The Relationship of Federal Budgeting, Execution, Accounting, and Performance Analysis

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Why Should You Be Concerned With the Relationship of Federal Budgeting, Execution, Accounting and Performance Analysis?

- Federal budget is large, and growing
  - Revenues come primarily from the public
  - Outlays are intended to be for the benefit of the public
- Public expects accountability
  - Effective, economical, efficient, and proper use of the funds in achieving mission
  - Satisfactory and timely services/products
- At the same time, available resources are decreasing
  - You are continually being told “we have to do more with less”
  - 1/3 of spending is discretionary, 2/3 is mandatory
    - More details later
Budgeting, execution, accounting, and performance analysis are quite complex

- Many procedures, processes, and countless hours

Every new administration and Congress undertake changes focused on better management of government operations

- However, the overall budget process remains focused on preparing and executing a budget that enables the government to provide what the public demands in an efficient and effective manner.
What is a Budget?

- Plan of action
- Statement of priorities
- A tool for financial planning and control

While development of budgets rests with each of the three branches, the Congress authorizes programs to exist and appropriates funds.
What is the Legal Requirement to Prepare the Budget?

- **Budget and Accounting Act of 1921**
  - Requires the President to submit a consolidated federal budget to the Congress

- **Budget presents proposed allocation of resources**

- **Congress considers the submission as it drafts and enacts laws that affect spending and receipts**

- **Two of the principal documents that display the proposal are Schedules P and O as required by Part 2 of OMB Circular A-11**
  - Schedules are the backbone of the traditional method of budgeting

- **Performance-based budgeting goes beyond these requirements**
  - Much of what follows is focused on performance based budgeting as required by Part 6 of OMB Circular A-11
Transitioning from Traditional to Performance-Based Budgets

• Why two different formats?
  – Differing laws and OMB requirements
  – Traditional—required by numerous laws, wishes of the Congress, and Part 2 of OMB Circular A-11
    o Displays what each dollar will be used for (e.g., salaries, supplies, and materials)
  – Performance-Based—required by GPRA and GPRA Modernization Act, wishes of the Congress, and Part 6 of OMB Circular A-11
    o Displays what each dollar will accomplish

• Transitioning poses serious challenges
President’s Budget Submission to the Congress

• Request for budget authority to finance existing or new programs
• Is an economic document displaying the Administration’s economic policies
• Provides support for and sets priorities for federal programs managed by states or private sector
• Is a report to the people
Basic Components of the Federal Budget

- The federal budget is a compilation of numbers of revenues, spending, borrowing and debt of the government:
  - Revenues come from taxes as well as duties, fines, licenses, and gifts
  - Spending involves outlays, budgetary authority (the authority to obligate), offsetting receipts/collections, contract, and other authorities, discretionary and non-discretionary (mandatory)
  - Surplus occurs when annual revenues exceed annual spending
  - Deficit occurs when annual spending exceeds annual revenues (deficits require borrowing)
  - Debt is the accumulation of the deficits, less any surpluses
    - Currently about $22 trillion
Fiscal Year 2020 Sources of Federal Funding

Total Projected Revenue $3,645 Billion
Fiscal Year 2020 Federal Spending

Total Projected Spending $4,746 Billion

- Social Security 23%
- Medicare, Medicaid, SNAP, SSI, etc. 24%
- National Defense Discretionary 15%
- Net Interest 10%
- Nondefense Discretionary 14%
- Other Mandatory 15%
- Other Mandatory 15%

The Relationship of Federal Budgeting, Execution, Accounting, and Performance Analysis
Changing Budget Environment

- Due to the ever-decreasing amount available for discretionary spending and the call for increased accountability, it is essential you understand the role and importance of the budgeting, execution, accounting and performance analysis relationship.
The Relationship of Federal Budgeting, Execution, Accounting, and Performance Analysis
Why is it Important to Understand the Need for and Importance of that Relationship?

Coupling the impact of the smaller discretionary spending and call for increased government accountability has resulted in budgeting revisions.

Increasing demands and fewer available resources calls for increased focus on applying the taxpayers dollars to the best use.
What is Your Role in Addressing the Issue?

