BUDGET ACCOUNT STRUCTURES

Paul Posner, George Mason University

The account structure used to appropriate funds plays a formative influence in resource allocation. They structure the units of analysis that will form the basis for allocating scarce resources among competing purposes and form the basis for determining what activities are compared. It makes a real difference if marginal decisions focus on tradeoffs among object classes or tradeoffs among programs. If consistent in defining both the scope and costs of program activities, budget officials could compare claims on a level playing field.

Background

Public sector budgeting has developed over time to reflect various orientations that are based on activities that can be defined by objects of expenditure, performance goals, and programs. Many budgets incorporate a combination of these dimensions as the basis for budgetary accounts.

- Budgets with an orientation on objects of expenditures are referred to as line item budgets. This type of budget is also referred to as a traditional budget. Its primary organization feature is resources purchased.
- Budgets with an orientation on performance goals are referred to as performance (or performance-based) budgets. Its primary organization feature is outputs and/or outcomes.
- Budgets with an orientation on programs are referred to as program budgets.

There are over 1100 appropriations accounts in the federal budget and most accounts have subsidiary program activities that allocate budget authority to more specific levels of inputs, outputs, or outcomes. One informal staff estimate concluded that there were 9000 program activities – subsidiary units under the account level. However in many cases, even these ppa's are not "programs". Rather programs are often subsidiary to ppa's and can number in the thousands. The most comprehensive document setting forth the program elements at the most detailed level can be found in each agency's Justification of Estimates provided to the Appropriations Committees after the President's budget goes forward.

Inhibit comparisons among related programs

Budget account structures are highly disparate and inconsistent even within the same department. The orientation of accounts ranges from object of expenditure, program, organization and strategic planning objective. The present budget account "structure" was not created as a single integrated framework but rather developed, for the most part, as separate budget accounts over time to respond to specific needs. Viewing these individually developed accounts collectively discloses not only the variety within the current structure but also its complexity.

Not only are appropriations accounts disparate, but so are the program activities within the accounts. The following chart illustrates three very different orientations for appropriations accounts and program activities within those accounts for three agencies:

- **Objects of Expenditure:** DOJ's Federal Prison Industries, Inc. Account

Acct. ID	Account PPAs
15-4500	Production Expenses
	Administrative Expenses
	Buildings and Improvements
	Machinery and Equipment

- **Strategic Goal:** EPA's Environmental Programs & Management Account

Acct. ID	Program activities
68-0108	Clean Air and Global Climate Change
	Clean and Safe Water
	Land Preservation and Restoration
	Healthy Communities and Ecosystems
	Compliance and Environmental Stewardship

- **Organization:** DOE Departmental Administration Account

Acct. ID	Program activities
89-0228	Office of Management, Budget & Evaluation
	Office of Policy & International Affairs
	Chief Information Officer
	Board of Contract Appeals

The treatment of such standard costs as administration varies considerably across accounts. In some bureaus, administrative costs are centralized in salaries and expense accounts, while in others they are buried in program or organizational accounts. The costs of a single program can sometimes be split among multiple accounts, such as accounts for salaries and expenses and accounts for other expenditure items such as capital or construction. For example, the budget resources used to achieve VA's burial program performance goals are not readily apparent under its current appropriations account structure. The burial program is funded by six appropriations accounts spread across separate volumes of its congressional budget justification. Conversely, in other agencies, multiple programs are often included in a single account or program activity.

Financial statements offer a potential opportunity to marry up full cost data to the budget and performance plans of agencies.. Financial statements ultimately contain audited data of the net costs of operations which could inform policymakers who wish to compare performance goals and measures with their total costs. However, for the most part, the unit of analysis for financial statements is different than for the budget or the performance plans.

