



U.S. Department of Agriculture



Office of Inspector General
Midwest Region

Audit Report

Implementation of the Government Performance and Results Act in the United States Department of Agriculture

Report No.
50601-0006-Ch
September 2004



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, DC 20250



DATE: September 17, 2004

REPLY TO
ATTN OF: 50601-0006-Ch

SUBJECT: Implementation of the Government Performance and Results Act in the
United States Department of Agriculture

TO: Patricia E. Healy
Acting Chief Financial Officer

Stephen B. Dewhurst
Director
Office of Budget and Program Analysis

This report presents the results of our audit of the U.S. Department of Agriculture's Implementation of the Government Performance and Results Act. The Office of Budget and Program Analysis and the Office of the Chief Financial Officer's response to the official draft, received on August 9, 2004, is included in its entirety as exhibit B, with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report.

Based on the information contained in the response, we have reached management decision on all recommendations and, therefore, no further correspondence with our office is necessary. If you have any questions, please contact me at 202-720-6945, or have a member of your staff contact Richard Davis, Director, Administration and Finance Division, at 202-720-1918.

We appreciate the cooperation and courtesies extended to us during this review.

/S/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Executive Summary

Implementation of the Government Performance and Results Act in the United States Department of Agriculture Audit Report No. 50601-0006-Ch

Results in Brief

Requiring government agencies to set goals for program performance and to report annual accomplishments compared with those goals, the Government Performance and Results Act (GPRA) of 1993 seeks to improve the effectiveness, efficiency, and accountability of Federal programs. The objective of this audit was to evaluate the United States Department of Agriculture's (USDA) system of controls over performance planning and reporting for GPRA.

One of the President's initiatives is Budget and Performance Integration (BPI). BPI is intended to link performance to budget decisions. The annual performance plan should be integrated into and form the basis for the "performance budget" submission to Office of Management and Budget (OMB).

During the last few years, USDA has revised its Departmental strategic plan, implemented a BPI Board, prepared its first performance budget, and began evaluating its programs using OMB's Program Assessment Rating Tool (PART). These efforts improved the Department's performance management system¹; however, we found that additional improvements were needed in order to achieve quality and effective GPRA plans and reports. Indicative of this, OMB has given USDA strong rating scores for its "progress" throughout much of our audit, but the lowest possible score for the overall "status" of its implementation of BPI. Subsequent to the conclusion of the audit, OMB rewarded USDA's continually strong "progress" and efforts with an improved "status" score for the period ending June 30, 2004.

USDA has delegated authority for its performance management's system implementation to two offices, USDA's Office of the Chief Financial Officer and Office of Budget and Program Analysis. However, because neither of these offices was responsible for ensuring the quality of performance data, USDA was essentially relying on its agencies to support its strategic plan. Over the past several years, USDA's Office of Inspector General, the General Accounting Office, and other entities have reported problems with various USDA agencies' performance management processes and results.

Our review of the Department's annual performance plans and reports (including the FY 2004 APP and Revised Plan for FY 2003, and the FY 2002 and 2003 PARs) disclosed a variety of deficiencies that compromised the usefulness and reliability of those documents. In our opinion, half of the

¹ The USDA performance management system includes GPRA, BPI, and the PART evaluations.

performance indicators were unclear, did not measure progress toward achieving applicable performance goals, or both. We noted additional problems with target levels, specifically that target levels were not set to achieve their intended goals and reasons for missing target levels were sometimes insufficient or missing.

Since concluding our work, USDA initiated its second year of BPI, and with that, added refinements to its performance management processes. Although we have not reviewed the impact or functional nature of these refinements, based on additional information provided by the Department we believe that these processes will have a positive impact on the Department's internal controls (as discussed in Finding 1), satisfy our recommendations and, over time, work to address agency performance problems (as discussed in Findings 2 and 3).

***Recommendations
In Brief***

We recommended that the Department integrate its GPRA and BPI processes and related guidance to clarify the roles and responsibilities for the performance management system, and work to correct performance management deficiencies throughout the Department. We also recommend revision of the 2004 APP to incorporate improved performance measures developed for the 2005 performance budget, and USDA work to improve its performance measures and targets.

Agency Response

In its response to the official draft report, dated August 9, 2004, the Office of Budget and Program Analysis and the Office of the Chief Financial Officer agreed with our recommendations. Furthermore, each of the recommendations have already been addressed either by incorporation in guidance or by other activities initiated by the department. A summary of their response to each recommendation can be found within the Findings and Recommendations section of this report. The response is included in its entirety as exhibit B of this report.

OIG Position

Based upon USDA's response, we have reached management decisions on all recommendations. Requirements for final action are listed under OIG Position for each recommendation within the Findings and Recommendations section of the report.

Abbreviations Used in This Report

APHIS	Animal and Plant Health Inspection Service
APP	Annual Performance Plan
APR	Annual Program Performance Report
BPI	Budget and Performance Integration
B&I	Business and Industry (Loan)
CFO	Chief Financial Officer
DOL	United States Department of Labor
DWPT	Department-wide Planning Team
FMFIA	Federal Managers Financial Integrity Act
FAS	Foreign Agricultural Service
FS	Forest Service
FSA	Farm Service Agency
FY	Fiscal Year
GAO	United States General Accounting Office
GPRA	Government Performance and Results Act of 1993
OBPA	Office of Budget and Program Analysis
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PMA	President's Management Agenda
RD	Rural Development
USDA	United States Department of Agriculture

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Background and Objective

Background

In 1993, Congress enacted the Government Performance and Results Act² (GPRA or the Act) to improve the American people's confidence in the government by holding Federal agencies accountable for achieving program results. According to the Senate Committee on Government Affairs, the purpose of GPRA is to improve the efficiency and effectiveness of Federal programs by establishing a system to set goals for program performance and to measure results.

Plans and Reports

Under GPRA, Federal agencies [departments] must plan and report program performance using three kinds of documents: strategic plans, annual performance plans, and annual performance reports (referred to collectively throughout this report as "plans and reports").

- The strategic plan provides the framework for implementing all other parts of the Act and sets out a long-term course of action. It describes general goals and objectives, the means and strategies to achieve them, and the relationship between those goals and the more specific performance goals in the annual performance plan (APP).
- The APP forecasts accomplishments during a fiscal year (FY) by establishing measurable performance goals, indicators, and/or measures. Performance indicators/measures and corresponding numerical target levels measure goal achievement. A revised final APP must reflect Congressional action on budget requests.³

Beginning with the budget for FY 2005, a performance budget should be prepared in lieu of the APP for the Department's submission to Office of Management and Budget (OMB) and Congress. The performance budget, which should satisfy all statutory requirements for the APP, is integrated with other elements of the Departmental budget request to OMB and the Congressional justification.⁴ The United States Department of Agriculture (USDA) integrated performance information into the "Explanatory Notes" section of its budget submission.

² Public Law 103-62, Government Performance and Results Act of 1993

³ OMB Circular A-11, Part 6, Section 220.1, dated June 2002

⁴ OMB Circular A-11, Part 6, Section 220, dated July 2003

- The annual performance report (APR) presents information on actual performance and progress in achieving the annual goals, indicators, or measures in the APP and the general goals and objectives in the strategic plan. If necessary, the APR explains why the target level for a particular goal was not met and describes the steps being taken to accomplish that goal in the future. USDA uses its agencies' plans and reports to compile the Department's comprehensive APR, included in its Performance and Accountability Report (PAR).

