

GAO

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Before the Committee on the Budget,  
House of Representatives

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21<sup>ST</sup> CENTURY  
CHALLENGES

How Performance  
Budgeting Can Help

Statement of David M. Walker, Comptroller General  
of the United States





Highlights of [GAO-07-1194T](#), a testimony to Committee on the Budget, House of Representatives

## Why GAO Did This Study

As part of its work to improve the management and performance of the federal government, GAO monitors progress and continuing challenges in using performance information to inform budgetary choices (performance budgeting). In light of the nation's long-term fiscal imbalance and other 21<sup>st</sup> century challenges, we have reported that the Government Performance and Results Act of 1993 (GPRA) and performance budgeting can support needed reexamination of what the federal government does, how it does it, and who does it. GAO remains committed to working with Congress and the Administration to help address these important and complex issues.

## What GAO Recommends

GAO is not making new recommendations. We have previously reported that reexamination requires a comprehensive perspective that crosses agencies, includes all major tools of government, and considers both spending programs and tax provisions. How different programs or policies in the same area support each other or work at cross purposes is important. Government-wide strategic and performance plans—especially if created in consultation with Congress and supported by KNIs—could provide a framework for reexamination. GAO has also suggested that Congress consider the need to develop vehicles and structures for such review and for communicating its top performance concerns.

To view the full product, including the scope and methodology, click on [GAO-07-1194T](#). For more information, contact Susan J. Irving at (202) 512-9142 or [irvings@gao.gov](mailto:irvings@gao.gov).

# 21<sup>ST</sup> CENTURY CHALLENGES

## How Performance Budgeting Can Help

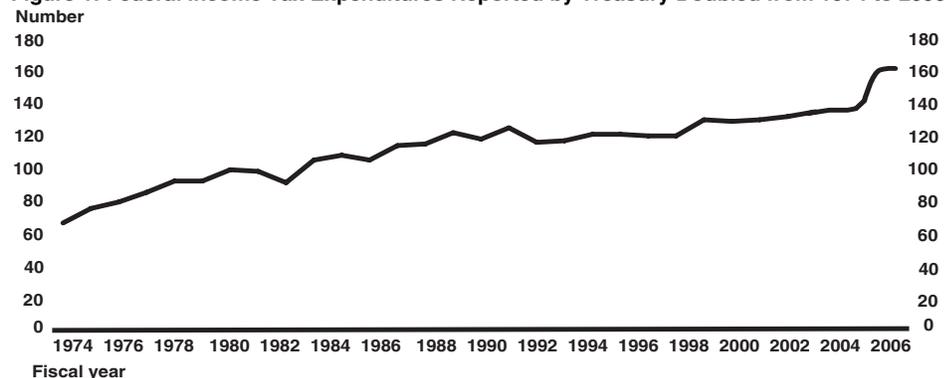
### What GAO Found

Reexamining the base of all major existing federal spending and tax programs, policies, and activities by reviewing their results and testing their continued relevance and relative priority for our changing society is an important step in the process of assuring fiscal responsibility and facilitating national renewal. Reexamination can arm decision makers with better information on both individual program results and entire portfolios of programs and tools—encompassing a wide range of discretionary, entitlement, tax, and regulatory approaches—addressing common goals.

GPRA provided a foundation for strengthening government performance and accountability. The President's Management Agenda and the Program Assessment Rating Tool (PART)—OMB's framework for assessing federal program performance—continue to build on GPRA's foundation. Properly done, these and future efforts—along with a set of Key National Indicators (KNI)—could provide a strong basis to support the needed review, reassessment, and reprioritization process.

Moving forward, for performance budgeting and program reviews to hold appeal beyond the executive branch and actually have an impact on legislation, congressional buy-in on what to measure and how to present this information is critical. In addition, tax expenditures result in forgone revenue that in some years has approximated the size of total discretionary spending. Yet relatively little is known about the effectiveness of these provisions, which are often aimed at policy goals similar to those of federal spending programs. To date, PART has generally not been applied to tax expenditures. GAO continues to urge as a next step a more comprehensive and consistent approach to evaluating all programs relevant to common goals. This would require assessing the performance of all programs related to a particular goal—including tax expenditures—using a common framework.

**Figure 1: Federal Income Tax Expenditures Reported by Treasury Doubled from 1974 to 2006**



Source: GAO analysis of Office of Management and Budget (OMB) budget reports on tax expenditures, fiscal years 1976-2008

Note: The number of tax expenditures reflects all provisions reported by Treasury, including those enacted but effective for future fiscal years. Fluctuations in the trend lines from year to year may reflect changes in Treasury's methodology.

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss performance budgeting as a way to help government meet the pressing challenges of the 21<sup>st</sup> Century by prompting review of federal activities and programs. The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and better position the nation for the future. A number of overarching trends—including the nation’s long-term fiscal imbalance—drive the need to reexamine what the federal government does, how it does it, and who does it. The term “performance budgeting” encompasses a range of approaches, activities, and processes but they all have in common the idea of more explicitly linking resources to results. As such it holds promise as a means for facilitating a reexamination effort. Reexamination can enhance the government’s capacity to assess competing claims for federal dollars by arming decision makers with better information both on the results of individual programs as well as on entire portfolios of programs and tools—encompassing a wide range of discretionary, entitlement, tax, and regulatory approaches—addressing common goals.

Through the President’s Management Agenda (PMA) and its related initiatives, including the Office of Management and Budget’s (OMB) Program Assessment Rating Tool<sup>1</sup> (PART), the Administration has taken steps in the right direction by calling attention to successes and needed improvements in federal management and performance. As we have previously reported,<sup>2</sup> PART itself has certain weaknesses we believe should be addressed and several strengths on which future efforts should

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<sup>1</sup> OMB describes PART as a diagnostic tool meant to provide a consistent approach to assessing federal programs as part of the executive budget formulation process. It applies 25 questions to all “programs” under four broad topics: (1) program purpose and design, (2) strategic planning, (3) program management, and (4) program results (i.e., whether a program is meeting its long-term and annual goals) as well as additional questions that are specific to one of seven mechanisms or approaches used to deliver the program. There is no standard definition for the term “program.” OMB defined the unit of analysis (program) as (1) an activity or set of activities clearly recognized as a program by the public, OMB, and/or Congress; (2) having a discrete level of funding clearly associated with it; and (3) corresponding to the level at which budget decisions are made.

