

Approved: Al Ramirez 3-17-93
Date

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

The meeting was called to order by Chairperson Al Ramirez at 1:30 p.m. on March 10, 1993 in Room 531-N of the Capitol.

All members were present except:

Committee staff present: Julian Efird, Legislative Research Department

Fred Carman, Revisor of Statutes
Jackie Breymeyer, Committee Secretary

Conferees appearing before the committee: Representative Hendrix, Sponsor **HB 2228**
Representative McKechnie
Bob Corkins, Director of Taxation, KCCI
Gary Reser, Governor's Legislative Liaison

Others attending: See attached list

The meeting was called to order by Chairman Ramirez. He welcomed Representative Hendrix to the committee and asked him to begin testimony. Representative Hendrix explained that his testimony was delayed, but the committee would receive it shortly. (Attachment 1)

Representative Hendrix stated that **HB 2228** is basically a bill to reinvent government. He held up a book entitled "Reinventing Government" by David Osborne and Ted Gabler and recommended it to anyone who is in public office today. Basically it is about how the entrepreneurial spirit is transforming the public sector. The authors share a lot of instances where government has been privatized and been very successful. The bill is also built upon the concept of what the state of Texas has done. The basic purpose of the bill sounds fairly revolutionary. It is to challenge and question the basic assumptions underlying all state agencies and the programs and services offered by the state to identify those that are vital to the best interests of the state. In trying to set this up it became very difficult structurally. In Texas they have the state auditor who is independent. He can actually go forth and do many of things the Legislature Post Auditor would do in this bill. A vehicle is needed to look at every agency, program and institution to evaluate how well the job is being done from a performance standpoint. The concern is not so much as to how public officials are basically operating in terms of the functions of their jobs, but at what government actually produces.

Representative Hendrix referred to the Bill Brief, which he stated was well written and organized. He read the duties of the Post Auditor 1 through 5. He referred to the K-GOAL audits and the SRS audits and what an overwhelming job it is for Post Audit to perform.

Representative Hendrix stated that basically government will have to be looked at in a new light. There is a certain inertia in government. We are basically in a situation where we have no feel, control or accountability for what we do. It is hope that a complete review can be made, much like the state of Texas.

Representative Hendrix directed attention to page 2 of the bill brief where an advisory committee would be established. Numbers 1 through 9 were read. It is thought to be a well balanced committee for providing input in terms of looking at certain areas that need to be looked at in terms of making the government work. Then what will be done is to create a management staff with respect to how we govern; a complete management review. Legislative Post Audit will head this up with Legislative Research. In order for this to work, everyone has to come on board. If someone says no to the process then it will not be successful. There will be a management staff that has the technical ability and the accounting background, the auditing experience and the management review capability to be able to conduct this particular program. Once this is put in place there will be various task forces broken up into categories or groups such as education, welfare and so forth. People from these various agencies who deal with these problems will be solicited for their ideas with respect to what needs to be done to change certain things such as what programs need to be eliminated, which ones need to be kept, and which ones need additional revenue in order to be able to allow them to fulfill the purpose to which they were directed.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION, Room 531-N
Statehouse, at 1:30 p.m. on March 10, 1993.

Representative Hendrix read from page 4 of the bill brief to the effect that the Post Auditor would be directed to prepare a report and recommendations dealing with implementing a performance-based measurement system for state agencies. He thought that this was essential for state agencies to start asking themselves what their mission is, how they will go about accomplishing their goals, how it can be done more efficiently, how they can respond to taxpayers and have an outcome based on what they actually do. When this is put into place, the measure of what is being done can be taken, and legislators, when dealing with certain issues, will be able to identify what is actually being accomplished with the program.

Representative Hendrix stated that part of the testimony the committee will be receiving contains the Texas Act, the introduction to the performance review that the state of Texas did, the federal legislation that is now being considered to implement this on a trial basis, some measurement and performance audit articles, and some information that would be helpful in terms of informing that this is the cutting edge of the way that government is going to go. Kansas could be in the forefront of what is being done in order to make government more efficient and to consolidate various programs.

Representative Hendrix ended his testimony by stating that he thinks this is a way to review all programs and look at consolidation within state government and supplement those programs in need and operate a lot more efficiently and with less expense.

In response to a question, Representative Hendrix stated the K-GOAL audits would be put off for a year. This would in a sense be like a mega K-GOAL in that it would be an evaluation of all programs.

Questions were asked dealing with enlisting a private firm, other states that are looking into redefining government and a fiscal note.

Representative Hendrix stated that Texas had a substantial deficit connected with the downfall of oil and the collapse of the real estate market. The state auditor, lieutenant governor, and technical staff spent seventy-seven million dollars. They streamlined the government and ended up saving 2.5 billion dollars.* The philosophy of whether someone from the outside or inside does the job is a question of whether one thinks the government, itself, can conduct the program. There may be philosophical problems with respect to this. Representative Hendrix has talked to people in agencies and asked them simple questions as to what it would take to do the job better and how to more effectively be able to serve people, what are the legislative or legal constraints that are impairments to serving the people better. Many people with a wealth of information would come forward and volunteer information that could be collected. Post Audit has a history of evaluating programs and agencies and knows the different personnel within the agencies. Representative Hendrix was mindful of the program costs and knew that money could not be spent like in the state of Texas, but did have the roadmap and the benefit of what they had done. A number of private citizens can be appointed to this committee as well as a certified public accounting firm that would have a member. What he envisions is that hopefully the people that are the politicians and leaders would identify those people in the private sector that would have management review capabilities so that there would be a management review staff.

Representative Hendrix stated that failure to do this will be a major problem since there are federal mandates and programs coming down everyday with multiple agencies administering programs and state government that is not specifically designed to implement these programs. Basically state programs are being piled on top of federal programs. There is no assurance that the agencies doing these things are having any effect upon the community. A Hotline has been created in this program to get response from state workers and private workers for the accumulation of input and ideas.

The comment was made that better results might be gained from an outside consulting firm. Another comment centered on a former study wherein several reforms were dealt with, ultimately to be vetoed by the governor's office as an encroachment upon the executive branch by the legislative branch. Did the Representative envision that happening with this piece of legislation. Representative Hendrix has researched the separation of powers issue. There is no delegation of responsibility with respect to this program. The government is not being asked anything but to report to the legislature. There is no imposition of legislative will upon the government. It is a fact finding mission that needs to be accomplished. By postponement of K-GOAL audits and by limiting the number of post audit requests, the Post Auditor will be able to devote more of her full time. The sooner K-GOAL audits are stopped and the budget office and Legislative Research is on board, the Post Auditor should be able to utilize all but possibly one of the audit teams.

Representative Hendrix was asked what the House vote was. He responded 107-17.

*Dollar amounts corrected by Post Auditor in 3/11 minutes.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION, Room 531-N
Statehouse, at 1:30 p.m. on March 10, 1993.

Representative McKechnie appeared next in support of **HB 2228**. (Attachment 2) He stated that this bill was a bi-partisan effort. Merged into the present bill is legislation put forward by Representatives Bishop and McKechnie. Representative Lowther also had legislation merged. It was further amended on the House floor to take care of some further concerns expressed by the budget director and secretary of administration. Nothing is entailed in the bill that cannot already be accomplished. A six-month period would be taken to plan what needs to be done, a year to review what state government does, and then six months to report to the legislature. After this is done, K-GOAL is re-established and looks division by division over a seven-year period. It continues to make recommendations on improvement. It also fits well with what Post Audit continues to do, as well as the Governmental Organization committee.

Bob Corkins, KCCI, spoke in support of **HB 2228**. He distributed copies of testimony (Attachment 3), along with a pamphlet entitled "Progressive Spending?" (Attachment 4) The KCCI has worked in the last several months on a campaign which includes this concept. Recommendations included the formation of a Kansas-style "Grace commission" like that proposed in the bill. Mr. Corkins spoke of the high number of state employees. Kansas has the highest employee rate in a six-state region. The rate of growth is eighteen percent higher than the national average. The KCCI feel strongly that business persons should have meaningful input into deliberations that the advisory committee would put forth. The first and most critical issue to be considered is an accurate and specific cost accounting of current government services. The advisory committee solutions will hinge upon this.

Chairman Ramirez called upon Mr. Gary Reser, Governor's Office, an opponent of **HB 2228**.

Mr. Reser stated that the governor is strongly opposed to this bill and feels that it is an intrusion upon the executive branch of government and disregards separation of powers. Mr. Reser stated he wanted to concentrate upon a lot of other positives about what is already happening in the governor's administration. He directed the committee's attention to the last page of his testimony entitled "On-Going Initiatives". Mr. Reser stated that policies must not be developed by a management review committee directed by Legislative Post Audit. K-GOAL should be allowed to work before Post Audit takes on another major initiative. The governor will be calling upon the private sector in Kansas to become partners with the executive branch in earmarking and implementing changes that could result in an efficient and cost-conscious state government. Mr. Reser ended his testimony by stating that for all the reasons cited in the testimony, the governor opposes the bill. (Attachment 5)

Mr. Reser was questioned about the statement contained on the second page of his testimony to the effect that there was a net reduction of 91 FTEs. Mr. Reser responded that he believed that was for the fiscal year 1991. The first budget the governor submitted after she took office had a net reduction.

One of the committee members differed with this statement and had a print-out showing a net gain of 157.2 for the same period.

Mr. Reser said he would double check the figure.

The Chairman asked the committee to be on time for the meetings. He asked Ms. Hinton and Mr. Reser to return tomorrow. Secretary Whiteman will be present to testify on another bill.

The meeting was adjourned.

The next meeting is scheduled for March 11, 1993.

GUEST LIST

COMMITTEE:

Senate
H. O. Comm.

DATE :

3-10-93

[illegible]

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TOPEKA

HOUSE OF
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CONGRESSIONAL APPORTIONMENT
LOCAL GOVERNMENT
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JOINT COMMITTEE ON KPERS
INVESTMENT PRACTICES

HB 2228

CHALLENGING THE UNDERLYING ASSUMPTIONS OF ALL AGENCIES

State government has grown large and unwieldy over the past decade. Part of the problem has nothing to do with state government per se, but is a direct product of the federal government mandating programs for state administration. This unforeseen delegation of power has not always been efficiently distributed within government. Federal programs have been assigned to state agencies and administered in conjunction with state programs. Often times federal programs have been parceled out to different governmental units for implementation. As a result, there is much overduplication within government and poor delivery of services to the public. Government has gotten costly, and it has been very difficult to make public officials accountable for their actions.

Having been through one legislative term, I could see that we were just piling program on top of program without much concern about performance. I talked to many people I respect only to hear a constant refrain that government could not be run like a business. Some cynics questioned whether it was feasible to make the political process of government manageable.

Fearing that I would fall prey to a modern day Cervantes, I almost abandoned my mission. But given my stubborn nature, I embarked on a course which I am hopeful will reinvent Kansas government.

I helped formulate a plan for a comprehensive management review of government. The purpose behind H.B. 2228 is to challenge and question the basic assumptions underlying all state agencies. If enacted, the legislative post auditor would:

- (1) Conduct a complete review of all state agencies and all programs, services and activities operated by such agencies;
- (2) Evaluate the efficiency of all state agencies to determine if they fulfill their basic functions;

H. O. Comm.
Attachment 1
3/10/93

- (3) Determine methods to maximize the federal funds received by the state to assure that Kansans receive the full benefit of their tax dollars; and
- (4) Identify programs that can be eliminated or transferred to the private sector.

To avoid spending millions of dollars, my proposal would set up a management staff headed by the post auditor and supplemented by her staff, legislative research and personnel from the Governor's budget office. The management staff would be able to select existing governmental employees from various agencies and programs on a categorical basis (e.g., education, revenue, social and human services, energy and natural resources and health.) Each agency would be required to furnish what the management staff deemed appropriate. The cost would be the commitment of existing personnel to the evaluation process.

To assure public input, a toll free hotline would be established to permit comments by the citizenry at large. The calls would be logged and the ideas catalogued for inclusion into the review process. The private sector would be permitted to make gifts to the project and would be able to volunteer individuals who could participate in various task forces and teams.

Why support this concept? There seems to be a general dissatisfaction with government, and a desire for more responsive services at lower cost (resulting in lower taxes). Normal procedures for dealing with the effectiveness of government are not working. Although policy making, budgeting, managing agencies and auditing are useful tools, they have not provided complete accountability from our agencies, programs and institutions. The reasons normal procedures do not work are now understood. The focus of conventional techniques to examine government are too narrow to identify underlying problems. These techniques start with the status quo and inherit the inertia within the system. The current system is limited because only a few people are allowed to participate in the current evaluation process and only a few perspectives are sought.

Therefore, I encourage you to endorse H.B. 2228 and request your support.

Attachments:

1. *Breaking the Mold: A Report of the Texas Performance Review*
2. Senate Bill 111
3. *Performance Monitoring in State Government*
3. State Auditor's Mission Statement
4. GAO Memorandum
5. *The Performance Measurement Manifesto*
6. Criteria for Developing Performance Measurement Systems in the Public Sector



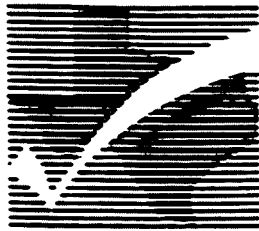
Breaking the Mold

*A Report of the
Texas Performance Review*

Volume 1

July 1991

1-4



Chapter One

Introduction

There is an old Texas saying that goes: "If you always do what you've always done, you'll always get what you've always got."

One thing Texans have today is a state government that doesn't work very well. Despite efforts to restrict spending and limit the demands on the state budget, Texas continues to face biennial fiscal woes. Each new session of the Legislature brings renewed talk of major tax legislation and threats of reduced services. Thinking creatively about the state's long-term needs perennially takes a back seat to the burden of dealing with the crush of the present.

Texans often associate this state of affairs with the oil bust of the 1980s. That view is shortsighted. Texas has struggled with its finances for decades.

The 1930s have been characterized as a "decade of deficits," when the state's books were continuously in the red.¹ The war years, with their limitations on domestic spending, provided a break in this cycle, but budget difficulties quickly resurfaced in the post-War era. Since World War II, state spending consistently has outpaced the tax system's ability to keep up. "[T]he revenue system has chronically underperformed both the growth in the overall economy and in state spending," the Select Committee on Tax Equity concluded in a 1989 report. "This has led to additional tax legislation on the average of once every four years since 1947."²

The one exception to this trend was the period from 1972 through 1981, when the oil boom accelerated the state economy dramatically, producing large, recurring state budget surpluses. The Tax Equity Committee's analysis showed the growth in that period to be largely a result of energy price inflation, which fueled rapid growth in state oil and gas severance taxes. Without that inflation-driven growth, the revenue system would have underperformed spending demands in that decade as well.³

In effect, the 1970s were a fever-dream that promised unlimited growth for the state. But when the fever broke, it left the system no better than it was before—plagued by a lingering structural deficit—a perpetual gap between the state's budget needs and the dollars on hand to pay for them.

The heady days of the 1970s are unlikely to come again. Even if they do, they are not a healthy basis for stable, responsible government. The present must be faced as it is: The Texas economy is growing again, and the predictions suggest that the growth will continue. However, the growth won't be rapid, the state's problems will continue, and progress will be hard-won.

One problem certain to linger in the absence of legislative action is the structural gap in the state's finances. Despite a revitalized economy, Texas, at the beginning of the summer of 1991, finds itself \$4.6 billion short of the funds to provide the same level of services in 1992 and 1993 that it is providing in 1991.

If we do what we have always done, the special legislative session during the summer of 1991 will pass a compromise tax bill that is a patchwork of additions to the current system. It will make minor adjustments in the budget to balance the tax program.

But if we do what we've always done, we will, as the saying suggests, get what we've always got: short-term solutions to long-term problems—a brief respite before the budget difficulties resume in the 1993 legislative session.

It is time to break this cycle of stop-gap remedies. It is time to rethink Texas government and how it provides basic services to the state's citizens. It is time to lay aside the old nostrums, to look for new solutions to our old problems, and to prepare for the challenges of the new decade—and of the new century—ahead.

Through the years, Texans have paid for many studies of their tax system. The time has come to

¹Texas Commission on State and Local Tax Policy, *Our State Tax Policy: Its History, Its Future* (Austin, 1959), p. 22.

²Select Committee on Tax Equity, *Rethinking Texas Taxes, Volume 2—Analysis of the Tax System* (Austin, 1989), p. 80.

³Ibid.

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Senate Bill 111 requires the state to conduct a review of state agencies and all programs, ser- vices and activi- ties operated by those agencies.

look critically, not only at how we finance government, but at how we organize and operate it as well. To break the structural deficit, we must attack the problem from both the revenue and expenditure sides of state finance simultaneously, and we must do so with unparalleled thoroughness. As Raymond Morley has challenged all government leaders: "Free the state from the past. Weed it out. Fumigate it. Put it back to the job of serving the present."⁴

Senate Bill 111

The Legislature has developed a unique approach to meeting this challenge. Originally proposed in December 1990 by Lieutenant Governor-elect Bob Bullock as a "new start" budget plan for Texas, this new approach eventually took the form of Senate Bill 111, passed by the Legislature and signed into law by Governor Ann Richards on January 31, 1991. (See Appendix A.)

Among other provisions, Senate Bill 111 requires the Legislative Budget Board, the state's budget-writing body, to conduct a review of state agencies and all programs, services and activities operated by those agencies. The bill directs the involvement of the State Auditor, the Sunset Advisory Commission, the Legislative Budget Office, the Governor's Office of Budget and Planning and the Comptroller of Public Accounts. It requires a series of recommendations to be presented to the Legislature by July 1, 1991.

In an emergency session held on February 6, 1991, the Legislative Budget Board designated Comptroller John Sharp to lead the operational review of the state budget envisioned in Senate Bill 111. Upon receiving this assignment, the Comptroller worked internally and in conjunction with other involved agencies to develop and implement a plan to accomplish the goals outlined by the Legislature.⁵ Even a cursory review

of Senate Bill 111's requirements illustrates the complexity and the difficulty of accomplishing the task within the prescribed time lines—essentially four and a half months.

The primary goal of the operational review, as defined in the legislation, is to "challenge and question the basic assumptions underlying all state agencies and the programs and services offered by the state." In refining this basic directive and others outlined in the bill, the Comptroller identified the following major objectives:

- to examine the organization and management of state government and to recommend consolidation and reorganization where appropriate;
- to evaluate the programs and policies followed by the agencies of state government to identify overlapping functions, outmoded methodologies or areas needing greater attention by the state;
- to examine the fiscal management of state government and the financial relationships among agencies;
- to recommend the basics of a debt management policy for the state;
- to identify opportunities for basic management improvements in the daily operations of the government;
- to identify programs and services that could be transferred to the private sector;
- to examine the state workforce and the benefits provided to state government employees;
- to identify advances in technology and their applicability to state government functions;
- to determine methods that would increase the federal funds the state receives; and
- to consider changes to improve the revenue system and to increase income to the state without changing the rates or bases of the state's major taxes or adding new tax sources.

