



The Library of Congress  
*Office of the Inspector General*

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*Library-Wide and  
Office of the Chief Financial Officer*

*Performance-Based Budgeting at the Library:  
A Good Start, but Much Work Remains*

Audit Report No. 2004-FN-502/October 2006



UNITED STATES GOVERNMENT

LIBRARY OF CONGRESS

**Memorandum**

*Office of the Inspector General*

**TO:** James H. Billington  
Librarian of Congress

October 2, 2006

**FROM:** Karl W. Schornagel  
Inspector General

A handwritten signature in black ink, appearing to read "Karl Schornagel".

**SUBJECT:** *Performance-Based Budgeting at the Library:  
A Good Start, but Much Work Remains*  
Audit Report No. 2004-FN-502

This transmits our final report on the status of Performance-Based Budgeting at the Library. The Executive Summary begins on page *i*, and complete findings and recommendations appear on pages 10 to 19.

The Office of the Chief Financial Officer's (OCFO) response to our draft report is briefly summarized in the Executive Summary and in more detail in the Background Section and after individual recommendations. OCFO's complete response is included as Appendix A.

Based on OCFO's response to the draft report, we consider all of the recommendations unresolved.

We appreciate the cooperation and courtesies extended by the Executive and Operating Committees, as well as by the Chief Financial Officer and his staff during the audit.

cc: Deputy Librarian of Congress  
Executive Committee  
Chief Financial Officer

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## ▶▶ EXECUTIVE SUMMARY

In the spirit of the Government Performance and Results Act and anticipating ever-tightening budgets, Congress has directed legislative branch agencies to adopt performance-based budgeting (PBB). Congressional appropriators have indicated that future funding will depend on an agency's ability to present objective information reflecting program results. Agencies that successfully employ PBB will be demonstrating their results by using a format preferred by Congress, which, in turn, will make their budget requests more competitive.

In this context, and with the awareness that the Library was not "scrubbing" its base, we performed an audit of its budgeting process. We found that the Library has begun developing several components of PBB. Most significantly, the Library is revamping its strategic planning process and has updated its policy on planning, budgeting, and program performance assessment.

The Library could enhance its progress toward implementing PBB by establishing a plan of action and milestones to coordinate the development of PBB with other performance management functions. In summary, we recommend that the Library:

- develop a plan for implementing PBB that identifies significant milestones and the responsibilities of key Library officials;
- revise the Library of Congress Regulation for Planning, Budgeting, and Program Performance Assessment and designate the Chief Financial Officer as the Administrative Officer for PBB;
- improve its performance management system by designating an official to begin planning for an automated entity-wide performance management information system; and
- coordinate the workforce transformation and workforce performance efforts more closely in the transition to performance-based budgeting.

The Office of the Chief Financial Officer (OCFO) responded to our draft report. OCFO disagreed, to various degrees, with each of the report's recommendations, and questioned some of the statements we made. Moreover, OCFO's response, in some cases, addressed some very narrow and tangential issues, while failing to address the broader issues we raised in our report. Notwithstanding its earlier request that we report on workforce transformation and performance management at the Library, OCFO questioned our inclusion of recommendation IV, which deals with these issues.

We stand behind our recommendations, and have addressed OCFO's response in each section.

## ▶▶ INTRODUCTION

Over the last twenty years, Congress has shared the public's concern regarding the efficiency and effectiveness of federal government operations. In a report on the Government Performance and Results Act of 1993 (GPRA), the Senate Committee on Governmental Affairs stated that “[p]ublic confidence in the institutions of American government is suffering from a perception that those institutions are not working well. ... The Committee shares the public's frustration with waste, inefficiency, and ineffectiveness in Federal programs.<sup>1</sup>”

Congress responded to these concerns by enacting several statutes focused on improving federal agency financial management, investments in technology, operating performance, internal controls, and financial reporting.<sup>2</sup> The legislation applied to executive branch agencies, but legislative branch agencies were encouraged to employ elements of their “best practices.” By 2005, it was clear that Congress had increased interest in holding legislative branch agencies to the same performance standards as executive branch agencies. In an April 2005 hearing before the Legislative Branch Subcommittee, Senator Wayne Allard stated that “[o]ne of my interests will be to continue and even accelerate efforts to hold legislative branch agencies to the highest standards of performance and accountability.”

Performance-based budgeting (PBB) was introduced through GPRA and is a critical component of the performance-managed organization envisioned by policy makers. It provides an effective means to understand the resources an agency needs to achieve expected performance results. In an ideal PBB model, an agency drives its budget by planning for, and measuring, results.

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<sup>1</sup>Senate Report 103-58, Government Performance and Results Act of 1993, Report of the Committee on Governmental Affairs, United States Senate; June 16, 1993.

<sup>2</sup>The legislation included The Chief Financial Officers Act of 1990, The Government Performance and Results Act of 1993, The Federal Financial Management Improvement Act of 1996, and The Information Technology Management Reform Act of 1996.

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## ▶▶ BACKGROUND

### ▶ The Government Performance and Results Act of 1993

GPRA was enacted to improve the public's confidence in the federal government by holding federal agencies accountable for program results. Congress designed GPRA to shift the focus of government decision-making and accountability away from processes and activities and towards results. The Act requires agencies to establish goals, designate performance metrics, and regularly measure results. Further, it prescribes a reporting format that enables Congress and agency decision makers to uniformly review this data. Future budget projections indicate that discretionary spending will continue to decline; as a consequence, Congress will likely continue to increase its reliance on GPRA-required information in evaluating budget requests.