<sup>2</sup> GAO, *Performance Budgeting: Observations on the Use of OMB’s Program Assessment Rating Tool for the Fiscal Year 2004 Budget*, [GAO-04-174](#) (Washington, D.C.: Jan. 30, 2004) and *Performance Budgeting: PART Focuses Attention on Program Performance, but More Can Be Done to Engage Congress*, [GAO-06-28](#) (Washington, D.C.: Oct. 28, 2005).

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build. Whatever approach is taken in the future, however, it will be important to include not only those programs and activities run through the spending side of the budget but also those run through the tax side. Any reexamination or performance budgeting effort that fails to include tax expenditures in the review of federal activities and whether they are achieving their intended policy goals will fall short of its potential.

In my testimony today I will focus on three main points:

- The extent of our long-term fiscal and governance challenges necessitates a thorough reexamination of government programs and spending;
- Performance budgeting can help accomplish the goal of reexamination; and
- Congressional support and comprehensive crosscutting program assessments are critical to reexamination.

In addition, I offer some ideas for moving forward.

This testimony draws upon our wide-ranging work on the use of performance information in government—including the Government Performance and Results Act of 1993<sup>3</sup> (GPRA), PART, agency coordination and collaboration, tax expenditures, and key national indicator (KNI) systems. We conducted our work for this statement during August and September 2007 in accordance with generally accepted government auditing standards.

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## Long-Term Fiscal Challenge Provides Context and Impetus for Reexamining Federal Programs

As I have previously testified before this committee,<sup>4</sup> known demographic trends and rising health care costs are major drivers of the nation's large and growing structural deficits. The nation cannot ignore this fiscal pressure: it is not a matter of whether the nation deals with the fiscal gap, but how and when. Although it is the "big three"—Medicare and Medicaid and to a lesser extent, Social Security—that drive this phenomenon on the spending side, other federal spending cannot be ignored. Difficult as it may seem to deal with these long-term challenges, policymakers must not only address these entitlement programs but also reexamine other budgetary priorities in light of the changing needs of this nation in the 21<sup>st</sup> century. It

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<sup>3</sup> Pub. L. No. 103-62 (1993).

<sup>4</sup> GAO, *Long-Term Budget Outlook: Deficits Matter—Saving Our Future Requires Tough Choices Today*, [GAO-07-389T](#) (Washington, D.C.: Jan. 23, 2007).

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will be necessary to work on several fronts at once. In fact, our history suggests that *all* major spending and revenue programs and policies need to be subject to periodic reviews and that exempting major areas can undermine the credibility and support for the entire process.<sup>5</sup>

These challenges would be difficult enough if all we had to do is figure out how to fund existing commitments. But as the nation continues to change in fundamental ways, a wide range of emerging needs and demands—for example, evolving defense and homeland security policies, increasing global interdependence, and advances in science and technology—can be expected to compete for a share of the budget. Whether national security, transportation, education, or public health, a growing population will generate new claims for federal actions on both the spending and tax sides of the budget. Many of our programs were designed decades ago to address earlier challenges. Outmoded commitments and operations constitute an encumbrance on the future that can erode the capacity of the nation to better align its government with the needs and demands of a changing world and society.

Accordingly, reexamining the base of all major existing federal spending and tax programs, policies, and activities by reviewing their results and testing their continued relevance and relative priority for our changing society is an important step in the process of assuring fiscal responsibility and facilitating national renewal. A periodic reexamination offers the prospect of addressing emerging needs by weeding out programs and policies that are redundant, outdated, or ineffective. Those programs and policies that remain relevant often could be updated and modernized by improving their targeting and efficiency through such actions as redesigning allocation and cost-sharing provisions, consolidating facilities and programs, and streamlining and reengineering operations and processes.

We recognize that taking a hard look at existing programs and carefully reconsidering their goals and financing are challenging tasks, as making decisions about reforming programs and activities creates winners and losers. Furthermore, given the wide range of programs and issues covered, the process of rethinking government programs and activities may take a

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<sup>5</sup> For more information on reexamination of federal programs, see GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-352T](#) (Washington, D.C.: February 2005) and *Suggested Areas for Oversight for the 110th Congress*, [GAO-07-235R](#) (Washington, D.C.: Nov. 17, 2006).

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generation to unfold. We are convinced, however, that reexamining the base offers compelling opportunities to both redress our current and projected fiscal imbalance while better positioning government to meet the new challenges and opportunities of this new century.

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## Performance Budgeting Can Help Facilitate Reexamination

Performance budgeting can help enhance the government's capacity to assess competing claims in the budget by arming budgetary decision makers with better information on the results of both individual programs as well as entire portfolios of policies, tools, and programs designed to address common outcomes. It is useful to start with a review of the current landscape. The management and performance reforms enacted by Congress in the past 15 years have provided some new ways to gain insight into the financial, program, and management performance of federal agencies and activities. With GPRA as its centerpiece, the statutory and management framework laid out in the 1990s provided a foundation for strengthening government performance and accountability. As our work as shown,<sup>6</sup> GPRA has succeeded in expanding the supply of performance information and promoting institutionalization of a culture of performance as well as providing a solid foundation for more recent budget and performance initiatives.