President's Management Agenda

In August 2001, the President announced an agenda for reforming the management of the government and improving the performance of Federal programs. The President's Management Agenda (PMA) aims not only to correct long-standing problems, but also to improve the government's performance. Focusing on areas where the need and opportunity to improve are greatest, the PMA introduced five government-wide initiatives that represent longstanding management challenges for the Federal government, including Budget and Performance Integration (BPI).

The BPI initiative calls for greater focus on performance and formal integration of performance information with budget decisions. According to OMB, BPI should build upon the performance management framework established by GPRA. For BPI, agencies are expected to identify high quality outcome measures, accurately monitor the performance of programs, and begin integrating performance measures with associated cost. OMB Circular A-11⁵ states that the APP, aligned with the recently approved strategic plan, should explain the Department's planned activities for FY 2005 that justify budget requests. The APP should be integrated into and form the basis for the performance budget submission to OMB. Because legal requirements for the APP would be met by the performance budget, a separate APP need not be prepared to comply with GPRA.

As a tool to put results-oriented government into practice, OMB and USDA agencies began the systematic assessment of program performance using the Program Assessment Rating Tool (PART), which evaluates a program's purpose and design, planning, management, and results and accountability to determine its overall effectiveness. PART, which is a series of questions designed to provide a consistent approach to rating programs across the Federal Government, is a diagnostic tool that relies on objective data to make evidence-based judgments and to assess and evaluate programs across a wide range of issues related to performance. Each program reviewed by

⁵ OMB Circular A-11, Part 2, Section 26.3, dated July 2003

PART receives one of four ratings: (1) effective; (2) moderately effective; (3) adequate; or (4) ineffective based on program design, strategic planning, management, and results. A fifth rating, “results not demonstrated,” can be given if OMB decides that a program’s performance information, performance measures, or both were insufficient or inadequate.

USDA’s Performance Management Systems’ Infrastructure

USDA’s Performance Management Guidance⁶ outlines the process to establish strategies, make decisions, allocate resources, and manage programs safely, effectively, and efficiently in ways that are consistent with its GPRA plans and reports. In the execution of this Guidance, USDA used a performance management approach containing three primary infrastructure elements: (1) Departmental leadership; (2) the Department-wide Planning Team (DWPT); and (3) agency performance management coordinators. Besides providing policy direction, Departmental leaders (i.e., the Secretary, Subcabinet officials, and agency heads) review and approve all GPRA plans and reports prior to submitting them to Congress.

The Budget Manual, revised annually by USDA’s Office of Budget and Program Analysis (OBPA), addresses the Department’s requirements for BPI. Chapters 11, 12, and 13 of this manual address the performance budget and provide the specific requirements for agencies regarding agency estimates, Department estimates, and explanatory notes, respectively.

Effective with USDA’s implementation of BPI, the Department created a second performance management system. Steered by Departmental leadership, USDA’s Office of the Chief Financial Officer (OCFO) coordinates the Department’s original GPRA process.⁷ OBPA, as the lead agency for implementing BPI in the Department, initiated a second independent process. Both processes gathered performance data from USDA’s agencies to support the strategic plan. The responsibilities for these two offices are as follows:

- OCFO, working with program mission areas and USDA staff offices, prepares the Department’s strategic plan and coordinates agency submissions for the APR (as part of the PAR) and the APP. OCFO formed DWPT, which consists of representatives appointed by Subcabinet officials, to develop and refine these plans and reports. As stated in the DWPT Charter,⁸ representatives have the authority to

⁶ USDA 2002 Performance Management Guidance, version 1.6, pages 1 – 3, dated January 30, 2003

⁷ USDA 2002 Performance Management Guidance, version 1.6, pages 1 & 2, dated January 30, 2003

⁸ Charter for the Department-wide Planning Team, page 2, dated June 20, 2003

speak for their respective mission area or staff office in the development of GPRA plans and reports, and they should work together to reach consensus on issues relevant to the content of those documents.

- OBPA is responsible for compiling and submitting the Department's performance budget, which should incorporate the APP beginning with the FY 2005 budget process. To do so, OBPA originally began its BPI implementation with pilots in a few of USDA's agencies. However in February 2003, the USDA Secretary and Deputy Secretary identified BPI as a priority area for policy level attention in the preparation of the Department's FY 2005 budget. It was decided to implement BPI Department-wide instead of only with pilot agencies. The Deputy Secretary established and chaired a BPI Board⁹ to oversee the Department's implementation of BPI.
- Over the past few months, OCFO and OBPA have collaborated to develop a planning and reporting process to meet the requirements of both GPRA and the PMA. On March 31, 2004, OCFO and OBPA issued instructions expected to produce the FY 2005 APP and Revised Plan for FY 2004, and implement a "Quarterly Reporting Process" that will provide policy officials with program performance and financial information. On May 10, 2004, OBPA issued guidance for the FY 2006 BPI process that indicates the status and quality of agency plans and PART reviews would be discussed in later meetings with the BPI Board, and that agency plans were already under review by OBPA and OCFO. The guidance also suggests "Key Questions to Consider" for agencies that include "do agency strategic plans relate directly to the Department's Strategic Plan" and for agencies to determine "which key agency performance measures support the Secretary's Strategic Objectives".

Objective

The objective of this audit was to evaluate the system of controls over Departmental performance planning and reporting for GPRA. This included assessments of: Departmental oversight of GPRA activities; the development of performance measures to determine if they support the Department's strategic goals; the validity and verifiability of reported performance data; and the implementation of BPI.

⁹ BPI Board is comprised of the Deputy Secretary, the Chief Financial Officer, the Chief Information Officer, and the Director of OBPA

Findings and Recommendations

Section 1. Internal Controls Over USDA's Performance Management System

The Department has taken strides to improve its performance management system, which encompasses GPRA and BPI activities. USDA revised its strategic plan in September 2002; began evaluating its programs using OMB's PART during the FY 2004 budget process; created a BPI Board chaired by the Deputy Secretary; and in FY 2003 it shifted from piloting BPI in a few agencies to implementation Department-wide, resulting in the submission of over 400 performance indicators to OMB in its FY 2005 Department Estimates. Similar to our findings, USDA's BPI scorecard from OMB is reflective of USDA's efforts, as OMB has given USDA strong scores for its "progress" throughout our review, but USDA consistently received the lowest possible score for the overall "status" of its BPI implementation. Subsequent to our audit work, OMB has rewarded the Department's strong "progress" with an improved "status" score for the period ending June 30, 2004.

Our review of the Department's annual performance plans and reports (including the FY 2004 APP and Revised Plan for FY 2003, and the FY 2002 and 2003 PARs) disclosed a variety of deficiencies that compromised the usefulness and reliability of those documents. In our opinion, half of the Department's performance indicators were unclear (see Finding 3, Table 1), did not measure progress toward achieving applicable performance goals, or both. We noted additional problems with target levels, specifically that target levels were not set to achieve their intended goals and reasons for missing target levels were sometimes insufficient or missing.

During our review, the Department's performance management program was undergoing significant change. On one front the Department originally implemented a GPRA process under OCFO. On another front, the Deputy Secretary, the BPI Board and more specifically OBPA were implementing a new process for BPI. However, as neither OBPA nor OCFO were responsible for ensuring the quality of the performance data, USDA was essentially relying on its agencies to support its strategic plan. Even though some of their duties overlapped during this transitional period, the two offices were slow to join forces to fulfill USDA's performance management responsibilities. The BPI Board, which included top officials from both OCFO and OBPA, fell short of creating a plan for integrating all GPRA processes. This problem extended from the Department level downward to the DWPT, and the agency-level, as discussed in Findings 2 and 3. Since

concluding our work, USDA has initiated plans and actions to further integrate and strengthen its process.