Strategic planning is the foundation of GPRA. Among other things, a strategic plan should include a comprehensive agency mission statement; general agency goals and objectives for its major functions and operations; a description of how agency goals and objectives will be achieved; and a description of how program performance goals relate to the agency's general strategic goals and objectives. A strategic plan must cover at least five years and an agency must update and revise its plan every three years.<sup>3</sup>

GPRA also requires agencies to prepare annual performance plans for all program activities. The plans should establish performance goals for each activity in objective, quantifiable, and measurable terms. They should also describe the operational processes, skills and technology, human capital, and other resources required to meet performance goals. The plans must provide a basis for comparing actual program results with performance goals and describe the means to be used for verifying and validating results. Each agency must submit to Congress, within six months of the close of a fiscal year, an annual program performance report that compares actual results with the plan's original goals. If the performance goals are not met, the report should explain why and what revisions are necessary.

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<sup>3</sup>Government Performance and Results Act of 1993, Sec. 306-A.



Recognizing that agencies would need several years to implement GPRA, Congress mandated pilot projects with defined milestones for selected agencies to gain experience in all aspects of GPRA. Participating agencies were required to prepare annual performance plans and program performance reports for one or more major agency function or operation. Legislative branch agencies should emulate this pilot project approach in order to acquire experience in all aspects of GPRA and PBB.

### ▶ Government Accountability Office Assessment of GPRA

The GAO has extensively reviewed and assessed agency experience with GPRA and reported its observations to Congress. The Library should take note of GAO's assessment in its planning process.

Three years after GPRA was established, the GAO found that executive branch agencies had experienced difficulty in describing strategies, relating annual performance goals to strategic goals, and ignored external factors that affected performance. Further, the GAO noted that many agencies had measured program performance based on workloads<sup>4</sup> as opposed to results. Also, a majority of agencies failed to provide a schedule of future program evaluations, did not discuss major management challenges and high-risk areas, and omitted their plans for communicating goals throughout the agency. Agencies advised the GAO that assessing the accuracy and quality of performance data was a major performance measurement issue.<sup>5</sup>

Three years later, the GAO reported "agencies provide limited confidence in the credibility of their performance information" and cited this issue as "one of the single, greatest continuing weaknesses with GPRA implementation."<sup>6</sup>

The GAO also reported that the performance plans of many agencies did not address how human capital needed for

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<sup>4</sup> GAO, *Veteran's Affairs, Veterans Benefits Administration's Progress and Challenges in Implementing GPRA*, 1997, pp 2-3.

<sup>5</sup> GAO, *Managing for Results, Critical Issues for Improving Federal Agencies' Strategic Plans*, 1997, pp 4-5.

<sup>6</sup> GAO, *Managing for Results, Continuing Challenges to Effective GPRA Implementation*, 2000, p 9.

achieving the agencies' goals would be built, marshaled, and maintained.<sup>7</sup>

In 2003, the GAO reported that most agencies' financial management systems were still unable to routinely produce information on the full cost of programs and concluded that "[t]he Federal government was a long way from successfully implementing the statutory reforms of the 1990s."<sup>8</sup>

### ► Performance-Based Budgeting

Flowing from GPRA, PBB integrates an agency's annual performance plan with its budget. A performance-based budget clearly links performance goals with costs. It defines all direct and indirect activities required by a program for support, estimates activity levels,<sup>9</sup> and indicates that a goal should be achieved at a given level of spending. As variances between plans and actual results occur, managers analyze the resource inputs and their relationship to outcomes. Such analysis allows an agency to determine where resources are needed – and where they are available.

Connecting the budget to program planning is the essence of PBB, and making this connection requires the alignment of [deleted "programs"] processes, activities, outputs, and resources. According to the GAO, "sustaining a focus on performance budgeting ... is predicated on aligning performance goals with all key management activities - budgeting, financial management, human capital management, capital acquisition, and information technology management."<sup>10</sup> This alignment enables management to chart plans against accomplishments.

Annual performance plans are the pathway to accomplishing an agency's strategic goals. Elements of an annual performance plan should include performance goals for major programs and activities, means and strategies for accomplishing these goals, measures for evaluating the level of

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<sup>7</sup> GAO, *Managing for Results, Continuing Challenges to Effective GPRA Implementation*, 2000, p 8.

<sup>8</sup> GAO, *Performance Budgeting, Current Developments and Future Prospects*, 2003, pp 8 & 17.

<sup>9</sup> Government Performance and Results Act of 1993, Sec.306-A.

<sup>10</sup> GAO, *Performance Budgeting, Current Developments and Future Prospects*, 2003, p 12.

progress made towards performance goals, and procedures for evaluating, verifying, and validating performance. Performance measurements are vital for evaluating and adjusting program performance. A well-documented annual performance plan will define all of the costs associated with accomplishing goals. Key factors in this process are management's ability to accurately link costs with associated goals, and an information system that correctly reports on performance measures.