As I have previously said,<sup>7</sup> PMA and its related initiatives, including PART, demonstrate the Administration's commitment to improving federal management and performance. Properly done, performance assessment and performance budgeting information produced by GPRA and PART could provide a strong basis to support the needed review, reassessment, and reprioritization process. By calling attention to successes and needed improvements, the focus that these initiatives bring is certainly a step in the right direction toward providing the kind of information needed for effective reexamination, and our work shows that progress has been made in several important areas over the past several years. For example, we have reported that the PART process continues to aid OMB's oversight of agencies and encourage improvements in executive budget formulation and agency program management. The PART has helped to structure and discipline OMB's use of performance information for internal program

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<sup>6</sup> GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, [GAO-04-38](#) (Washington, D.C.: Mar. 10, 2004).

<sup>7</sup> GAO, *21<sup>st</sup> Century Challenges: Performance Budgeting Could Help Promote Necessary Reexamination*, [GAO-05-709T](#) (Washington, D.C.: June 2005).

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analysis and budget review, and made its use of this information more transparent. Many agency officials told us that the PART helped to create or strengthen an evaluation culture within agencies by providing external motivation for program review and focused attention on performance measurement and its importance in daily program management. Some officials said that the PART and the PMA helped them move away from “analysis by anecdote” and refocused their attention on the impact their programs have, instead of largely on output measures. Others echoed a similar sentiment—one indicated that the PART scores helped to create “a new sense of urgency” about performance measures and completing the changes to performance systems that were already under way.

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### **Congressional Support and Comprehensive, Crosscutting Program Assessments Are Critical to Reexamination**

Even the best performance data are insufficient to achieve real improvements in management and program results unless they are used by decision makers and managers alike to inform policy and management decisions. Key stakeholder outreach and involvement in developing performance information is critical to encouraging the use of such information in both performance budgeting and reexamination efforts. Moreover, little is known about the performance of tax expenditures, which are often aimed at policy goals similar to those of federal spending programs, such as those intended to encourage economic development in disadvantaged areas, finance postsecondary education, and stimulate research and development. Yet tax expenditures and their relative contributions toward achieving federal missions and goals are often less visible than spending programs, which are subject to more systematic review.

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### **Lack of Congressional “Buy-in” and Participation Limits the Potential of Performance Budgeting Efforts**

In order for performance budgeting and program reviews to hold appeal beyond the executive branch, and to actually have an impact on legislation, garnering congressional buy-in on what to measure and how to present this information is critical. Without congressional involvement and buy-in, these efforts are unlikely to play a major role in the authorization, appropriations, and oversight processes. Although congressional support is critical to sustain any major management initiative, Congress’s constitutional role in setting national priorities and allocating the resources to achieve those priorities makes it especially important for performance budgeting and reexamination efforts. Lack of consensus by a community of interested parties on goals and measures and the way that they are presented can detract from the credibility of performance information and, subsequently, its use. Fifty years of past executive branch efforts to link resources with results have shown that any successful effort

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must involve Congress as a full partner. We have previously reported that past performance budgeting initiatives faltered in large part because they intentionally attempted to develop performance plans and measures in isolation from the congressional authorization, appropriations, and oversight processes.<sup>8</sup>

Some tension about the amount of stakeholder involvement in the internal deliberations surrounding the development of measures used in budget formulation and the broader consultations more common to the GPRA strategic planning process is inevitable. Compared to the relatively open-ended GPRA process, any budget formulation process is likely to seem closed. However, if performance information—and budget recommendations based on such information—is to hold appeal beyond the executive branch, congressional understanding and acceptance will be critical. Moreover, any performance budgeting effort that does not involve Congress will be limited in its ability to function as a tool to comprehensively reexamine the entire scope of federal spending, as a major player will be left out of the effort.

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## Performance Budgeting and Reexamination Require a Crosscutting Perspective

Existing performance budgeting initiatives provide a foundation for a baseline review of federal policies, programs, functions, and activities. Building on this foundation, several changes are in order to support the type of reexamination needed. For example, PART focuses on individual programs, but key outcome-oriented performance goals—ranging from low-income housing to food safety to counterterrorism—are addressed by a wide range of discretionary, entitlement, tax, and regulatory approaches that cut across a number of agencies, levels of government, and sectors. PART’s program-by-program approach fits with OMB’s agency-by-agency budget reviews, but it is not well-suited to addressing crosscutting issues or to looking at broad program areas in which several programs or program types address a common goal. The evaluation of programs in isolation may be revealing, but a broader perspective is necessary for an effective overall reexamination effort. It is often critical to understand how each program fits with a broader portfolio of programs, tools, and strategies to accomplish federal missions and goals.

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<sup>8</sup> GAO, *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation*, GAO/AIMD-97-46 (Washington, D.C.: Mar. 27, 1997).

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Such an analysis is necessary to capture whether and how a program complements and supports other related programs, policies, and tools, or whether it actually works at cross-purposes to such other initiatives. OMB has reported on a few crosscutting assessments<sup>9</sup> in recent budget requests. We would urge as a next step a more comprehensive and consistent approach to evaluating all programs relevant to common goals. Such an approach would require assessing the performance of all programs related to a particular goal—including tax expenditures and regulatory programs—using a common framework.

Our federal tax system includes hundreds of billions of dollars of forgone revenue annually. In some years, total tax expenditures have approximated the size of total discretionary spending. Yet relatively little is known about the effectiveness of tax incentives in achieving the objectives intended by Congress.<sup>10</sup> PART, OMB's current framework for assessing the performance of federal programs, has generally not been applied to tax expenditures.