- Federal employees are responsible to be good stewards of the public funds entrusted to their care by the Congress = accountability
  - Linking resources to results to manage performance and demonstrate success
  - Funds are used effectively and efficiently for the intended purpose
  - Financial resources are properly used, recorded, and accounted for
  - Adequate security exists to safeguard funds/assets against waste, loss, theft, unauthorized use, and mismanagement
  - Programs are managed with integrity and in compliance with applicable laws and regulations
Who Should Understand the Need for and Importance of that Relationship?

- Anyone involved in budgeting for and managing federal programs:
  - Budgeteers, Programmers, Program Managers, Accountants, Auditors
- In simple words, anyone that “touches” and is accountable for the use of federal dollars
Budget Process Steps

1. Submit budget estimates from subordinate activities to the head of the agency.
2. Submit budget estimates from the agency head to the OMB for review and final approval by the President.
3. Submit budget estimates by the President to Congress for its review and approval.
4. Enactment of appropriations by Congress and execution of the appropriations by the agency.
Basics of Budgeting

• Begins with a budget “call”

• Budget call begins with a review and assessment of the President’s high-level fiscal guidance received early in the calendar year

• Agency efforts focused on
  – What has to be done?
  – How they plan to accomplish what has to be done?
  – How much is needed to accomplish the how?
  – How well did we execute the how?

• DOD uses the PPBE process to respond to these questions
Planning, Programming, Budgeting, and Execution Process Flow

The Relationship of Federal Budgeting, Execution, Accounting, and Performance Analysis
### Formulation Phase Time Line for the Fiscal Year 2021 Budget

| Nov 2018 | DOD initiates development of its various strategic plan, associated goals, and annual performance plans. OMB Circular A-11 is the guide. |
| Jan–Mar 2019 | The President develops national priorities and policies for FY 2021. |
| April–June 2019 | OMB reviews major policy issues for FY 2021 budget and updates long-term revenue and expenditure forecast. OMB, National Economic Advisors (NEA), and Treasury present projection of economic conditions to the President. The President makes policy decisions. OMB issues technical instructions for the development of the budget (Circular A-11). |
| July–Aug 2019 | OMB issues planning ceilings to agencies for budget year and for the following five years. |
## Formulation Phase Time Line for the Fiscal Year 2021 Budget (cont.)

<table>
<thead>
<tr>
<th>Period</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept–Oct 2019</td>
<td>The components submit initial budget requests to OSD for review. Following the initial OSD “scrub”, OSD and OMB conduct a joint review of the component budget submissions.</td>
</tr>
<tr>
<td>Nov–Dec 2019</td>
<td>Issue papers and recommendations are provided to OSD and OMB decision makers for review and approval. Following approval, components are informed and if necessary, appropriate revisions are made to the submitted budgets.</td>
</tr>
<tr>
<td>Jan–Feb 2020</td>
<td>OMB sends allowance letters to agencies. These contain budget decisions, employment ceilings, goals for management improvement and other significant matters. President submits the budget to the Congress the first Monday in February</td>
</tr>
</tbody>
</table>
Traditional versus Performance-Based Budgeting

Traditional budgeting has produced many valuable contributions:

- 1993 passage of the Government Performance and Results Act (GPRA)
- Subsequently passed the GPRA Modernization Act

Early 1990’s, Congress recognized need for a new approach:

- Shortfall has been lack of information that enables decision-makers to make the hard choices

These laws require establishment of goals, reporting on success in meeting those goals, using such information to formulate future budgets.

- In simple words, performance based budgeting

- The following simplified graphic shows the difference
## Federal Management Agency Voucher Payment Branch

<table>
<thead>
<tr>
<th>(000’s Dollars) Object Class</th>
<th>PY-1</th>
<th>PY</th>
<th>CY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$650.0</td>
<td>$667.5</td>
<td>$756.0</td>
</tr>
<tr>
<td>Travel</td>
<td>30.0</td>
<td>40.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Supplies</td>
<td>60.0</td>
<td>63.0</td>
<td>76.0</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>50.0</td>
<td>75.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Other</td>
<td>50.0</td>
<td>75.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>$840.0</td>
<td>$920.5</td>
<td>$1082.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Payments Accuracy Rate Percent of Late Payments</th>
<th>PY-1</th>
<th>PY</th>
<th>CY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Payments</td>
<td>20,000</td>
<td>20,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Accuracy Rate</td>
<td>90%</td>
<td>90%</td>
<td>95%</td>
</tr>
<tr>
<td>Percent of Late Payments</td>
<td>5%</td>
<td>5%</td>
<td>3%</td>
</tr>
</tbody>
</table>
Performance-Based Budgeting

