



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-272102

July 24, 1996

The Honorable Ted Stevens, Chairman
The Honorable John Glenn, Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable William F. Clinger, Jr., Chairman
The Honorable Cardiss Collins, Ranking Minority Member
Committee on Government Reform and Oversight
House of Representatives

The Honorable John R. Kasich, Chairman
Committee on the Budget
House of Representatives

On September 7, 1993, the National Performance Review (NPR)—the administration's major management initiative—issued a report containing 384 recommendations intended to make the government "work better and cost less."¹ At your request, we assessed the completion status of the 380 action items that NPR said had been fully implemented as of January 16, 1996.² Having been directed by the President to identify additional programs that could be reinvented, terminated, or privatized, NPR made another 180 recommendations in a September 7, 1995, report.³ We will refer to these recommendations as "NPR II." NPR reported that \$70 billion in savings would result from implementing these new recommendations during the period from fiscal year 1996 to fiscal year 2000.

¹From Red Tape to Results: Creating a Government That Works Better and Costs Less, report of the National Performance Review, Vice President Al Gore, September 7, 1993.

²Management Reform: Completion Status of Agency Actions Under the National Performance Review (GAO/GGD-96-94, June 12, 1996).

³Common Sense Government: Works Better and Costs Less, third report of the National Performance Review, Vice President Al Gore, September 7, 1995.

In contrast to our work on the first NPR recommendations, you asked that we limit our review of the additional 180 NPR II recommendations to concentrate on those projected to have the largest savings. After having done some initial work, we met with your representatives on May 17, 1996. Following the meeting and additional discussions with your offices, we agreed to close our work with an explanation of the problems that would be inherent in any attempt to determine (1) whether \$70 billion was a reasonable estimate of likely savings that could be realized from the recommendations and (2) whether the savings were being achieved.

To meet our objectives, we synthesized our relevant work and reviewed appropriate statistical methodologies. We relied extensively on our prior analysis of the difficulties involved in validating and tracking savings estimated for policy changes from the Omnibus Budget Reconciliation Act of 1990 (OBRA).⁴ While those estimates were prepared by the Congressional Budget Office (CBO) and not executive branch agencies, we believe that the lessons learned in our OBRA analysis are applicable to the NPR II estimates as well.

SUMMARY

In reply to the first question, it would be difficult or impossible, to verify most of the NPR II savings estimates. All savings estimates, including those for the NPR II recommendations, are point-in-time estimates. That is, they are measurements of future anticipated savings based on the policies and economic conditions prevailing at the time the estimate is made. Once an estimate is prepared and time passes, it becomes difficult or impossible to retrace the original steps and reconstruct events in order to determine the validity of the original estimate. In addition, it is the nature of estimates that the analysis and assumptions underlying them—including those for the NPR II recommendations—are almost always subject to reasonable debate.

In reply to the second question, even if the NPR II savings estimates could be shown to have been correct at the time, we could not effectively track for most of the proposals whether the savings estimated are being achieved. First, many of the recommendations are in the early stages of implementation. Thus, it may be too soon to draw conclusions. Second, as is true for almost all policy changes, it is often difficult or impossible to isolate accurately the precise budgetary impact of individual

⁴Budget Process: Issues Concerning the 1990 Reconciliation Act (GAO/AIMD-95-3, Oct. 7, 1994). For further information see Budget Issues: Fiscal Year 1994 Budget Estimates and Actual Results (GAO/AIMD-95-109, Apr. 5, 1995) and Addressing The Deficit: Updating the Budgetary Implications of Selected GAO Work (GAO/OCG-96-5, June 28, 1996).

policy changes from the impacts on spending of other policy changes—including subsequent legislation, other administrative actions, changes in the economy, and behavioral responses.

The remainder of this letter discusses these problems in greater detail. As we explain, while it is reasonable for policymakers to want to know whether estimates of budgetary savings are valid and savings from enacted legislation or administrative actions have been achieved, difficulties in obtaining documentation for the savings estimates and methodological limitations make it difficult and costly to answer the two questions—especially for a large group of estimates as with NPR II. Moreover, given the difficulties with documentation and methodologies, attempts to verify initial budgetary savings estimates and to calculate actual savings realized have often been inconclusive.

SAVINGS ESTIMATES—INCLUDING THOSE FOR NPR II—ARE HARD TO VERIFY

In the budget process, cost estimates are prepared by CBO and revenue estimates by the Joint Committee on Taxation (JCT) for the legislative branch. The Office of Management and Budget (OMB) prepares the President's budget estimates in cooperation with federal agencies for the executive branch. OMB analysts generally rely on information about program spending and/or revenues, the details of proposed policy changes, and information on offsetting costs to translate policy changes into dollar terms. Budget-related savings estimates (which represent the difference between gross savings minus offsetting costs, i.e., net savings) are generally reported as totals over a multiyear period, with the usual length being 5 years. Thus, for example, neither gross savings nor offsetting costs anticipated to occur outside this "budget window" would be counted in the overall estimate of the net 5-year budgetary impact.⁵

Because savings estimates play such an important part in formulating budget and tax policies, policymakers are naturally interested in ensuring that the estimates are as accurate as reasonably possible and that anticipated savings are realized. Over time, we and others have reviewed processes for developing budget-related savings estimates and whether anticipated savings resulted. While these reviews can be

⁵The baseline for calculating spending changes varies, depending on the purpose of the estimate and the type of spending. For example, the baseline for entitlement program spending includes adjustments for inflation as well as changes in population and other technical factors. In contrast, the discretionary spending baseline historically has included an adjustment for inflation only; the most recent congressional budget resolution used the previous year's appropriation as the baseline.

useful, precise verification of savings estimates and their achievement has seldom been possible.