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## Tax Expenditures Have Doubled in Number and Represent a Substantial Federal Commitment

Tax preferences—which are legally known as tax expenditures—result in forgone revenue for the federal government due to preferential provisions in the tax code, such as exemptions and exclusions from taxation, deductions, credits, deferral of tax liability, and preferential tax rates. Excluding tax expenditures from program reviews is especially problematic because tax expenditures represent such a substantial investment in such a wide range of policy goals. Whether gauged in absolute numbers, by revenues forgone, or in comparison to federal spending, tax expenditures have been substantial over the last three

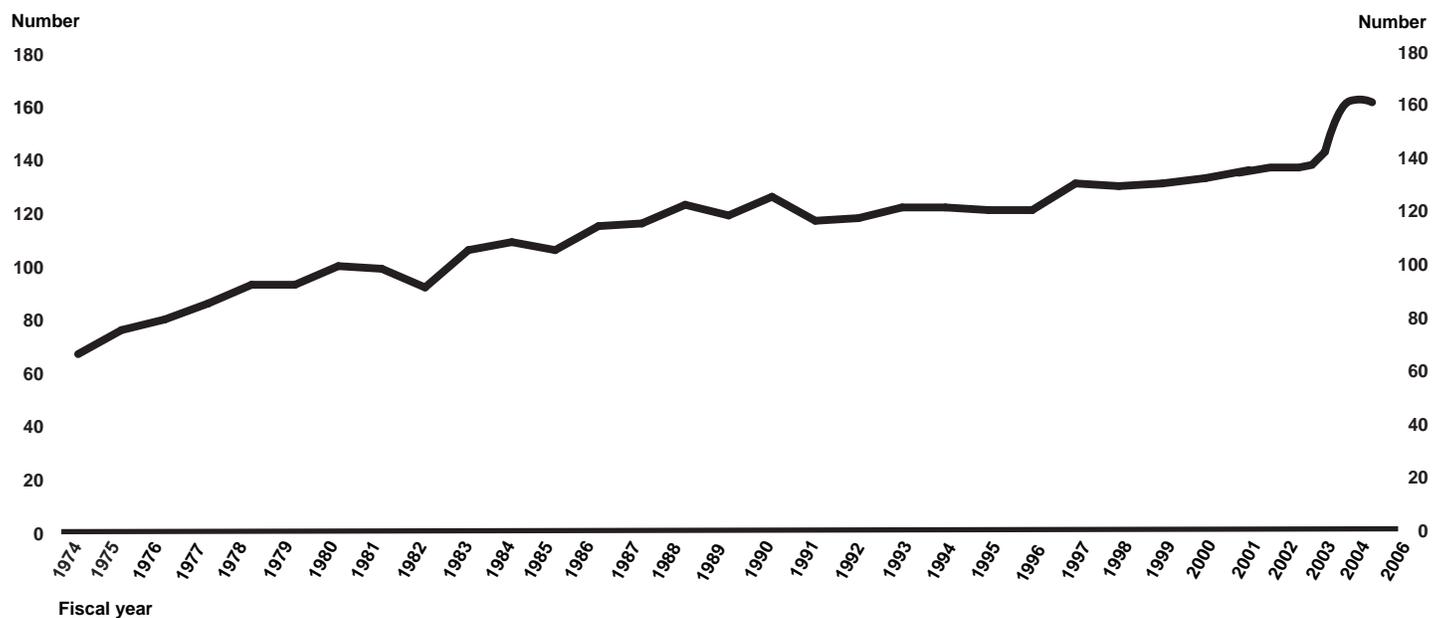
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<sup>9</sup> In addition, OMB recently announced two new PMA initiatives aimed at improving the performance of federal credit programs and health information quality and transparency across the major relevant federal agencies.

<sup>10</sup> For more information on tax expenditures, see GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, [GAO-05-690](#) (Washington, D.C.: Sept. 23, 2005).

decades.<sup>11</sup> Between fiscal years 1974 and 2006, tax expenditures doubled in number from 67 to 161, as shown in figure 1. While some were dropped over the period, considerably more were added.

**Figure 1: Federal Income Tax Expenditures Reported by Treasury Doubled from 1974 to 2006**



Source: GAO analysis of Office of Management and Budget (OMB) budget reports on tax expenditures, fiscal years 1976-2008.

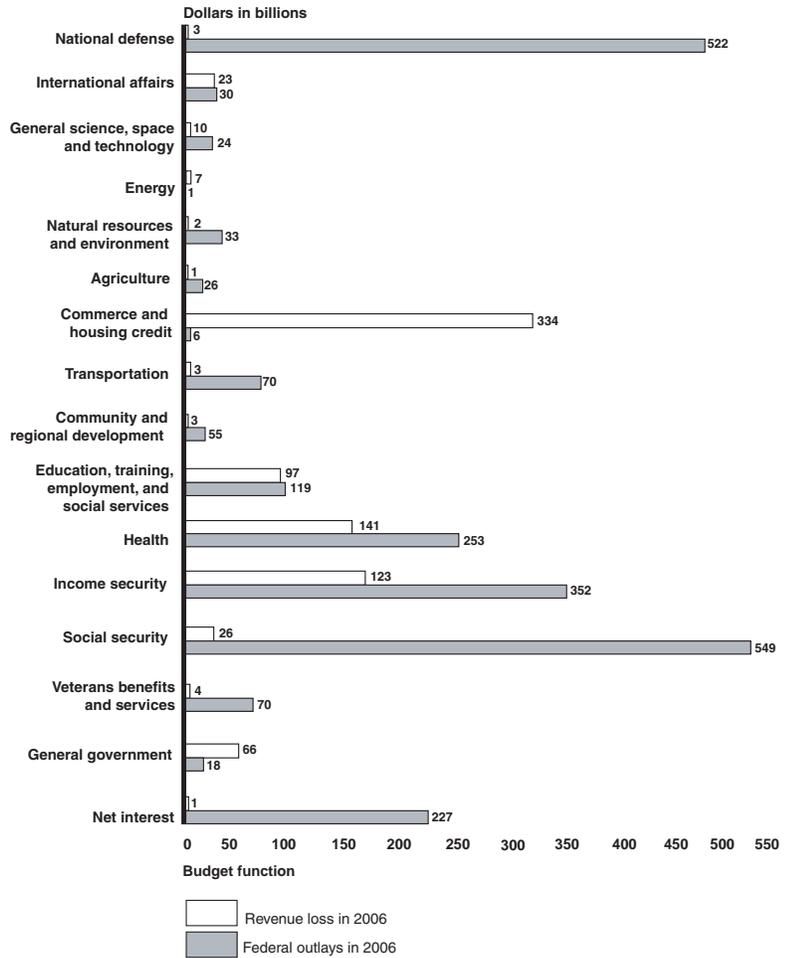
Note: The number of tax expenditures reflects all provisions reported by Treasury, including those enacted but effective for future fiscal years. Fluctuations in the trend lines from year to year may reflect changes in Treasury's methodology.