⁴ Raymond Morley, as quoted in William Safire and Leonard Safir (eds.), *Words of Wisdom* (New York: Simon and Schuster, 1989), p. 160.
⁵ Comptroller of Public Accounts, *Texas Performance Review: An Operational Review of Texas State Government—Project Plan* (Austin, February 18, 1991).

It is critical to recognize the scope of the objectives of the Performance Review. The Comptroller never viewed the project as a simple exercise in budget cutting. Compared to most states, the State of Texas has been conservative in most spending areas through the years. To bring about lasting improvement in the state's fiscal system, the review had to extend far beyond budget reductions, and its recommendations had to focus on the much broader issues of how government is organized, managed and financed.

Significantly, these recommendations coincide with a report from the Governor's Task Force on Revenue, which is examining the state and local tax system. That task force must report by July 1 as well, meaning that the Legislature, meeting in special session this summer, should have before it comprehensive recommendations for dealing with both the revenue and spending sides of the state fiscal equation.

The Texas Performance Review

Ultimately, the Texas Performance Review project that produced this report made use of staff from 16 state agencies and from a number of private sector sources as well. A team of more than 100 staff members, organized according to the major functional areas of the state budget, did the bulk of the work (Appendix B). In total, this team logged more than 52,000 hours of time on the project. The team's efforts were directed by a project management team from the Comptroller's Office and were supported by input from a Policy Committee made up of staff representatives from the key agencies involved in the project and from the legislative and executive leadership (Figure 1-1).

The project team's work included a broad review of previous analyses of state government budget practices, a review of similar efforts in other states, the development of extensive background information and analysis from agency budget and performance statistics, and wide-ranging interviews with private sector experts, public sector managers and front-line employees in all of the functional areas of Texas state government. In total, the project team conducted

almost 700 interviews with individuals inside and outside of government.

The work of the Performance Review did not stop with basic research and analysis. The project plan also incorporated several unique features designed to introduce new insights into the overall budget review process.

First, the Comptroller installed a special telephone hot line to encourage input from state employees and the general public. This hot line was widely advertised statewide in local convenience stores, city halls, county courthouses and state agency offices. Employee involvement was also encouraged through a link to the Texas Incentive and Productivity program. In total, 2,663 suggestions were received through the hot line during the course of the project. Each of these suggestions was reviewed by the project team, and many were incorporated into the overall Performance Review recommendations. Suggestions specific to individual state agencies are being provided to the agencies.

Second, the Comptroller conducted a series of nine public hearings around the state to encourage further participation by the general public and state employees outside Austin (Figure 1-2). These hearings attracted testimony from more than 200 Texans and provided additional input to the Performance Review teams.

Finally, the Performance Review benefitted from input from three task forces of public and private sector experts assembled to assist its efforts. These included a Blue Ribbon Panel on Technology, an Electronic Benefits Transfer Task Force and a State Management Practices Task Force. These task forces contributed input to the Performance Review on a wide range of critical topics at minimal cost to the state.

The Performance Review and the State Budget Problem

The Texas Performance Review represents one of the most far-reaching efforts of its kind ever mounted by Texas state government. It also is one of the most sweeping reviews of govern-

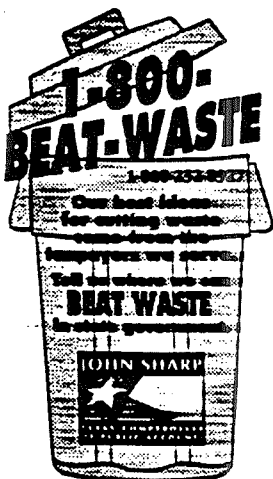
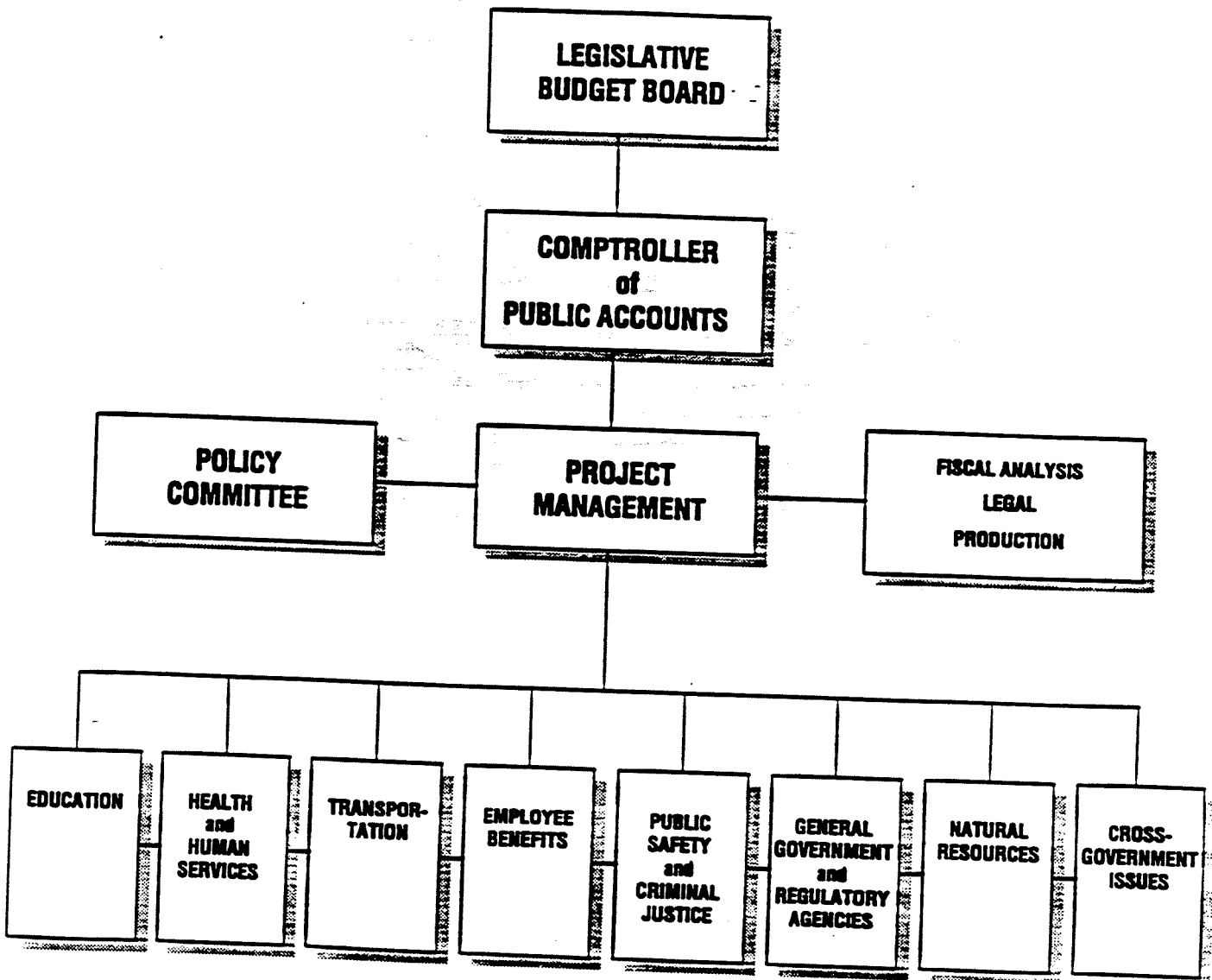
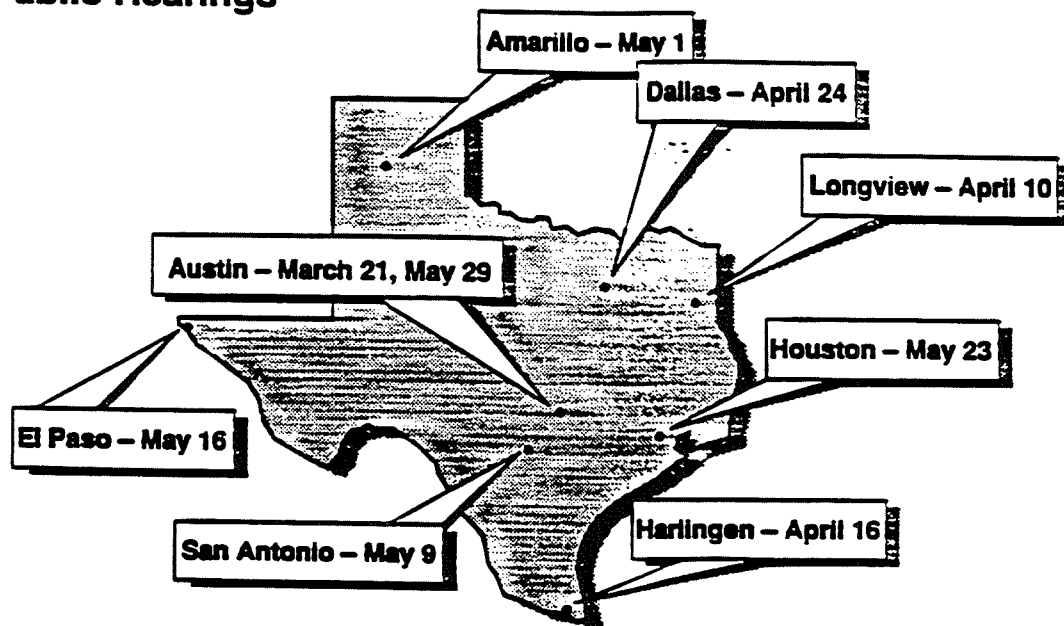


FIGURE 1-1
The Texas Performance Review Structure



1-8

FIGURE 1-2
Texas Performance Review
Public Hearings



ment operations ever undertaken by any state government—particularly within the limited time frame available. Similar studies in other states normally have required a minimum of one year and often have lasted 18 to 24 months.

Working from an initial list of more than 700 issues, the Performance Review honed its recommendation to 195 issues. In total, the issues cover approximately 975 recommendations.

The fiscal effects of all of these recommendations are estimated based on their impact on the current funding shortfall facing the state. Table 1-1 shows how the current shortfall of more than \$4.6 billion is calculated. It is important to recognize that the shortfall is not an actual deficit in the state's financial accounts. Rather it is a gap between what the state needs to spend over the next two years to maintain its current level of services and the revenues estimated to be available for spending by the Legislature.

The current services budget estimates are provided by the Legislative Budget Board. The current service level is the amount needed in the 1992-93 budget years for the state to go on providing the level of services it is providing in 1991. The only adjustments made to spending demands in 1992-93 above 1991 levels reflect: (1) new demands caused by growth in service populations, such as increases in the number of school children or inmates in state prisons; (2) special adjustments required by court orders, such as increases in spending for prison construction; and (3) the effects of legislation enacted by the regular session of the Legislature, which adjourned in May. As Table 1-1 shows, this latter factor includes \$139.5 million in budget reductions made by Senate Bill 111.

The revenue estimates used to calculate the shortfall shown in the table come from the Comptroller of Public Accounts and were produced as part of the Comptroller's constitutional respon-

TABLE 1-1
Potential State Budget Shortfall 1992-93
(Millions of Dollars)

	1992-93 Biennium
Revenue	
<i>plus</i>	\$30,709.9
SB 111 Cost Savings, FY91	
<i>plus</i>	139.5
Project Fair Pay Revenue Gains, FY 91	
<i>less</i>	87.9
Current Services Spending	
<i>less</i>	35,004.4
Additional TRS Payments	
<i>less</i>	294.0
Emergency FY91 Appropriations	
<i>less</i>	158.2
SB 351 Additional costs	
<i>plus</i>	128.0
Miscellaneous Bills Passed in the 72nd Regular Session	
<i>equals</i>	<u>40.8</u>
Potential Shortfall	<u><u>\$(4,606.5)</u></u>

Totals do not add due to rounding.

SOURCE: John Sharp, Comptroller of Public Accounts.

sibility to estimate revenues available for state spending. The estimates shown in Table 1-1 are based on the Comptroller's January 1991 revenue estimate and incorporate changes in state finances that occurred during the 1991 regular legislative session.

Finally, it is important to note that Table 1-1 focuses on the funds tied to the state General Revenue Fund, the primary spending purse of state government. These funds represent about 59 percent of the state budget in 1992-93 and are the portion of the budget over which the Legislature has the greatest control in its budget-

writing efforts. It is the General Revenue Fund that must balance under the state's "pay-as-you-go" requirements.

Recommendations in the report focus on—but are not limited to—those that impact General Revenue-related portions of the budget. However, the effects of recommendations on other areas of the state budget also are provided. In certain cases, this includes some recommendations affecting funds outside the state Treasury and effects that extend to Texas local governments as well.

The Performance Review Report

The work of the Texas Performance Review is contained in this report and an accompanying two-part Volume 2. The volumes are organized differently but are tied to each other by a simple set of cross references. In addition, a package of statutory changes and constitutional amendments has been drafted to implement the recommended changes.

This portion of the report, Volume 1, summarizes the Comptroller's recommendations to the Legislature based on the Performance Review findings. It is organized according to the broad *policy categories* that were the primary concerns of the Performance Review. These include such categories as the organization and management of government, policy and program changes, fiscal management, debt management, general management practices, privatization, technology, federal funding and tax system issues. This volume also provides a background discussion of the state's current organization and recent fiscal performance.

Volume 2 provides a detailed discussion of each of the Comptroller's specific recommendations. It is organized according to the major *functional areas* of the state budget: education, public safety and criminal justice, transportation, health and human services, natural resources, general government and regulatory, and employee benefits. An additional section deals with a broad set of issues, such as privatization of services and revenue issues, which cut across all of the major functions of government.

Reference keys included in the tables that summarize recommendations in Volume 1 link the descriptions in this volume to the detailed discussions of individual recommendations in Volume 2. For example, if a reader wants to know more about specific details of a recommendation on the organization of natural resource agencies that is only briefly summarized in Volume 1, there is an easy reference to the detailed discussion of the issue contained in Volume 2. These reference points are represented by keys

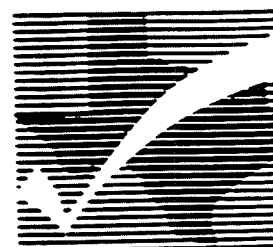
in the the fiscal summary tables that indicate where to find the issue in Volume 2. Abbreviations used to indicate the various functional areas are as follows:

Function	Abbreviation
Education	ED
Health and Human Services	HS
Transportation	TR
Employee Benefits	EB
Public Safety and Criminal Justice	PS
General Government and Regulatory	GG
Natural Resources	NR
Cross-Government Issues	CG

For example, a recommendation that is labeled NR12 in this volume can be found as the 12th recommendation in the natural resources section of Volume 2 (see Figure 1-3).

FIGURE 1-3 Reference Keys for Volume 2 Issues

For more specific information about issues and recommendations, look for these reference keys in Volume 2 of *Breaking the Mold*:



NR12

Natural Resources
(Function)

Issue #12
in the section

Volume 1 is divided into 14 chapters, including this introduction. Chapter 2 provides an overview of Texas state government as it is currently organized. It describes the evolution of the current structure of state government and provides a context for understanding the changes recommended in later sections of the report.

Chapter 3 analyzes six key trends in state fiscal policy that shape the current budget problem. The chapter is intended to give the reader an understanding of the state's structural deficit problem and recent patterns in state fiscal policy—in short, a look at what critical elements determine the size and growth of the state budget.

Chapter 4 is perhaps the most complex chapter in the report. It deals with the organization and management of state government and contains significant recommendations for consolidating and reorganizing state operations to make them more efficient and effective in delivering services to the state's citizens. It includes major recommendations for broad organizational changes in health and human services, natural resources and the general government agencies of state government.

The fifth chapter builds on Chapter 4 by outlining a number of changes in state policies and programs to provide better services or to eliminate services that are unneeded or that the state simply cannot afford to provide.

Chapter 6 deals with changes in fiscal management, including a consolidation of the state's accounting funds into a more manageable configuration, while Chapter 7 covers recommendations relative to state debt management, including recommendations to improve the debt issuance process and to emphasize long-term capital budgeting by state government.

Chapters 8 and 9 deal with methods of reducing the overall cost of state government. Chapter 8 discusses various basic management practices that can be used to lower overall costs in both small and large ways. Chapter 9 is concerned with methods of reducing costs by turning the responsibility over to private sector providers—privatization.

People are a critical part of any service organization, and Texas state government is no exception. There currently are more than 200,000 state employees, and salaries and benefits represent about 30 percent of the state budget. A systematic plan to reduce costs and improve services in state government ultimately must focus on the state work force. In this regard, Chapter 10 examines the work force and employee benefits package provided by the state.

To make government more effective, it is important to make sure it takes full advantage of the advances in technology. Chapter 11 examines important technological innovations that could help government efficiency today and also examines technological areas that should be a part of state planning for the 21st century.

Chapters 12 and 13 are concerned with revenue-related issues. The Performance Review does not make any recommendations related to the overall state revenue policy, leaving that issue to the Governor's Task Force on Revenue. Instead, these chapters focus on the funding sources that the state presently uses, including federal funds which are analyzed in Chapter 12, and other revenue sources, which are dealt with in Chapter 13. These chapters spotlight ways of maximizing receipts from current revenue sources and ensuring that the state is charging enough when it is providing services that could appropriately be user-financed.

Finally, Chapter 14 brings all of the topical strands together and analyzes the potential combined fiscal effects of the various changes. In total, the recommendations of the Texas Performance Review are estimated to reduce state spending by \$12.3 billion over the next five years. This includes a total of \$5.2 billion in fiscal years 1992-93, including a total of \$4.0 billion in the General Revenue Fund.

As Table 1-2 shows, these totals would go a long way toward closing the gap between current revenues and current expenditures. More importantly, though, the recommendations should result in a long-term reduction in state expenditures—a closing of the structural deficit that has

This report provides a clear agenda for change in state government's old ways of doing business.