Finding 1**USDA Needs to Strengthen and Improve Coordination within Its Performance Management System**

We identified weaknesses in USDA's system of internal control over performance management, weaknesses which USDA has initiated actions to address. A key weakness and inhibiting factor in USDA's performance management system was that coordination between two offices, and integration of its original GPRA and BPI processes, was slow to evolve. Related plans and guidance were weakened as a result and in FY 2003 USDA's agencies had to submit data for both systems, further resulting in confusion amongst agencies. We also found that no one was responsible for ensuring the quality of performance data at the Department level, thus placing reliance upon USDA's agencies for linkage and support of the strategic plan. This was a concern because weaknesses have been reported with various USDA agencies' performance management processes and results. (See Finding 2.)

USDA's Performance Management Systems

For some time two staff offices, OCFO and OBPA, held the role of coordinator for one of USDA's two performance management systems. Each staff office published guidance and established a system to collect and consolidate performance information at the Department level. Integration of these two processes was slow to evolve. Although each staff office had taken its role as coordinator seriously, neither was accountable for the production, verification, or validation of the performance data received. In FY 2003, USDA's agencies had to submit performance information for both systems.

OCFO was tasked with implementing GPRA in USDA, and since then, has had responsibility for publishing USDA's strategic plan, APP, and PAR. During FY 2003 and FY 2004, OCFO continued to pursue these responsibilities resulting in the FY 2004 APP and Revised Plan for FY 2003, and the FY 2003 PAR. OCFO's process included a committee (the DWPT) as a key control over agency-submitted data, but we found that the committee was not an effective oversight control.

OBPA was assigned responsibility for implementing BPI and in FY 2003, the BPI Board and OBPA spearheaded an effort to link performance with USDA's FY 2005 budget. OBPA included the results of this effort in the

Department Estimates, which were submitted to OMB in September 2003. Next, OBPA asked agencies to submit only their key indicators for inclusion in the Explanatory Notes, which were published in February 2004.

Although each staff office (OCFO/OBPA) did participate in the development of plans and reports, neither had line authority over the functions producing the data. By assigning staff offices to coordinate the implementation of GPRA, the Department was relying on its agencies to provide quality information. Although we didn't evaluate agency processes as part of this audit, our prior audit work has disclosed a number of agency performance management weaknesses (see Finding 2) that directly questioned their ability to produce quality performance data. In spite of these weaknesses, no additional controls were added by the Department to compensate for, or to determine the extent of the problem.

In the OCFO coordinated process, USDA's Performance Management Guidance¹⁰ indicated the DWPT was responsible for ensuring appropriate content of agency plans and reports. We found that the DWPT was not effective in that regard. The five DWPT members and the DWPT leader we interviewed said they had not discussed and reached consensus on issues relevant to the content of USDA plans and reports, as required by the guidance. Instead, DWPT members operated as separate conduits for their respective agency's information, rather than working together to ensure the Department's compliance with GPRA requirements. The DWPT members we interviewed explained that their workload of non-GPRA tasks allowed them to only devote a limited amount of time to GPRA duties and prevented them from holding group discussions of details in the performance reports. Also, not all DWPT members had received training on performance management. Because it viewed itself largely as a facilitator of the GPRA process, OCFO has not overseen the particulars of the DWPT's activities.

Early in 2003, the Deputy Secretary chaired a BPI Board made up of high-level Departmental leaders (the Chief Financial Officer (CFO), the Chief Information Officer, and the Director of OBPA) to oversee the Department's BPI implementation efforts. Actively involved at the initial stages of the BPI process, the board reviewed and provided input to each agency's plan.

The OBPA executed its role in the BPI process by issuing instructions, providing input to agencies during the performance measure development process, and by consolidating agency submissions into the FY 2005 Department Estimates that were sent to OMB in September 2003,

¹⁰ USDA Performance Management Guidance, Version 1.6, pages 1 & 2, dated January 30, 2003

and the FY 2005 Performance Budget and accompanying Explanatory Notes in February 2004.

Planning and Guidance

During USDA's implementation of GPRA and its transitional adjustments to incorporate BPI, Departmental planning and guidance could have been better. For example, the Department did not plan in advance how it intended to integrate its two different performance management processes and results. Also, guidance from OCFO and OBPA did not completely address the process or provide clear information to USDA's agencies.

On January 23, 2004, the Acting CFO sent a survey to all agency heads and staff office directors requesting input on the Department's strategic planning process. The summary of responses states, "There is limited coordination, integration, alignment, and streamlining of reporting requirements (i.e., BPI, GPRA, PART, and PMA)." Related comments include, "Agencies agree that better coordination and integration of the management processes need to occur at the Department level", and "Guidance for all reporting requirements needs to be finalized and provided to agencies as soon as possible".

USDA's Performance Management Guidance¹¹ was not updated to address the existence and emergence of BPI, the BPI Board, OBPA's BPI implementation role, or how OCFO and OBPA would coordinate their responsibilities. OBPA's Budget Manual also did not address the overall performance management system, only the requirements for agencies to provide input for the performance budget process.

Departmental planning for performance management could have been better. As recent as January 2004, both OBPA and OCFO were designing quarterly reporting processes for their respective performance management systems. Also, OBPA was still working on what document it would submit as the Department's consolidated FY 2005 APP, and how it would be made available to the public. At that time it was unclear whether OBPA or OCFO would be publishing a Revised FY 2004 APP (as part of the FY 2005 APP) that would be the basis of the FY 2004 PAR due November 15, 2004. Because our analysis (in Finding 3) determined the Department's FY 2003-04 performance indicators were weak, and the 2005 BPI process included input from the Deputy Secretary and BPI Board, revising 2004 data could improve the Department's FY 2004 plans and reports. Over 400 performance indicators were included in the Department Estimates by

¹¹ USDA Performance Management Guidance, Version 1.6, dated January 30, 2003

OBPA, a drastic change from the FY 2004 APP and Revised Plan for FY 2003, which only included 82 performance indicators. On March 31, 2004, OBPA/OCFO published a plan to integrate their performance processes, and to adjust the Department's FY 2004 plans and reports.

For the last 4 quarters ending March 31, 2004, OMB has given USDA the highest possible score for its "progress" in implementing the BPI initiative. However, for the last 8 quarters OMB has given USDA the lowest possible rating for its current "status" in achieving the BPI initiative. USDA's low status scores in meeting OMB's "Standards for Success" for BPI mean that a number of problem areas are preventing the Department from achieving budget and performance integration. Exhibit A presents our analysis of USDA's accomplishments at the time of our work, and what the Department still needed to do to get to a mid-range score, and to fully implement BPI Department-wide. USDA's scores for progress indicate that it is moving toward successful implementation of BPI, and since the completion of our audit, OMB has raised the Department's "status" score for the period ending June 30, 2004.

Recommendation No. 1

We recommend that OBPA/OCFO strengthen the system of internal controls by integrating its GPRA and BPI processes into one consolidated Department-wide performance management system.

Agency Response.

In its response dated August 9, 2004, OBPA/OCFO officials agreed with the recommendation and iterated that in March 2004, they jointly sent guidance to all pertinent parties that set forth the parameters for one consolidated performance management reporting process. This guidance supercedes prior issuances, and provides for the collection of one set of performance information that will be used for quarterly reporting under BPI and for the preparation of the Department's Annual Performance Report under GPRA.

OIG Position.

We accept OBPA/OCFOs' management decision. No further action is needed to achieve final action for this recommendation.