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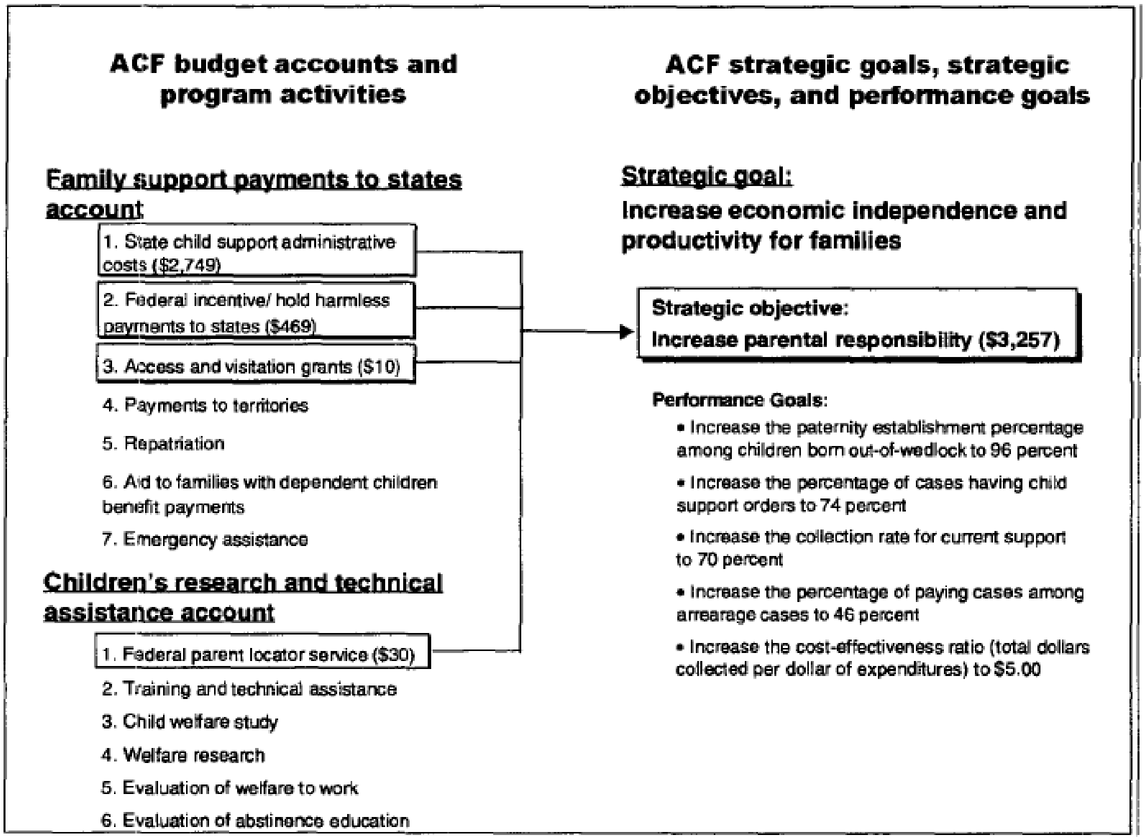
Reduce public transparency

The current account structure satisfies the needs of appropriations committees for control and oversight. Indeed, they are the owners of the account structure. While accountability to the Congress is critical, other budgetary objectives can suffer from this structure. It is difficult for the public to readily understand how resources are allocated among related programs when structures differ so widely. Those in search of funding allocations for specific programs can sometimes find this in the President's budget appendix, but often must wade through the agencies' justification of estimates provided to the appropriations committees, documents that are sometimes not easy to find.

Constrain performance budgeting

The introduction of performance explicitly into budgeting can produce significant opportunities. The use of performance data to inform budget decisions can potentially improve the decision making process and the outcomes of agencies and government as a whole. Moreover, linking performance to the budgets in an effective and credible manner can help to ensure that performance goals and results are taken seriously by all stakeholders. Beginning with the Hoover Commission of 1950, the federal government has made iterative steps to introduce greater accountability for performance results into budgeting and management. The Government Performance and Results Act of 1993 and the Program Assessment Rating Tool represents the latest initiatives to solidify the linkage between performance information and budget decisions.

However, performance budgeting principles are difficult to operationalize in our current budget accounting structure. Agencies preparing strategic plans with outcome oriented performance goals face profound obstacles in translating these visions to the budget when the account structure is oriented to line items or organizations. Agencies have had to undertake complex crosswalks that make it difficult to use the performance goals as the basis for resource allocation decisions. The following chart from the Agency for Children and Families in HHS provided a crosswalk showing how programs from several budget accounts contributed to the strategic goals of this bureau.