- Performance-based budgeting should be a part of day-to-day operations and the agency’s budget formulation, execution, and evaluation processes

Benefits of Performance-Based Budgeting

- Ensures measuring against baseline plans and associated goals and outcomes
- Improved operations
- Provides a tool to motivate organizations to achieve goals and outcomes
- Improves accountability
- Provides a tool to manage changes and improve productivity
Basics of Performance-Based Budgeting

- Development of a long-range strategic plan and a mission statement
- Development of programs and yearly budgets to accomplish the goals and objectives within that plan
  - Structured around specific, objective outcomes such as quality of medical services and quality of life
- Evaluation of the level of success in meeting the desired level of performance within the annual budget submission
- Putting in place a feedback process for use in developing future programs and budgets
Relationship of Performance-Based Budgeting, Execution, Accounting, Performance Analysis and the Feedback Loop

- **Do what? For whom? Why?**
- **How agency plans to carry out mission**
- **What results do we expect**
- **What must we produce to achieve those outcomes**
- **What inputs are required to produce the outputs**
- **How many $$s do we need in support of the inputs**

**Mission**
- Starting point
- Sets foundation & vision & expectations

**Strategic Plan & Goals**
- Direct actions & measure mission success

**Outcomes**
- Results of a program (program accomplishment)

**Outputs**
- Anything produced by an organization for a customer

**Inputs**
- Labor, materials, contractual services, etc.

**Budget**
- Appropriation/apportionment allotment
Basics of Performance-Based Budgets

- In simple words
  - Mission/program goals drive outcomes
  - Outcomes drive outputs
  - Outputs drive inputs
  - Inputs drive budget requests
Why Did Congress Pass Performance-Based Budgeting Legislation?

• Congress passed the 1993 Government Performance and Results Act (GPRA) and the 2011 GPRA Modernization Act in response to concerns that:
  – Waste and inefficiency in federal programs undermine public confidence in government abilities
  – Insufficient articulation of program goals and inadequate program performance/results information handicapped program managers in improving program efficiency and effectiveness
  – Insufficient attention to program performance and results handicapped congressional policy-making, decision-making, and oversight
What is the Primary Focus of the Legislation?

- Ensuring the best allocation of resources
- Providing the right amount of funds
- At the right time
- To accomplish the components’ mission, goals and, objectives
- In other words ... performance-based budgeting
Why Should I Care About GPRA?

It is the law, but even more importantly, it is common sense.

Agencies must manage their resources (money, people, facilities, equipment, and time).

Whatever you do becomes work accomplished.

Sum of all work accomplished becomes basis for reporting your performance.
Primary Intent of Performance-Based Budgeting

Effectiveness
Achieving what was planned—“doing the right things”

Efficiency
Using the fewest amount of resources to accomplish the task—“doing things right”
What are the Basic Requirements of GPRA?

- Five-year strategic plans updated every three years
  - Historically DOD has updated every four years
- Annual performance plans specifying how funding will be used to accomplish agency’s strategic plans, outcomes, and outputs
  - OMB renamed performance budgets
- Annual performance reports to the President and Congress
Annual Performance Budgets

• Incremental steps to accomplish the long-range strategic plan

• Characteristics of a good performance budget:
  – A statement of performance goals covering four prior years, the current year and the budget year.
  – Goals and outcomes (and outputs if appropriate) stated in objective, quantifiable, and measurable terms.
  – Performance indicators (metrics) to be used in measuring or assessing relevant program or activity outputs, against stated goals and outcomes.
  – Describe evaluation process, operational processes and skills.
  – Clear description of the procedures used to verify and validate measured values.
Annual Performance Report

• Annual performance report to the President and Congress includes:
  – Comparing actual performance with projected (target) levels of performance.
  – Reasons why a performance goal was not met.
  – Plans and schedule to meet unmet goals in the future.
  – Evaluation of the performance budget for the current year.
  – Assessment of the reliability and completeness of the data included in the report.
  – Actual performance information for the last four fiscal years.
Performance-Based Budgeting Comprised of Two Principal Steps — Specifying Performance and Costing Processes