TABLE 1-2
Texas Performance Review Estimates of Fiscal
Impact by Policy Area
 (Millions of Dollars)

Policy Category	1992-93 General Revenue*	1992-93 Other Funds*	Total Effect 1992-93*
Organization and Management	\$185.2	\$13.6	\$198.8
Policies and Programs	773.0	80.7	853.7
Fiscal Management	1,379.3	-342.3	1,037.0
Debt Management	750.1	264.0	1,014.1
Management Practices	8.1	53.8	61.9
Privatization	19.2	13.0	32.3
Employment Issues	228.1	27.6	255.7
Technology	3.7	0.0	3.7
Federal Funds	-7.5	938.1	930.6
Revenue Administration	<u>682.4</u>	<u>173.1</u>	<u>835.5</u>
TOTAL	<u>\$4,001.8</u>	<u>\$1,221.5</u>	<u>\$5,223.2</u>

*Positive numbers are savings or revenue gains.

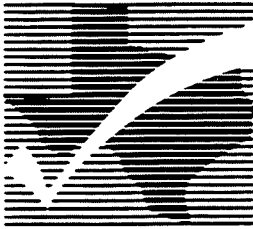
SOURCE: Texas Performance Review.

troubled state finances for more than four decades. They also provide several mechanisms for ensuring that government continues to work in an efficient and effective manner in the years to come. (See Appendix C for a complete list of the issues in the report.)

The report provides a clear agenda for change in state government's old ways of doing business. The Texas Performance Review team has worked to identify a bold set of options that meet the mandate to "challenge the basic assumptions about state government."

The recommendations are much more than a rehash of old ideas or minor tinkering with the existing order of things. The report breaks the mold of traditional state budget thinking and seeks to provide meaningful improvement in Texas government organization, services and fiscal efficiency. The Comptroller believes it is time to push the agenda to make these improvements a reality.

It's time to stop doing what we've always done and to start doing what needs to be done to make Texas government work the way it's intended. ♣



Senate Bill 111

AN ACT

relating to a complete review of state spending and budgetary procedures; providing for a reduction in certain appropriations and for the transfer of certain fund balances to the General Revenue Fund.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. DEFINITION. In this Act, "state agency" includes any board, commission, department, committee, institution, agency, or office within the legislative, executive, or judicial branch of state government, including an institution of higher education.

SECTION 2. REVIEW OF STATE SPENDING AND BUDGETARY PROCEDURES. (a) In accordance with this Act and the powers and duties provided by Chapter 322, Government Code, the Legislative Budget Board shall:

(1) challenge and question the basic assumptions underlying all state agencies and the programs and services offered by the state to identify those that are vital to the best interests of the people of the State of Texas and those that no longer meet that goal;

(2) conduct a complete review of all state agencies and all programs, services, and activities operated by those agencies;

(3) evaluate the efficiency with which state agencies operate the programs under their jurisdictions and fulfill the duties assigned to them by law;

(4) determine methods to maximize the amount of federal funds received by the state for its programs in order to better ensure that the people of Texas receive a greater share of the taxes levied on them by the federal government;

(5) identify any state agency or any program or service now offered by an agency that can be eliminated or transferred to the private sector without injury to the public good and well-being;

(6) make recommendations for the programs and services the various state agencies provide as well as recommendations for the elimination of or reduction in funding to various agencies, programs, or services based on the results of the performance audit review; and

(7) make recommendations to the 72nd Legislature as to amendments to statutory and constitutional provisions that will improve the efficiency of state government, including, if appropriate, recommendations on the reorganization or consolidation of state agencies.

SECTION 3. AGENCIES TO COOPERATE. The Legislative Budget Board may require any state agency to assist the board and provide information required for the board to complete its duties

under this Act, and each state agency shall fully and completely cooperate with the board in that regard.

SECTION 4. STAFF ASSISTANCE. (a) The state auditor, the Sunset Advisory Commission, the Governor's Office of Budget and Planning, and the comptroller of public accounts shall provide staff to assist the Legislative Budget Board as necessary for the performance of the board's duties under this Act. The board may accept gifts, grants, or assistance, including the provision of specialized personnel, from any private or public institution, association, or organization or state agency.

SECTION 5. PERFORMANCE AUDIT WORK PLAN; REPORTS. (a) In performing its duties under this Act, the Legislative Budget Board shall adopt a performance audit review work plan and may appoint task forces and subcommittees as necessary.

(b) The board shall report the results of its reviews and audits under this Act, together with recommendations, as soon as practicable. An initial report shall be delivered to the House Appropriations Committee, the Senate Finance Committee, and the governor not later than the 60th day after the effective date of this Act. Consistent with generally accepted audit principles, the board shall complete its duties and make its final reports under this Act by July 1, 1991.

SECTION 6. EXPENSES. The expenses of the Legislative Budget Board under this Act shall be paid from funds appropriated to the legislature and from funds appropriated to other agencies assisting the board, which funds shall be provided through interagency contracts. Those contracts may be executed by the board and the agencies for this purpose without regard to the reimbursement requirements of The Interagency Cooperation Act (Article 4413(32), Vernon's Texas Civil Statutes).

SECTION 7. REDUCTIONS IN APPROPRIATIONS; SALARY INCREASES RESTRICTED.

(a) Except as provided by this section, the total amount of funds appropriated by the 71st Legislature to state agencies funded under Article I, II, III, or IV of the General Appropriations Act (Chapter 1263, Acts of the 71st Legislature, Regular Session, 1989) is reduced by \$77 million for the fiscal year ending August 31, 1991. For that purpose, the appropriations to each state agency are reduced by an equal percentage determined by the comptroller of public accounts as necessary to yield the total reduction provided by this Act.

(b) The following appropriations under the General Appropriations Act are not reduced by Subsection (a) of this section:

- (1) Comptroller of Public Accounts—Social Security, Items 1 and 2, pages I-74, I-75;
- (2) Employees Retirement System—All items, page I-108;

- (3) Attorney General—Workers' Compensation Payments, page I-51;
- (4) Department of Human Services—All items, pages II-34 through II-54
- (5) Department of Mental Health and Mental Retardation—All items, pages II-55 through II-66;
- (6) Central Education Agency—Programs, All items, pages III-1 through III-11;
- (7) Teacher Retirement System and Optional Retirement Program—All items, pages III-28, III-29;
- (8) Higher Education Fund, pages III-38, III-39;
- (9) Public Finance Authority—Items 2, 3, 4, and 5, page I-124;
- (10) State Purchasing and General Services Commission—Item 11, page I-245;
- (11) National Research Laboratory Commission—Item 4, page III-53;
- (12) Salaries and Group Insurance under Article V, Sections 130 and 131, pages V-103, V-104; and

(13) appropriations of constitutionally dedicated funds or other funds that cannot be statutorily diverted, federal funds, funds pledged to the payment of bonds or notes, funds held in trust or escrow, funds appropriated by an emergency appropriation of the 6th Called Session of the 71st Legislature, or funds held outside the state treasury.

(c) The reduction under Subsection (a) of this section in appropriations to entities that are part of the judicial branch shall be applied only to operations exclusive of salaries.

(d) The comptroller of public accounts shall inform each state agency whose appropriations are reduced by Subsection (a) of this section of the amount by which the agency's appropriations are reduced to achieve the total reduction provided by that subsection. The agency shall determine the line items and programs from which the reduction is to be taken and shall report to the comptroller of public accounts those items to be reduced and the amount of the reduction but must achieve a total reduction in the amount determined by the comptroller of public accounts. The comptroller of public accounts may adopt rules for the implementation of this subsection.

(e) In addition to the reduction in appropriations under Subsection (a) of this section, the following appropriations under the General Appropriations Act from the General Revenue Fund are reduced by the listed amount:

- (1) Comptroller of Public Accounts, Rider 13 (Additional computer capacity), page I-72: \$4.4 million;
- (2) Comptroller of Public Accounts, Claims—Chapter 101, 104, 110, for medical malprac-

tice claims, page I-79: \$13 million;

(3) Texas Department of Corrections, Unexpended, unobligated, and unappropriated balances made in fiscal year 1990: \$17 million (estimated);

(4) State Purchasing and General Services Commission, Item 5 (Utilities Distribution), page I-244: \$3.5 million; and

(5) Texas Department of Health, Item 21 (Mass Burn Incinerator Grants), page II-15, \$2.5 million.

(f) In addition to the reductions made by this section, the unexpended balance of Fund 099, the Operators and Chauffeur's Operating Fund, as of August 31, 1991, is transferred to the General Revenue Fund on that date, an amount estimated to be \$22.1 million.

(g) From each special fund from which appropriations are reduced under Subsection (a) of this section, an amount equal to the reduction is transferred to the General Revenue Fund.

(h) A state agency funded under Article I, II, III, or IV of the General Appropriations Act shall not grant a merit salary increase or lump-sum incentive payment to any employee after February 1, 1991, and before September 1, 1991.

SECTION 8. SCHOOL DISTRICT BUDGET REVIEW. The comptroller of public accounts may immediately begin reviewing the effectiveness and efficiency of the budgets and operations of school districts as authorized by Section 403.020, Government Code, and for that purpose Section 2.23, Chapter 1, Acts of the 71st Legislature, 6th Called Session, 1990, takes effect immediately instead of September 1, 1991.

SECTION 9. EXPIRATION DATE. Sections 1 through 9 of this Act expire September 1, 1993.

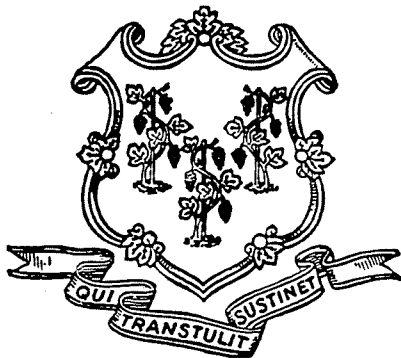
SECTION 10. AMENDMENT. Chapter 322, Government Code, is amended by adding Section 322.013 to read as follows:

Sec. 322.013. FISCAL POLICY PLANNING. The board shall provide for continuing review and analysis of state fiscal policy and make recommendations for long-term strategic planning. For that purpose, the board shall adopt recommendations that establish four-year strategic plans.

SECTION 11. EMERGENCY. The importance of this legislation and the crowded condition of the calendars in both houses create an emergency and an imperative public necessity that the constitutional rule requiring bills to be read on three several days in each house be suspended, and this rule is hereby suspended, and that this Act take effect and be in force from and after its passage, and it is so enacted.

**PERFORMANCE MONITORING
IN
STATE GOVERNMENT**

**Connecticut
General Assembly**



**LEGISLATIVE
PROGRAM REVIEW
AND
INVESTIGATIONS
COMMITTEE**

1-18
APRIL 1992

Findings and Recommendations

Findings

The way in which state government monitors the performance of its programs needs to be improved. Based upon the following principles and findings, as well as information presented earlier in the program review committee staff's briefing paper on performance monitoring, steps need to be taken to enhance the quality, usefulness, and process for developing performance indicators.

A performance monitoring system should allow evaluators to examine systematic evidence on whether programs: 1) work well and be expanded; 2) are failures and need to be abandoned; or 3) are marginally successful and in need of modification. Evaluation researchers have noted that performance information must be employed when program decisions are made or it will fail to serve any useful purpose.¹² The importance of performance monitoring and evaluation lies in assisting decision makers to choose among future courses of action. Accurate and unbiased data on the consequences of programs improves the policy making process.

A critical activity in establishing a performance monitoring process is the identification of factors that influence the expected outcome of a program. Outcome research, of which performance measures are a key part, demonstrates that some policy actions work well while others have little effect. Both the development of measures and outcome research can result in the recasting of alternatives to be considered as solutions to the problem for which a program was created. Performance measures will not be the sole determinant of how well a program is operating, but they will allow decision makers to focus the debate on what ought to be, rather than what actually is occurring as a result of a program. Analysis and evaluation of the measures will also enable policy makers to shift resources to those programs having the greatest impact and away from programs having marginal impact.

This has not been the experience in Connecticut. Since the legislature first required the development of program budgeting and performance measures in 1981, state agencies have produced more than 2,000 indicators. While there has been a continual expansion in the number of indicators created by agencies, most have suffered from a lack of use by managers and policy makers, and generally lack relevance to program performance. The measures currently part of the governor's budget document do not assess outcomes, rather, they simply measure the quantity of output an agency produced with no consideration of such measures as quality of service, program impact, or unit costs. These measures are inadequate in assessing service or program success. Further, they do not follow the basic principles and guidelines set forth earlier

¹² *Foundations of Program Evaluation: Theories of Practice*, William R. Shadish, et. al., Sage Publications, Newbury Park, California, 1991, p. 182.

in this report, nor do they follow OPM's instructions for developing program performance measures.¹³

Finally, performance measures are essential to the budgeting process. They can be used to create unit cost measures that detail the impact resources have on program operations, measure productivity, and gauge efficiencies that accompany certain organizational, policy, and management changes. The Office of Policy and Management noted that:

A sizable number of agencies have recognized their shortcomings in the area of program performance measurement. They have acknowledged the need for technical assistance and guidance and have requested such assistance from OPM.¹⁴

This observation is consistent with program review committee staff findings frequently cited in the course of agency evaluations. Agencies are in need of both technical assistance and guidance in construction of an adequate measure system.

To date, the creation of program measures have been left solely to the agencies. Only recently has the Office of Policy and Management taken an active role in setting the measures an agency puts forth. After 10 years, with little progress, there needs to be a new system for establishing and generating performance information. The system must involve the legislative, as well as the executive branch of government, if program measures are to be used to effectively to monitor state programs and govern public policy.

The development of a performance measurement system can be divided into three areas: 1) the process for establishing performance indicators; 2) the type of indicators created; and 3) the use of the indicators by agency management, the Office of Policy and Management, and the legislature.

Recommendations

Meaningful performance measures need to be created that are part of an ongoing evaluation research effort linked to an agency's mission and goals. The measures must come from within the agencies responsible for implementing programs. However, the measures need to be carefully constructed and reviewed by outside experts to verify their quality, integrity, and usefulness.

¹³ See *Program Measures Supplement and Guide to Improving Performance Measures*, Office of Policy and Management, State of Connecticut, January, 1992.

¹⁴ Ibid. p. 9.

Achieving this goal is a two-step process. First, all agencies need to create an internal task force composed of policy-makers, managers, and practitioners to examine programs and develop appropriate performance measures based upon specific criteria. This task force should be permanent and be an integral part of the agency's management team.

Second, having established measures, the agency would then submit them to a state-wide organization having expertise and knowledge regarding performance evaluation. This organization shall be designated The Working Group on Government Performance Measures.

The group shall establish criteria to review the appropriateness of performance measures and have the ultimate authority to approve or disapprove proposed agency measures. The group may also make recommendations to an agency concerning the modification of its proposed measures. The group shall not be involved in the establishment of agency missions, goals, or programs and shall be concerned solely with defining measurement of program outputs and outcomes. It shall not be involved in the data collection or analysis of the measures.

The group shall be composed of no more than 14 members. One member shall be from the agency whose measures are being considered and approved. Two members, one each, shall be appointed by the directors of the Office of Fiscal Analysis and the Legislative Program Review and Investigations Committee, one appointed by the Auditors of Public Accounts, two members appointed by the secretary of the Office of Policy and Management, four members appointed by the governor, and one member appointed by each of the highest elected leader of the majority and minority parties of the house and the senate.

This working group shall be composed of individuals with expertise and experience in evaluation and social science research, public budgeting, or management. The group shall elect a chairman for the purposes of organizing and establishing the agenda. As participation in the work of the group will be important to meeting its mandate, any member who misses three consecutive meetings shall be deemed to have resigned and a replacement designated by the appropriate appointing authority. The terms of the members shall be coterminous with the appointing authority. The group shall meet as often as necessary.

Performance measures should be tied to program management, modifications and improvements as well as program funding. As such, each agency shall present to the working group, for approval, a plan for the use of performance measures.

Currently, program measures are submitted as part of the governor's budget document. As noted earlier, the OPM Management and Performance Evaluation Division has begun a major effort to improve the development of program measures through workshops and training. This has also resulted in the issuance of new guidelines by OPM concerning the reporting of performance measures. Their efforts are intended to refine agency measures and provide a better explanation as to their meaning and use.

Once better measures have been identified they must be reported to the widest audience possible. While some measures will only be useful for the internal management of an agency, others will be important for policy makers and the public. One of the reasons for establishing a performance monitoring system is to assure the public they are receiving a good return on their tax dollars. While the performance measures will continue to be part of the budget document, a special report should be submitted by each agency to the appropriation subcommittee having jurisdiction over its budget each year detailing the reasons the performance measures were chosen, their use by the agency in assessing program performance, and alternatives that result from evaluation measures. In addition, this information, along with the agencies performance measures, should become part of the *Digest of Connecticut Administrative Reports to the Governor* that is issued each year by the Department of Administrative Services.

Lastly, an agency's database provides critical information for the development of performance indicators. Over the next few years agencies will be updating or installing new computer systems. These systems should provide valuable data for the development of performance indicators, and, with the appropriate software, can automate the calculation and reporting of measures. As a requirement for the installation and development of any new system, it should be mandated that consideration be given to a system's ability to produce quality performance information. This should be a part of the competitive bidding process as well as a criteria for consideration by the Office of Information Technology in its review of proposed computer systems.

STATE AUDITOR'S MISSION STATEMENT

To improve the accountability of government
by actively providing
independent and informative services
to government leaders and citizens.

STATE AUDITOR'S OFFICE - AUDIT COVERAGE 1985, 1987, 1990 AND PLANNED FOR 1991

-----GOVERNMENTAL AUDITING-----

Financial

Audits to provide assurances about the accuracy of financial statements and the adequacy of related accounting systems

Financial-Related

Reviews of agency operations with emphasis on financial control systems and compliance with laws and regulations

Managerial (Economy & Efficiency)

Assessments of how efficient agency operations are and if controls are in place to assure continued efficient and effective operations

Program Results (Effectiveness)

Assessments of how well programs are achieving their mission and the extent of the progress made in achieving program objectives

-----1985-----+
Agency by Agency Audits

-----1987-----+
Statewide Audit including federal work at universities, Pension Fund Audits, and establishment of the Performance Audit Division

-----1990-----+
Statewide Audit, Pension Fund Audits, Financial-Related Audits, and Performance Audits based upon risk assessment with the focus on efficiency and economy

-----PLANNED FOR 1991-----+
Audit work expanded to cover the full scope of Governmental Auditing; Performance Audits expanded to cover the effectiveness of major programs and to review the management controls in place at the major agencies

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MANAGEMENT CONTROL

MANAGEMENT CONTROLS DEFINED

Controls are the means used to meet objectives.

Controls are the policies, procedures and processes used to carry out the organization's mission.