<sup>11</sup> Summing the individual tax preference estimates is useful for gauging the general magnitude of the federal revenue involved, but it does not take into account possible interactions between individual provisions. Despite the limitations in summing separate revenue loss estimates, these are the best available data to measure the value of tax expenditures and make comparisons to other spending programs. Summing the estimates provides perspective on the use of tax expenditures as a policy tool and represents a useful gauge of the general magnitude of government subsidies carried out through the tax code. The estimates also can be used to compare tax expenditures to federal spending overall and by budget function. Other researchers also have summed tax expenditure estimates to help gain perspective on the use of this policy tool and examine trends in the aggregate growth of tax expenditure estimates over time.

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Tax expenditures span almost all federal mission areas, but their relative size differs across budget functions. As figure 2 shows, the sum of revenue loss estimates was greater than federal spending in these budget functions: energy, commerce and housing credit, and general government. For example, the \$42.4 billion in outlays for the Department of Housing and Urban Development in fiscal year 2006 are far surpassed by the estimated revenue losses of \$68.3 billion from the mortgage interest deduction (the second largest tax expenditure for that year). Moreover, as figure 3 indicates, revenue losses due to tax expenditures exceeded discretionary spending for half of the last decade.

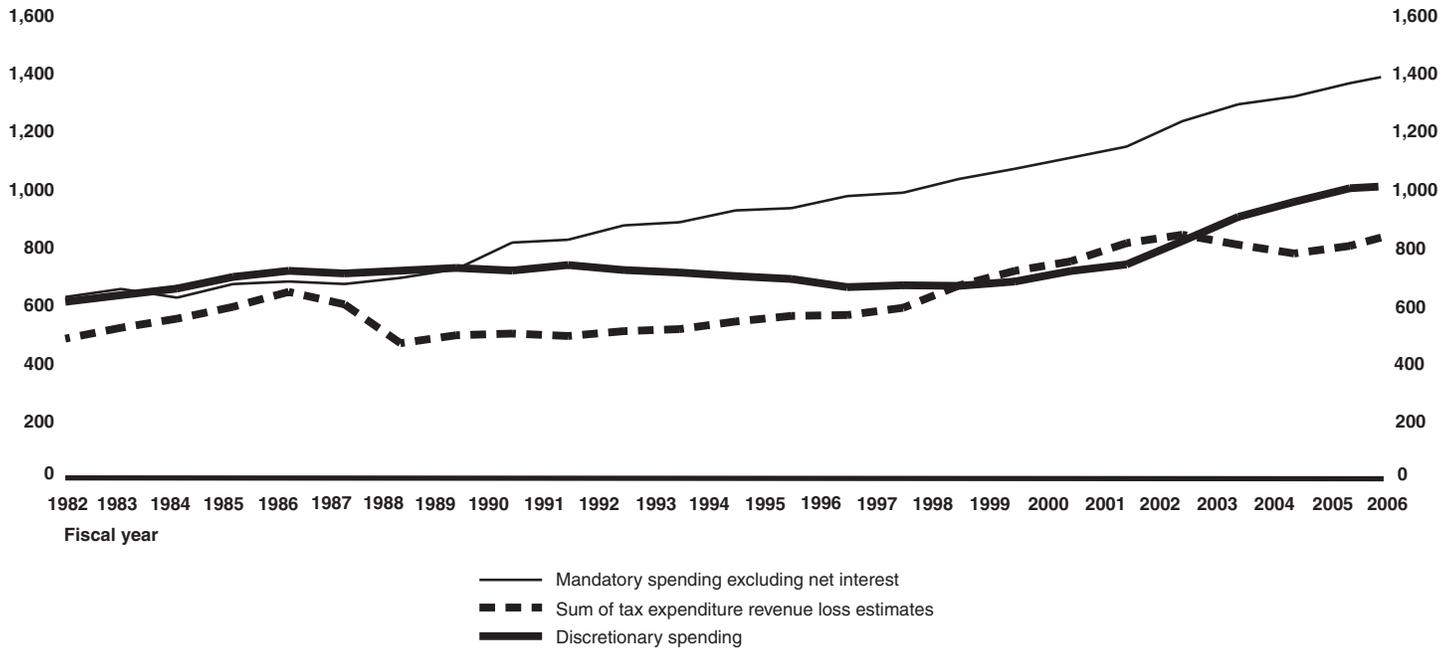
**Figure 2: Tax Preference Revenue Loss Sums Compared with Federal Outlays by Budget Function, Fiscal Year 2006**



Source: GAO analysis of OMB budget reports on tax expenditures, fiscal year 2006.