Recommendation No. 2

We recommend that OBPA/OCFO issue guidance that establishes and supports an integrated performance management system, and defines the roles and responsibilities of all its participants.

Agency Response.

OBPA/OCFO officials agreed with the recommendation and issued guidance on March 30, 2004, that sets forth the parameters for one consolidated performance management reporting process. The response also clarifies that OCFO maintains responsibility for strategic planning and performance management reporting. OBPA is responsible for the development of the budget, which now incorporates the annual performance plan. The Deputy Secretary leads this effort through the Department's BPI Board, which includes the Budget Officer and the Chief Financial Officer as members. OBPA and OCFO staffs have day-to-day responsibilities for strategic and performance planning and reporting.

OIG Position.

We accept OBPA/OCFOs' management decision. No further action is needed to achieve final action for this recommendation.

Recommendation No. 3

We recommend that OBPA/OCFO revise the FY 2004 APP to incorporate revised performance measures developed for the FY 2005 performance budget and FY 2005 APP. Ensure selected measures support the Department's strategic goals and objectives.

Agency Response.

In accordance with OMB Circular A-11, USDA's FY 2005 Explanatory Notes, sent to the Appropriations Committee and Subcommittees in the House and Senate in February 2004, meet the requirements for a performance budget, including providing performance targets for FY 2005 and revised targets for FY 2004.

OIG Position.

Based upon the March 30, 2004, guidance titled "Annual Performance Plan for Fiscal Year (FY) 2005 and Revised Annual Performance Plan for FY 2004 and Quarterly Reporting Process, and actions initiated thereto, we

accept OBPA/OCFOs' management decision. No further action is needed to achieve final action for this recommendation.

Finding 2**USDA Needs to Utilize Internal/External Reviews to Improve Agencies' Performance Management**

Internal and external evaluations have pointed out room for improvement in USDA agencies' performance management processes and results. However, the Department has not always used those critiques as opportunities to strengthen its performance management system at the agency level. Because the Department's GPRA documents are based (in part) on agency generated material and reports, the quality and usefulness of agency material is critical to the overall performance management process.

Outside evaluators such as OMB and George Mason University's Mercatus Center¹² have reported flaws in the performance management system. According to the FY 2002 Mercatus report released in 2003, USDA's PAR was difficult for ordinary citizens to understand, and the Department seemed hesitant to acknowledge problems identified by the Office of Inspector General (OIG). Consistent with the findings of our audit, the Center faulted USDA's report for containing a number of performance measures that were not directly related to key outcomes and for failing to explain how its accomplishments made America a better place to live. In its latest review of USDA's FY 2003 PAR, dated April 2004, Mercatus credits USDA with "notable improvements" including: "... accessibility of its report, articulation of public benefits, explanation of failures, and development of plans to improve performance in the future". The Mercatus report also indicates the need for additional improvements including, "reasons underlying some quantitative targets are unclear", need to adjust how some activities or outputs "only have a tenuous connection to outcomes", and although the PAR does describe steps to address management challenges, "timeliness for some indicate little urgency".

¹² For the last 4 years, the Center has ranked Federal agencies' annual performance and accountability reports on how effective they are in disclosing pertinent information to the American people.

PART Results Illustrate Continued Unknown Program Effectiveness

To fulfill the requirements for the FY 2004 performance budget set out in OMB Circular A-11, USDA agencies began using OMB's PART to systematically assess program performance. PART evaluates a program's purpose and design, planning, management, and results and accountability to determine its overall effectiveness.

Each program reviewed by PART receives one of four ratings ranging from effective to ineffective based on program design, strategic planning, management, and results. A fifth rating, "results not demonstrated," can be given if OMB decides that a program's performance information, performance measures, or both were insufficient or inadequate. Of the 32 USDA programs assessed by PART during the FY 2004 and FY 2005 budget processes, 19 received a "results not demonstrated" rating, or over 59 percent. Three of the 12 programs receiving a "results not demonstrated" rating from the FY 2004 process improved to receive an adequate rating in the FY 2005 budget process.

It is important to note that the "results not demonstrated" designation means "unknown effectiveness" rather than that the program was "ineffective" or failed. However, based on the inconclusive results, USDA and the agencies involved did not take adequate action to improve the majority of those programs' performance information and/or performance measures.

Audit Report Findings Not Acted Upon

Over the past 4 years, OIG and the United States General Accounting Office (GAO) have reported deficiencies with various USDA agency performance management processes and results. Although the OCFO receives copies of all reports issued and is responsible for tracking audits through final corrective actions, the Department has not consistently followed up on the OIG and GAO findings. As a whole, previous audits revealed inadequate internal controls over USDA's performance management system, resulting in plans and reports that contained inaccurate, unsupported, and unverified data. The following OIG and GAO audits illustrate some of USDA agencies' performance management problems:

- In 2003, OIG reported that the Animal and Plant Health Inspection Service (APHIS) based its report of accomplishments on inaccurate and incomplete information.¹³ This occurred because APHIS did not have controls in place to verify the accuracy of its performance information.

¹³ OIG Audit Report No. 33601-3-CH dated February 2003.

We recommended that APHIS implement controls over the collection, calculation, and reporting of performance data for GPRA. As of March 2004, OIG and APHIS still had not agreed upon management decision for these recommendations.

- A 2002 OIG audit¹⁴ showed that the Farm Service Agency's (FSA) performance measures were not outcome-oriented and did not demonstrate the agency's progress in achieving its strategic goals. OIG also found inaccurate and unsupported performance results. We recommended that FSA develop performance measures that are linked to its long-term goals and for which results reported would indicate the degree to which long-term goals are being met. Final action was reached timely on this audit.
- In 2001, an OIG audit disclosed that Rural Development's (RD) GPRA reports were inaccurate, unsupported, and unverified.¹⁵ OIG concluded that RD did not have a formal process for implementing GPRA, as well as written procedures for measuring, accumulating, verifying, and reporting performance data. We recommended that RD implement procedures to ensure the collection and reporting of accurate, complete, and meaningful performance data and establish internal controls that include the definition of each performance indicator and the documentation needed to support the indicators. RD did not reach final action on all 9 recommendations until more than 2 years after issuance of this audit report in March 2001.

Again in 2003, OIG reported that RD had based its Business & Industry (B&I) Program performance data on borrower projections rather than the actual number of jobs created and saved by the program.¹⁶ As in 2001, RD's data collection and input controls did not ensure the accuracy of reported results.

- OIG reported in 2000 that Forest Service (FS) had based its GPRA accomplishments on flawed data and assumptions.¹⁷ Errors and omissions in supporting data occurred because FS did not incorporate performance reporting into its business processes, and field-level employees did not understand the need for or value of accurate performance reporting. We recommended that FS continue the process of establishing, publishing, and ensuring adequate guidance defining

¹⁴ OIG Audit Report No. 50601-4-CH, dated September 2002

¹⁵ OIG Audit Report No. 50601-2-CH, dated March 2001

¹⁶ OIG Audit Report No. 34601-15-TE, dated September 2003

¹⁷ OIG Audit Report No. 08001-1-HQ, dated June 2000

each performance measure and setting forth the documentation needed to support reported accomplishments. We also recommended that FS report its ineffective system of internal controls over its performance reporting as a material weakness in the FMFIA report. Over 3 years after issuance of this audit report in June 2000, FS still has not reached final action on 4 of the 6 recommendations, and it does not expect to reach final action until 2005.