MANAGEMENT CONTROL PURPOSES

Management controls are intended to provide reasonable assurance that:

- Goals are met
- Assets are safeguarded and efficiently used
- Reliable data is reported
- Laws and regulations are complied with

BENEFITS OF MANAGEMENT CONTROL AUDITS

- * Assess objectively current operations
- * Provide assurance to management
- * Identify areas for improvement
- * Recommend actions to:
 - Improve performance
 - Facilitate the achievement of agency goals and objectives
 - Increase coordination and communication

RISK AND ACCOUNTABILITY

RISK

DEFINITIONS

The degree to which activities are exposed to the potential for financial loss, the inappropriate disclosure of data, or other forms of embarrassment which result from the absence or inadequacy of control or ineffectiveness of human resources.

The uncertainty or vulnerability that an event could adversely affect the organization.

The tendency of a system or function to have problems.

The chance of injury, damage, or loss.

GOVERNMENTAL RISK AREAS

- Not meeting legislative mandates
- Not complying with laws and regulations
- Not accomplishing goals and objectives
- Inefficient use of resources
- Not safeguarding assets
- Unreliable information
- Inadequate reporting

MANAGEMENT OVERRIDE

A significant risk area for any governmental program is the possibility of management override. The initial question that must be asked in making an assessment of the control environment is what possibility exists for management override. No matter how well a control system is designed, if it can easily be circumvented without subsequent detection, then management controls are not reliable.

ACCOUNTABILITY

"Accountability requires governments to answer to the citizenry to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a 'right to know,' a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives."

Governmental Accounting Standards Board

ACCOUNTABILITY

ACCOUNTABILITY IS HOLDING THOSE ENTRUSTED WITH STATE RESOURCES AND PROGRAMS ANSWERABLE FOR THEIR JOB PERFORMANCE.

THE STATE AUDITOR'S OFFICE ENHANCES ACCOUNTABILITY BY ACTIVELY PRESENTING INFORMATION WHICH IS UNDERSTOOD AND CONSIDERED BY GOVERNMENT LEADERSHIP AND CITIZENS CONCERNED ABOUT WHETHER RESOURCES AND ACTIVITIES ARE ECONOMICALLY, EFFICIENTLY, AND EFFECTIVELY MANAGED, ACCURATELY RECORDED, AND ALIGNED WITH STATE STRATEGIC GOALS AND SOCIAL NEEDS.

EARLY WARNING SIGNALS

PLANNING

Plans are the road maps that an organization follows to reach its goals and objectives.

Early warning signals of inadequate planning include failure to

- . Give planning primacy over all other functions
- . Communicate planning premises to subordinates
- . Set or update goals or standards
- . Prescribe a system of review and approval
- . Provide for the receipt or submission of new and relevant information
- . Provide for the measurement of the performance needed to carry out plans ✓
- . Provide for the periodic reappraisal of plans.

ORGANIZING

Organization is the process of dividing the work of the agency into individual tasks and groups of related tasks.

Early warning signals of inadequate organization include failure to

- . Establish unity of objectives within agency units
- . Maintain a reasonable span of control
- . Provide equality of authority and responsibility
- . Establish clear lines of responsibility which extend from the top of the agency to the lowest level of supervision
- . Ensure unity of command: one person, one boss
- . Provide for a mix of ages so that retirements will not adversely affect the functioning of the agency
- . Ensure adequate balance in the agency's staffing patterns
- . Provide flexibility within the agency
- . Delegate authority so as to permit decisions to be made at the lowest practicable level of management.

CONTROLLING

Control consists of all plans, structural relationships, methods, and procedures used by the agency to safeguard its assets, check the accuracy and reliability of its accounting and performance data, promote operational efficiency, and encourage adherence to managerial policies.

Early warning signals of a weak control environment include failure to

- . Provide schedules and budgets for each significant job
- . Establish a central control (for example, charts, logs, registers)
- . Highlight oldest, off-schedule, or over-budget jobs
- . Set priorities for incoming work
- . Fix responsibility for work performed
- . Provide for approvals commensurate with the importance of the work
- . Compare results with expectations and investigate variances
- . Report variances to those responsible for correcting them
- . Follow up on work in process.

Other concerns may include:

- . Management dominated by one person
- . Lack of effective oversight board
- . Little effort to correct major weaknesses
- . Inadequate internal monitoring
- . High turnover in key positions
- . Inadequate staffing in accounting department
- . Frequent changes of legal counsel.

PERFORMING

Management's use of personnel and physical resources in carrying out activities identified in planning.

Early warning signals related to low performance include failure to

- . Ensure compliance with policies and procedures
- . Train or instruct subordinates
- . Provide adequate indoctrination of new employees
- . Make sure that employees understand instructions
- . Provide employees with the tools and resources to do their jobs
- . Develop backup personnel
- . Investigate proposed actions before authorizing them
- . Follow up on assigned tasks
- . Collect information needed to assess performance

REPORTING

Management information reporting systems, financial data, and performance measures.

Early warning signals of an inadequate reporting system include failure to

- . Ensure that accurate data is reported
- . Provide adequate feedback to highlight inadequate output
- . Provide for evaluation of significant jobs at key milestones
- . Obtain reports from subordinates on task accomplishments
- . Collect adequate statistics on the volume of work and the accomplishment of objectives.

EVALUATING

Management's monitoring function and actions taken by management to address deviations from standards.

Early warning signals of an inadequate evaluation system include failure to

- . Compare accomplishment with goals and analyze variances
- . Take corrective action on variances or to accept explanations without further investigation
- . Collect adequate statistics on the volume of work and the accomplishment of objectives
- . Provide managers with the information needed to measure their own productivity
- . Establish an overall system of self-evaluation.

AUDIT APPROACH AND METHODOLOGY

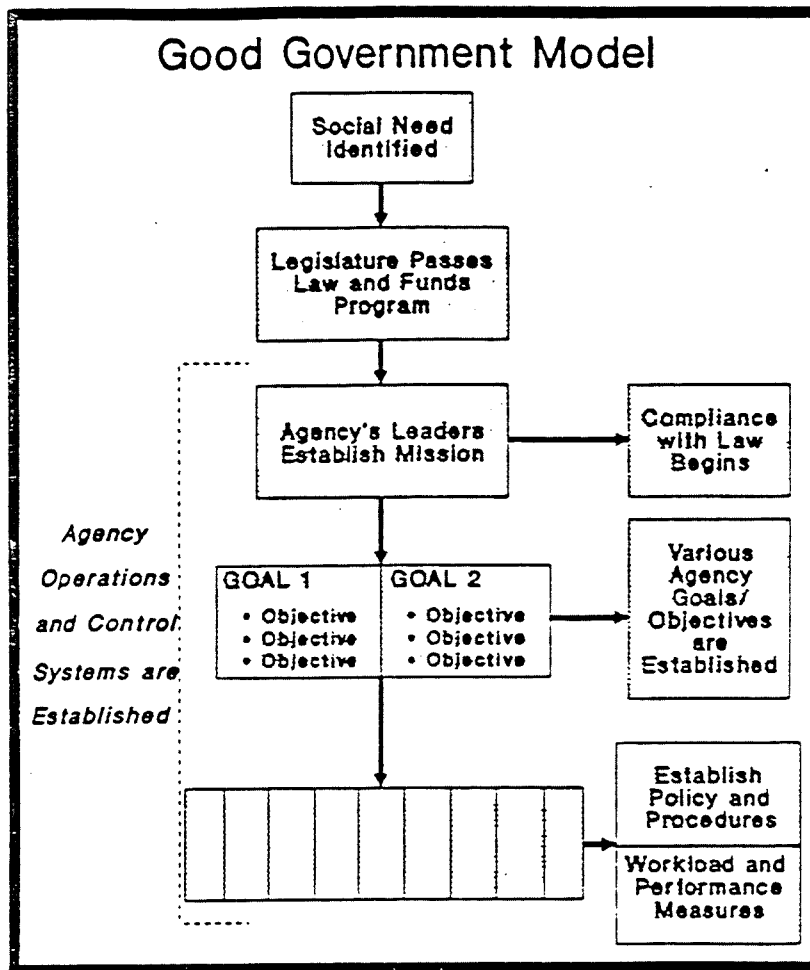
MANAGEMENT CONTROL AUDITS

OBJECTIVES

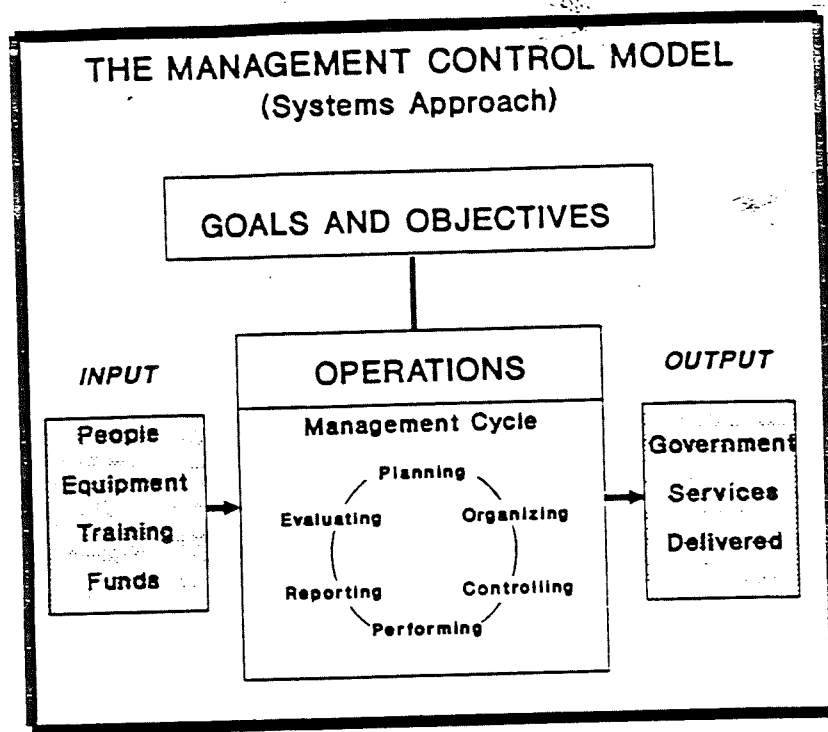
Assess management controls and the impact of those controls on fulfillment of the entity's mission.

Identify opportunities for improvement of management controls in order to improve agency performance and accountability.

Provide a written report.



The Good Government Model outlines the complete cycle of providing governmental services from the identification of a need to the passage and implementation of legislation. After needs are established by the Legislature, state organizations are charged with carrying out the mission to provide specified services.



Management theory provides numerous models concerning the organization and operations of entities. The State Auditor's Office has synthesized a model from various sources in order to develop a uniform system to evaluate management controls.

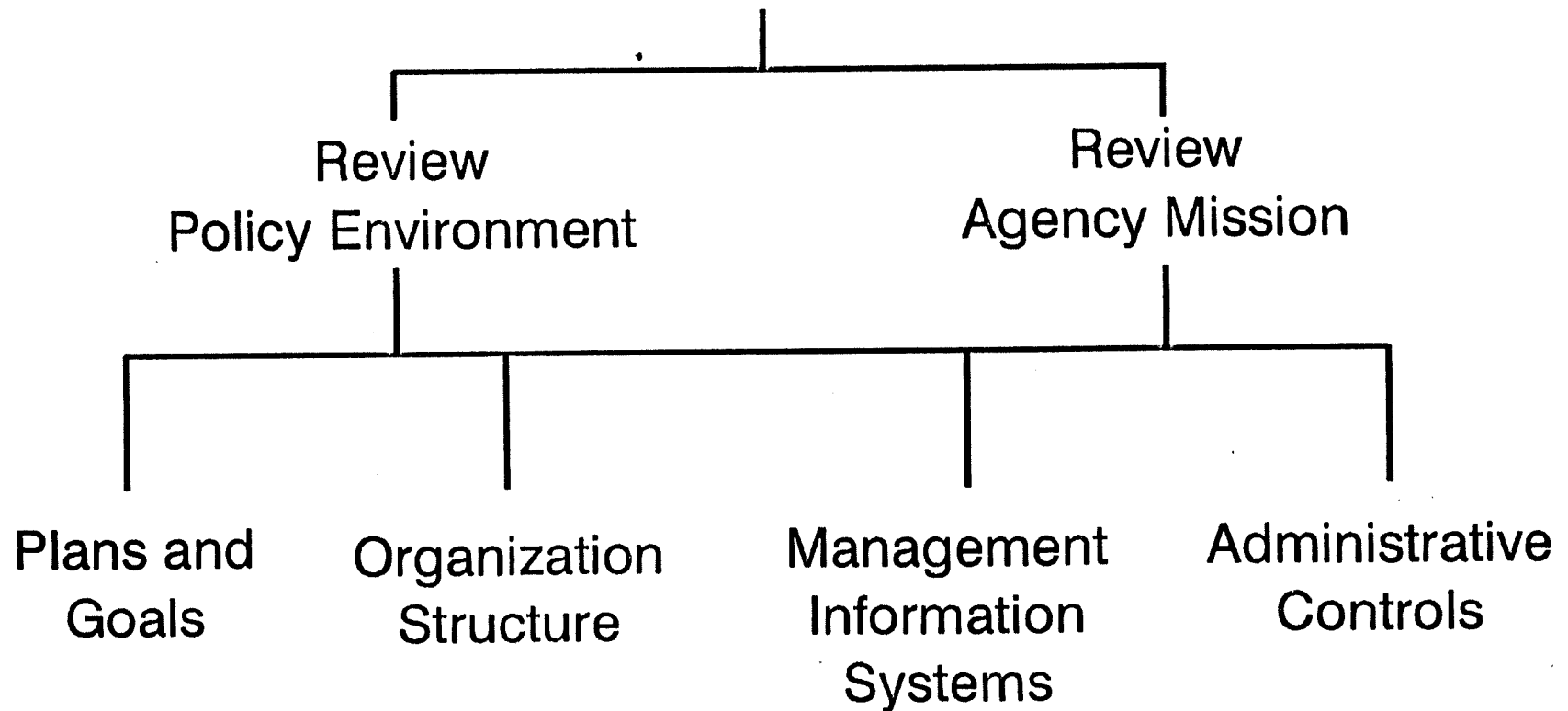
The Management Control Model depicts, as a system, the relationship among the organization's goals, objective, measurement criteria, and management cycle. Together, these constitute the management control system.

As shown in the model, there are six basic management controls in the management cycle that are subject to review:

1. Planning - The management environment, plans, and objectives.
2. Organizing - Organizational structure implemented by management to accomplish goals and objectives
3. Controlling - Policies, procedures, control systems, and budgeting
4. Performing - Management's use of personnel and physical resources in implementing its plans
5. Reporting - Management information reporting systems, financial data, and performance measures
6. Evaluating - Management's monitoring function and actions taken by management to address deviations from standards

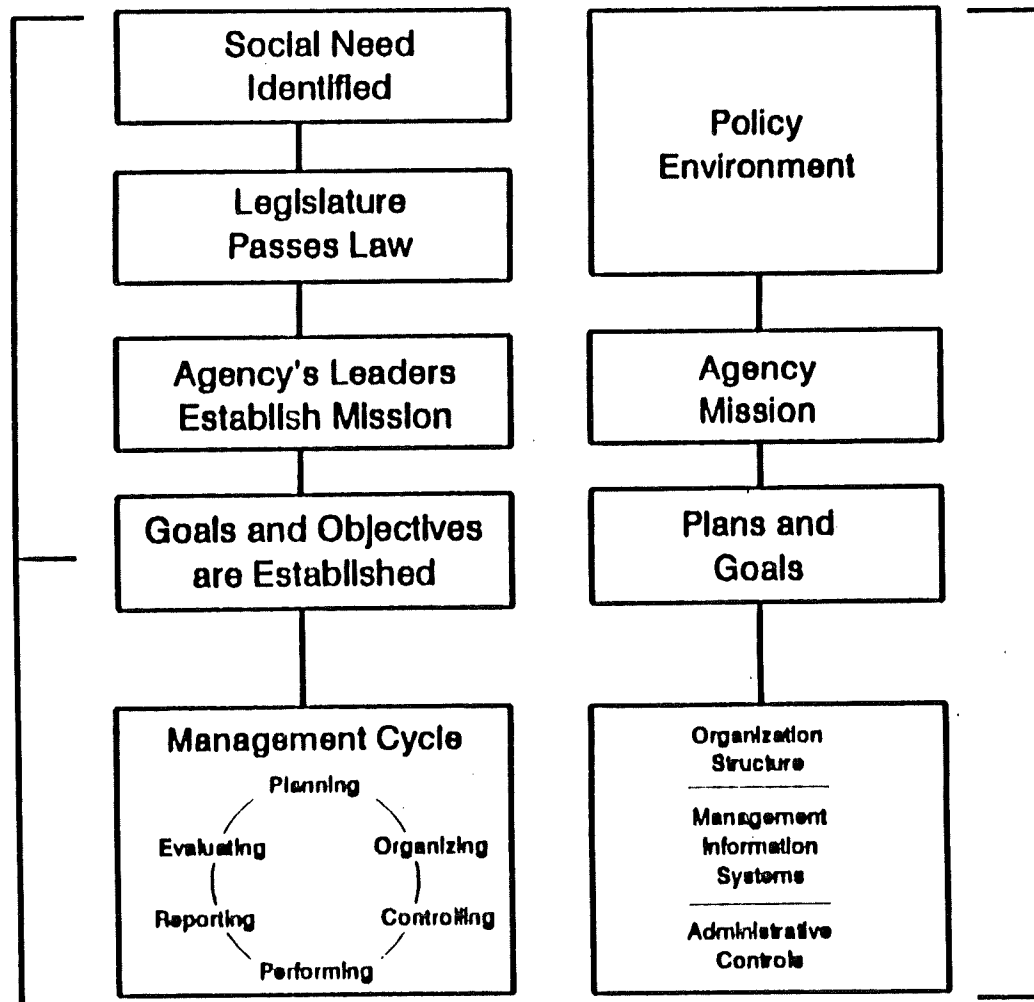
The components of the management cycle are interrelated so that problems in one area often adversely affect management performance overall.

MANAGEMENT CONTROL AUDITING



**Good
Government
Model**

**Management
Control
Model**



1-5/11

AUDIT APPROACH

This overview outlines the methodology and the general methods to be used in conducting the audits. It identifies, for each module, a primary criterion and the main questions to be answered.

Policy Environment: The agency proactively manages its relationships with other organizations and forces in its environment, rather than merely reacting to demands from them.

Are the respective roles of agency executives and governing board members (if applicable) clearly defined?

What legislative and executive oversight mechanisms exist for the entity?

Who are the major stakeholders in the entity's operating environment? What are their values and expectations?

What other agencies (federal, state, regional, local) have related responsibilities?

