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MERCATUS CENTER
GEORGE MASON UNIVERSITY

May 22, 2007

THE MERCATUS CENTER'S ANNUAL PERFORMANCE REPORT SCORECARD FOR FISCAL 2007

TO: Heads of Executive Departments, Agencies, and other Entities Subject to the Chief Financial Officers Act

FROM: The Mercatus Center at George Mason University, Annual Performance Report Scorecard Project Team

SUBJECT: Effect of OMB's FY 2007 Pilot Program for Alternative Performance and Accountability Reporting on the Annual Performance Report Scorecard

The Office of Management and Budget (OMB) is considering a proposal to allow agencies to pilot an alternative to the performance and accountability report (PAR) for fiscal year 2007. Agency officials have asked us how the pilot will affect our annual performance report scorecard next year. The proposal has not yet been finalized and its details are still undergoing discussion. Therefore, we cannot offer comprehensive and definitive advice on how we will proceed. However, in an effort to be responsive to the requests, we offer the following general comments in relation to the proposal as we understand it.

As you know, in recent years, agencies have combined their annual financial statement report required by the Chief Financial Officers Act and their annual performance report required by the Government Performance and Results Act into the current PAR. We understand that the proposal would allow pilot agencies to decouple these two reports for fiscal year 2007. The financial statement report and related information would be issued as a separate document by the current November 15 due date for the traditional PARs. The performance report would be included with the agency's congressional budget justifications, made public when the budget is released next February. The pilot agencies also would be required to post on their web sites a "highlights" document, providing performance and related information in a brief, user-friendly format easily understood by the general public. Agencies that did not participate in the pilot would publish a traditional PAR by November 15. These agencies would be encouraged, but not required, to publish a highlights document to accompany their PAR.

We recognize that OMB and executive agencies have considerable discretion over how to format the performance reports, and that the reports must serve multiple "stakeholders" with different needs. At the same time, our focus is on how well the reports explain to ordinary citizens what public benefits the agencies achieve on their behalf and in return for their tax dollars. Thus, our annual scorecard evaluation considers the reports in terms of their usefulness to members of the general public rather than government "insiders." The criteria we have developed for our scorecard reflect this perspective. We have applied these criteria consistently since the first round of performance reports for fiscal year 1999, regardless of the different formats that the reports have used over the years.

We have no reason to change either our basic perspective or our criteria in light of the pilot proposal. Therefore, we plan to do a single fiscal year 2007 scorecard with one ranking of all 24 agencies we evaluate based on the same criteria for all agencies, whether or not they participate in the pilot. This reflects our view that all agencies share the same obligation to inform the public through their performance reports and should be held to the same standards no matter what reporting format they choose.

Within this overall framework, the pilot will require some adjustments to our evaluation process.

- The first issue, of course, is timing. We plan to begin our evaluations of those reports that retain the traditional PAR format immediately after the November 15 deadline. Thus, for example, in applying our first criterion we will assess whether these reports were posted to the agency's web site on a timely basis in relation to that date. Obviously, we cannot evaluate the pilot agency reports until they become available next February. At that point, we will begin our reviews of those reports and determine whether they are posted on a timely basis in relation to that date. Clearly, the delay in issuing the pilot agency reports will also affect the timing of the release of our fiscal year 2007 scorecard. We will issue our report as soon as possible in the hope that it can provide useful feedback on the pilot approach as well as the individual reports.

- Second, combining detailed performance information for the pilot agencies into their congressional budget justifications will affect what we review as the agency performance report. We do not know what form or forms the integration of performance data and budget justifications will take. However, we think it is obvious that the general public should not be expected to read an agency's entire congressional budget justification in order to glean performance information. Given this and our overriding perspective on assessing the usefulness of the reports to the general public, we plan to focus our evaluation of pilot agency performance reports primarily on the "highlights" document. We recognize that the highlights document may not contain all information necessary for our reviews. Therefore, we will consider relevant sources of information outside of the highlights document if these are clearly linked to the highlights document, readily accessible, and user-friendly.

- Third, we believe that the highlights document, if done well, has the <u>potential</u> to be a best practice for communicating to the general public and an improvement on many of the current PARs. Therefore, we also plan to include in our fiscal year 2007 evaluations of traditional PARs any highlights documents that those agencies choose to produce along with their PARs. This will promote comparable treatment of traditional PAR and pilot agencies and ensure the widest consideration of highlights documents. Indeed, in our view, the quality of the highlights document will likely be <u>critical</u> to the public value of a pilot agency performance report, and highly beneficial to a PAR as well. For this reason, we have attached to this memo some suggestions for a highlights document that we would respectfully submit for your consideration.