Some cost estimates are easier to prepare than others, and—generally speaking—the more complex an estimate is to prepare, the more complex it is to verify. Our examination of CBO and JCT cost-estimation processes and our work with these organizations in providing Congress savings estimates for our deficit reduction options suggest that these estimates are easier to prepare and less prone to error when (1) current program costs and components are readily identified by budget account, (2) the policy change is specific as to its effects on agency operations and activities, (3) implementation of the change occurs within the 5-year budget window, (4) behavioral effects and program interactions associated with the change are known, (5) existing empirical evidence supports savings, and (6) a preponderance of the data and other information needed to prepare an estimate is readily available.

The NPR II recommendations we examined had many of the features that make cost estimation difficult. For example, some of the recommendations involved major institutional reforms, but provided few details on precisely how agency operations and programs would change. Also, some of the recommendations involved multiple budget accounts that could be affected to varying degrees.

Any effort to verify the NPR II recommendation savings would face additional methodological problems common to all such efforts. Cost estimates are point-in-time measurements that are based on policies and economic assumptions in place at the time the estimate is made. Once an estimate is prepared and time passes, it becomes difficult or impossible to retrace the original steps and reconstruct events in order to determine whether the original estimate was valid. This is in part because cost-estimation processes are sufficiently different from other kinds of budgetary and financial activities that they rarely, if ever, lend themselves to the types of documentation or record-keeping needed for auditing. As we have noted, CBO and JCT do not maintain central files or formal historical records of the thousands of cost estimates they prepare. Their analysts are generally responsible for large numbers of cost estimates. Each cost estimate generally goes through many iterations as policy changes are drafted and finalized. Moreover, time pressure is great because cost estimates provide information that is used by policymakers during the formulation and enactment of policy.

We did not undertake a detailed review of OMB and agency processes for preparing the NPR II estimates as we did previously for CBO. However, our past work in which we examined differences in CBO and OMB cost estimates suggests that the overall executive branch cost-estimation processes are not dissimilar. In addition, our initial discussions with executive agency staff suggest that information and data used for the

original NPR II estimates would not be easily available and might in some cases be impossible to reconstruct, given the time that has passed. We believe that this general methodological limitation might present special problems for the NPR II savings estimates since so much has changed in agency budgets and operations since the original NPR II estimates were made.

Also, budget-related savings estimates should be measurements of net savings, that is, gross savings less offsetting costs anticipated to occur during implementation. Net savings are hard to second guess because estimating offsetting costs often requires analysts to make judgments and assumptions about implementation problems, modifications in behavior by program beneficiaries and other actors (e.g., state and local governments, service providers) due to the policy changes, and interactions within the program or in related programs.⁶ Consequently, because it is impossible to know the future and any of these offsetting factors could raise or lower a savings estimate, estimates of the costs of offsets (including any done in conjunction with a verification effort) could be subject to reasonable debate.

TRACKING SAVINGS FROM PARTICULAR POLICY CHANGES IS DIFFICULT AND RESOURCE INTENSIVE

Our work on the 1990 OBRA provisions, as well as two recent reviews on NPR-II recommendations,⁷ lead us to believe that tracking savings for a large number of NPR-II estimates would not provide Congress useful information proportional to the resources that would be required.

Because it has been less than 5 years since the NPR II estimates were originally prepared, in many cases we would not be able to draw conclusions about whether the savings originally estimated had been realized. For example, our recent review of the Department of Energy's strategic alignment initiative (NPR II recommendation number DOE2-06) found that DOE's planned \$221 million in fiscal year 1996 budget savings was achieved, but that some overly optimistic initial savings reports illustrated the need for continued DOE management attention to this initiative. However, because implementation was in early stages, our review was inconclusive as to whether DOE

⁶For more detail on these interactions see Budget Process: Issues Concerning the 1990 Reconciliation Act (GAO/AIMD-95-3, Oct. 7, 1994) and Budget Policy: Issues in Capping Mandatory Spending (GAO/AIMD-94-155, July 18, 1994).

⁷Energy Downsizing: While DOE Is Achieving Budget Cuts, It Is Too Soon to Gauge Effects (GAO/RCED-96-154, May 13, 1996). Housing and Urban Development: Comments on HUD's FY 1997 Budget Request (GAO/RCED-96-194, June 17, 1996).

would ultimately reduce costs to the extent anticipated. This review of 1 of NPR's 180 recommendations took several staff members more than 4 months to complete.