What agreements (formal or informal) exist to delineate those responsibilities?

How does the agency scan its environment for--
changes in demand for its services?
difficulties and pitfalls in implementing programs?
significant opportunities for improved services?

Mission: The agency mission is clearly defined and well-understood by its members

Does the agency have a mission statement?

Is the mission statement generally consistent with--
overall state needs?
legislative expectations?
taxpayer expectations?

When was it last reviewed, and who participated in developing it?

How was the statement conveyed to staff?

Plans and Goals: The agency has established goals and objectives, consistent with its mission, and has developed short-term and long-range plans to meet them.

Do formal goals and objectives specify--
what is to be accomplished?
where it should be done (if applicable)?
when it should be accomplished?

How well documented are objectives?

Are the objectives--
focused on a result, not an activity?
consistent with the mission statement?
specific?
measurable?
attached to a time frame?
attainable?

Have multiple objectives been arranged in a hierarchy?

Are long-range and short-range plans consistent with objectives?

To what extent are the plans followed?

Are evaluation results fed back into the planning process?

Do the plans specify--
resources (personnel, materials) to be used?
methods, processes, and procedures to be used?
tasks to be performed at a given standard?
sequence or steps to be followed?
who is to perform the tasks?
location where the plan's activities occur?
associated deadlines, timetables, and schedules?
progress checkpoints?
measurements to be used to gauge progress?

Organization Structure: The agency's organization structure promotes attainment of mission, goals, and objectives and clearly delineates the roles and responsibilities of units and positions in the agency.

Is the agency logically organized by key functions, programs, and activities?

Are staffing allocations consistent with agency priorities?

Does the structure support sound communication and coordination among organizational units?

Are accountability, authority, and responsibility clearly aligned, especially for key employees?

Is internal organization consistent with the hierarchy of objectives?

Do members within a unit share the same objectives?

Are spans of control appropriate to the task?

Management Information Systems: The agency collects, processes, and uses appropriate information to fulfill its mission, strategies, goals, and objectives

Is the information collected--

timely?

accurate?

useful?

complete?

cost-effective?

Has the agency actively planned, in accordance with state requirements, to meet its information system needs?

Do reports aid management decision-making?

Do reports aid in measuring progress toward plans and goals?

Is information shared with other agencies as needed?

Are information resources and technology acquired and used cost-effectively?

Other Administrative Controls: The entity has appropriate administrative controls to ensure that goals and objectives are met, resources are safeguarded, and laws and regulations are complied with.

Financial-Related Controls

What are SAO's statutory financial-related audit requirements for the entity?

Are internal control systems in place and operating effectively?

Are the systems adequate to prevent or detect errors, irregularities, or noncompliance with state regulations?

Does the entity have a history of poor controls?

Does the entity have a sound internal audit function?

What is top management's attitude toward internal controls?

Human Resource Management

Is the entity staffed with persons carefully selected, oriented, supervised, and trained?

Is the rate of turnover reasonable?

Is training--
 based on assessed needs?
 budgeted and accounted for?
 consistent with mission and entity values?

What are the credentials and qualifications of managers?

Are managers generally respectful toward staff?

To what extent have entity managers cultivated a climate that promotes entity achievement?

Does the entity collect and review staff inputs or suggestions?

Performance Monitoring and Evaluation

Does the entity regularly evaluate the success of its efforts, identify problems, and take corrective action?

1-45

What performance data is collected? Is the data--
reliable?
sufficient?
timely?
relevant?

Are inputs, outcomes, efficiency, and impact regularly assessed?

Does the agency maintain a complaint file?

Policies and Procedures

Are policies--
consistent with agency mission, goals, and objectives?
explicitly published and communicated to employees?
internally consistent?
clear and comprehensive?

Are procedures--
consistent with policies?
specific yet flexible?
consistent throughout agency?
used to attain administrative efficiency?

Are policies and procedures followed?

Budgets

Are budgets integrated with plans (that is, used to quantify objectives and the resources needed to meet them)?

Are budgets--
consistent with strategic plans?
supported by executive management?
made in coordination with middle- and lower-level managers?

Are budgets used to coordinate and control the activities of all subunits?

How are budget variances analyzed and dealt with?

PHASES OF MANAGEMENT CONTROL AUDITS

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MANAGEMENT CONTROL AUDIT PHASES

Scoping

Scoping is the first phase of the audit which involves gathering information on overall management processes.

Implementation

The implementation phase of the audit will be a more focused analysis based on informational issues from the scoping phase.

Reporting

The reporting phase will include a written report addressing issues analyzed and will include a section for the agency's response.

May

— 4 to 6 weeks —→

SCOPING

June - July

— 6 to 8 weeks —→

FIELDWORK

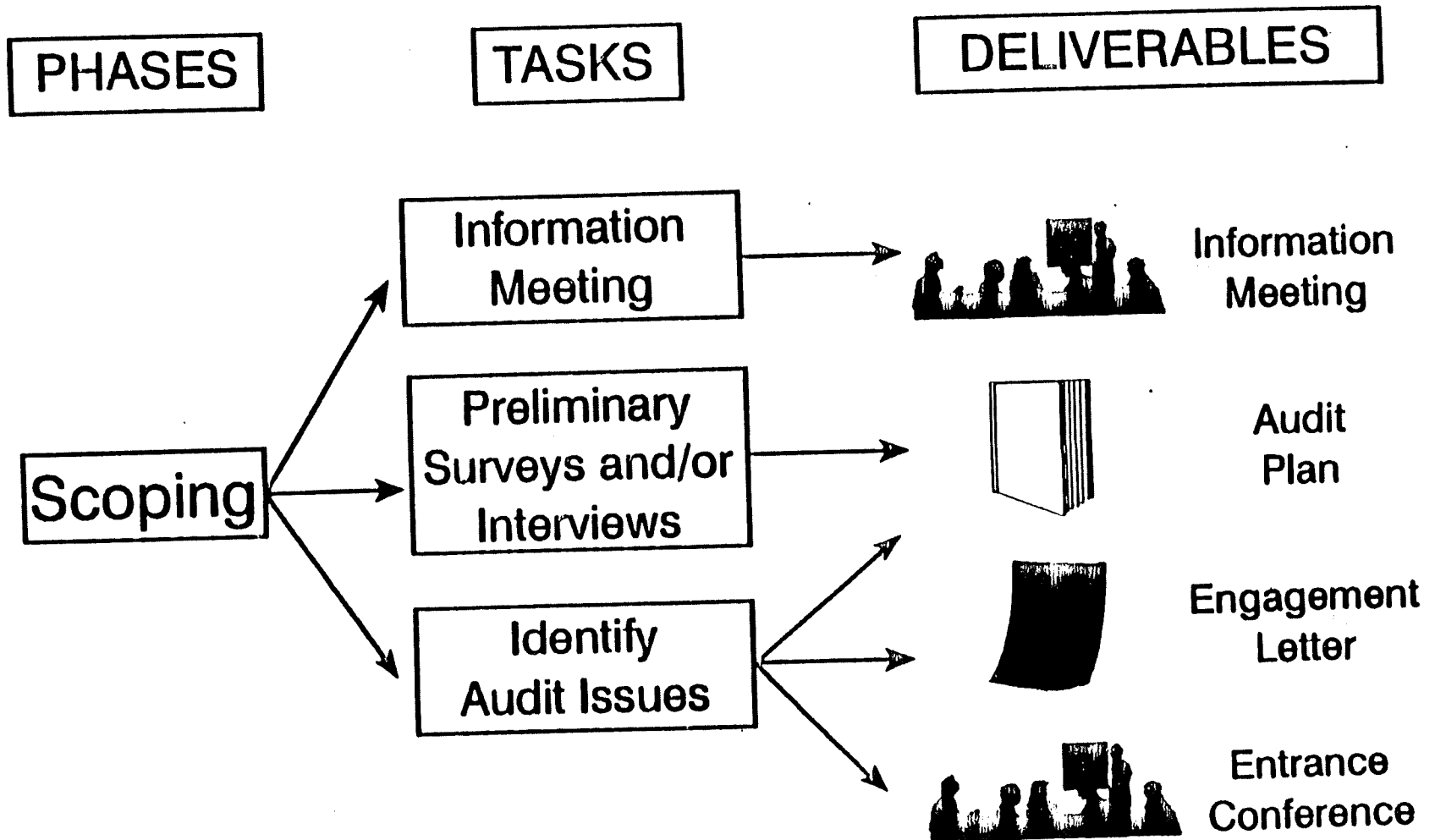
August

— 4 to 6 weeks —→

REPORT WRITING

Approximate Timeline for the
UT - Austin Management Control Audit

1-2-99



PHASES

TASKS

DELIVERABLES

Implementation

Interviews With
Management & Staff

Review Management
Information

Collect and
Review Comparative
Information

Perform Analytical
Procedures

Assess Audit Issues

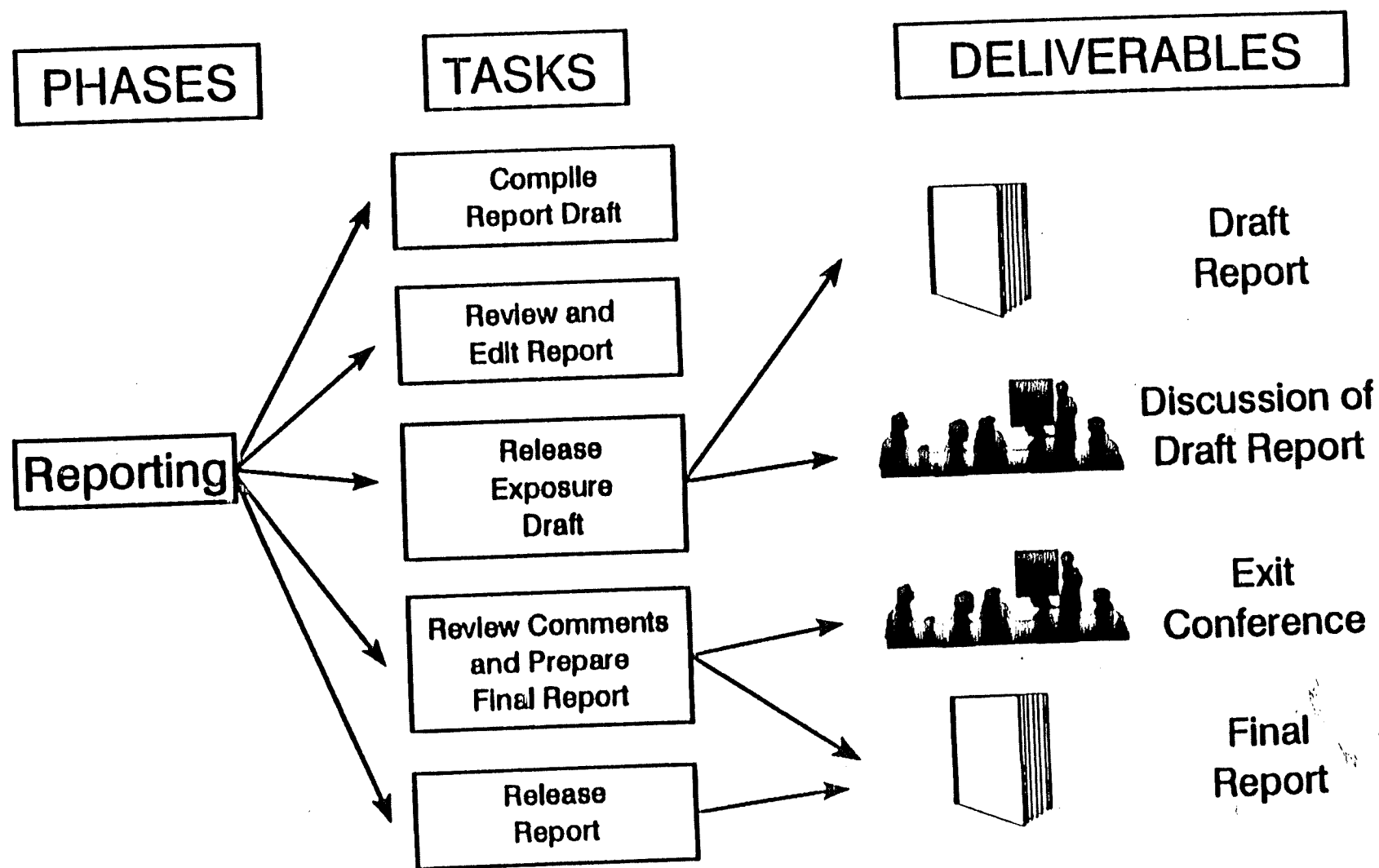
Develop Findings
and Recommendations



Preliminary
Findings



Briefings



Memorandum

Date: August 5, 1992

To: Assistant Comptroller General, General
Government Programs - Dick Fogel

From: Assistant Director, GGD - *John M. Kennedy*
John M. Kamensky

Subject: Committee Adopts S.20 Substitute and
Incorporates Suggestions in GAO's May 1992
Testimony

The Senate Governmental Affairs Committee adopted a joint Glenn-Roth substitute for S.20, now named the "Governmental Performance and Results Act of 1992." The new bill includes a number of provisions suggested by Mr. Bowsheer in his May 1992 testimony before the committee, including requirements that agencies develop strategic plans, prepare operational plans, and issue annual progress reports.

The bill provides for three sets of pilots: (1) for setting and measuring performance goals, in 10 agencies, beginning in 1994; (2) for increased management accountability in exchanges for flexibility waivers, in 5 of these 10 agencies, beginning in 1995; and (3) for performance budgeting, in 5 of the 10 agencies, beginning in 1998.

The bill also requires GAO to report on the implementation of this act and the prospects for compliance beyond the first two sets of pilots no later than June 1, 1997. The filing of this report would trigger the consideration of a joint resolution process that in turn would lead to the required implementation of the act by all federal agencies with budgets over \$20 million.

Attachment



cc: Mr. Posner (AFMD)
Mr. Wold (PEMD)
Mr. Gadsby (GGD)
Mr. Mathiasen (ACG)
Mr. Gianni (GGD)
Mr. Hill (AFMD)

Mr. Leitch (GGD)
Mr. Raaum (AFMD)
Ms. Fantone (AFMD)
Ms. Tessauro (AFMD)
Mr. McDonald (HRD)
Mr. Volpe (OGC)

AMENDMENT NO. _____

Calendar No. _____

Purpose: To provide for the establishment, testing, and evaluation of strategic planning and performance measurement in the Federal Government, and for other purposes.

IN THE SENATE OF THE UNITED STATES—102d Cong., 2d Sess.

S. 20

To provide for the establishment and evaluation of performance standards and goals for expenditures in the Federal budget, and for other purposes.

Referred to the Committee on _____
and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT IN THE NATURE OF A SUBSTITUTE intended
to be proposed by Mr. GLENN (for himself and Mr.
ROTH)

Viz:

1 Strike out all after the enacting clause and insert in
2 lieu thereof the following:

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the "Government Perform-
5 ance and Results Act of 1992".

6 SEC. 2. FINDINGS AND PURPOSES.

7 (a) FINDINGS.—The Congress finds that—

1 (1) waste and inefficiency in Federal programs
2 undermine the confidence of the American people in
3 the Government and reduces the Federal Govern-
4 ment's ability to address adequately vital public
5 needs;

Outcome
measure
elim
inefficiency
- may help
them
(the fed and)

6 (2) Federal managers are seriously dis-
7 advantaged in their efforts to improve program effi-
8 ciency and effectiveness, because of insufficient ar-
9 ticulation of program goals and inadequate informa-
10 tion on program performance; and

11 (3) congressional policymaking, spending deci-
12 sions and program oversight are seriously handi-
13 capped by insufficient attention to program perform-
14 ance and results.

15 (b) PURPOSES.—The purposes of this Act are to—

16 (1) improve the confidence of the American peo-
17 ple in the capability of the Federal Government, by
18 systematically holding Federal agencies accountable
19 for achieving program results;

20 (2) initiate program performance reform with a
21 series of pilot projects in setting program goals,
22 measuring program performance against those goals,
23 and reporting publicly on their progress;

- Set
- measure
- report

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1 (3) improve Federal program effectiveness and
2 public accountability by promoting a new focus on
3 results, service quality, and customer satisfaction;

4 (4) help Federal managers improve service de-
5 livery, by requiring that they plan for meeting pro-
6 gram objectives and by providing them with informa-
7 tion about program results and service quality; and

8 (5) improve congressional decisionmaking by
9 providing more objective information on achieving
10 statutory objectives, and on the relative effectiveness
11 and efficiency of Federal programs and spending.

12 **SEC. 3. STRATEGIC PLANNING.**

13 Chapter 3 of title 5, United States Code, is amended
14 by adding after section 305 the following new section:

15 **"§ 306. Strategic plans**

16 "(a) No later than September 30, 1997, the head of
17 each agency shall submit to the Director of the Office of
18 Management and Budget a strategic plan for program ac-
19 tivities. Such plan shall contain—

20 "(1) a comprehensive mission statement cover-
21 ing the major functions and operations of the de-
22 partment or agency;

23 "(2) general goals and objectives, including out-
24 come-related goals and objectives, for the major

1 functions and operations of the department or
2 agency;

3 "(3) a description of how the goals and objec-
4 tives are to be achieved;

5 "(4) a description of how the performance goals
6 included in the plan required by section 1115(a) of
7 title 31 shall be related to the general goals and ob-
8 jectives in the strategic plan;

9 "(5) an identification of those key factors exter-
10 nal to the agency and beyond its control that could
11 significantly affect the achievement of the general
12 goals and objectives; and

13 "(6) a description of the program evaluations
14 used in establishing or revising general goals and ob-
15 jectives, with a schedule for future program evalua-
16 tions.

17 "(b) The strategic plan shall cover a period of not
18 less than five years forward from the fiscal year in which
19 it is submitted, and shall be updated and revised at least
20 every three years.

21 "(c) The performance plan required by section 1115
22 of title 31 shall be consistent with the agency's strategic
23 plan. A performance plan may not be submitted for a fis-
24 cal year not covered by a current strategic plan under this
25 section.

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1 “(d) When developing a strategic plan, the agency
2 shall consult with the Congress, and shall solicit and con-
3 sider the views and suggestions of those entities poten-
4 tially affected by or interested in such a plan:

5 “(e) For purposes of this section the term ‘agency’
6 means an Executive agency defined under section 105 and
7 the United States Postal Service, but does not include the
8 Central Intelligence Agency, the General Accounting Of-
9 fice, the Panama Canal Commission, and the Postal Rate
10 Commission.”.