• Budgeting process is complex
• We have segregated specifying performance and the costing process
• In the “real world,” they should be performed concurrently
  – Requires close coordination between those specifying performance and those providing cost information
Specifying Performance in a Performance Budget

Steps involved:

- Prepare a Strategic Plan
- Prepare goal statements
- Prepare outcomes • What you would like want to accomplish
- Develop outputs • Level of what you want to produce
- Develop performance indicators • What you will use to measure
- Develop performance targets • Specific objective, measurable metrics
What Must Be in Place to Produce Good Performance-Based Budgets?

- A clear, concise mission statement
- Planned outcomes and mission to meet the identified goals
- Outputs to achieve the mission, goals, and outcomes
- Inputs needed to produce the outputs
- Good cost data and past performance results
The Following are the Steps Involved in Developing the Performance Aspects of a Performance-Based Budget

• You must:
  – Understand your agency’s goals and missions
  – Validate the goals and plans for your major programs
  – Gather comprehensive financial cost information
  – Analyze OMB and Headquarters budget and program guidance
  – Estimate your total requirements
  – Format a comprehensive budget proposal
  – Justify your budget estimates
Simplified Example of a Performance-Based Budget Submission

• What is to be done?
  – Inspect 80 Defense Health Service facilities

• In what time frame?
  – In budget year 2021

• Using what resources?
  – At a cost of $14.9 million and 200 FTEs

• To accomplish what?
  – Ensure healthy medical facilities
GPRA and Execution Reporting

• Reporting focused on
  – comparing actual to projected performance
• Explanation why projected performance was not met
  – description of plans to meet unmet performance
  – actual performance data for at least four years
• Agency head must submit a performance report at least quarterly on the agency’s high priority goals
• No later than 150 days following the conclusion of the fiscal year, agencies must publish their annual performance report on their web page
Why Should We Measure and Report Performance Results?

In addition to being mandated by law, it makes common sense

The Benefits to an agency are:

• improves operations
• ensures measuring against a baseline
• provides a motivating tool
• improves accountability
• provides a tool for managing change and improving productivity
Overview of the Budget Execution Phase

- Up to now the budget process has been one of planning, articulating, and defending
- Budget formulation has no legal value until an appropriation becomes law
- Mission of the executive branch is to carry out the will of the congress by executing budget
Overview of the Budget Execution Phase (cont.)

- Agencies execute budget authority targeting goals, objectives, and outcomes put in place during the specifying performance step.
- Resources used are recorded in the accounting system.
- Budget execution phase is sometimes referred to as the accounting phase.
Accounting

• The act of
  – receiving, classifying, recording, summarizing reporting, and analyzing/interpreting events in terms of money;
  – providing the operating results and related resource management information to federal and non-federal users.

• In simple words, accounting is accounting for execution of the budget

• To do so, need
  – Budgetary accounting – accounts for receipt, distribution, and use of funding authorities
  – Proprietary accounting – accounts for what goods and services were obtained with the use of those authorities
  – Cost accounting – accounts for the cost of providing goods and services

• What follows, focuses on the role of cost accounting in developing a performance-based budget
Why is Cost Information Important?

- You need to know the cost of doing something
- Some essential ingredients to producing a good cost estimate
  - Clearly identified program performance requirements
  - Access to detailed historical performance and financial data
  - Well-trained and experienced cost analysts
  - An assessment of the current program status and the risk and uncertainty that may exist
Availability of Cost Data

• One of the tools available to develop submissions is the result of the cost accounting standard prescribed by the Federal Accounting Standards Advisory Board

• Some agencies have incorporated cost accounts in their general ledger accounts within the accounting system

• Managerial or cost accounting focuses on the internal activities of an organization
Availability of Cost Data (cont.)

• Cost accounting systems typically categorized as either traditional or activity-based costing
  – Either category collects the cost of producing an end product but does so through a different methodology

• Due to legislation and management preferences, costs are typically accumulated by cost center program and object classes
  – Requires different format presentations such as Schedules P and O than performance-based budget
Cost Accounting Terms

- **Direct costs**—directly assigned to the end product such as direct labor hours
- **Indirect costs**—cannot be directly assigned to the end product such as indirect labor and indirect material
- **General and administrative costs**—do not contribute directly to an output but rather to the overall operation such as security and personnel costs
Cost Accounting Terms (cont.)