Moreover, as we reported in our study of OBRA 1990 provisions, it is often impossible to identify the savings associated with policy changes accurately. Our work suggested that only newly imposed user fees and charges or deposits to budget accounts or the federal treasury naturally lent themselves to this kind of tracking. In most other cases, the budgetary impact of individual policy changes could not be isolated accurately from the impacts on spending of related policy changes, subsequent legislation, other administrative actions, changes in the economy, and behavioral responses. While agencies could identify spending changes in their programs for the period after the policy changes associated with OBRA 1990 were enacted, these resulting changes represented the net effect of all legislation, administrative actions, and other intervening variables that affected the program. Therefore, the results could not be compared with the original estimates. This methodological problem is fundamental to all such tracking efforts, and thus it would apply to any effort to assess whether savings from the NPR II recommendations were being achieved.

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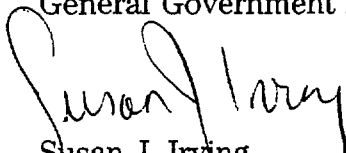
Because this letter is based on our previously issued work, we did not obtain agency comments on it.

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We are providing copies of this letter to the Director of OMB, the Secretary of Energy, and NPR's Project Director. Copies will be made available to others on request. If you have any questions, please call Mr. Stevens on (202) 512-8676 or Ms. Irving on (202) 512-9142.

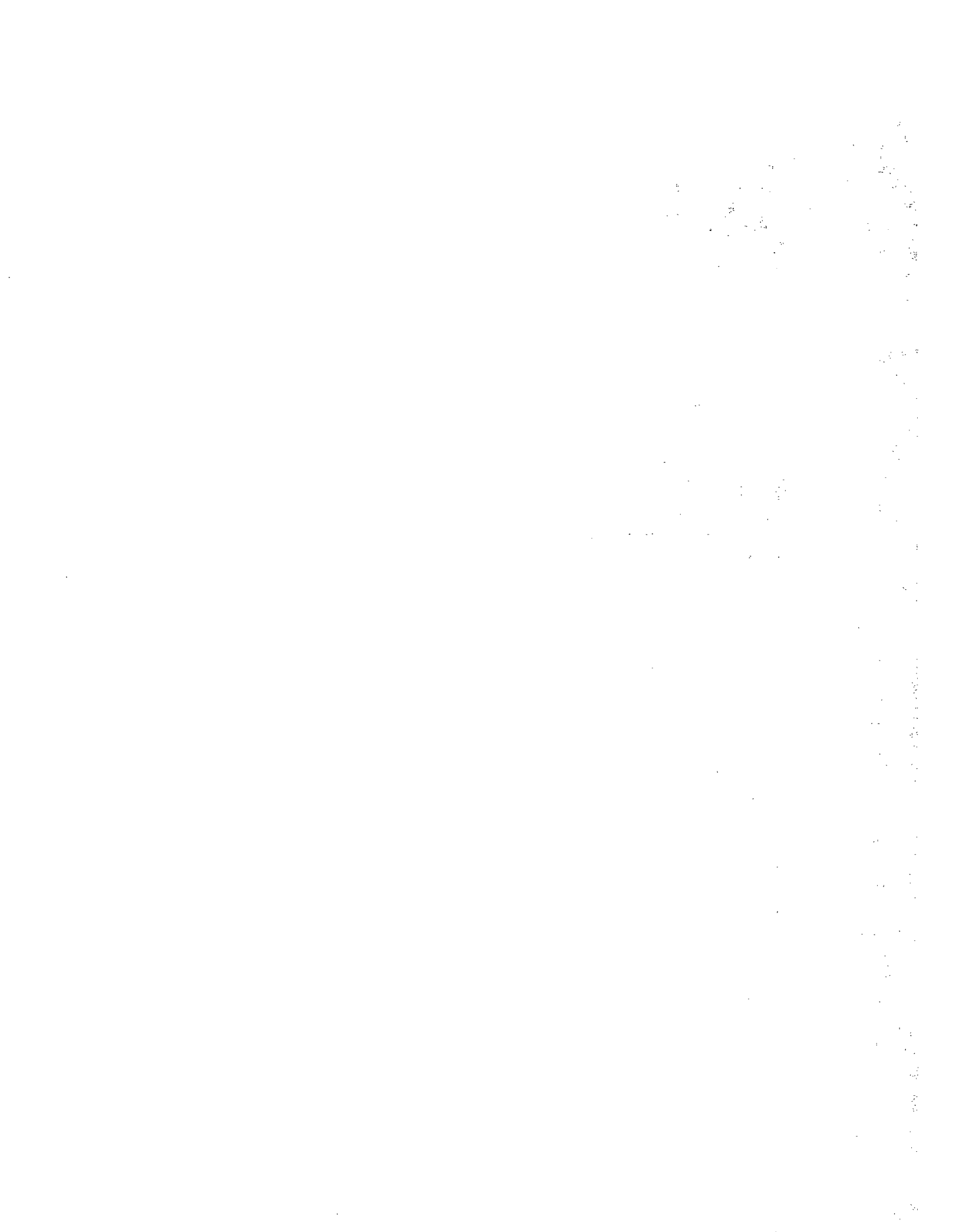


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