11 **SEC. 4. ANNUAL PERFORMANCE PLANS AND REPORTS.**

12 (a) BUDGET CONTENTS AND SUBMISSION TO CON-
13 GRESS.—Section 1105(a) of title 31, United States Code,
14 is amended by adding at the end thereof the following new
15 paragraph:

16 “(29) beginning with fiscal year 1999, a Fed-
17 eral Government performance plan for the overall
18 budget as provided for under section 1115.”.

19 (b) PERFORMANCE PLANS AND REPORTS.—Chapter
20 11 of title 31, United States Code, is amended by adding
21 after section 1114 the following new sections:

22 **“§ 1115. Performance plans**

23 “(a) In carrying out the provisions of section
24 1105(a)(29), the Office of Management and Budget shall
25 require each agency to prepare an annual performance

1 plan covering each program activity set forth in the budget
2 of such agency. Such plan shall—

3 “(1) establish performance goals to define the
4 level of performance to be achieved by a program ac-
5 tivity;

6 “(2) express such goals in an objective, quan-
7 tifiable, and measurable form unless permitted an
8 alternative form under subsection (b);

9 “(3) establish performance indicators to be used
10 in measuring or assessing the relevant outputs, serv-
11 ice levels, and outcomes of each program activity;

12 “(4) provide a basis for comparing actual pro-
13 gram results with the established performance goals;
14 and

15 “(5) describe the means to be used to verify
16 and validate measured values.

17 “(b) If an agency, in consultation with the Office of
18 Management and Budget, determines that it is not fea-
19 sible to express the performance goals for a particular pro-
20 gram activity in an objective and quantifiable form, the
21 Office of Management and Budget may authorize an alter-
22 native form. Such alternative form shall—

23 “(1) include separate descriptive statements
24 of—

25 “(A) a minimally effective program, and

1 “(B) a successful program,
2 with sufficient precision and in such terms that
3 would allow for an accurate, independent deter-
4 mination of whether the program activity’s per-
5 formance meets the criteria of either descrip-
6 tion; or

7 “(2) state why it is infeasible or impractical to
8 express a performance goal in any form for the pro-
9 gram activity.

10 “(c) In preparing a comprehensive and informative
11 plan under this section, an agency may aggregate,
12 disaggregate, or consolidate program activities, provided
13 that any aggregation or consolidation does not omit or
14 minimize the significance of any program activity con-
15 stituting a major function or operation for the agency.

16 “(d) An agency may prepare a classified or non-pub-
17 lic annex to its plan covering program activities or parts
18 of program activities relating to—

19 “(1) national security;

20 “(2) the conduct of foreign affairs; or

21 “(3) the avoidance of interference with criminal
22 prosecution or revenue collection.

23 “(e) For purposes of this section and sections 1116
24 through 1119, and section 9704 the term—

1 “(1) ‘agency’ means an Executive agency de-
2 fined under section 105 of title 5, United States
3 Code, and the United States Postal Service, but does
4 not include the Central Intelligence Agency, the
5 General Accounting Office, the Panama Canal Com-
6 mission, and the Postal Rate Commission;

7 “(2) ‘outcome measure’ refers to an assessment
8 of the results of a program activity compared to its
9 intended purpose;

10 “(3) ‘output measure’ refers to the tabulation,
11 calculation, or recording of activity or effort and can
12 be expressed in a quantitative or qualitative manner;

13 “(4) ‘performance goal’ means a target level of
14 performance expressed as a tangible, measurable ob-
15 jective, against which actual achievement shall be
16 compared, including a goal expressed as a quan-
17 titative standard, value, or rate;

18 “(5) ‘performance indicator’ refers to a particu-
19 lar value or characteristic used to measure output or
20 outcome;

21 “(6) ‘program activity’ means a specific activity
22 or project as listed in the program and financing
23 schedules of the annual budget of the United States
24 Government; and

- ? good definition
OK, see #5

good

1-61

1 “(7) ‘program evaluation’ means an assessment,
2 through objective measurement and systematic anal-
3 ysis, of the manner and extent to which Federal pro-
4 grams achieve intended objectives.

5 **“§ 1116. Program performance reports**

6 “(a) No later than March 31, 2000, and no later than
7 March 31 of each year thereafter, the head of each agency
8 shall prepare and submit to the President and the Con-
9 gress, a report on program performance for the previous
10 fiscal year.

11 “(b)(1) Each program performance report shall set
12 forth the performance indicators established in the depart-
13 mental or agency performance plan, along with the actual
14 program performance achieved compared with the per-
15 formance goals expressed in the plan for that fiscal year.

16 “(2) If performance goals are specified by descriptive
17 statements of a minimally effective program activity and
18 a successful program activity, the results of such program
19 shall be described in relationship to those categories, in-
20 cluding whether the performance failed to meet the cri-
21 teria of either category.

22 “(c) The report for fiscal year 2000 shall include ac-
23 tual results for the preceding fiscal year, the report for
24 fiscal year 2001 shall include actual results for the two
25 preceding fiscal years, and the report for fiscal year 2002

1 and all subsequent reports shall include actual results for
2 the three preceding fiscal years.

3 "(d) Each report shall—

4 "(1) review the success of achieving the per-
5 formance goals of the fiscal year;

6 "(2) evaluate the performance plan for the cur-
7 rent fiscal year relative to the performance achieved
8 towards the performance goals in the fiscal year cov-
9 ered by the report;

10 "(3) explain and describe, where a performance
11 goal has not been met, including when a program
12 activity's performance is determined not to have met
13 the criteria of a successful program activity under
14 1115(b)(2)—

15 "(A) why the goal was not met;

16 "(B) those plans and schedules for achiev-
17 ing the established performance goal; and

18 "(C) if the performance goal is impractical
19 or infeasible, why that is the case and what ac-
20 tion is recommended;

21 "(4) describe the use and assess the effective-
22 ness in achieving performance goals of any waiver
23 under section 9703 of this title; and

w/ become
bureaucratic
w/ be game-pla
& blaming
w/ a mutual
legis & Exec. br.
goal of improv
govt services,
focusing on
goals, stream
lining the re

1 “(5) include the summary findings of those pro-
2 gram evaluations completed during the fiscal year
3 covered by the report.

4 “(e) The agency head may include all program per-
5 formance information required annually under this section
6 in an annual financial statement required under section
7 3515 if any such statement is submitted to the Congress
8 no later than March 31 of the applicable fiscal year.

9 **“§1117. Exemption**

10 “The Director of the Office of Management and
11 Budget may exempt from the requirements of sections
12 1115 and 1116 and section 306 of title 5, any agency with
13 annual outlays of \$20,000,000 or less.”.

14 **SEC. 5. MANAGERIAL ACCOUNTABILITY AND FLEXIBILITY.**

15 (a) **MANAGERIAL ACCOUNTABILITY AND FLEXIBIL-**
16 **ITY.**—Chapter 97 of title 31, United States Code, is
17 amended by adding after section 9702, the following new
18 section:

19 **“§9703. Managerial accountability and flexibility**

20 “(a) Beginning with fiscal year 1999, the perform-
21 ance plans required under section 1115 may include pro-
22 posals to waive administrative procedural requirements
23 and controls, including specification of personnel staffing
24 levels, limitations on compensation or remuneration, and
25 prohibitions or restrictions on funding transfers among

1-64

1 budget object classification 20 and subclassifications 11,
2 12, 31, and 32 of each annual budget submitted under
3 section 1105, in return for specific individual or organiza-
4 tion accountability to achieve a performance goal. In pre-
5 paring and submitting the performance plan under section
6 1105(a)(29), the Office of Management and Budget shall
7 review and may approve any proposed waivers. A waiver
8 shall take effect at the beginning of the fiscal year for
9 which the waiver is approved.

10 “(b) Any such proposal under subsection (a) shall de-
11 scribe the anticipated effects on performance resulting
12 from greater managerial or organizational flexibility, dis-
13 cretion, and authority, and shall quantify the expected im-
14 provements in performance resulting from any waiver. The
15 expected improvements shall be compared to current ac-
16 tual performance, and to the projected level of perform-
17 ance that would be achieved independent of any waiver.

18 “(c) Any proposal waiving limitations on com-
19 pensation or remuneration shall precisely express the mon-
20 etary change in compensation or remuneration amounts, *let go!*
21 such as bonuses or awards, that shall result from meeting,
22 exceeding, or failing to meet performance goals.

23 “(d) Any proposed waiver of procedural requirements
24 or controls imposed by a department or agency (other than
25 the proposing department or agency or the Office of Man-

1-65

1 agement and Budget) shall be endorsed by the department
2 or agency that established the requirement, and the en-
3 dorsement included in the proposing department's or
4 agency's performance plan.

5 “(e) A waiver shall be in effect for one or two years.
6 A waiver may be renewed for a subsequent year. After a
7 waiver has been in effect for three consecutive years, the
8 performance plan prepared under section 1115 may pro-
9 pose that a waiver, other than a waiver of limitations on
10 compensation or remuneration, be made permanent.”.

11 **SEC. 6. PILOT PROJECTS.**

12 (a) **PERFORMANCE PLANS AND REPORTS.**—Chapter
13 11 of title 31, United States Code, is amended by inserting
14 after section 1117 (as added by section 4 of this Act) the
15 following new section:

16 **“§ 1118. Pilot projects for performance goals**

17 “(a) The Director of the Office of Management and
18 Budget, after consultation with the head of each agency,
19 shall designate not less than ten agencies as pilot projects
20 in performance measurement for fiscal years 1994, 1995,
21 and 1996. The selected agencies shall reflect a rep-
22 resentative range of Government functions and capabilities
23 in measuring and reporting program performance.

24 “(b) Pilot projects in the designated agencies shall
25 undertake the preparation of performance plans under

1-66

1 section 1115, and program performance reports under sec-
2 tion 1116, other than section 1116(c), for one or more
3 of the major functions and operations of the agency. A
4 strategic plan shall be used when preparing agency per-
5 formance plans during one or more years of the pilot pe-
6 riod.

7 “(c) No later than May 1, 1997, the Director of the
8 Office of Management and Budget shall submit a report
9 to the President and to the Congress which shall—

10 “(1) assess the benefits, costs, and usefulness
11 of the plans and reports prepared by the pilot agen-
12 cies in meeting the purposes of the Government Per-
13 formance and Results Act of 1992;

14 “(2) identify any significant difficulties experi-
15 enced by the pilot departments or agencies in pre-
16 paring plans and reports; and

17 “(3) set forth any recommended changes in the
18 requirements of the provisions of Government Per-
19 formance and Results Act of 1992, section 306 of
20 title 5, sections 1105, 1115, 1116, 1117, 1119 and
21 9704 of this title, and this section.”.

22 (b) MANAGERIAL ACCOUNTABILITY AND FLEXIBIL-
23 ITY.—Chapter 97 of title 31, United States Code, is
24 amended by inserting after section 9703 (as added by sec-
25 tion 5 of this Act) the following new section:

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24 “(2) an identification of any significant dif-
25 ficulties experienced by the pilot departments or
26 agencies in preparing proposed waivers.

1-68

1 “(d) For purposes of this section the definitions
2 under section 1115(e) shall apply.”.

3 (c) PERFORMANCE BUDGETING.—Chapter 11 of title
4 31, United State Code, is amended by inserting after sec-
5 tion 1118 (as added by section 6 of this Act) the following
6 new section:

7 “§ 1119. Pilot projects for performance budgeting

8 “(a) The Director of the Office of Management and
9 Budget, after consultation with the head of each agency
10 shall designate not less than five agencies as pilot projects
11 in performance budgeting for fiscal years 1998 and 1999.
12 At least three of the agencies shall be selected from those
13 designated as pilot projects under section 1118, and shall
14 also reflect a representative range of Government func-
15 tions and capabilities in measuring and reporting program
16 performance.

17 “(b) Pilot projects in the designated agencies shall
18 cover the preparation of performance budgets. Such budg-
19 ets shall present, for one or more of the major functions
20 and operations of the agency, the varying levels of per-
21 formance, including outcome-related performance, that
22 would result from different budgeted amounts.

23 “(c) The Director of the Office of Management and
24 Budget shall include, as an alternative budget presen-
25 tation in the budget submitted under section 1105 for fis-

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1 cal year 1999, the performance budgets of the designated
2 departments or agencies for this fiscal year.

3 “(d) No later than March 31, 2001, the Director of
4 the Office of Management and Budget shall transmit a
5 report to the President and to the Congress on the per-
6 formance budgeting pilots which shall—

7 “(1) assess the feasibility and advisability of in-
8 cluding a performance budget as part of the annual
9 budget submitted under section 1105;

10 “(2) describe any difficulties encountered by the
11 pilot departments or agencies in preparing a per-
12 formance budget;

13 “(3) recommend whether legislation requiring
14 performance budgets should be proposed and the
15 general provisions of any legislation; and

16 “(4) set forth any recommended changes in the
17 other requirements of the Government Performance
18 and Results Act of 1992, section 306 of title 5, sec-
19 tions 1105, 1115, 1116, 1117, 1118, and 9704 of
20 this title, and this section.

21 “(e) After receipt of the report required under sub-
22 section (d), the Congress may specify that a performance
23 budget be submitted as part of the annual budget submit-
24 ted under section 1105.”.

1-70

1 SEC. 7. CONGRESSIONAL OVERSIGHT AND LEGISLATION.

2 (a) IN GENERAL.—Nothing in this Act shall be con-
3 strued as limiting the ability of Congress to establish,
4 amend, suspend, or annul a performance goal. Any such
5 action shall have the effect of superseding that goal in the
6 plan submitted under section 1105(a)(29) of title 31,
7 United States Code.

8 (b) GAO REPORT.—No later than June 1, 1997, the
9 Comptroller General of the United States shall report to
10 Congress on the implementation of this Act, including the
11 prospects for compliance by departments or agencies be-
12 yond those participating as pilot projects under sections
13 1118 and 9704 of title 31, United States Code.

14 SEC. 8. TRAINING.

15 The Office of Personnel Management shall, in con-
16 sultation with the Director of the Office of Management
17 and Budget and the Comptroller General of the United
18 States develop a performance measurement training com-
19 ponent for its management training program and other-
20 wise provide managers with an orientation on the develop-
21 ment and use of strategic planning and program perform-
22 ance measurement.

training

23 SEC. 9. TECHNICAL AND CONFORMING AMENDMENT.

24 (a) AMENDMENT TO TITLE 5, UNITED STATES
25 CODE.—The table of sections for chapter 3 of title 5,

- 1 United States Code, is amended by adding after the item
2 relating to section 305 the following:

"306. Strategic plans."

3 (b) AMENDMENTS TO TITLE 31, UNITED STATES
4 CODE.—

- 5 (1) AMENDMENT TO CHAPTER 11.—The table of
6 sections for chapter 11 of title 31, United States
7 Code, is amended by adding after the item relating
8 to section 1114 the following:

"1115. Performance plans.

"1116. Program performance reports.

"1117. Exemptions.

"1118. Pilot projects for performance goals.

"1119. Pilot projects for performance budgeting."

- 9 (2) AMENDMENT TO CHAPTER 97.—The table of
10 sections for chapter 97 of title 31, United States
11 Code, is amended by adding after the item relating
12 to section 9702 the following:

"9703. Managerial accountability and flexibility.

"9704. Pilot projects for managerial accountability and flexibility."

13 SEC. 10. EFFECTIVE DATES AND PROCEDURES.

- 14 (a) IN GENERAL.—The provisions of this Act and
15 amendments made by this Act shall take effect on the date
16 of the enactment of this Act, except sections 3, 4, 5, and
17 6(c) of this Act, and the amendments made by such sec-
18 tions, shall take effect on the date of enactment of the
19 resolution described in subsection (b).

- 20 (b) RESOLUTION APPROVING PERFORMANCE
21 PLANS.—

1 (1) RESOLUTION DESCRIBED.—A resolution re-
2 ferred to in subsection (a) is a joint resolution the
3 matter after the resolving clause of which is as fol-
4 lows: "That Congress approves the development of
5 departmental and agency strategic plans, perform-
6 ance plans and reports pursuant to section 306 of
7 title 5, United States Code, pursuant to sections
8 1105(a)(29) and 9703 of title 31, United States
9 Code, and pursuant to sections 1115, 1116, 1117,
10 and 1119 of title 31, United States Code (as amend-
11 ed by sections 3, 4, 5, and 6 of the Government Per-
12 formance and Results Act of 1992).".

13 (2) INTRODUCTION OF RESOLUTION.—No later
14 than 30 days after the transmittal by the Comptrol-
15 ler General of the United States to the Congress of
16 the report referred to in section 7(b), a resolution as
17 described in paragraph (1) shall be introduced in the
18 Senate by the chairman of the Committee on Gov-
19 ernmental Affairs of the Senate, or by a Member or
20 Members of the Senate designated by such chair-
21 man, and shall be introduced in the House by the
22 chairman of the Committee on Government Oper-
23 ations of the House of Representatives, or by a
24 Member or Members of the House designated by
25 such chairman.

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1 (3) REFERRAL.—A resolution described in
2 paragraph (1), shall be referred to the Committee on
3 Governmental Affairs of the Senate and the Com-
4 mittee on Government Operations of the House of
5 Representatives by the President of the Senate or
6 the Speaker of the House of Representatives, as the
7 case may be. The committee shall make its rec-
8 ommendations to the Senate or the House of Rep-
9 resentatives, respectively, within 30 calendar days
10 following the date of such resolution's introduction.

11 (4) DISCHARGE OF COMMITTEE.—If the com-
12 mittee to which is referred a resolution introduced
13 pursuant to paragraph (2) (or, in the absence of
14 such a resolution, the first resolution introduced
15 with respect to the same departmental or agency
16 plans and reports) has not reported such resolution
17 or identical resolution at the end of 30 calendar days
18 after its introduction, such committee shall be
19 deemed to be discharged from further consideration
20 of such resolution and such resolution shall be
21 placed on the appropriate calendar of the House in-
22 volved.

23 (5) PROCEDURE AFTER REPORT OR DISCHARGE
24 OF COMMITTEE; VOTE ON FINAL PASSAGE.—(A)
25 When the committee has reported, or has been

1 deemed to be discharged (under paragraph (4)) from
2 further consideration of a resolution described in
3 paragraph (1), it is at any time thereafter in order
4 (even though a previous motion to the same effect
5 has been disagreed to) for any Member of the re-
6 spective House to move to proceed to the consider-
7 ation of the resolution. The motion is highly privi-
8 leged and is not debatable. The motion shall not be
9 subject to amendment, or to a motion to postpone,
10 or to a motion to proceed to the consideration of
11 other business. A motion to reconsider the vote by
12 which the motion is agreed to or disagreed to shall
13 not be in order. If a motion to proceed to the consid-
14 eration of the resolution is agreed to, the resolution
15 shall remain the unfinished business of the respec-
16 tive House until disposed of.