PBB enables policy makers to determine if programs are contributing to their stated goals, coordinating efforts with related initiatives elsewhere, targeting those most in need of agency services, achieving desired outcomes, and experiencing cost beneficial results. The success of PBB can be measured by the quality of the decision making process, the transparency of decision making information, and the meaningfulness of the information to key stakeholders.<sup>11</sup>

Congress has encouraged the Library to develop PBB in the spirit of GPRA without holding the Library responsible for adhering to specific details of the Act's reporting format. Therefore, the Library has the flexibility to tailor its PBB format to its unique management style and needs. In its response to our report, however, OCFO disagreed with this assessment: "*[t]he Legislative Branch was not requested to adopt performance-base budgeting but rather to move toward the spirit of GPRA. Notably absent from the good foundation for GPRA described by GAO is any reference to Performance-Based Budgeting.*" We disagree. First, "moving toward the spirit of GPRA" has little meaning if the Library doesn't link resources usage to program performance. According to the GAO, "GPRA establishes a basic foundation for performance budgeting<sup>12</sup>" and "...outcome-based performance information should be used for the allocation of resources[.]<sup>13</sup>" We are concerned that OCFO's response does not appear to evince an understanding of these principles.

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<sup>11</sup> GAO, *Performance Budgeting, Opportunities and Challenges*, 2002, pp 11-13.

<sup>12</sup> GAO, *Managing for Results-Agency Progress in Linking Performance Plans With Budgets and Financial Statements*, 2002, p 4.

<sup>13</sup> GAO, *Managing for Results- Enhancing Agency Use of Performance Information for Management Decision Making*, 2005, p 11.

## ► Noteworthy Library Efforts To Implement Performance-Based Budgeting

In general, the Library is responding to Congressional direction to develop and implement PBB. In spite of OCFO's response to the draft report, we believe that Library executives who are responsible for managing and directing strategic planning and budgeting are familiar with the concept of PBB. We found the following activities and processes related to the development of PBB at the Library:

- The strategic planning process is being revamped to conform to GPRA;
- A special facilitator was hired to assist in revising the strategic planning process;
- A new LCR for Planning, Budgeting, and Program Performance Assessment is being implemented;
- The Office of Operations Management and Training (OMT) is guiding the implementation of a workforce transformation process;
- Human Resources Services (HRS) is guiding the development of a workforce performance consulting function;
- pbviews®<sup>14</sup> is being implemented in HRS and Integrated Support Services (ISS);
- A new proprietary software package is being developed for tracking Annual Program Performance Plans (AP<sup>3</sup>s);
- CRS is researching development of performance measures for performance that cannot be determined through objective, quantifiable, and measurable data;
- The Copyright Office is being re-engineered;<sup>15</sup> and
- The Budget Office is developing models for presenting budgets in more detail and new 2007 guidelines for "scrubbing" the budget base.

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<sup>14</sup>pbviews® is a commercial software package that tracks progress on strategic and annual performance goals. Its tracking system provides various level users with interactive analysis, commentary, and action plans for goals and measures. The vendor, performancesoft™, indicates that several executive agencies use this package to support GPRA compliance.

<sup>15</sup> Although the Copyright Business Process Reengineering Project (BPR) is not the result of PBB, much of PBB's foundations lie in the premise of examining and rearranging business processes to achieve higher levels of effectiveness and efficiency, which are also the goals of the BPR.

We also noted that the Copyright Office, ISS, and the Law Library have made special efforts to track and evaluate their respective programs and activities; that pbviews® will benefit the rest of the Library and may provide solutions in the development of an overall performance management system; and that Library Services has made significant efforts to “scrub” its budget base and installed new software to track and control its budget operations. Notwithstanding these efforts, it is clear that the Library’s overall budget base is not being “scrubbed,” and there has been a reordering and reallocation of resources within the base. Although this reallocation may be valid, it is not transparent to Congressional appropriators and other stakeholders. OCFO’s response took issue with this assessment: *“[s]uggesting that the Library is not scrubbing its base is inaccurate.”* We disagree. It is clear that the Library does not consistently scrub its base. While some offices make strong attempts to do so (as noted in our report), the practice is not universal or guided by recognized standards. OIG audits of the NLS cassette book machine program and other Library activities have revealed millions of dollars in funds to be put to better use, resulting from lack of attention to the base. Further, OCFO commented *“[t]o imply that we are moving funds without appropriate internal controls is not true and a very dangerous and unsubstantiated statement that will lead to inappropriate conclusions, with negative consequences to the Library.”* We make no such implication. We relay only that shifts in the base have occurred over time and that its makeup is not transparent.

Library management, including members of the Executive and Operations Committees, believes that it will take a number of years to successfully develop and implement the PBB process. Furthermore, program managers, foreseeing that an enormous amount of data will have to be collected and analyzed as part of the PBB process, believe that the Library’s new integrated financial system, Momentum, will have to provide the necessary data collection and reporting support. In our view, to benefit Congress, its stakeholders, and itself, the Library should expeditiously implement PBB. We also believe that using Momentum as the central point for collecting, accumulating, analyzing, and reporting data for performance budgeting efforts will be essential to the success of PBB.

## ▶▶ OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit was to evaluate the development of PBB at the Library. Our audit included an examination of current budgeting policies and procedures as well as an evaluation of management's plans for, and progress in, implementing PBB.