- Variable costs—increase or decrease in relation to the amount of work
- Fixed costs—do not increase or decrease due to the amount of work performed
- Recurring costs—continuous cycle costs incurred in producing end items
- Nonrecurring costs—associated with a one-time event such as replacement of equipment or furniture
Integrating Performance and Cost into a Performance-based Budget

- Should be an on-going process
- Performance-based budgeting is based on the premise that the budget must be directly linked to the agency’s stated mission, goals, and objectives
- OMB’s policy—integrated performance and budget submission—must be in sufficient detail to allow OMB to review the proposal
- Requires close coordination between program, cost accounting, and those “pulling” the budget into the proper format
## Relationship of Performance-Based Elements

<table>
<thead>
<tr>
<th>Mission/program goals drive outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Outcomes are incremental results that lead to goal accomplishment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outcomes drive outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Outputs are what you produced to achieve outcomes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outputs drive inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Inputs are the resources used to produce outputs</td>
</tr>
</tbody>
</table>

| Inputs drive budget request |
# Preparation of the Integrated Annual Performance Budget

<table>
<thead>
<tr>
<th>ACTION</th>
<th>CY</th>
<th>BY</th>
<th>BY + 1</th>
<th>BY + 2</th>
<th>BY + 3</th>
<th>BY + 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outcome 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output 1</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outcome 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outcome 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Performance Budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(dollars)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The table above illustrates the timeline for preparing the Integrated Annual Performance Budget. Each row represents a different outcome or output, with specific years indicating when actions should be performed. For instance, Outcome 1 has an action in the CY and BY year, Outcome 2 in the BY + 2 year, and Outcome 3 in the BY + 3 year. The Annual Performance Budget (dollars) is updated as follows: in CY, actions are planned, in BY, they are implemented, and in BY + 1 to BY + 4, they are evaluated and adjusted as necessary.
• Formatting has to take into consideration:
  – Does the budget data comply with the guidance in Part 2 of OMB Circular A-11
  – Will the data display contribute to control of obligations against budget authority
  – Does the data display provide a basis for subsequent reporting of funding status
• If your answers to these and similar questions are yes, does that mean you have a performance-based budget. The answer is a big NO.
As we have discussed, to have a Performance-Based Budget you need to have defined:

- Organization mission
- Program Goals/Objectives
- Outcomes—Results
- Customers
- Outputs—Products/Services
- Inputs—Resources
- Budget

With these essential elements in place, you will have what you need to analyze how successful you were in meeting what you wanted to achieve.
### Traditional Schedule O – Object Class for Inspection Program

<table>
<thead>
<tr>
<th>Program Budget by Object Class for Budget Year 2021</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1 Full-Time permanent employees salaries</td>
<td>$9,650,000</td>
</tr>
<tr>
<td>11.3 Other than full-time permanent employees salaries</td>
<td>50,000</td>
</tr>
<tr>
<td>12.1 Civilian personnel benefits</td>
<td>2,050,000</td>
</tr>
<tr>
<td>21.0 Travel and transportation of people</td>
<td>1,300,000</td>
</tr>
<tr>
<td>22.2 Transportation of things</td>
<td>50,000</td>
</tr>
<tr>
<td>23.1 Rental payment to GSA</td>
<td>600,000</td>
</tr>
<tr>
<td>23.3 Communications and utilities</td>
<td>400,000</td>
</tr>
<tr>
<td>24.0 Printing and reproduction</td>
<td>50,000</td>
</tr>
<tr>
<td>26.0 Supplies and materials</td>
<td>550,000</td>
</tr>
<tr>
<td>31.0 Equipment</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td><strong>$14,950,000</strong></td>
</tr>
</tbody>
</table>
## Performance-Based Budget for Same Inspection Program