17 (B) Debate on the resolution, and on all debat-
18 able motions and appeals in connection therewith,
19 shall be limited to not more than 10 hours, which
20 shall be divided equally between individuals favoring
21 and individuals opposing the resolution. A motion
22 further to limit debate is in order and not debatable.
23 An amendment to, or a motion to postpone, or a mo-
24 tion to recommit the resolution is not in order. A

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1 motion to reconsider the vote by which the resolution
2 is passed or rejected shall not be in order.

3 (C) Immediately following the conclusion of the
4 debate on the resolution and a single quorum call at
5 the conclusion of the debate if requested in accord-
6 ance with the rules of the appropriate House, the
7 vote on final passage of the resolution shall occur.

8 (D) Appeals from the decisions of the Chair re-
9 lating to the application of the rules of the Senate
10 or the House of Representatives, as the case may be,
11 to the procedure relating to a resolution described in
12 paragraph (1), shall be decided without debate.

13 (E) If, prior to the passage by one House of a
14 resolution of that House, that House receives a reso-
15 lution with respect to departmental or agency strate-
16 gic plans, performance plans and reports from the
17 other House, then—

18 (i) the procedure in that House shall be
19 the same as if no resolution had been received
20 from the other House; but

21 (ii) the vote on final passage shall be on
22 the resolution of the other House.

23 (F) It shall not be in order in either the Senate
24 or the House of Representatives to consider a resolu-
25 tion described in paragraph (1), or to consider any

1 conference report on such a resolution, unless the
2 Comptroller General of the United States transmits
3 to the Congress a report under section 7(b).

4 (5) RULEMAKING POWER OF CONGRESS.—The
5 provisions of this section are enacted by the
6 Congress—

7 (A) as an exercise of the rulemaking power
8 of the Senate and the House of Representatives
9 and as such shall be considered as part of the
10 rules of each House, and shall supersede other
11 rules only to the extent that they are inconsis-
12 tent therewith; and

13 (B) with full recognition of the con-
14stitutional right of either House to change the
15 rules (so far as they relate to the procedures of
16 that House) at any time, in the same manner,
17 and to the same extent as in the case of any
18 other rule of that House.

Amend the title so as to read: "A bill to provide for
the establishment, testing, and evaluation of strategic
planning and performance measurement in the Federal
Government, and for other purposes."

Within the next five years, every company will have to redesign how it measures its business performance.

The Performance Measurement Manifesto

by Robert G. Eccles

Revolutions begin long before they are officially declared. For several years, senior executives in a broad range of industries have been rethinking how to measure the performance of their businesses. They have recognized that new strategies and competitive realities demand new measurement systems. Now they are deeply engaged in defining and developing those systems for their companies.

At the heart of this revolution lies a radical decision: to shift from treating financial figures as the foundation for performance measurement to treating them as one among a broader set of measures. Put like this, it hardly sounds revolutionary. Many managers can honestly claim that they—and their companies—have tracked quality, market share, and other nonfinancial measures for years. Tracking these measures is one thing. But giving them equal (or even greater) status in determining strategy, promotions, bonuses, and other rewards is another. Until that happens, to quote Ray Stata, the CEO of Analog Devices, "When conflicts arise, financial considerations win out."¹

The ranks of companies enlisting in this revolution are rising daily. Senior managers at one large,

high-tech manufacturer recently took direct responsibility for adding customer satisfaction, quality, market share, and human resources to their formal measurement system. The impetus was their realization that the company's existing system, which was largely financial, undercut its strategy, which focused on customer service. At a smaller manufacturer, the catalyst was a leveraged recapitalization that gave the CEO the opportunity formally to reorder the company's priorities. On the new list, earnings per share dropped to last place, preceded by customer satisfaction, cash flow, manufacturing effectiveness, and innovation (in that order). On the old list, earnings per share stood first and almost alone.

In both companies, the CEOs believe they have initiated a sea change in how their managers think about business performance and in the decisions they make. Executives at other companies engaged in comparable efforts feel the same—rightly. What gets measured gets attention, particularly when rewards are tied to the measures. Grafting new measures onto

1. Ray Stata, "Organizational Learning—The Key to Management Innovation," *Sloan Management Review*, Spring 1989, pp. 63-74.

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an old accounting-driven performance system or making slight adjustments in existing incentives accomplishes little. Enhanced competitiveness depends on starting from scratch and asking: "Given our strategy, what are the most important measures of performance?" "How do these measures relate to one another?" "What measures truly predict long-term financial success in our businesses?"

Dissatisfaction with using financial measures to evaluate business performance is nothing new. As far back as 1951, Ralph Cordiner, the CEO of General Electric, commissioned a high-level task force to identify key corporate performance measures. (The categories the task force singled out were timeless and comprehensive: in addition to profitability, the list included market share, productivity, employee attitudes, public responsibility, and the balance between short- and long-term goals.) But the current wave of discontent is not just more of the same.

One important difference is the intensity and nature of the criticism directed at traditional accounting systems. During the past few years, academics and practitioners have begun to demonstrate that accrual-based performance measures are at best obsolete – and more often harmful.² Diversity in products, markets, and business units puts a big strain on rules and theories developed for smaller, less complex organizations. More dangerously, the numbers these systems generate often fail to support the investments in new technologies and markets that are essential for successful performance in global markets.

Such criticisms reinforce concern about the pernicious effects of short-term thinking on the competitiveness of U.S. companies. Opinions on the causes of this mind-set differ. Some blame the investment community, which presses relentlessly for rising quarterly earnings. Others cite senior managers themselves, charging that their typically short tenure fosters shortsightedness. The important

Managers' willingness to play the earning game calls into question the very measures the market focuses on.

point is that the mind-set exists. Ask almost any senior manager and you will hear about some company's failure to make capital investments or pursue long-term strategic objectives that would imperil quarterly earnings targets.

Moreover, to the extent that managers do focus on reported quarterly earnings – and thereby reinforce the investment community's short-term perspective and expectations – they have a strong incentive to manipulate the figures they report. The extent and severity of such gaming is hard to document. But few in management deny that it goes on or that managers' willingness to play the earnings game calls into question the very measures the market focuses on to determine stock prices. For this reason, many managers, analysts, and financial economists have begun to focus on cash flow in the belief that it reflects a company's economic condition more accurately than its reported earnings do.³

Finally, many managers worry that income-based financial figures are better at measuring the consequences of yesterday's decisions than they are at indicating tomorrow's performance. Events of the past decade substantiate this concern. During the 1980s, many executives saw their companies' strong financial records deteriorate because of unnoticed declines in quality or customer satisfaction or because global competitors ate into their market share. Even managers who have not been hurt feel the need for preventive action. A senior executive at one of the large money-center banks, for example, grew increasingly uneasy about the European part of his business, its strong financials notwithstanding. To address that concern, he has nominated several new measures (including customer satisfaction, customers' perceptions of the bank's stature and professionalism, and market share) to serve as leading indicators of the business's performance.

Discontent turns into rebellion when people see an alternative worth fighting for. During the 1980s, many managers found such an alternative in the quality movement. Leading manufacturers and service providers alike have come to see quality as a strategic weapon in their competitive battles. As a result, they have committed substantial resources to developing measures such as defect rates, response time, delivery commitments, and the like to evaluate the performance of their products, services, and operations.

In addition to pressure from global competitors, a major impetus for these efforts has been the growth of the Total Quality Movement and related programs such as the Malcolm Baldrige National Quality Award. (Before a company can even apply for a Baldrige Award, it must devise criteria to measure the performance of its entire operation – not just its products – in minute detail.) Another impetus, getting stronger by the day, comes from large manufacturers who are more and more likely to impose rigid

quality requirements on their suppliers. Whatever the stimulus, the result is the same: quality measures represent the most positive step taken to date in broadening the basis of business performance measurement.

Another step in the same direction comes from embryonic efforts to generate measures of customer satisfaction. What quality was for the 1980s, customer satisfaction will be for the 1990s. Work on this class of measures is the highest priority at the two manufacturing companies discussed earlier. It is equally critical at another high-tech company that recently created a customer satisfaction department reporting directly to the CEO. In each case, management's interest in developing new performance measures was triggered by strategies emphasizing customer service.

As competition continues to stiffen, strategies that focus on quality will evolve naturally into strategies based on customer service. Indeed, this is already happening at many leading companies. Attention to customer satisfaction, which measures the quality of customer service, is a logical next step in the development of quality measures. Companies will continue to measure quality on the basis of internally generated indexes (such as defect rates) that are presumed to relate to customer satisfaction. But they will also begin to evaluate their performance by collecting data directly from customers for more direct measures like customer retention rates, market share, and perceived value of goods and services.

Just as quality-related metrics have made the performance measurement revolution more real, so has the development of competitive benchmarking.⁴ First, benchmarking gives managers a methodology that can be applied to any measure, financial or nonfinancial, but that emphasizes nonfinancial metrics. Second (and less obvious), it has a transforming effect on managerial mind-sets and perspectives.

Benchmarking involves identifying competitors and/or companies in other industries that exemplify best practice in some activity, function, or process and then comparing one's own performance to theirs. This externally oriented approach makes people aware of improvements that are orders of magnitude beyond what they would have thought possible. In contrast, internal yardsticks that measure current performance in relation to prior period results, current budget, or the results of other units within the company rarely have such an eye-opening effect. Moreover, these internally focused comparisons have the disadvantage of breeding complacency through a false sense of security and of stirring up more energy for intramural rivalry than for competition in the marketplace.

Finally, information technology has played a critical role in making a performance measurement revolution possible. Thanks to dramatically improved price-performance ratios in hardware and to breakthroughs in software and database technology, organizations can generate, disseminate, analyze, and store more information from more sources, for more people, more quickly and cheaply than was conceivable even a few years back. The potential of new technologies, such as hand-held computers for employees in the field and executive information systems for senior managers, is only beginning to be explored. Overall, the range of measurement options that are economically feasible has radically increased.

Veterans know it is easier to preach revolution than to practice it. Even the most favorable climate can create only the potential for revolutionary change. Making it happen requires conviction, careful preparation, perseverance, and a decided taste for ambiguity. As yet, there are no clear-cut answers or predetermined processes for managers who wish to change their measurement systems. Based on the experience of companies engaged in this revolution, I can identify five areas of activity that sooner or later need to be addressed: developing an information architecture; putting the technology in place to support this architecture; aligning incentives with the new system; drawing on outside resources; and designing a process to ensure that the other four activities occur.

Developing a new information architecture must be the first activity on any revolutionary agenda. Information architecture is an umbrella term for the categories of information needed to manage a company's businesses, the methods the company uses to generate this information, and the rules regulating its flow. In most companies, the accounting system implicitly defines the information architecture. Other performance measures are likely to be informal—records that operating managers keep for themselves, for instance—and they are rarely integrated into the corporate-driven financial system.

The design for a new corporate information architecture begins with the data that management needs to pursue the company's strategy. This may sound like a truism, but a surprising number of companies describe their strategies in terms of customer service, innovation, or the quality and capabilities of

2. Donald A. Curtis, "The Modern Accounting System," *Financial Executive*, January-February 1985, pp. 81-93; and H. Thomas Johnson and Robert S. Kaplan, *Relevance Lost* (Boston: Harvard Business School Press, 1987).

3. Yuji Ijiri, "Cash Flow Accounting and Its Structure," *Journal of Accounting, Auditing, and Finance*, Summer 1978, pp. 331-348.

4. Robert C. Camp, *Benchmarking* (Milwaukee, Wisconsin: ASQS Quality Press, 1989).

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their people, yet do little to measure these variables. Even time—the newest strategic variable—remains largely underdeveloped in terms of which time-based metrics are most important and how best to measure them.

As part of this identification process, management needs to articulate a new corporate grammar and define its own special vocabulary—the basic terms that will need to be common and relatively invariant across all the company's businesses. Some of these terms (like sales and costs) will be familiar. Others, however, will reflect new strategic priorities and ways to think about measuring performance. For example, both a large money-center bank and a multidivisional, high-technology manufacturer introduced the use of cross-company customer identification numbers so they could readily track such simple and useful information as the total amount of business the company did with any one customer. It sounds elementary and it is—as soon as you start to look at the entire measurement system from scratch.

Uniformity can be carried too far. Different businesses with different strategies require different information for decision making and performance measurement. But this should not obscure the equally obvious fact that every company needs to have at least a few critical terms in common. Today few large companies do. Years of acquisitions and divestitures, technological limitations, and at times, a lack of management discipline have all left most big organizations with a complicated hodgepodge of definitions and variables—and with the bottom line their only common denominator.

Developing a coherent, companywide grammar is particularly important in light of an ever-more stringent competitive environment. For many companies, ongoing structural reorganizations are a fact of life. The high-technology company described above has reorganized itself 24 times in the past 4 years (in addition to a number of divisional and functional restructurings) to keep pace with changes in its mar-

One high-tech company has reorganized 24 times in the past 4 years to keep pace with changes in its markets.

kets and technologies. Rather than bewail the situation, managers relish it and see their capacity for fast adaptation as an important competitive advantage.

A common grammar also enhances management's ability to break apart and recombine product lines and market segments to form new business units. At

a major merchant bank, for example, the organization is so fluid that one senior executive likens it to a collection of hunting packs that form to pursue business opportunities and then disband as the market windows on those opportunities close. The faster the company can assemble information for newly formed groups, the greater the odds of success. So this executive (who calls himself the czar of information) has been made responsible for developing standard definitions for key information categories.

How a company generates the performance data it needs is the second piece of its information architecture. Not surprisingly, methods for measuring financial performance are the most sophisticated and the most deeply entrenched. Accountants have been refining these methods ever since double-entry bookkeeping was invented in the fifteenth century. Today their codifications are enforced by a vast institutional infrastructure made up of professional educators, public accounting firms, and regulatory bodies.

In contrast, efforts to measure market share, quality, innovation, human resources, and customer satisfaction have been much more modest. Data for tracking these measures are generated less often: quarterly, annual, or even biannual bases are common. Responsibility for them typically rests with a specific function. (Strategic planning measures market share, for example, while engineering measures innovation and so on.) They rarely become part of the periodic reports general managers receive.

Placing these new measures on an equal footing with financial data takes significant resources. One approach is to assign a senior executive to each of the measures and hold him or her responsible for developing its methodologies. Typically, these executives come from the function that is most experienced in dealing with the particular measure. But they work with a multifunctional task force to ensure that managers throughout the company will understand the resulting measures and find them useful. Another, less common, approach is to create a new function focused on one measure and then to expand its mandate over time. A unit responsible for customer satisfaction might subsequently take on market share, for example, or the company's performance in human resources.

Unlike a company's grammar, which should be fairly stable, methods for taking new performance measures should evolve as the company's expertise increases. Historical comparability may suffer in the process, but this is a minor loss. What matters is how a company is doing compared with its current competitors, not with its own past.

The last component of a corporate information architecture is the set of rules that governs the flow of information. Who is responsible for how measures are taken? Who actually generates the data? Who receives and analyzes them? Who is responsible for changing the rules? Because information is an important source of power, the way a company answers these questions matters deeply. How open or closed a company is affects how individuals and groups work together, as well as the relative influence people and parts of the company have on its strategic direction and management. Some companies make information available on a very limited basis. At others, any individual can request information from another unit as long as he or she can show why it is needed. Similarly, in some companies the CEO still determines who gets what information – not a very practical alternative in today's world. More often what happens is that those who possess information decide with whom they will share it.

Advances in information technology such as powerful workstations, open architectures, and relational databases vastly increase the options for how information can flow. It may be centralized at the top, so that senior executives can make even more decisions than they have in the past. Or it may be distributed to increase the decision-making responsibilities of people at every level. The advantages of making information widely available are obvious, though this also raises important questions that need to be addressed about the data's integrity and security. In principle, however, this portion of the information architecture ought to be the most flexible of the three, so that the company's information flows continue to change as the conditions it faces do.

Determining the hardware, software, and telecommunications technology a company needs to generate its new measurement information is the second activity in the performance revolution. This task is hard enough in its own right, given the many choices available. But too often managers make it even harder by going directly to a technology architecture without stopping first to think through their information needs. This was the case at a high-tech manufacturing company that was growing more and more frustrated with its information systems planning committee. Then the CEO realized that he and the other senior managers had not determined the measures they wanted before setting up the committee. Equipped with that information, the committee found it relatively easy to choose the right technology.

Once the information architecture and supporting technology are in place, the next step is to align the

new system with the company's incentives – to reward people in proportion to their performance on the measures that management has said truly matter. This is easier said than done. In many companies, the compensation system limits the amount and range of the salary increases, bonuses, and stock options that management can award.

In companies that practice pay-for-performance, compensation and other rewards are often tied fairly mechanically to a few key financial measures such as profitability and return on investment. Convincing managers that a newly implemented system is really going to be followed can be a hard sell. The president of one service company let each of his division general managers design the performance measures that were most appropriate for his or her particular business. Even so, the managers still felt the bottom line was all that would matter when it came to promotions and pay.

The difficulty of aligning incentives to performance is heightened by the fact that formulas for

Formulas that tie incentives to performance look objective – and rarely work.

tying the two together are rarely effective. Formulas have the advantage of looking objective, and they spare managers the unpleasantness of having to conduct truly frank performance appraisals. But if the formula is simple and focuses on a few key variables, it inevitably leaves some important measures out. Conversely, if the formula is complex and factors in all the variables that require attention, people are likely to find it confusing and may start to play games with the numbers. Moreover, the relative importance of the variables is certain to change more often – and faster – than the whole incentive system can change.

For these reasons, I favor linking incentives strongly to performance but leaving managers free to determine their subordinates' rewards on the basis of all the relevant information, qualitative as well as quantitative. Then it is up to the manager to explain candidly to subordinates why they received what they did. For most managers, this will also entail learning to conduct effective performance appraisals, an indirect – and invaluable – benefit of overhauling the measurement system.

Outside parties such as industry and trade associations, third-party data vendors, information technology companies, consulting firms, and public accounting firms must also become part of the per-

formance measurement revolution. Their incentive: important business opportunities.

Industry and trade associations can play a very helpful role in identifying key performance measures, researching methodologies for taking these measures, and supplying comparative statistics to their members—so can third-party data vendors. Competitors are more likely to supply information to a neutral party (which can disguise it and make it available to all its members or customers) than to

Public accounting firms have what may be the single most critical role in this revolution.

one another. And customers are more likely to provide information to a single data vendor than to each of their suppliers separately.