In 2003, GAO reported that FS has made little progress in resolving its longstanding performance accountability problems and, based on its current efforts, remains years away from implementing a credible performance accountability system.¹⁸ GAO pointed out that inadequate coordination at FS headquarters undermined accountability of the performance management system and recommended that FS appoint a senior executive to ensure effective implementation of GPRA.

In response to the weaknesses disclosed in these audit reports, the Department could have implemented additional controls over performance planning and reporting, and used the reports to identify other GPRA deficiencies throughout USDA. We concluded that the quality of the Department's performance management process would have been improved if it had used the audits and other reviews as management tools.

Recommendation No. 4

We recommend that OBPA/OCFO develop and implement a system to use available resources (i.e., OIG and GAO audit reports, PART evaluations, etc.) to improve performance management deficiencies throughout the Department.

Agency Response.

In its response dated August 9, 2004, OBPA/OCFO officials agreed with the recommendation and stated that they review OIG and GAO audit reports, PART evaluations, etc., and use the reports in their review of GPRA and BPI documents and budget proposals. The Department has also established a quarterly reporting process, which includes reports on actions being taken in response to PART findings to improve performance management. The first set of quarterly reports was discussed at meetings of the BPI Board, Under Secretaries, and Assistant Secretaries in May 2004. OCFO has also worked directly with the leadership of the Mercatus Center, other Federal agencies, and participated in Government-wide committees and

¹⁸ GAO Audit Report No. GAO-03-503, dated May 2003

organizations such as the National Academy of Public Administration, to gain further insight to best practices and ways to improve performance reporting.

OIG Position.

We accept OBPA/OCFOs' management decision. No further action is needed to achieve final action for this recommendation.

Finding 3

USDA's Performance Plans and Reports Need Improvement

Although GPRA took effect 10 years ago, USDA's performance plans and reports have fallen short of fulfilling the intent of the Act. We reviewed the FY 2002 PAR, the FY 2004 Annual Performance Plan and Revised Plan for FY 2003 (hereinafter referred to as the Revised FY 2003 APP), which reflected USDA's new strategic plan. Our review disclosed that over half of the performance indicators in both documents were either unclear and/or did not show progress toward achieving the goal they were intended to measure. In addition, we found the reasons provided for not meeting target levels were sometimes missing or insufficient and that targets were not always set to achieve the applicable goal.

One of the purposes of the GPRA Act is to initiate program performance reform by setting program goals, measuring program performance against those goals, and reporting publicly on their progress.¹⁹

The FY 2005 budget process and PART assessments resulted in revised performance measures for some programs, but improvement is still needed. Based on our analysis, we concluded that USDA did not significantly improve its performance goals and indicators from one year to the next. According to Department officials, USDA agencies met with the BPI Board, and separately with OMB staff in an effort to develop improved performance measures, but some measures may still be under development while others may not yet have adequate data to support them. As a result, the Department has limited assurance that it is making progress toward achieving its performance goals.

Performance Indicators Not Always Clear or Related to the Applicable Goal

According to OMB Circular A-11, performance goals must be defined either in an objective and quantifiable manner, or as sufficiently precise descriptive

¹⁹ Government Performance Results Act of 1993

statements that allow for accurate determinations of actual performance.²⁰ If a performance goal is not self-measuring, the agency must include in its APP one or more performance indicators for the goal that set out specific, measurable values or characteristics related to the goal that would aid in determining goal achievement. The information must be presented clearly and concisely.²¹

Our review of both the FY 2002 PAR and the Revised FY 2003 APP disclosed that over half of the goals and indicators in both documents were either unclear and/or did not show progress toward achieving the goal they were intended to measure, as shown below. Because it was published towards the end of our fieldwork, we only performed a limited review of the FY 2003 PAR, and did not analyze all the performance information therein.

Table 1. Summary of Indicator Deficiencies

Indicator Deficiency	FY 2004 APP and Revised Plan for 2003	FY 2002 PAR
Indicator was Unclear	10 of 82 (12.2%)	4 of 74 (5.4%)
Indicator did not show progress toward the applicable goal	11 of 82 (13.4%)	28 of 74 (37.8%)
Indicator was both unclear and did not show progress toward the applicable goal	24 of 82 (29.3%)	12 of 74 (16.2%)
Total number of deficient indicators	45 of 82 (54.9%)	44 of 74 (59.5%)

The plans and reports often contained indicators that called for “maintaining” or “preserving” a level of performance when the goal was to “improve” or “increase” an area, respectively. In these cases it was unclear how the indicator pertained to the goal—that is, how maintaining a program accomplishment level actually increased USDA achievements. For example, the two FSA indicators in the Revised FY 2003 APP, “maintain the direct loan delinquency rate at or below 15%” and “maintain the direct loan loss rate at or below 5%,” did not show progress in achieving the performance goal they were intended to measure, “improve fiscal soundness of the direct loan portfolio.” Also, the agency increased the 15 percent target level from the previous year, thus raising the question of how the

²⁰ OMB Circular A-11, Part 6, Section 220.3, dated June 2002

²¹ OMB Circular A-11, Part 6, Section 222.2, dated June 2002

indicator demonstrates progress toward enhanced fiscal soundness at the same time that it increases the expected delinquency rate.

An FSA official informed us that these two indicators came from the agency's APP, but that plan did not have as a goal "to improve fiscal soundness." OCFO tried to link these agency indicators to the Department's strategic goal, but the FSA official agreed that the "maintain" indicators did not show progress toward "improving" the loan portfolio. However, he did not agree that the heightened target level of 15 percent was inappropriate. Considering the poor economy and the high-risk nature of the direct loan program, FSA believed that this target level was appropriate. However, the agency should have provided this explanation in its written report.

To further illustrate, the performance indicator, "reduce the B&I portfolio delinquency rate," does not show progress toward the goal to "improve rural economic opportunities." The DWPT member for RD stated that this indicator was used because delinquency rates were a priority for the agency.

In contrast, we noted other indicators that were both clear and related to the goal they were intended to measure. In the Revised FY 2003 APP, the indicator "increase the number of commodities eligible for crop insurance" shows progress toward the goal "expand USDA risk management tools available for agricultural producers to use in managing production and price risks." In this case, USDA clearly demonstrated how it would expand the number of risk management tools available to producers.

Of the 45 deficient performance measures we identified in the Revised FY 2003 APP, the majority were not present in the FY 2005 Department Estimates. However, 10 performance measures that we judgmentally selected from the FY 2005 Department Estimates were also deficient. While we realize the provisional nature of the Department Estimates, the control weaknesses (as discussed in Findings 1 and 2) and these problematic performance measures lead us to conclude that the BPI process has not greatly improved the quality of USDA's performance plans and reports.

Missing or Insufficient Reasons For Not Meeting Targets and Target Levels Not Set to Achieve Goals

We also identified problems related to performance targets in both the FY 2002 PAR and in the Revised FY 2003 APP. These problems related to: (1) the reasons for not meeting targets were sometimes missing or insufficient; and (2) targets were not always set to achieve the applicable goal. OMB requires that performance reports explain why agencies did not meet a target level.²²

Table 2. Summary of Target Deficiencies

Target Deficiency	FY 2004 APP and Revised Plan for 2003	FY 2002 PAR
Insufficient or missing reason for not meeting target	N/A	13 of 18 (72%)
Target not set to achieve the applicable goal	10 of 82 (12%)	18 of 74 (24%)

- We evaluated the reasons given for not meeting the target levels for 18 of the 24 unmet indicators in the FY 2002 PAR. Reasons were missing for 8 and insufficient for 5 of the 18 performance indicators evaluated.