The scope of our audit included the Library's policies and procedures for strategic planning and budgeting, as well as plans for developing and implementing PBB. We conducted our audit during the periods August through October 2004, when our fieldwork was interrupted, and July 2005 through June 2006. During our audit we reviewed applicable laws and regulations as well as the Library's policies and procedures; the Library's system of internal control for budgeting; and interviewed members of Library management to assess current strategic planning and budgeting practices and plans for developing and implementing PBB. We also reviewed the development of the Library's automated AP<sup>3</sup> system, the budgeting capabilities of Momentum, and the Library's use of pbviews.® Finally, we reviewed laws and regulations applicable to the executive branch, such as GPRA.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (the "Yellow Book") and LCR 1519-1, *Audits and Reviews by the Office of the Inspector General*, October 18, 1999.

## » FINDINGS AND RECOMMENDATIONS

Library management has begun implementing several components of PBB. Most significantly, it is revamping its strategic planning process and has updated its policy on planning, budgeting, and program performance assessment. The objective of PBB is to instill a results-oriented approach to agency operations and promote effectiveness and efficiency in all activities. The Library’s implementation should conform to PBB’s foundations: effectiveness and efficiency. In its response, OCFO appeared to disagree with the premise that effectiveness and efficiency are cornerstones of PBB: “[t]he Library’s implementation should conform to PBB’s foundations: effectiveness and efficiency.” This sentence needs to be footnoted with the source or deleted. It appears contrary to recent GAO reports such as GAO 05-927 *Managing for Results* [.]” We disagree. The reason for GPRA and PBB’s existence are concerns over

effectiveness and efficiency of government operations. GAO Report 02-236, *Managing for Results-Agency Progress in Linking Performance Plans With Budgets and Financial Statements*, (January 2002), says, on page 4:

Both GPRA and the CFO Act are key components of a statutory framework that the Congress put in place during the 1990s to promote a new focus on results and improved management.<sup>4</sup> Among their complementary purposes, both acts seek to improve congressional decision-making by providing information on the relative effectiveness and efficiency of federal programs and spending, and to help federal managers improve service delivery by providing them with information about program results, cost, and service quality.

Furthermore, GAO Report 05-927, on page 5, comments about GPRA, “[t]he Act was intended to improve federal program effectiveness, accountability, and service delivery.”

Figure 4: Uses of Performance Information

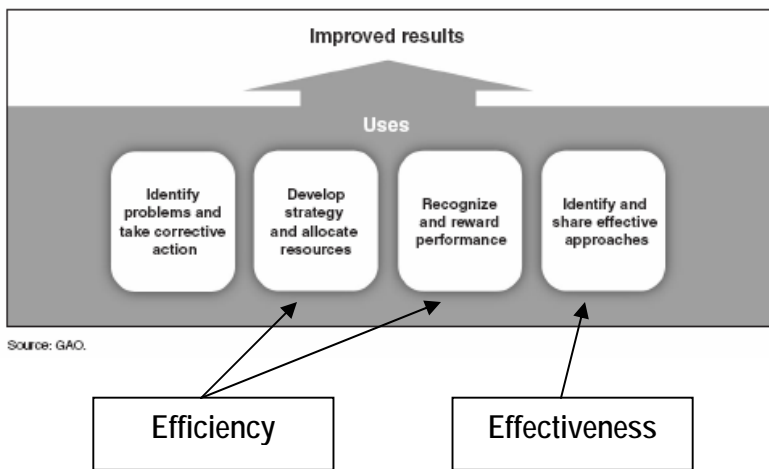


Figure 1: Illustration of relationships between effectiveness and efficiency and performance information. “Figure 4” pictured above: GAO report 05-927, *Managing for Results*, 2005, p. 8. Annotations added by OIG.

We encourage Library senior management to take a more structured approach to its development and implementation of PBB and take advantage of the thirteen-plus years of lessons learned about GPRA by executive branch agencies. We recommend that the Library establish a plan of action and milestones for implementing all aspects of PBB similar to the plan of action Congress incorporated in GPRA. That action plan not only required executive branch agencies to implement strategic plans by a defined date, but to also test their annual performance planning, program performance assessment, and performance budgeting at the same time.

In addition to refining its strategic planning process, the Library should focus on developing the other aspects of PBB. Library management should initiate processes for annual performance plans, performance measurements, annual program assessments, and PBB in selected programs and service units. It should also identify those organizations in which progress has been made in the use of outcome-based goals, performance measurements, and activity-based budgeting, and accelerate PBB's implementation in those areas. We believe PBB could be implemented quickly in certain revolving funds and enabling infrastructure areas.

While the Library is making progress with PBB's development, we believe it could manage the development process more effectively and efficiently by implementing the following recommendations:

## **I. The Library Should Develop a Formal Plan for Implementing PBB**

The Library's current budgeting process, the Planning, Programming, Budgeting, Execution, and Evaluation System (PPBEES), is not compatible with key PBB requirements. For example, most of the 18 strategic goals and planned outcomes in the PPBEES for fiscal years (FY) 2004-2008 are not applicable Library-wide and many of them are not outcome-based or measurable. As a result, the Library's performance cannot be effectively evaluated. To conform to PBB, the level of results a program will achieve should be defined; objective, quantifiable, and measurable goals should be expressed; and indicators for measuring and assessing service, output levels, and outcomes should be established.