**Figure 3: Federal Tax Expenditures Exceeded Discretionary Spending for Half of the Last Decade**

Dollars in billions (in 2006 dollars)

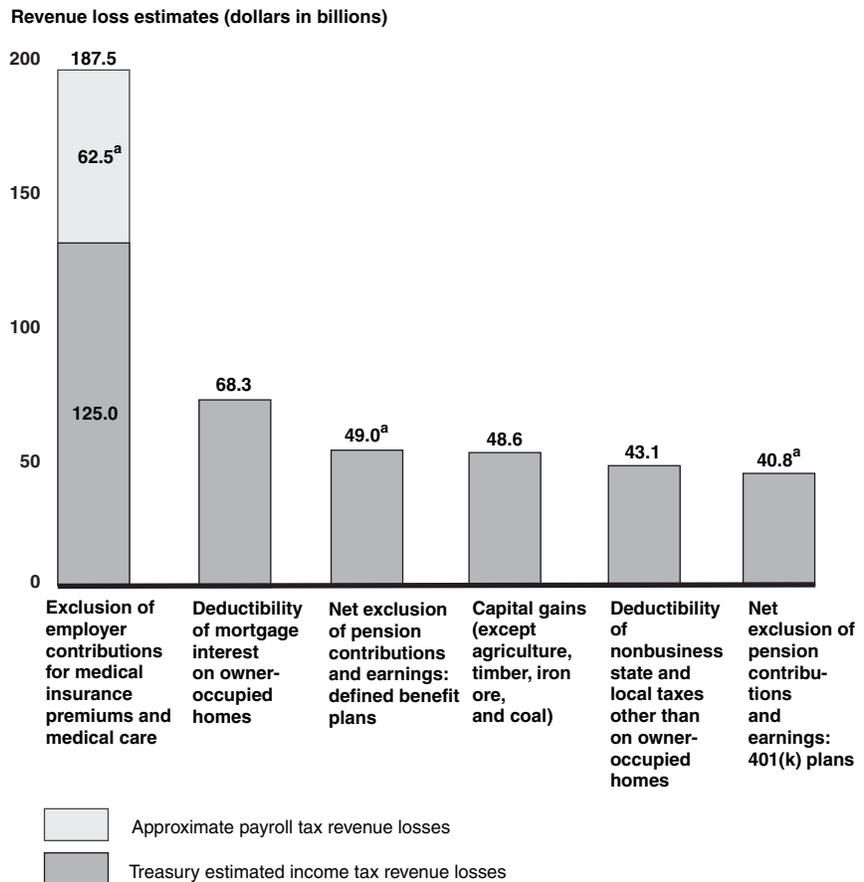


Source: GAO analysis of OMB budget reports on tax expenditures, fiscal years 1976–2008.

Note: Summing tax expenditure estimates does not take into account interactions between individual provisions. Outlays associated with refundable tax credits are included in mandatory spending.

Much of the revenue loss due to individual income tax expenditures is attributable to a small number of large tax expenditures. The six tax expenditures shown in figure 4—each with an annual revenue loss estimated at \$40 billion or more—accounted for about 44 percent of the sum of revenue losses for all tax expenditures for fiscal year 2006.

**Figure 4: Revenue Loss Estimates for the Largest Tax Expenditures Reported for Fiscal Year 2006**



Source: GAO analysis of OMB, *Analytical Perspectives*, Budget of the United States Government, Fiscal Year 2008.

<sup>a</sup>The value of employer-provided health insurance is excluded from Medicare and Social Security payroll taxes. Some researchers have estimated that payroll tax revenue losses amounted to more than half of the income tax revenue losses in 2004, and we use this estimate for 2006. The research we are aware of dealt only with health care, therefore the 50 percent figure may not apply to other items that are excluded from otherwise applicable income and payroll taxes.

Tax expenditure estimates reflect federal income tax revenue forgone and do not account for provisions that exclude certain earnings from payroll taxes. As a result, this understates the total revenue forgone by the federal government for some of the largest tax exclusions. If payroll tax revenue losses were 50 percent of the \$125 billion in income tax revenue loss estimated by the Department of the Treasury, the combined revenue loss

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Tax Expenditures Receive  
Little Scrutiny

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associated with the exclusion of employer contributions for health insurance premiums would be \$187.5 billion in 2006.<sup>12</sup>

So far, OMB has used PART to review tax expenditures in only a few cases, such as the Earned Income Tax Credit (EITC) compliance initiative, the New Markets Tax Credit, and the Health Care Tax administration. Generally, these reviews assessed how well Treasury and IRS administer the tax expenditures rather than the efficacy of the tax expenditures themselves. Since tax expenditures represent a significant investment of resources and in some program areas tax expenditures may be the main tool used to deliver services, this is a significant gap. For example, in the fiscal year 2006 budget request, OMB reported on a crosscutting PART assessment for Community and Economic Development (CED) programs. The CED crosscut examined the performance of 18 of the 35 federal community and economic development programs that were identified by OMB and that account for the majority of the \$16.2 billion OMB estimates is spent annually in this area. Although OMB identified three tax expenditures in the CED portfolio, it did not assess all of them with the PART instrument even though Treasury's estimate of their combined "cost" was nearly \$1.4 billion, or about 57 percent of Treasury's revenue loss estimates for community development.

Periodic review and reexamination of programs—including tax expenditures—is important to identify and mitigate against mission fragmentation, overlap, and conflict, as well as service gaps. In the same way that federal spending programs can work at cross purposes, tax expenditures meant to address certain policy challenges may exacerbate other key private sector and public policy challenges. For example, the income tax exclusion of employer-paid health insurance premiums reduces the after-tax cost of insurance for the beneficiary. However, the exclusion offers no benefit to workers whose employers do not offer health benefits or who purchase their own insurance. Further, this tax benefit also leads people to obtain more comprehensive coverage than they would otherwise and could increase the demand for health care to

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<sup>12</sup> Some researchers have estimated that payroll tax revenue losses amount to more than half of the income tax revenue losses. See John Sheils and Randall Haught, "The Cost of Tax-Exempt Health Benefits in 2004," *Health Affairs* (Feb. 25, 2004); and Leonard E. Burman and Jonathan Gruber, "Tax Credits for Health Insurance," Tax Policy Center Discussion Paper No. 19 (Washington, D.C.: The Tax Policy Center, June 2005). This work dealt only with health care. Payroll tax revenue losses for certain other tax expenditures, such as pensions, could differ.