For example, no explanation was given in the PAR for the annual performance indicator regarding trade opportunities preserved, for which FAS missed its target of \$2.2 billion by \$873 million (or almost 40 percent). When asked why no reason was given, the DWPT member representing FAS told us that he was unable to obtain adequate information from the program staff.

- We evaluated the target levels for all 74 of the performance indicators in the FY 2002 PAR and all 82 of the performance indicators in the Revised FY 2003 APP. The target levels for 18 of the 74 performance indicators in the PAR and 10 of the 82 performance indicators in the Revised FY 2003 APP were not set to accomplish the goal, performance measure, or key outcome they were intended to measure.

For example, the FY 2002 target level for the FAS performance indicator “annual sales reported by U.S. exporters from on-site sales

²² OMB Circular A-11, Part 6, Section 231.4, dated June 2002

at international trade shows” was set at \$250 million, which was a decrease of \$110 million from the actual FY 2001 level of \$360 million. However, the performance goal was to “increase U.S. agricultural trade.”

When questioned about this discrepancy, the DWPT member for FAS said that the program staff set the target levels, and that they had reduced the amount of sales from prior years because of a shift in program emphasis from large companies to smaller minority-owned companies. However, the agency should have explained this program change when it dramatically reduced the target level.

OCFO officials stated that their responsibility is only to coordinate the GPRA data submitted by the agencies. Likewise, DWPT members told us that it is the responsibility of the agency’s program staff to submit proper information for the Department’s GPRA reports.

Although some DWPT members concurred with our assessment that certain indicators were problematic, some disagreed. Those that disagreed embedded their reasons in additional explanations of how a program functioned in relation to the indicator. Unfortunately, readers of the Department’s plans and reports have access only to the published results, not the additional verbal explanations we were given. DWPT respondents also explained that some of the faulty indicators included information that the Administration, Congress, or Departmental leadership had wanted, or that the indicators were the best available at that time. From these responses, we were unable to obtain a clearer understanding of the information or whether progress toward achieving the performance goals in question had, in fact, been achieved.

In regard to target levels not set to accomplish goals, the DWPT members cited budget cuts, changes in program objectives, and influences out of the agency’s control. The DWPT members generally agreed that the unmet targets were not adequately explained.

Recommendation No. 5

We recommend that OBPA/OCFO design and implement a Department-wide system to ensure that: (1) goals and indicators show progress toward achievement of the applicable goal; (2) reasons are given when targets are missed; and, (3) target levels are set to achieve the intended goal.

Agency Response.

In their response dated August 9, 2004, OBPA/OCFO officials agreed with the recommendation and described how they will continue to emphasize the development of outcome-oriented, relevant, long-term performance measures. To this end, the Department and its agencies have held meetings with OMB, and through the PART process to identify high quality, outcome-oriented performance measures for all programs. In addition, guidance for the FY 2006 budget process focuses on the need for agencies to work with OBPA and OMB to finalize all PART reviews and continue to address PART findings from prior years. Guidance for the FY 2006 agency estimates requires that each program area specifically identify key items such as: how program activities link to the strategic goals/outcomes and the means and strategies employed to meet the objectives. This guidance also requires an analysis of past performance, which includes a discussion of successes and shortfalls, as well as the plans to resolve the shortfalls. Additional guidance for the Quarterly Report requires submission of information on key milestones reached during the quarter, any shortfalls or performance that was beyond expectations, and the progress on major projects.

OIG Position.

We accept OBPA/OCFOs' management decision. No further action is needed to achieve final action for this recommendation.

Scope and Methodology

The audit was conducted at USDA Headquarters in Washington, DC. The Department GPRA reports that were within the original scope of our audit were the strategic plan for FY 2002-2007, issued in September 2002; the FY 2003 APP and Revised Plan for FY 2002, issued in March 2002; and the FY 2002 PAR, issued in January 2003. We expanded our scope to include subsequent Departmental publications, including the FY 2004 APP and Revised Plan for FY 2003, issued in May 2003 and later the FY 2003 PAR, issued in January 2004. However, we only performed sufficient testing as deemed necessary, to support continuity of issues as identified within the original scope of our audit, or to justify giving the Department credit for improvements when identified.

In October 2003, we met with the CFO and members of his staff, and discussed the results of our audit. In addition to the work that was completed, the CFO suggested we expand our work to include a review of the Department's implementation of BPI. We expanded our scope to include the new BPI process and its related internal controls. As part of this expansion, we performed tests on the FY 2005 Department Estimates, issued in September 2003. At the close of the expanded review, we met with OBPA officials in early March 2004 to discuss our results, which predominantly remained the same as reported to the CFO in October 2003, but included our concern regarding the existence of a second performance system for BPI.

Our audit was conducted in accordance with generally accepted government auditing standards. To accomplish the audit objective, we performed the following:

- Reviewed applicable laws, regulations, and guidance concerning performance management.
- Reviewed USDA's policies, procedures, and controls over its performance management processes.
- Interviewed OCFO and OBPA officials, five judgmentally selected DWPT members and OBPA analysts, and performance management coordinators at two agencies, Rural Development and the Food and Nutrition Service to determine their level of responsibility or function in terms of the internal control process, and assess any actions taken with regards to USDA's performance management process.

- Reviewed USDA's GPRA plans and reports (as noted above), and supporting information to determine if USDA met requirements of the Act and OMB Circular A-11.
- Conducted tests of performance goals, indicators, and targets in USDA's performance plans and reports to determine adherence to applicable requirements.
- Conducted research of published sources in order to identify related GPRA practices, other assessments of USDA's performance management processes, and specific audit reports by OIG and GAO.
- Analyzed USDA's BPI implementation plans and accomplishments and compared these against published OMB standards of achievement.