Another shortcoming of PPBEES is the incremental budgeting approach. Under this approach, the funding level for the previous year's operations (i.e., the base) is increased by mandatory increases (e.g., payroll increases) and the cost of new programs, initiatives, and anticipated acquisitions of technology and equipment. Decision-makers can only effectively analyze additions for content and purpose in this approach. In the long run, management loses the ability to effectively associate activities with costs because costs lose their clear association with activities as they become part of the base.

The Library recognizes the shortcomings of PPBEES and is currently in the process of transitioning to PBB. In September 2005, OCFO invited the GAO to introduce PBB to Library management through a presentation on GPRA. During FY 2006, OCFO began the transition to PBB by developing a new policy for Planning, Budgeting, and Program Performance Assessment (Library of Congress Regulation [LCR] 1511) and also began revamping the Library's strategic planning process. In early May 2006, OCFO conducted an off-site meeting with the Library's senior officials to develop new strategic goals and initiate revisions in the strategic planning process. OCFO's response to our report commented: *"PPBEES is no longer our process - it has been replaced with the new LCR. Recommend you replace SPO with OCFO, since all work was performed under the CFO and also involved other OCFO offices."* We report on PPBEES because it was the then-current system, and there have been no budget submissions under the new LCR. Our audit was both historical and forward-looking. We did, however, replace SPO with OCFO.

The Library is making progress in its transition to PBB, however, it does not have a clear roadmap for accomplishing this major change in procedure. In our view, it should direct the transition in the same manner as other projects of this magnitude are directed.

***We recommend that the Library implement a formal, documented plan of action and milestones for the PBB process.***

The plan should identify target dates, assign responsibilities of key officials for implementing the plan, and address critical elements of PBB and GPRA by requiring program officials to:

1. Analyze their budgets and align resources (i.e., payroll, materials, capital investments, external support, and overhead) with program activities, outputs, and goals;
2. Develop annual performance plans for all program activities that:
  - define objective, quantifiable, and measurable program goals,
  - target performance levels for each program activity,
  - describe the operating processes, skills, technologies, human capital, and other resources required,
  - establish performance indicators for measuring and assessing relevant outputs, service levels, and outcomes for each activity,
  - describe the basis for comparing program results with performance goals, and
  - define the basis for verifying and validating performance measurements.
3. Define and document methods for assessing program performance that evaluate the program's:
  - design and purpose, and
  - annual and long-term goals, management, and results and accountability.

#### **Management Response and OIG Comments:**

OCFO commented: “[r]ecommend a restatement to read: *The Library should develop a formal plan for implementing LCR 1511.*”

We disagree. In recommendation II, we enumerate reasons why, and conclude that, LCR 1511 does not fully address the development of performance-based budgeting. Therefore, absent a correction of LCR 1511’s shortcomings we believe a formal plan to implement the LCR will fall significantly short of addressing the spirit of GPRA and PBB.

## II. The Library Should Revise LCR 1511 to Designate an Administrative Officer in Charge of PBB and Include PBB Best Practices

The current version of LCR 1511, *Planning, Budgeting, and Program Performance Assessment* lacks certain key features that would make it better suited to guide the PBB process. These missing key features were designed in GPRA and are important for achieving organizational performance effectiveness and efficiency.

*We recommend that the Library designate an administrative officer ("AO") in charge of the PBB process.*

The absence of a designated AO exposes the Library to inconsistencies in compliance with PBB procedures that over time may erode the performance management process. GAO's Standards for Internal Control in the Federal Government (the "Green book"), states "a good internal control environment requires that an agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting." The omission of this, and many other significant features of PBB may expose the Library to duplication of efforts, ineffective performance goals, confusion among library staff regarding PBB terminology, and delays in assessing program results.

*We also recommend that the Library incorporate key features of PBB and GPRA in LCR 1511.* Some of these features include provisions that would:

- authorize the AO to exempt areas from PBB methodology when it is determined that a program activity cannot express performance goals in objective, quantifiable, and measurable forms,
- require the AO to identify and report duplications in programs and services,
- require the AO to periodically conduct an external environmental assessment to identify factors that may affect the Library's performance goals,
- require the AO to develop and publish comprehensive PBB terminology,
- require all programs and service support units to develop outcome-oriented performance goals, and
- establish a minimum required frequency for conducting program performance evaluations.

With respect to the AO, the position in the Library whose functional responsibilities most closely align with, and which has the closest ties to the recording and reporting mechanism for PBB data is the Chief Financial Officer (CFO). Therefore, *we recommend that the Library appoint the CFO as the AO for PBB.* The AO should be responsible for defining and enforcing all administrative processes and internal controls related to PBB. This role should ensure that effective internal control exists and specifically that appropriate duties of the Strategic Planning and Budget Offices are separated. Moreover, the AO should ensure that all performance goals are outcome related and supported by quantifiable performance measures, and that an effective performance-monitoring program is in place.

The AO's role in performance monitoring should not interfere with the roles of the Librarian, Executive Committee, and Operating Committee in qualitatively evaluating program performance and direction. The AO's role should focus on defining program performance assessment formats, identifying assessment resources, and scheduling the frequency of assessments. Appointing the CFO as the AO for PBB will promote Library-wide consistency in results and expedite the development of effective practices.