Note: Dollars in millions. Numbers may not add due to rounding.

Source: GAO analysis based on the Administration for Children and Families' fiscal year 1999 performance plan and Budget of the United States Government Fiscal Year 1999—Appendix.

Given the critical role played by budget accounts in structuring tradeoffs in budgeting, some type of actual budget account restructuring promises to have a higher payoff than crosswalks in institutionalizing and sustaining the integration of performance and budgeting. In the budget account restructuring approach, budget accounts are shifted from objects of expense, organizations and other orientations to performance goals. When funding is allocated to performance goals and accounted for in budget execution in these formats, agency managers and decision makers both have a greater incentive to pay attention to the strategic and performance frameworks because they must tie budget requests to goals. Budgetary choices can more easily and transparently be made among competing performance levels and goals when budgets are structured to organize costs based on these goals.

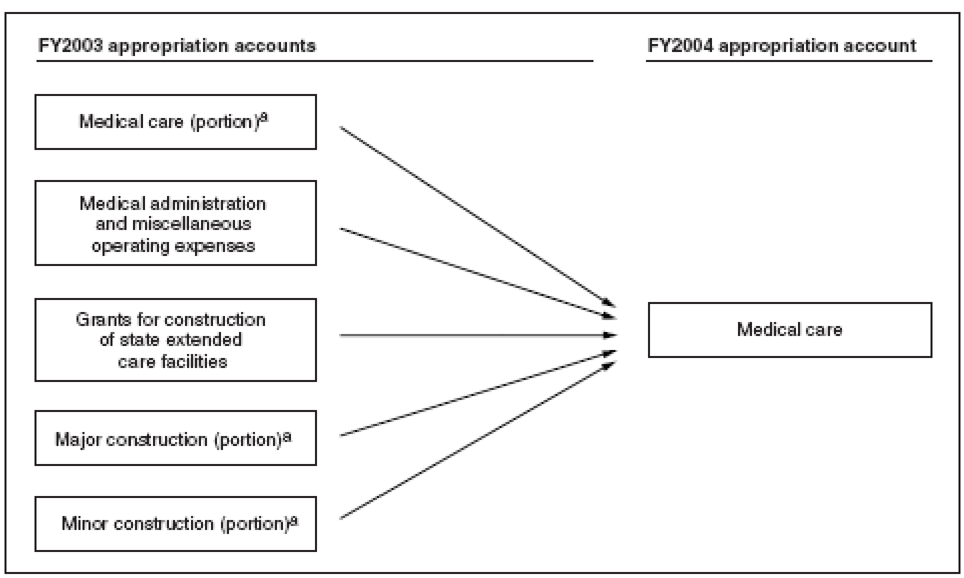
One GAO study found that those federal agencies which restructured their budgets were able to more easily understand how disparate programs, projects and activities contributed to common goals, even when those programs were in different organizational locations throughout the agency. Performance based budget structures can help agencies better understand the overarching goals served by their programs, fostering greater coordination in the process.[i]

Some agencies, such as the Department of Veterans Affairs, attempted to reframe the resource allocation debate by proposing account restructuring. VA's appropriations account structure included accounts for direct benefits, construction, grants, and program administration. For FY 2005, VA officials sought to provide Congress with more information on total program resources, thereby shifting the resource debate from inputs to outcomes and results. In doing so, VA would go from the current structure, under which trade-offs generally are made between similar types of spending among programs, to one in which trade-offs would be made across all types of spending within a program their budget accounts to mirror high level performance goals, such as improving medical care or implementing burial programs.

As Figure 6 shows, all medical care related expenses (i.e., facilities operations and maintenance, provision of care, construction, grants, and administration) would have been included under one appropriations account. Because such items as construction projects would be included in the newly formatted budgets, managers would be more accountable for those resources and would be more compelled to make trade-offs between capital and human assets. Instituting account restructuring sends perhaps the strongest signal of a shift in focus to performance, but it also provides less flexibility should performance goals change.