<table>
<thead>
<tr>
<th>Activity</th>
<th>Unit of Output</th>
<th>Number of Units</th>
<th>Unit Cost</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct Pre-Cleanup Inspections</td>
<td>Inspection</td>
<td>80</td>
<td>$94,129</td>
<td>$7,530,325</td>
</tr>
<tr>
<td>Conduct Post-Cleanup Inspections</td>
<td>Inspection</td>
<td>75</td>
<td>94,129</td>
<td>7,059,675</td>
</tr>
<tr>
<td>Conduct Training Classes</td>
<td>Session</td>
<td>18</td>
<td>20,000</td>
<td>360,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$14,950,000</strong></td>
</tr>
</tbody>
</table>
Analysis Can Provide Answers to the Following Questions

• How well are my programs working?
• How productive is my staff compared to past productivity or similar staffs?
• What opportunities exist to identify and use alternatives that will provide higher results?
• What are the effects of different levels of funding on my performance?
How Much and What Should I Measure?

- No set number or formula
- History has shown too much may result in losing sight whereas too little may result in a shortcoming
- History has shown having one single element often leads to “gaming the process”
- Keep in mind development, collection, and reporting costs money, time, and staff time
How to Determine the Best List of Potential Performance Candidates?

- Important to reduce list to those that are important to the end user
- Requires judgment
- External users interested in
  - Timeliness, quality, quantity
- Internal users interested in
  - Process-level measures and production outputs
What is Typically Measured

- Workload—amount of work performed
- Efficiency—comparison of the volume of work produced to the resources consumed
- Effectiveness—quantitative expression of the effect the program results had on completion of the work results
# Measuring Workload, Efficiency, and Effectiveness

<table>
<thead>
<tr>
<th></th>
<th>Workload</th>
<th>Efficiency</th>
<th>Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examines</strong></td>
<td>Internal</td>
<td>Internal Process</td>
<td>External impact</td>
</tr>
<tr>
<td><strong>Focuses on</strong></td>
<td>Output produced</td>
<td>Unit Cost</td>
<td>Program</td>
</tr>
<tr>
<td><strong>Expressed as</strong></td>
<td>Number of</td>
<td>Cost per unit</td>
<td>Percentage of</td>
</tr>
<tr>
<td><strong>Measure of</strong></td>
<td>Quantity</td>
<td>Cost of providing</td>
<td>Value to recipients</td>
</tr>
<tr>
<td><strong>Tells you</strong></td>
<td>Number produced</td>
<td>How much was spent per unit</td>
<td>How well we are doing</td>
</tr>
</tbody>
</table>
Analysis of Productivity Results

- If actual results are less than anticipated, management will need to determine
  - Why the results have not materialized
  - Whether or not the decrease is a one-time decrease or an indication of continued decreases
  - How can costs be reduced to meet a unit cost goal
  - If the original goal was improper and in need of an adjustment

- Can use such techniques as
  - Variance analysis – applied to two variances
  - Trend analysis – focused on one element over time

- Often management is tempted to simply change the original goal
Productivity Improvement

• Productivity improvement is the goal of every organization
  – Coupling increasing demands with ever decreasing resources, requires productivity improvements

• Requires a comparison of results across variables such as time periods, usually calendar quarters

• For example
  – If you have used more resources in the most recent time period than the previous period, productivity went down; and, vice versa, productivity went up

• Did productivity increase or decrease?
  – If increase—can further enhancements or savings be achieved, and/or does the goal need to be revised upward?
  – If decrease—what was the cause, what will it take to fix the problem, or is the program goal too ambitious?
## Ways to Improve Productivity

<table>
<thead>
<tr>
<th>Situation</th>
<th>Outputs</th>
<th>Resources</th>
<th>Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Increase</td>
<td>Same</td>
<td>Increased</td>
</tr>
<tr>
<td>2</td>
<td>Hold constant</td>
<td>Decrease</td>
<td>Increased</td>
</tr>
<tr>
<td>3</td>
<td>Increase</td>
<td>Decrease</td>
<td>Greatest gain</td>
</tr>
<tr>
<td>4</td>
<td>Increase</td>
<td>Increase</td>
<td>Not proportional—Output higher rate than resource increase</td>
</tr>
<tr>
<td>5</td>
<td>Decrease</td>
<td>Decrease</td>
<td>Not proportional—Output decrease at lower rate than resources</td>
</tr>
</tbody>
</table>

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Thank you for your participation!

Good Luck and Happy Trails

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