#### **Management Response and OIG Comments:**

OCFO commented “[s]ection IIID of LCR 1511 clearly establishes the roles and responsibilities that define key areas of authority and responsibility, establishes appropriate lines of reporting and establishes a minimum required frequency for reporting on program performance.”

We disagree. Every successful project must have a project manager who is “responsible for accomplishing the project’s objectives.”<sup>16</sup> LCR 1511 does not provide such a clear leader. In appointing the CFO as the administrative officer for PBB, the Library would make a clear grant of authority. Failure to establish clear authority will weaken the project. Furthermore, the LCR does not establish a minimum frequency for reporting on program performance; to wit: “...program evaluations of identified Library initiatives or activities will be conducted, as necessary.”<sup>17</sup>

<sup>16</sup> The Project Management Institute, Inc., *A Guide to the Project Management Body of Knowledge*, 3<sup>rd</sup>. Ed. 2004, p. 8.

<sup>17</sup> Library of Congress Regulation 1511, Planning, Budgeting, and Program Performance Assessment, April 18, 2006, Sec. 2C.

### III. The Library Needs a Performance Management Information System

Critical to a successful implementation of PBB and a GPRA-like system is a reliable performance management information system (PMIS). A PMIS links budgets, performance metrics, and results, thus allowing management to access and analyze program and agency performance.

Such a system should be entity-wide, and tie together all of the elements of performance management already in place at the Library, such as the workforce transformation project and workforce performance. There are many elements of a system in place at the Library, but no comprehensive plan to bring them all together.

Although we commend HRS and ISS for their efforts with pbviews,<sup>®</sup> it is important that Library management immediately develop a PMIS strategy. Our review of GAO's reports on the executive agencies' experience with GPRA indicates inadequate and late planning of performance management information systems will inhibit PBB success. Delays in this process could prompt individual program and support units to invest in disparate and disconnected performance management products that would result in duplication of effort. Furthermore, users will begin to rely on entrenched "cuff"<sup>18</sup> systems, creating an additional barrier to adoption of an enterprise-wide system.

*We recommend that Library management designate a senior agency official to develop an enterprise-wide performance management information system.*

The efforts to design, develop, and implement an enterprise-wide performance management system for the Library will take several years. The official designated to lead this effort should select a team comprised of various program managers and specialists in budgeting, financial reporting, human resources, and information systems to assist in the development plan. The system's design should explore the potential of Momentum, pbviews,<sup>®</sup> and other similar products. Although the Library is in the early stages of

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<sup>18</sup> A "cuff" system is a data gathering and/or reporting system that is maintained at less than the enterprise level.

developing PBB, failure to devise a comprehensive PMIS could inhibit performance management at the time the Library would expect substantial benefits.

### Management Response and OIG Comments

OCFO commented “[w]e find it troublesome that the IG would appear to solicit a specific software product in a report.”

We do not solicit or endorse any software product. We simply note that various Library offices are making use of pbviews® and briefly describe the product. We reiterate our recommendation: “The Library Needs a Performance Management Information System.”

OCFO further commented “[b]efore any plans are made to move to a Performance Management Information System (PMIS), the Library would be prudent to complete the Strategic Planning efforts. This will enable us to understand how our outcomes, performance indicators and representative measures relate in order to develop a sound requirement [sic] document.”

We disagree. A PMIS is the glue that holds all of the components of PBB together. The Library can be concurrently developing its strategic plan and its requirements for a PMIS. Failure to have an established PMIS in place once the strategic planning process is complete and performance indicators are finalized will result in further delays in the implementation of performance and outcome measures.

## IV. The Library Should More Closely Coordinate the Workforce Transformation and Workforce Performance Efforts

GAO reported that “[f]or performance management to succeed, three enablers are needed: people, process, and technology. All three are important, but the people dimension is the most critical.<sup>19</sup>”

Accordingly, when implemented, the success of PBB at the Library will principally depend on the efficiency and effectiveness of the Library’s workforce. Particularly important will be hiring, developing, and retaining staff that have the skills and abilities required to accomplish the Library’s mission. Currently, the Library is pursuing two

<sup>19</sup> GAO, *Managing Human Capital in the 21<sup>st</sup> Century*, 2000, p.2.

initiatives that are expected to provide significant workforce improvements: workforce performance and workforce transformation.

#### *Workforce Performance*

This initiative is being coordinated by HRS and is in a formative stage. Its objectives include ensuring employees understand their position's performance expectations, documenting position standards and expected outcomes, defining performance periods, monitoring performance progress, and evaluating performance. HRS intends to develop a universal model for performance reviews and uniformity in review dates and cycles. However, this is challenging because the Library has seven different plans for reviewing employee performance involving multiple unions, a non-bargaining unit, management and senior management groups, and performance periods of the plans that are not all the same.

#### *Workforce Transformation*

This initiative is being overseen by OMT and was undertaken to properly align Library staff skills with the new emerging requirements of the digital age. The initiative involves two steps. First, the gap between employees' existing and required skills is determined. Second, a strategy to close the gap is planned.

