the appendices.

For more information: See Steinberg, Harold. *You’ve Come a Long Way Baby, An Evaluation of the Federal Agencies’ Annual Financial Reporting*. AGA, 2008. (<http://www.agacgfm.org/publications/EvaluationPilotProgram.pdf>)

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Valerie J. Richardson is president and chief executive officer of TreWyn, a financial and strategic management practice based in Germantown, Maryland. Formerly she served as associate director of the Center for Improving Government Performance at the National Academy of Public Administration. Ms. Richardson has been a practitioner of public sector performance management for well over 15 years; she managed the Results Act of 1993 pilot and implementation efforts at the United States Patent and Trademark Office.

Ms. Richardson is widely published in public administration and accounting journals and proceedings and is the author of the book *Annual Performance Planning—A Manual for Public Agencies*. She was awarded the Best Paper Award—Highest Quality Rating at the Co-operation & Competition Conference in Vaxjö, Sweden in 2002. She is a contributing chapter author to two books, *Co-operation & Competition “Co-opetition”* and *Advances in Management Accounting*.

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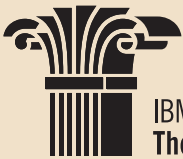
About the Government Performance Coalition

This report was prepared in cooperation with the Government Performance Coalition, a group of organizations committed to the improvement of government performance.

Government Performance Coalition members include: American Society for Public Administration, Association of Government Accountants, Cisco Internet Business Solutions Group, CNA Corporation, Coalition for Effective Change, Trachtenberg School of Public Policy and Public Administration at GW, Grant Thornton, IBM Center for The Business of Government, International Brotherhood of Teamsters, American University Institute for the Study of Policy Implementation, University of Pennsylvania Fox Leadership Center, Management Concepts, Mercatus Center at George Mason University, National Academy of Public Administration, Partnership for Public Service, The Performance Institute, and the Senior Executives Association.

For additional information:

The Government Performance Coalition website can be found at: www.govresults.com.



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