Exhibit A – Budget and Performance Integration Implementation Status

REQUIREMENTS			ACTIONS COMPLETED	ACTIONS THAT NEED TO BE COMPLETED...		PLANNED ACTIONS (According to USDA's annual "Proud to Be" document, goals for July 1, 2004)	Is the plan adequate to make progress?	Current Status	Responsible Parties
RED (No part of the BPI initiative achieved)	YELLOW (BPI initiative partially achieved)	GREEN (BPI initiative achieved)		TO GET TO YELLOW	TO GET TO GREEN				
Senior managers do not have a regular process for considering financial and performance information when making decisions regarding the management of agency programs;	Senior managers meet at least quarterly to examine financial and performance information that covers some of the major responsibilities of the Department. This information is used to make decisions regarding the management of agency programs;	Senior managers meet at least quarterly to examine financial and performance information that covers all major responsibilities of the Department. This information is used to make decisions regarding the management of agency programs;	Instructions were issued jointly by OBPA and OCHO in March 2004 for the quarterly reports that integrate financial and performance information. The first reports are due to OBPA on April 28, 2004.	<ul style="list-style-type: none"> * ensure that the quarterly reports cover all major responsibilities of the department * senior managers meet quarterly to examine the integrated reports * use the information in the reports to make management decisions 	<ul style="list-style-type: none"> * Q3/2003: senior agency managers will meet at least quarterly to examine reports that integrate financial and performance information * Q3/2003: senior agency managers will use such reports in making decisions regarding the management of the programs 	<p>NO</p> <p>The plan was to have all steps of the requirement accomplished by June 30, 2003 (end of Q3/2003). As of March 2004, only the instructions for the process have been issued.</p>	Red	OCHO and OBPA	
Strategic plans contain too many goals and objectives to provide a clear and focused statement of Agency priorities. Performance measures included in annual budget and performance documents do not meet the standards of the PART;	Strategic plans contain a limited number of outcome-oriented goals and objectives. Annual budget and performance documents incorporate all measures identified in the PART and focus on the information used in the senior management report described in the first criterion;	Strategic plans contain a limited number of outcome-oriented goals and objectives. Annual budget and performance documents incorporate all measures identified in the PART and focus on the information used in the senior management report described in the first criterion;	The new Strategic Plan for FY 2002 - 2007 contains a limited number of outcome-oriented goals (5) and objectives (13).	<ul style="list-style-type: none"> * verify that the annual budget and performance documents incorporate all measures identified in the PART process 	<ul style="list-style-type: none"> * Nothing in the annual plan regarding this requirement 	<p>NO</p> <p>Actions that need to be completed are not in the plan.</p>	Red	OCHO and OBPA	
Performance appraisal plans do not link to agency mission, goals and outcomes, effectively differentiate between various levels of performance, or provide consequences based on performance;	Performance appraisal plans for SES and managers link to agency mission, goals and outcomes, effectively differentiate between various levels of performance, and provide consequences based on performance;	Performance appraisal plans for at least 60% of agency positions link to mission, goals and outcomes, effectively differentiate between various levels of performance, and provide consequences based on performance;	Performance appraisal plans for SES and managers: <ul style="list-style-type: none"> * link to agency mission, goals and outcomes * effectively differentiate between various levels of performance * provide consequences based on performance 	<ul style="list-style-type: none"> * implement the quarterly report process identified in the first requirement above 	<ul style="list-style-type: none"> * Q3/2003: OHRM will assess the effectiveness of the revised SES performance appraisal system * Q4/2004: any needed changes to the SES performance appraisal system are to be completed by Q4/2004 	<p>NO</p> <p>The actions planned only apply to SES positions. The plan needs to include managers in order to get to "YELLOW" and at least 60% of all positions in order to get to "GREEN."</p>	Red	OHRM and OBPA	
Does not have a systematic way to estimate the full cost of achieving performance goals reported in budget and performance documents;	The full cost of achieving performance goals is reported in budget and performance documents; estimate the marginal cost (+/- 10%) of changing performance goals;	Reports the full cost of achieving performance goals accurately (+/- 10%) in budget and performance documents and can accurately estimate the marginal cost (+/- 10%) of changing performance goals;	OBPA included in Chapter 13 of USDA's Budget Manual "steps to identify full costs," and generally recognized allocation methods for various indirect costs. These steps and methods appear to be adequate.	<ul style="list-style-type: none"> * Confirm that the agencies have accurately estimated (+/- 10%) the marginal cost of changing performance goals 	<ul style="list-style-type: none"> * Nothing in the annual plan regarding this requirement * When asked how OBPA plans to verify the full cost data, OBPA stated that "it's up to the agency to implement it." 	<p>NO</p> <p>Actions that need to be completed are not in the plan.</p>	Red	OBPA and Agencies	

Exhibit A – Budget and Performance Integration Implementation Status

REQUIREMENTS			ACTIONS COMPLETED	ACTIONS THAT NEED TO BE COMPLETED ...		PLANNED ACTIONS (According to USDA's annual "Proud to Be" document, goals for July 1, 2004)	Is the plan adequate to make progress?	Current Status	Responsible Parties
RED (No part of the BPI initiative achieved)	YELLOW (BPI initiative partially achieved)	GREEN (BPI initiative achieved)		TO GET TO YELLOW	TO GET TO GREEN				
Less than 50% of agency programs rated by the PART have at least one efficiency measure; OR Agency does not consistently use PART ratings to justify funding requests, management actions, and legislative proposals. More than 50% of agency programs receive a Results Not Demonstrated rating for more than two years in a row.	At least 50% of agency programs rated by the PART have at least one efficiency measure for all programs	At least one efficiency measure for all programs	None.	<ul style="list-style-type: none"> * develop a system to track efficiency measures to determine if they have met this goal * identify the PARTed programs and the efficiency measures that are PARTed programs that have at least one efficiency measure to verify that the % is more than 50% 	<ul style="list-style-type: none"> * accurately identify all USDA programs * identify all efficiency measures * verify that all programs have at least one efficiency measure 	<p>For the FY 2005 budget:</p> <ul style="list-style-type: none"> * at least 20% of programs will have at least one efficiency measure; AND * at least 50% of PARTed programs will have efficiency measures 	NO Actions that need to be completed are not in the plan. Also, planned actions cannot be completed until there is a system in place to track this.	Red	OBPA and Agencies
Agency does not consistently use PART ratings to justify funding requests, management actions, and legislative proposals. More than 50% of agency programs receive a Results Not Demonstrated rating for more than two years in a row.	PART ratings are used to justify funding requests, management actions, and legislative proposals. No more than 50% of agency programs receive a Results Not Demonstrated rating for more than two years in a row.	Uses PART evaluations to direct program improvements and PART ratings are used consistently to justify funding requests, management actions, and legislative proposals. Less than 10% of agency programs receive a Results Not Demonstrated rating for more than two years in a row.	<ul style="list-style-type: none"> * % of PARTed programs receiving Results Not Demonstrated for more than two years in a row: no USDA programs have been PARTed yet for more than 2 years in a row * 13 programs PARTed two years in a row, 9 programs (68%) received Results Not Demonstrated two years in a row 	<ul style="list-style-type: none"> * Reduce the number of programs receiving Results Not Demonstrated ratings to less than 50% * Department is not on track to achieve the requirement (69% of PARTed programs received Results Not Demonstrated for two years) 	<ul style="list-style-type: none"> * Reduce the number of programs receiving Results Not Demonstrated ratings to less than 10% 	<p>According to USDA's "Proud to Be" plan, applicable to the annual period ending July 1, 2004, "reviews held with the BPI Board and OMB staff as part of the FY 2005 budget development process are expected to lead to significant improvement in agency goals, objectives and performance measurements. These steps, in addition to continued review of performance through the quarterly review process [see first requirement above], are expected to be reflected in PART scores." No specific plans made.</p>	NO Plans too vague to achieve the specific results required.	Red	OBPA and Agencies

Exhibit B – Agency Response

Exhibit B – Page 1 of 4



TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

FROM: Patricia E. Healy 
Acting Chief Financial Officer
Office of the Chief Financial Officer

AUG - 9 2004

 Stephen B. Dewhurst
Director
Office of Budget and Program Analysis

AUG 3 2004

SUBJECT: Response to Office of Inspector General (OIG) Discussion Draft on
Implementation of the Government Performance and Results Act in the United
States Department of Agriculture

The Office of Budget and Program Analysis (OBPA) and the Office of the Chief Financial Officer (OCFO) have reviewed the subject audit report. On balance, we agree with the report's recommendations which were made based on a review of past procedures. All of these recommendations have been addressed either by incorporation in guidance for budget and performance reporting procedures or by other activities that are already underway in the department. Over the past year and a half, OBPA and OCFO, in conjunction with the Deputy Secretary and the Budget and Performance Integration (BPI) Board, have created processes to ensure that performance planning and review are included in all budgetary decision-making and all financial management practices. The current practices have been put in place to ensure that BPI and GPRA documents become more meaningful and that they are used to make decisions regarding the management and resource needs of programs.

We have included specific responses to each of the OIG findings and recommendations below.

Finding 1: USDA Needs to Strengthen and Improve Coordination within its Performance Management System

Recommendation #1: We recommend that OBPA/OCFO strengthen the system of internal controls by integrating its GPRA and BPI processes into one consolidated Department-wide performance management system.