Library management must coordinate the development and direction of workforce performance and workforce transformation in concert with PBB.

***We recommend that Library management devise a plan to guide HRS and OMT in the workforce performance and transformation processes.***

The plan should establish priorities and milestones for the efforts, establish coordination, and identify and allocate the resources needed to successfully complete them.

#### **Management Response and OIG Comments**

OCFO commented "[i]nclusion of the workforce transformation and evaluation efforts seem to reach beyond the original objective of this audit."

According to the GAO, human resource issues, such as workforce performance management and transformation are tied to agency performance plans and use of resources.<sup>20</sup> Failure to recognize this linkage may indicate a basic misunderstanding of the broader picture of GPRA. Appearing, however, to recognize this fact, the Library has cited its performance management and transformation initiatives to Congress as examples of Library movement toward GPRA and PBB.<sup>21</sup> Moreover, during our fieldwork, the Library urged us to report on workforce transformation and workforce performance in our report, as examples of steps toward PBB.<sup>22</sup>

OCFO also commented *"[t]he Library is engaged in both Workforce Transformation and Workforce Performance efforts. OCFO is not sure how this relates to PBB.*

We are puzzled at the Library's response to this recommendation. During our fieldwork, OCFO cited both efforts as key foundational elements necessary to the development of PBB at the Library and requested that we report on their progress in our audit report.<sup>23</sup> Since 56% of the Library's program costs are payroll related, any discussion of performance-based budgeting must include human resources.

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<sup>20</sup> GAO, *Managing Human Capital in the 21<sup>st</sup> Century*, 2000, p 11.

<sup>21</sup> At a hearing on March 1, 2006 before the Senate Subcommittee for the Legislative Branch, Committee on Appropriations, Library management cited as evidence of its GPRA related efforts the re-engineering in CRS and Copyright that involved workforce transformation and evaluation of staff.

<sup>22</sup> Office of the Inspector General interview of Jeffrey Page, Chief Financial Officer, February 21, 2006.

<sup>23</sup> *id.*



## » CONCLUSION

We commend the Library for its efforts to embark on a transition to PBB. At this moment, the Library's primary emphasis is on revamping its strategic planning process while other important performance management components are in development. However, the Library's transition appears to be loosely defined and its plans for developing important PBB components are not clear.

The transition to PBB is an arduous process. This can clearly be seen by the executive branch agencies' experience with GPRA. Even now, almost fifteen years after passage of the Act, many agencies continue to struggle with GPRA methodology. Library management should be able to draw from the many lessons learned by executive branch agencies during their implementation of GPRA to more effectively and efficiently implement PBB at the Library. The Library has an opportunity to design a PBB system that meets its own needs. It should seize this opportunity, because the alternative may be a mandated, generic PBB system that may not reflect the Library's unique requirements.

Library management must recognize the relationships between PBB, workforce transformation, and workforce performance to effectively implement a PMIS and apply project management principles to its PBB project. The "big picture" includes the multiple relationships and connections between all of these programs. Recognizing this will result in a more coherent, comprehensive, and efficient planning and implementation process.

Federal discretionary spending is expected to steadily decline in the foreseeable future, and competition among Federal agencies for diminishing discretionary resources will be intense. Agencies that can demonstrate program results and are managed in an effective and efficient manner will have a competitive edge. The Library should be one of these agencies.

### Major Contributors to This Report

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**▶▶ APPENDIX A: OCFO RESPONSE**

UNITED STATES GOVERNMENT

*Memorandum***Library of Congress**  
*Office of the Chief Financial Officer***Date:** October 2, 2006

**TO:** Karl W Schornagel  
Inspector General of the Library

**FROM:** Jeffrey Page  
Chief Financial Officer

**SUBJECT:** Response to IG Report 2006-FN-502

Thank you for the opportunity to comment on IG Report 2006-FN-502. It is important to put this report in context in addition to providing thoughtful comments on the report content and responding to the findings. This memorandum is organized in three distinct parts to accomplish that goal.

Background:

The Legislative Branch was not requested to adopt performance-base budgeting but rather to move toward the spirit of GPRA. “While Legislative Branch agencies are not required to comply with GPRA, the Committee believes the spirit and intent of the results act should be applied to these agencies. The Committee intends to monitor agencies’ progress in developing and implementing meaningful performance measures.” In the FY 2006 Appropriation bill, agencies were requested to submit plans on how they are working under the spirit of GPRA, which the Library did and which was accepted by the committees with no comment.

An extract from the executive summary of the GAO study on Managing For Results (GAO 05-927): “The Government Performance and Results Act (GPRA) of 1993 has laid a foundation of results-oriented agency planning, measurement, and reporting in the federal government. Performance planning and measurement have slowly, yet increasingly, become part of agencies’ culture. For planning and performance measurement to be effective, federal managers need to use performance information to identify problems and look for solutions, develop approaches that improve results, and make other important management decisions.” Notably absent from the good

Note: We received this response on September 30, 2006.

foundation for GPRA described by GAO is any reference to Performance-Based Budgeting. It should also be noted that many of the congressional committees have protested the submission and abundance of performance data and instead have requested agencies to go back to traditional budget reporting.