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the extent that it shields those insured from the full costs of health care, complicating efforts to moderate health care spending. The exclusion also tends to favor higher-income workers more likely to have employer-sponsored coverage. Another example is higher education: students seeking federal grants and loans are penalized for having saved funds to pay for their education although the Internal Revenue Code encourages saving by exempting individuals from federal income taxation on interest income used to pay for postsecondary education.

If well designed and effectively implemented, tax expenditures can be an effective tool and appropriate to further some federal goals and objectives. Moreover, sometimes it may be cheaper and simpler to subsidize through the tax code than by setting up a separate program using a different tool. For example, the incremental administrative and compliance costs to deliver the tax credit for child and dependent care expenses may be relatively low compared to the costs of setting up a separate system for processing child care applications and sending vouchers to those eligible. However, tax expenditures may not always be efficient, effective, or equitable; consequently, information on these attributes can help policymakers make more informed decisions about resource allocation and the most effective or least costly methods to deliver federal support.

Regular review could also provide needed scrutiny of certain expenditures that have few controls. With some exceptions, tax expenditures generally are not subject to reauthorization and therefore lack the opportunity for regular review. Moreover, many tax expenditures—like mandatory spending programs—are governed by eligibility rules and benefit formulas, meaning funds are spent as required to provide benefits to those who are eligible and wish to participate. Thus, because they are not as visible in the budget as discretionary spending programs, tax expenditures run the risk of simply being a form of “back-door spending” embedded in the tax code and are effectively “fully funded” before any discretionary spending is considered.

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## Future Performance Budgeting Efforts Must Continue to Build on Lessons Learned in Order to Facilitate Effective Reexamination

The federal government is in a period of profound transition and faces an array of challenges and opportunities to enhance performance, ensure accountability, and better position the nation for the future. In our February 2005 report on 21<sup>st</sup> century challenges,<sup>13</sup> we outlined a number of approaches that could facilitate a reexamination effort. Agencies and OMB will need to continue to focus on ensuring that the growing supply of performance information is credible, useful, reliable, and used both in day-to-day program management and in formulating budget requests that focus on outcomes that can be achieved with resources requested. Further, the executive branch can help promote demand for and acceptance of performance information by developing goals and measures relevant to the large and diverse community of stakeholders in the federal budget and planning processes and presenting this information in a way that is tailored to the needs of congressional stakeholders. Engaging Congress early in the process may help target reviews with an eye toward those areas most likely to be on the agenda of Congress, thereby better ensuring the use of performance assessments in resource allocation processes throughout government. Lastly, taking a comprehensive and crosscutting approach to program assessment by more strategically selecting programs and policy areas for review—regardless of the agency in which programs are housed, and inclusive of all tools (e.g., grant, credit, regulatory programs, and especially tax expenditures) that bring resources to bear on a particular program or policy area—will provide robust, rich information about the performance of all tools aimed at federal and national challenges. Moving forward will require actions by both the executive branch and the Congress. Let me elaborate.

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## Executive Branch Actions

Although recent OMB efforts to assess programs in a crosscutting fashion represent progress, to provide the kind of information that can be of assistance in reexamining the base of government, we encourage a more extensive and consistent approach to evaluating all programs relevant to common goals. We recommended in 1994 and again in 2005 that OMB design and implement a structure for conducting reviews of tax expenditures' performance. Our recommendation is consistent with language in the Senate Committee on Government Affairs' Report on GPRA, which specified that the Director of OMB was to establish an appropriate framework for periodic analyses of the effects of tax expenditures in achieving performance goals. To significantly increase the

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<sup>13</sup> [GAO-05-325SP](#).

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oversight and analysis of tax expenditures, the committee report also called for a schedule for periodic tax expenditure evaluations.

Although incorporating tax expenditures into crosscutting reviews presents significant analytical challenges, we do not believe such challenges are insurmountable. Moreover, assessing the performance of tax expenditures is critically important given that many function as entitlement programs—although perhaps with even less transparency—and do not compete overtly in the annual budget process. Presenting tax expenditures alongside outlays is a first step in providing the public and policymakers with a more useful and accurate picture of the extent of federal support and activities. In fact, in the tax expenditure chapter in *Analytical Perspectives*, OMB has in the past included a section outlining possible performance measures developed by Treasury, which could be used to present information about the performance of tax expenditures. Although this overview was initially introduced in the 1997 budget and expanded in the 1999 budget, no performance information is actually displayed. OMB states that the measure examples provided are “illustrative” in nature, acknowledges that the performance measure discussion “although broad, is nonetheless incomplete,” and notes that many tax expenditures are not explicitly cited.

One of the key impediments to moving forward in conducting reviews of tax expenditures’ performance is the continuing lack of clarity about the roles of OMB, Treasury, IRS, and departments or agencies with responsibility for related spending programs. Designing a structure and approach for including tax expenditures in performance reviews will be challenging, but it is important. Ideally, reviews would look at federal involvement in a given policy area across related agencies and tools, which means a decision would have to be made as to which tax expenditures and which spending programs are relevant. The review would need to involve the departments or agencies with related spending programs, Treasury, and OMB. It might make sense for OMB and Treasury to conduct some case studies of the proposed review structure to identify (1) successful methods agencies devise for reviewing tax expenditures’ performance, (2) how best to report the results of these reviews, and (3) how to ensure that adequate resources are available for such reviews. This type of effort can both strengthen the budget process itself and provide a valuable tool to facilitate a fundamental reexamination of the base of government.

Reexamination is not a one-time activity. It must be a continuing process and we should expect even the initial round to take several years. The

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process could be helped by the governmentwide performance plan required by GPRA, as well as a governmentwide strategic plan and a set of KNIs. GPRA requires the President to include in his annual budget submission a federal government performance plan. Congress intended that this plan provide a “single cohesive picture of the annual performance goals for the fiscal year.” The governmentwide performance plan could help Congress and the executive branch address critical federal performance and management issues, including redundancy and other inefficiencies in how we do business. It could also provide a framework for any restructuring efforts. Unfortunately, this provision has not been fully implemented. Instead, OMB has used the President’s budget to present high-level information about agencies and certain program performance issues. The agency-by-agency focus of the budget does not provide the integrated perspective of government performance envisioned by GPRA.