The above covers the key issues concerning application of the scorecard to the proposed pilot at this stage. We expect additional issues to arise as the details of the pilot emerge. We hope that this memo is helpful to you and we stand ready to discuss any questions you may have. If you have questions, please contact either Heather Hambleton (hwier@gmu.edu; 703-993-4911) or Jen Wekelo (jivy@gmu.edu; 703-993-4923).

Attachment

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Suggestions for Performance Report "Highlights" Document

Overview:

The document should be brief and highlight major agency performance-related information for members of the general public and others who seek a straightforward, non-technical, "bottom line" understanding of the agency's key mission(s) and performance results. It should be located prominently on the agency's home page and, as explained below:

(1) provide a clear, concise, and outcome-oriented explanation of what core public benefits the agency seeks to achieve and its progress toward achieving them;

(2) describe key programmatic and management challenges the agency faces to achieving these public benefits and what it is doing to overcome them;

(3) contain prominent and user-friendly links to other sources for additional detail on the agency's performance which backs up the information in the highlights document; and

(4) identify a specific and knowledgeable agency source for members of the public to contact with questions or comments.

The highlights document should elevate quality of performance information over quantity. It should include only key data necessary to inform the general public and other non-specialized audiences.

Content:

Agency head introduction. A brief introductory statement signed by the agency head (not delegable) highlighting the agency's most important accomplishments relevant to the agency's mission outcomes for the applicable fiscal year, including appropriate assurances that this is a fair representation of the performance of the agency. This section should also identify any major failures at the strategic goal level. It should include a simple yes or no statement by the agency head as to whether the agency's financial and performance data are complete and reliable. A link could be provided to other sources for more detail on data verification and validation, as well as any data shortcomings and how they are being addressed.

Strategic goals. A list of strategic goals covering the agency's major mission areas expressed as outcomes

(1) whose nature and importance are clear to members of the general public and
(2) which realistically relate to the agency's functions and sphere of influence.

Management-type strategic goals should be omitted from the highlights document.

Annual performance goals and measures. A list of the key annual performance goals and measures which most directly implement the strategic goals included in the highlights document. These should be limited in number and capture end outcomes or intermediate outcomes directly

relevant to the applicable strategic goal. If a goal or measure is not expressed as an end or intermediate outcome, there should be a clear explanation of its relevance to achieving the outcome.

Agencies should omit from the highlights document goals and measures which do not meet the foregoing criteria since they do not meaningfully inform the public. (Other goals and measures would be included elsewhere in GPRA-related documents to meet the needs of other stakeholders and ensure full compliance with GPRA.) While developing such goals and measures is challenging, agencies should rise to this challenge if they wish to demonstrate their value to the ordinary citizens and taxpayers who foot their bills.

Performance results. Provide a clear statement of whether the agency met or missed each key goal and measure included in the highlights document and whether the reported result is based on final data or a projection. For each missed goal or measure, include a brief explanation of why it was missed and what the agency will do about it. Identify the data source for each measure and its reliability, with links to other sources for more detail on data issues.

Trend data. List performance results for each key goal and measure going back at least three previous fiscal years, showing both the prior year targets and actuals. Include long-term strategic targets for the goal/measure, if applicable, in order to provide context. Also include some explanation of trends and target selection, particularly where the trend data raise obvious red flags (e.g., results trending in the wrong direction; large disparities between targets and actuals; current targets are less ambitious than prior year targets or actuals).

Costs. Link the agency's budget costs to each key measure. If this is not currently possible, explain why.

Most serious management challenges. List the most serious management challenges identified by the agency inspector general (and GAO, if applicable) and include a link to the full text of the inspector general's statement of major management challenges pursuant to 31 U.S.C. 3516(d). Include a table that provides separate responses by agency management and the inspector general to the following questions concerning each management challenge:

- An estimated date by which the agency should resolve the challenge. (Resolve means eliminating the challenge or, if the challenge cannot be completely eliminated, mitigating it to the greatest extent that the risk is acceptable.)

- An assessment of the agency's progress toward resolving each challenge using the following "traffic light" system: green if the agency is actively implementing all specific remedial actions that it can reasonably take; yellow if the agency is actively implementing most remedial actions; and red if the agency is ignoring the challenge or could do significantly more to resolve the challenge.

This section may also address whether or not the agency possesses the necessary capabilities to successfully carry out the mission and strategic goals of the organization.

Also include the agency's scores for the President's Management Agenda and the Program Assessment Rating Tool (PART) and list any GAO-designated "high-risk" areas that apply to the agency and how long they have been high risk.

The highlights document could, of course, include additional information and narratives. However, it should be limited to information which is readily understandable to ordinary citizens and which would significantly enhance their understanding of the agency's performance.

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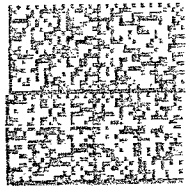

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