Since GPRA was passed in 1993, many different approaches have been taken to implement this program. The Executive Branch, under the guidance of OMB, has worked hard to integrate planning, budgeting and program performance assessment tools and build a system that focuses on results. Another perspective that has garnered attention is the use of performance information for management decision-making. Recently, GAO wrote a report (GAO 05-927, *Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making*) that discusses these issues and provides best practice methods. Based on progress made by Executive Branch agencies, who have been working toward this goal for the past 12 years, the most recent GAO report acknowledges the importance of a sound foundation of five practices that drive organizations successfully toward GPRA's mandate to manage for results. The five practices that form the solid foundation are:

1. Demonstrate management commitment
2. Align agency-wide goals, objectives, and measures
3. Improve the usefulness of performance information
4. Develop capacity to use performance information
5. Communicate performance information frequently and effectively

OCFO has already used this report's foundation as the basis for its improvement plan for the Library's planning, budgeting and program performance assessment processes.

#### Concerns with Content:

The value of reviews and studies is the validity of the facts and assumptions that are used in determining the findings and recommendations. After careful review OCFO discovered some areas of the report that are inaccurate and others that we find troublesome. We will highlight a few here.

First, on page 7, the report states, "it is clear that the Library's overall budget base is not being scrubbed and there has been a reordering and reallocation process of resources within the base that is not transparent to congressional appropriators and other stakeholders." This sentence needs to be deleted. Suggesting that the Library is not scrubbing its base is inaccurate. All offices review base funds before requesting additional funds, and base funds are always taken into consideration before new funds are approved for submission in congressional requests. Further, the new detailed charts make it very transparent as to how funds are being spent and why additional funds are needed. To imply that we are moving funds without appropriate internal controls is not true and a very dangerous and unsubstantiated statement that will lead to inappropriate conclusions, with negative consequences to the Library. All operating plans are submitted to Congress and include changes that do not need congressional approval. In addition, we show Congressional staffers the actual data against plans, indicating the use of funds and any reallocation. No funds are moved without the appropriate office clearance and knowledge, and we only move funds at an office and/or management request.

Second, on page 7, we find it troublesome that the IG would appear to solicit a specific software product in a report. While mentioning Library organizations that use the software is appropriate, the sentence “That pbviews will benefit the rest of the Library and may provide solutions in the development of an overall performance management system...,” as well as the contents of footnote 12, could adversely affect any contracting action.

Third, on page *i*, the report recommends to “coordinate the workforce transformation and workforce performance efforts more closely in the transition to performance-based budgeting.” On page 15 the report states, “The Library should more closely coordinate the Workforce Transformation and Workforce Performance Efforts.” These statements appear incongruent. More importantly, inclusion of the workforce transformation and evaluation efforts seem to reach beyond the original objective of this audit as stated on page 9.

Fourth, on page 10, “The Library’s implementation should conform to PBB’s foundations: effectiveness and efficiency.” This sentence needs to be footnoted with the source or deleted. It appears contrary to recent GAO reports such as GAO 05-927 Managing for Results as mentioned above.

Fifth, on page 11, PPBEES is no longer our process - it has been replaced with the new LCR. Recommend you replace SPO with OCFO, since all work was performed under the CFO and also involved other OCFO offices.

Response to the Findings:

**Finding/Recommendation#1: The Library should develop a formal plan for implementing PBB**

Recommend a restatement to read: The Library should develop a formal plan for implementing LCR 1511. This formal plan will consist of the three directives that support the three key phases: Planning, Budgeting and Program Performance Assessment. We fully expect the directives will address all the relevant factors necessary to meet the requirement recently set forth by GAO with regard to complying with the spirit of GPRA.

OCFO has already demonstrated the importance of the five practices by incorporating them in LCR 1511, Planning, Budgeting and Program Performance Assessment. OCFO’s Strategic Planning efforts also exemplify these attributes. When complete the Library’s 2008-2013 Strategic Plan will clearly articulate management’s commitment to aligned agency-wide goals, objectives and measures. In accordance with LCR 1511, Section 2 C and all of Section 3, the Library has already established the basic guidelines to fully implement a useful program performance assessment process. Our next step will be to further refine the Annual Planning process to improve the usefulness of performance information. We have retained a contractor to facilitate the linkage of our new Strategic Plan to our Annual Planning process in order to develop more relevant and meaningful performance information.

**Finding/Recommendation#2: The Library should revise LCR 1511 to designate an Administrative Officer in charge of PBB and include PBB best practices**

Section IIID of LCR 1511 clearly establishes the roles and responsibilities that define key areas of authority and responsibility, establishes appropriate lines of reporting and establishes a minimum required frequency for reporting on program performance.

**Finding/Recommendation#3: The Library needs a Performance Management Information System**

The report recommends the Library develop a plan for a Performance Management Information System (PMIS). PMIS is intended to link budgets, performance metrics, and results to allow management to access and analyse program and agency performance.

Before any plans are made to move to a Performance Management Information System (PMIS), the Library would be prudent to complete the Strategic Planning efforts. This will enable us to understand how our outcomes, performance indicators and representative measures relate in order to develop a sound requirement document.

**Finding/Recommendation#4: The Library should more closely coordinate the Workforce Transformation and Workforce Performance efforts**

The Library is engaged in both Workforce Transformation and Workforce Performance efforts. OCFO is not sure how this relates to PBB.