In addition, we have previously said that a governmentwide strategic plan could provide a framework to identify long-term goals and strategies to address issues that cut across federal agencies.<sup>14</sup> Such a plan for the federal government, supported by key national outcome-based indicators and a fully developed governmentwide performance plan to assess the government’s performance, position, and progress, could be a valuable tool for governmentwide reexamination of existing programs, as well as proposals for new programs. Developing a strategic plan can help clarify priorities and unify stakeholders in the pursuit of shared goals and is therefore an important first step in articulating the role, goals, and objectives of the federal government. A governmentwide strategic plan can potentially provide a cohesive perspective on the long-term goals of the federal government and provide a much needed basis for fully integrating, rather than merely coordinating, a wide array of federal activities. The development of a set of KNIs could both be used as a basis to inform the development of governmentwide strategic and annual performance plans as well as link to and provide supporting information for outcome-oriented goals and objectives in agency-level strategic and annual performance plans. Successful strategic planning requires the involvement of key stakeholders and thus could serve as a mechanism for building consensus. Further, it could provide a vehicle for the President to articulate long-term goals and a road map for achieving them. In addition, a strategic plan can

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<sup>14</sup> [GAO-04-38](#).

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provide a more comprehensive framework for considering organizational changes and making resource decisions.

Fully implemented, governmentwide strategic and performance plans—if developed in consultation with Congress—could also provide a framework for congressional authorization, appropriation, and oversight processes.

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## Congressional Actions

Congress of course has a number of regular opportunities to provide its perspective on specific performance issues and performance goals. When you create a new spending program or tax provision, you have the opportunity to say what you expect that program or incentive to achieve—and to direct that performance be tracked. I believe Congress should be clear about what performance information it wants and should expect that information to be provided. For discretionary spending programs, the annual appropriations process provides an opportunity to ask about the performance of an individual program and/or a group of programs within the same agency or within the jurisdiction of the appropriations subcommittee. When Congress considers the reauthorization of a program, it should have information on that program's performance—and on how that performance compares with other tools addressing the same or similar objectives. Reauthorization can—and should—be informed by performance information and evaluations.

Discretionary spending programs may be looked at in the annual appropriations process or when they are up for reauthorization. Although some entitlement programs require reauthorization and so offer up opportunities for evaluation and reexamination, others do not. With few exceptions, programs run through the tax code—tax expenditures—generally are not subject to reauthorization; as a result no review or evaluation of their effectiveness is triggered. For many mandatory spending programs and tax expenditures, congressionally initiated oversight may be the vehicle for evaluation. I would suggest that Congress specify the kind of performance information it would like for these programs and use that in crosscutting reviews.

The institutional challenge before you is to find a way to broaden your assessment beyond individual programs or agencies or even committee jurisdiction. It is not uncommon for multiple tools or programs—administered through more than one agency—to address a similar goal or national priority. Although this may make sense, it also complicates the task of evaluation, oversight, and reexamination.

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We have previously suggested that Congress consider the need to develop a more systematic vehicle for communicating its top performance concerns and priorities; develop a more structured oversight agenda to prompt a more coordinated congressional perspective on crosscutting performance issues; and use this agenda to inform its authorization, appropriations, and oversight processes. Just as the executive branch needs a vehicle to coordinate and address programs and challenges that span multiple departments and agencies, Congress might need to develop structures and processes that better afford a coordinated approach to overseeing agencies and tools where jurisdiction crosses congressional committees.

In the past we have also suggested that one possible approach could involve developing a congressional performance resolution identifying the key oversight and performance goals that Congress wishes to set for its own committees and for the government as a whole. Such a resolution could be developed by modifying the current Congressional Budget Resolution, which is already organized by budget function. I note that this year your Committee took the first step by including in this year's Budget Resolution a directive that Committee "Views and Estimates" reports include recommendations for improved governmental performance based on "committee performance reviews of programs within their jurisdiction." I hope this Committee remains interested and continues to urge and support the other Committees in this effort.

You may also wish to consider what kind of structures will facilitate cross-cutting reviews. If a performance resolution or some other mechanism specifies areas for reexamination in any given year, what structure will enable you to look across agencies and at both programs run through the spending side of the budget and those run through the tax side? Challenging as this task may be, I believe it is critical to the successful assertion of Congress' role in setting the goals and objectives to be achieved with the programs it establishes and the resources it provides.

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## Concluding Observations

Much is at stake in the development of a collaborative performance budgeting and reexamination process. This is an opportune time for the executive branch and Congress to consider and discuss how agencies and committees can best take advantage of and leverage the new information and perspectives coming from the reform agenda under way in the executive branch. Through PMA and its related initiatives, including PART, the Administration has taken important steps in the right direction by calling attention to successes and needed improvements in federal

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management and performance. Some program improvements can come solely through executive branch action, but for any performance budgeting or reexamination effort to meet its full potential the assessments it generates must also be meaningful to and used by Congress and other stakeholders. I cannot stress this point enough—to make a difference, performance information must be useful and used. Hence I believe it is important for Congress to develop structures and processes that are flexible, adaptable, and inclusive of various perspectives to conduct successful performance reviews on those issues that cross jurisdictional boundaries. GAO stands ready to assist Congress in addressing the much needed baseline review of existing federal programs, policies, functions, and activities.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or the other Members of the committee may have at this time.

For future information on this testimony, please contact Michael Brostek, at (202) 512-9110 or brostekm@gao.gov or Susan J. Irving at (202) 512-9142 or irvings@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this testimony were Jacqueline M. Nowicki, Assistant Director; Elizabeth Curda; Edward Nannenhorn; Amy Rosewarne; and MaryLynn Sergent.

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