Agency Response: In March 2004, OBPA and OCFO jointly sent guidance to all BPI Board Members and contacts, budget officers and the Department-wide Planning Team (DWPT) members that sets forth the parameters for one consolidated performance management reporting process. This guidance, which superseded OCFO's Performance Management Guidance dated

January 30, 2003, provides for the collection of one set of performance information that will be used for quarterly reporting under BPI and for the preparation of the Department's Annual Performance Report under GPRA. Copies of these materials were provided to the OIG.

Recommendation #2: We recommend that OBPA/OCFO issue guidance that establishes and supports an integrated performance management system, and defines the roles and responsibilities of all its participants.

Agency Response: The Secretary of Agriculture has delegated responsibility for strategic planning and performance management reporting to OCFO. OBPA is responsible for the development of the budget, which now incorporates the annual performance plan. This information is contained in the Department's delegation of authority, which was provided to the OIG. The Deputy Secretary leads this effort through the Department's BPI Board, which includes the Budget Officer and the Chief Financial Officer as members. OBPA and OCFO staffs have day-to-day responsibilities for the strategic and performance planning and performance reporting which constitute BPI.

As previously mentioned, on March 30, 2004, guidance was sent to all BPI Board Members and contacts, budget officers and DWPT members that sets forth the parameters for one consolidated performance management reporting process.

Recommendation #3: We recommend that OBPA/OCFO revise the FY 2004 APP to incorporate revised performance measures developed for the FY 2005 performance budget and the FY 2005 APP. Ensure that selected measures support the Department's strategic goals and objectives.

Agency Response: In accordance with OMB Circular A-11, USDA's FY 2005 Explanatory Notes, sent to the Appropriations Committee and Subcommittees in the House and Senate in February 2004, meet the requirements for a performance budget, including providing performance targets for FY 2005 and revised targets for FY 2004.

Finding 2: USDA Needs to Utilize Internal/External Reviews to Improve Agencies' Performance Management

Recommendation #4: We recommend the Deputy Secretary or Designated Official develop and implement a system to use available resources (i.e., OIG and GAO audit reports, PART evaluations, etc.) to improve performance management deficiencies throughout the Department.

Agency Response: OIG and GAO audit reports, PART evaluations, etc. are reviewed by OCFO and OBPA and are used in reviewing GPRA and BPI documents including budget proposals. The Department has established a quarterly reporting process, which includes reports on actions being taken in response to PART findings to improve performance management. The first set of quarterly reports was discussed at meetings of the BPI Board, Under Secretaries and Assistant Secretaries in May 2004.

Last spring, OCFO met with George Mason University's Mercatus Center's leadership and staff regarding the Mercatus Center's FY 2002 report. OCFO worked to incorporate their

suggestions, and we are pleased that the current Mercatus Center report, which was published this spring, rated USDA's FY 2003 Performance and Accountability Report (PAR) as fourth of the twenty-four government agencies and offices required to submit a PAR. This spring, OCFO met again with the Mercatus Center's leadership and staff to discuss their rating of USDA's PAR and to get their suggestions for further improvement of USDA's performance reporting. Additionally, OCFO and other USDA performance management staffs have attended numerous National Academy of Public Administration (NAPA) sessions regarding best practices for performance reporting. Also, OCFO participates in the government-wide Committee on Accelerated Reporting. OCFO staff has attended all committee meetings to gain further insight to best practices throughout the federal government. OCFO has met one-on-one with performance management staff of other federal agencies to discuss ways to improve our reporting. This year USDA participated in the Association of Government Accountant's Certificate of Excellence in Accountability Reporting (CEAR) Program. The CEAR report pointed out numerous technical issues about USDA's FY 2003 report, which are currently being addressed by OCFO staff in preparation of the FY 2004 PAR.

Finding 3: USDA's Performance Plans and Reports Need Improvement

Recommendation #5: We recommend the Deputy Secretary or Designated Official design and implement a Department-wide system to ensure that: (1) goals and indicators show progress toward achievement of the applicable goal; (2) reasons are given when targets are missed; and (3) target levels are set to achieve the intended goal.

Agency Response: USDA continues to emphasize the development of outcome-oriented, relevant, long-term performance measures. To this end, the Department has worked with OMB through individual meetings between agency officials and OMB examiners and through the Program Assessment Rating Tool (PART) process to identify high quality, outcome-oriented performance measures for all programs. Building on work begun last year, a number of agencies and/or mission areas including Rural Development (RD), Research, Education and Economics (REE) and the Forest Service have been working with OMB examiners to improve performance measurement. RD has formed a BPI board, which meets monthly. The Forest Service has published a new strategic plan. In addition, guidance for the FY 2006 budget process focuses on the need for agencies to work with OBPA and OMB to finalize all PART reviews and continue to address PART findings from prior years' PART assessments. PART findings are a key consideration in formulating the Department's budget submission for FY 2006.

In all budget requests and justifications as well as in quarterly and annual performance reports, agencies are required to set targets for performance and provide an explanation for performance that deviates from what was intended.

Guidance for the FY 2006 Agency Estimates states that the document must include:

“A brief description of each of the programs and activities carried out in the agency. Under each program include the following:

1. a discussion of how program activities link to the strategic goal/outcome;
2. a discussion of how annual activities link to the strategic goal/outcome;
3. a discussion of the means and strategies employed to meet the objectives;
4. an analysis of past performance with a discussion of successes and shortfalls. Plans to remedy shortfalls should be briefly discussed or a reference made to a planned initiative that will resolve the shortfall.”

In addition, guidance for the Quarterly Report, which tracks performance within a fiscal year, specifically states:

“Based on performance milestones identified in the Key Performance Milestones section of the Annual Performance Management Plan, discuss any key milestones reached during the quarter, any shortfalls or performance that was beyond expectations and the progress on major projects..... In the above example, the Agricultural Engineering Service did not reach its expected level of performance for the first quarter of FY 2004. In such a case, the agency should explain why performance is below expected levels.”

Glossary of Terms

General goal:	Included in a strategic plan, this goal defines how an agency will carry out its mission over a period of time. The goal is expressed in a manner that allows a future assessment to be made of whether the goal was or is being achieved. The goal may be of a programmatic, policy, or managerial nature. General goals are predominantly outcome goals.
General objective:	Included in a strategic plan, a general objective is synonymous with a general goal.
Outcome goal:	A description of the intended result, effect, or consequence that will occur as a result of carrying out a program or activity.
Output goal:	A description of the level of activity or effort that will be produced or provided over a period of time or by a specified date, including a description of the characteristics and attributes (e.g., timeliness) established as standards in the course of conducting the activity or effort.
PART:	The Office of Management and Budget's Program Assessment Rating Tool (PART) is a series of diagnostic questions designed to provide a consistent approach to rating federal programs. Drawing on available performance and evaluation information, the questionnaire attempts to determine the strengths and weaknesses of federal programs with a particular focus on individual program results. It is designed to be evidence based, drawing on a wide array of information, including authorizing legislation, GPRA strategic plans and performance plans and reports, and independent program evaluations.
Performance goal:	Included in the annual performance plan. A target level of performance expressed as a tangible, measurable objective, against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate. Performance goals can be either outcome or output goals.
Performance indicator:	Included in the annual performance plan, and is directly associated with a performance goal. A particular value or characteristic used to measure output or outcome.
Performance measure:	A performance goal or performance indicator.
Target level:	A projected level of performance as set out in a performance goal.

Informational copies of the report have been distributed to:

Chief Financial Officer	(5)
Director, Office of Budget and Program Analysis	
Agency Liaison Officer	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)
Government Accountability Office	(1)
Office of Management and Budget	(1)