Figure 6:

Fiscal Year 2003 Enacted and Fiscal Year 2004 Proposed Appropriations Account Structure



For the most part, these account restructuring proposals were rejected by appropriators. While the reform proposals promised to highlight performance implications of appropriations decisions, the committees felt they submerged other dimensions that were important to the Congress. For instance, submerging construction under a program account threatened to reduce the level of visibility and information devoted to an important item of spending to the Congress. In some cases, such as NASA, appropriations account restructuring also gave agency officials greater discretion over choosing the means by which performance goals were achieved – a tradeoff that appropriators initially endorsed but later reversed.

Building from budget subfunctions

As we consider ways forward, it is important to note that the federal budget already includes one overarching crosscutting unit of analysis which can serve as the unit of analysis for a reinvigorated performance based budgeting process. These are 19 budget functions and 80 subfunctions in the budget which group programs and agencies around common missions and purposes. Examples include

- Energy function
    - Energy supply subfunction
    - Energy conservation subfunction
    - Emergency energy preparedness
    - Energy information, policy and regulation
- Natural resources and environment function
    - Water resources
    - Conservation and land management
    - Recreational resources
    - Pollution control and abatement
    - Other natural resources

The subfunctions come close to providing a common mission based unit of analysis to capture the many activities of the federal government across a consistent policy frame. It has the advantage of being tied to all of the budget accounts so that the data is directly derived from the budget rather than through a stand alone, supplemental analysis. And it has been in use for many years so that trends can be tracked over time.

What has been missing is the use of subfunctions as a unit of analysis by OMB and the Congress to make resource allocation decisions. It has largely served as an analytic supplement but could play a more central role in the future should policymakers be convinced that such a crosscutting focus is important.

For the future, subfunctions could become a more central unit of analysis in bringing about performance based budgeting. The subfunctions could become the spine of budget presentations bringing together the disparate programs and activities of agencies around common mission goals. They could also become the basis for performance assessments, with comparative analysis of the relative efficacy of various programs in reaching common goals.

Subfunctions themselves have insufficient granularity to serve as a replacement for current budget accounts and program activities. However, the restructuring of budget accounts and activities could occur within the framework already provided by subfunctions.

Remedies

Other systems with parliamentary forms of government have reformed budget account structures as part of their performance budgeting initiatives. France and New Zealand are two nations that radically simplified and consolidated their accounts to focus greater attention on the consequences of budget decisions for outcomes. We, of course, have a different system featuring separated institutions in Congress and the Executive sharing powers over the budget's structure and form. It is not surprising that Congress and OMB hold differing views on the information and incentives necessary to support effective decisionmaking and oversight. The challenge to executives is to demonstrate to the Congress that performance oriented appropriations structure support Congressional oversight objectives as well as they support OMB's goals

Moving toward a consistent unit of analysis tying together federal resources to performance goals can help provide a systematic framework for budget formulation, execution and oversight. As the building blocks for resource allocation, a more cohesive, consistent and performance-oriented account structure is critical to enable both Congress and the executive to consider competing claims on the same terms. The existing budget subfunctions offer a good foundation for rethinking the budget structures used by federal agencies and the Congress.

However, we recognize that Congress and the Executive have differing perspectives and needs for information and control. Accordingly, we recommend the following:

- Congress and OMB should engage in a joint initiative to undertake comprehensive reform of the budget account structure
- The reformed structure should permit and encourage performance informed budgeting and tradeoffs among related programs
- The reformed structure should add to and not subtract from the information currently provided to the Congress for appropriations decisions. Accordingly, even while changing account orientations, agencies should be required to continue to provide other information needed by appropriators to effectively perform their formative role in holding agencies accountable in a democracy
- Budget subfunctions should be elevated to serve as the unit of analysis for broader tradeoffs and reviews in executive and legislative resource allocation. It can also serve as the overarching framework to inform budget account restructuring.

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[i] U.S. Government Accountability Office, Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources With Performance (Washington, D.C.: GAO, 2005) GAO-05-117SP