Consulting firms and information technology vendors also have important roles to play in forwarding the revolution. Firms that specialize in strategy formulation, for example, often have well-developed methods for assessing market share and other performance metrics that clients could be trained to use. Similarly, firms that focus on strategy implementation have a wealth of experience designing systems of various kinds for particular functions such as manufacturing and human resources. While many of these firms are likely to remain specialized, and thus require coordination by their clients, others will surely expand their capabilities to address all the pieces of the revolution within a client company.

Much the same thing is apt to happen among vendors of information technology. In addition to helping companies develop the technological architecture they need, some companies will see opportunities to move into a full range of services that use the hardware as a technology platform. IBM and DEC are already moving in this direction, impelled in part by the fact that dramatic gains in price-performance ratios make it harder and harder to make money selling "boxes."

Finally, public accounting firms have what may be the single most critical role in this revolution. On one hand, they could inhibit its progress in the belief that their vested interest in the existing system is too great to risk. On the other hand, all the large firms have substantial consulting practices, and the revolution represents a tremendous business opportunity for them. Companies will need a great deal of help developing new measures, validating them, and certifying them for external use.

Accounting firms also have an opportunity to develop measurement methods that will be common to an industry or across industries. While this should not be overdone, one reason financial measures carry such weight is that they are assumed to be a uniform metric, comparable across divisions and companies, and thus a valid basis for resource allocation decisions. In practice, of course, these measures are not comparable (despite the millions of hours invested in efforts to make them so) because companies use different accounting conventions. Given that fact, it is easy to see why developing additional measures that senior managers—and the investment community—can use will be a massive undertaking.

Indeed, the power of research analysts and investors generally is one of the reasons accounting firms have such a crucial role to play. Although evidence exists that investors are showing more interest in metrics such as market share and cash flow, many managers and analysts identify the investment community as the chief impediment to revolution.⁵ Until investors treat other measures as seriously as financial data, they argue, limits will always exist on how seriously those measures are taken inside companies.

GE's experience with its measurement task force supports their argument. According to a knowledgeable senior executive, the 1951 effort had only a modest effect because the measures believed to determine the company's stock price, to which incen-

Would managers be willing to publish anything more than the financial information the SEC requires?

tives were tied, were all financial: earnings per share, return on equity, return on investment, return on sales, and earnings growth rate. He believed that once the financial markets valued other measures, progress within companies would accelerate.

Investors, of course, see the problem from a different perspective. They question whether managers would be willing to publish anything more than the financial information required by the SEC lest they reveal too much to their competitors. Ultimately, a regulatory body like the SEC could untie this Gordian knot by recommending (and eventually requiring) public companies to provide nonfinancial measures in their reports. (This is, after all, how financial

5. "Investors: Look at Firms' Market Share," *Wall Street Journal*, February 26, 1990, pp. C1-2.

standards became so omnipotent and why so many millions of hours have been invested in their development.) But I suspect competitive pressure will prove a more immediate force for change. As soon as one leading company can demonstrate the long-term advantage of its superior performance on quality or innovation or any other nonfinancial measure, it will change the rules for all its rivals forever. And with so many serious competitors tracking—and enhancing—these measures, that is only a matter of time.

Designing a process to ensure that all these things happen is the last aspect of the revolution. To overcome conservative forces outside the company and from within (including line and staff managers at every level, in every function), someone has to take the lead. Ultimately, this means the CEO. If the CEO is not committed, the revolution will flounder, no matter how much enthusiasm exists throughout the organization.

But the CEO cannot make it happen. Developing an information architecture and its accompanying technology, aligning incentives, working with outside parties—all this requires many people and a lot of work, much of it far less interesting than plotting strategy. Moreover, the design of the process must take account of the integrative nature of the task: people in different businesses and functions including strategic planning, engineering, manufacturing, marketing and sales, human resources, and finance will all have something to contribute. The work of external players will have to be integrated with the company's own efforts.

Organizationally, two critical choices exist. One is who the point person will be. Assigning this role to the CEO or president ensures its proper symbolic visibility. Delegating it to a high-level line or staff executive and making it a big piece of his or her assignment may be a more effective way to guarantee that enough senior management time will be devoted to the project.

The other choice is which function or group will do most of the work and coordinate the company's efforts. The CEO of one high-tech company gave this responsibility to the finance function because he felt they should have the opportunity to broaden their perspective and measurement skills. He also


thought it would be easier to use an existing group experienced in performance measurement. The president of an apparel company made a different choice. To avoid the financial bias embedded in the company's existing management information systems, he wanted someone to start from scratch and design a system with customer service at its core. As a result, he is planning to combine the information systems department with customer service to create a new function to be headed by a new person, recruited from the outside.

What is most effective for a given company will depend on its history, culture, and management style. But every company should make the effort to attack the problem with new principles. Some past practices may still be useful, but everything should be strenuously challenged. Otherwise, the effort will yield incremental changes at best.

Open-mindedness about the structures and processes that will be most effective, now and in the future, is equally important. I know of a few companies that are experimenting with combining the information systems and human resource depart-

Combining information systems and human resources is a culture shock for both departments. But that's what revolution is all about.

ments. These experiments have entailed a certain amount of culture shock for professionals from both functions, but such radical rethinking is what revolution is all about.

Finally, recognize that once begun, this is a revolution that never ends. We are not simply talking about changing the basis of performance measurement from financial statistics to something else. We are talking about a new philosophy of performance measurement that regards it as an ongoing, evolving process. And just as igniting the revolution will take special effort, so will maintaining its momentum—and reaping the rewards in the years ahead. 

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Criteria for Developing Performance Measurement Systems in the Public Sector



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Office of Planning and Management Analysis (OPMA)
Financial Services Directorate (FSD)
Deputy Assistant Secretary (Departmental Finance and Management)
Assistant Secretary (Management)

The Department of the Treasury

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PART III. GUIDELINES FOR DEVELOPMENT OF A PERFORMANCE MEASUREMENT SYSTEM

This section will outline the various uses of performance indicators and measures, the steps for developing a sound performance measurement system based on a strategic planning approach, criteria for the development of performance indicators and measures, and potential obstacles that can occur in the implementation of performance measurement systems. An extensive list of specific financial, administrative, and program indicators and measures is provided in Appendix B.

A. USES OF A PERFORMANCE MEASUREMENT SYSTEM

Managers at various levels may use different performance indicators and measures to evaluate a program. For example, a first-line supervisor in a production operation will focus on operation-oriented indicators, such as equipment down-time and availability of raw materials. Upper-level managers are concerned more with aggregate input and output indicators, efficiency measures, such as unit costs, and meeting production schedules. Performance indicators and measures are also used to inform a wide range of government stakeholders, such as Congressional and Executive decisionmakers, of program accomplishments. These decisionmakers are more likely to use outcome indicators, such as the quality and timeliness of the service or product (e.g., whether there is a sufficient supply of coins to meet public demand.)

Management actions taken as a result of the program analysis can affect all management levels. One type of action might include an incentive system for program staff that is based on program performance indicators and measures. Rewards could include bonuses, special awards, and certificates of merit. Actions taken by external stakeholders may include the creation of new or amended legislation, and new or revised regulations and operating procedures governing the conduct of Federal programs. Other common actions include reallocating resources and increasing productivity within current resources.

B. STRATEGIC PLANNING APPROACH FOR DEVELOPING A PERFORMANCE MEASUREMENT SYSTEM

A performance measurement system should be consistent with, and integrated into, each organization's strategic plan. Development of a performance measurement system is best served by a strategic planning approach with top management support, active management participation in goal setting, a small manageable number of goals, a strong link with the budget process, and an independent evaluation process. The value of using this approach was confirmed in our interviews with other Departments and agencies. Following is a brief description of the steps required to develop such a system.

1. Establish an organizational structure, with well-defined responsibilities, to develop and implement a performance measurement system. This includes:
 - Securing top management support and forming an agency-wide steering committee (without the support of the head of the agency, the process is unlikely to get the commitment of time and resources required to make it work);
 - Selecting an office to represent the agency as a whole and to oversee and coordinate the effort; and
 - Providing technical support to planning participants (such as data collection procedures) and information on the performance measurement process.
2. Identify the program mission, goals, and objectives. Goals and objectives should be written in measurable terms, when possible, at both the policy and program levels. (For example, the mission of the Customs Service is to collect import duties and enforce Customs and related laws. One bureau objective is to process 75 percent of all Customs transactions and collections in a paperless mode by 1996.) To identify program mission and goals:
 - Review agency mission statements and budget submissions to ensure a thorough understanding of the purpose of the program;
 - Review strategic and operational plans for program objectives and performance indicators; and
 - Review enabling legislation and regulations for the program.
3. Allocate resources based on the strategic plan. For the plan to be successful, bureau resources should be allocated to support strategic goals and objectives as part of the budget process. For example, Customs would be expected to allocate sufficient resources to fund the development of automated systems to make the transition from a paper to electronic environment possible.
4. Identify program users and customers, and discern their needs. Different types of measures and reports are needed for different audiences. Total Quality Management (TQM) techniques, such as surveys and focus groups, can assist in identifying the needs of program users, and determining the appropriate performance indicators and measures. Potential audiences and uses for performance indicators include:
 - legislators and their staffs - to help them oversee programs and budget resources and to determine if programs are still needed;

- executive branch policy makers (e.g., senior agency officials and OMB budget analysts) - to help them plan and allocate resources;
 - policy and evaluation staffs - to help them evaluate whether programs and policies are having their intended effect;
 - administrators (e.g., agency financial managers) - to help them with contracting, budgeting and resource allocation;
 - service providers (e.g., program managers) - to help them monitor performance, adjust operations, and refine service delivery methods; and
 - the press and public - to help them judge the efficacy of programs and policies.
5. Determine the availability of reliable program data, such as financial and productivity reports, before setting up new reporting requirements. Additionally, it may be necessary to design and implement new information systems and system interfaces to collect data in a consistent, reliable, and auditable fashion.

Surveys also can be a useful tool for collecting data for performance indicators. For example, the Savings Bonds Division is conducting both a nationwide consumer market survey to identify the characteristics of savings bonds purchasers, and an internal survey of its bonds sales staff to determine the best method for evaluating staff performance.

6. Select appropriate performance indicators and measures, and set mutually-agreed upon targets. These should include an appropriate mix of the following:
- input indicators (i.e., monetary resources, such as administrative and program costs, in "current" or "constant" dollars; and non-monetary resources, such as the amount of work time expended—expressed in such units as employee-hours or full time equivalent (FTE)—and the level and mix of raw materials used);
 - output indicators (i.e., amount of workload accomplished, such as production, transactions, and share of target population served). For example, the number of payments (checks or electronic funds transfers) made by Treasury's Financial Management Service;
 - outcome indicators (i.e., program results, such as indicators of service quality, effectiveness, and amount or proportion of "need" that is being met.) Senior officials should focus on these indicators as the most significant measures of program results. However, these data are more difficult to collect than input and output indicators, and may require consumer surveys or improved

technology to obtain accurate or valid data. Some types of outcome indicators include:

- timeliness and quality of services or goods (e.g., customer satisfaction levels, responsiveness rates and average waiting time for service). For example, the IRS measures the percent of taxpayer telephone inquiries answered correctly by IRS;
 - accessibility and coverage of the distribution of services or goods, (e.g. the range of services provided by Customs at over a thousand entry points into the U.S. Some points are manned with one person or even seasonally closed, while others, like the Miami air and sea ports, facilitate thousands of passengers and cargo and provide a full range of services);
 - status of conditions (e.g., safety of fireworks plants and cleanliness of alcoholic beverage bottling plants to prevent contamination); and
 - monetary value of services to the user (e.g., the market value of law enforcement training provided at no cost to local police officers).
- efficiency and productivity measures (i.e., relationship between input and output indicators), most commonly, the cost per unit of physical output, such as the unit cost of currency notes or coin production; and
 - cost-effectiveness measures (i.e., relationship between outcome indicators--program results--and input and output indicators), generally the cost to achieve a desired program result or outcome, such as the cost per FTE to increase tax compliance, reduce claims response time, or reduce firearms-related crime to a targeted level. Although less commonly used, this type of measure can assist managers and senior officials in evaluating both the efficiency of a program and the allocation of program resources.
7. Establish a monitoring system, assess the data, analyze program performance and prepare reports. Analysis techniques used may include: trend/time series, variance, cross-sectional, structural, and statistical analysis. To perform an analysis:
- Establish an initial benchmark (e.g., goal, standard, prior year baseline, historical trends, other similar work units in the same organization, similar services in other countries or private sector companies) for each indicator, against which to evaluate actual performance data. Where possible, one should use benchmarks from successful, autonomous groups. This is most applicable to commercial-type activities, such as manufacturing;

- Focus reports on no more than 6-8 of the most important indicators. Policy-level results should be brief, graphic, and provide a context for comparisons. Program-level results should be more detailed than policy-level results, and presented more frequently in order to allow for more timely program adjustments; and
- Use extensive notes to explain any anomalies, definitional problems, time lags, or other qualitative elements. Qualitative factors are particularly important in the public sector, where programs are heavily influenced by outside factors over which there is little control. For example, there can be a significant time lag--possibly several years--between the initiation of an investigation and its final disposition. Any measurement prior to the completion of the case may not accurately reflect the productivity of the resources. Therefore, explanatory information should be included to allow the manager to properly interpret the significance of the quantitative measures.

8. Take appropriate actions based on the analyses of the programs.

C. CRITERIA FOR SELECTING PERFORMANCE INDICATORS AND MEASURES

A variety of criteria can be used to select appropriate performance indicators. The establishment of criteria can assist in identifying, and achieving consensus on, the measurement goals. These criteria address some important characteristics of the data, the measurements, and the measurement system.

Data Criteria:

- **Availability:** Are the data currently available? If not, can the data be collected? Are better indicators available using existing data? Are there better indicators that we should be working towards, for which data are not currently available?
- **Accuracy:** Are the data sufficiently reliable? Are there biases, exaggerations, omissions, or errors that are likely to make an indicator or measure inaccurate or misleading? Are the data verifiable and auditable?
- **Timeliness:** Are the data timely enough for evaluating program performance? How frequently are the data collected and/or reported? (e.g., monthly vs. annually) How current are the data? (e.g., how soon are data reported after the close of the fiscal year?)
- **Security:** Are there privacy or confidentiality concerns that would prevent the use of these data by concerned parties?

- **Costs of Data Collection:** Are there sufficient resources (e.g., expertise, computer capability or funds) available for data collection? Is the collection of the data cost-effective (i.e., do the costs exceed the benefits to be derived from the collection of the data?)

Measurement Criteria:

- **Validity:** Does the indicator or measure address financial or program results? Can changes in the value of the indicator be clearly interpreted as desirable or undesirable? Does the indicator clearly reflect changes in the program? Is there a sound, logical relationship between the program and what is being measured, or are there significant uncontrollable factors?
- **Uniqueness:** Does the information conveyed by one indicator or measure duplicate information provided by another?
- **Evaluation:** Are there reliable benchmark data, standards, or alternative frames of reference for interpreting the selected performance indicators?

Measurement System Criteria:

- **Balance:** Is there a balance between input, output and outcome indicators, and productivity or cost-effectiveness measures? Does the mix of indicators offset any significant bias in any single indicator?
- **Completeness:** Are all major programs and major components of programs covered? Does the final set of indicators and measures cover the major goals and objectives? Are there measures of possible "unintended" program outcomes--particularly negative effects?
- **Usefulness:** Will management use the system to effect change based on the analysis of the data? Are there incentives for management to use the data after they are collected? Does management have the resources to analyze the results of the system? Is management trained to use and interpret the data? Are management reports "user-friendly" -- that is, clear and concise?

D. POTENTIAL OBSTACLES TO THE DEVELOPMENT AND IMPLEMENTATION OF A PERFORMANCE MEASUREMENT SYSTEM

Management may encounter a variety of obstacles or concerns in developing and implementing a performance measurement system. These concerns may include: possible misinterpretation of performance indicators and measures by external parties, difficulties in

measuring certain types of activities, and possible shortfalls in funding, data, and/or expertise to develop performance indicators.

Management Concerns: The commitment and involvement of senior officials and program managers is essential to the successful development and implementation of a performance measurement system. However, management concern about the use of performance measures by external policy officials can be a major obstacle to the successful implementation of the system. Program and trade union managers often worry that performance indicators and measures will be misinterpreted by external policy officials. This is especially true when more qualitative or subjective measures are employed. Furthermore, these policy officials may not take into account external or uncontrollable factors that influence a program's performance.

These management concerns can make it difficult for senior and program officials, as well as trade unions, to achieve consensus on the selection of a relatively small number of key performance indicators, and to establish a set of benchmarks, standards, or goals against which performance measures may be evaluated. Often officials are unwilling to share information with others outside their own organization.

To address management fears, it should be made clear that performance measures are a means of evaluating program performance, not management performance, because these measures cannot account for all factors influencing program outcomes. Managers should be held accountable for managing for results, not for the results themselves. This approach reduces the incentive of program managers to manipulate the data.

The implementation of a performance measurement system can be complicated by frequent shifts in management priorities or program measures. Although some shifts in priorities may be beneficial, consistent measures over time are needed to evaluate a program. In some cases, it may require several years of accumulating data to develop a true standard or benchmark--such as more complex criminal cases, which can take years from the initiation of a case until final adjudication through the court system.

Measurability Issues: Managers may encounter a wide range of difficulties regarding the measurability of their programs. Difficulties may arise when measuring programs with multiple and often conflicting objectives, or with no clearly quantifiable objectives or outcomes. However, evaluation criteria should not be rejected simply due to apparent measurement difficulties, such as availability and reliability of the data. There are generally ways to partially measure even qualitative, subjective criteria. For instance, the quality of goods and services can be measured in several ways, such as response time, error rate, and number of complaints.

Multiple or Conflicting Goals: Most major programs have several purposes, some of which may be conflicting. For instance, Custom's objective to reduce traffic delays at major border crossings conflicts with its goal to prevent and disrupt the importation

of drugs across national borders. In such cases, management needs to weigh conflicting goals and establish performance measurement targets that reflect a balance between goals. For example, to the extent that Customs chooses to implement one goal to the exclusion of the other, an increase in the number of searches may result in increased delays at the border.

Lack of Clearly Defined Outcomes: Other programs may not have easily quantifiable objectives or outcomes. Measuring the performance of non-production-oriented organizations, such as staff offices which support the work of program offices, can be difficult. For example, one method of evaluating a policy office is to determine whether policies issued are clear and concise. This could be evaluated by conducting a TQM survey to determine if the policy guidance was understandable.

Another area that is difficult to measure is Research and Development (R&D) because the outputs and outcomes are difficult to define. While these activities may have a high failure rate, failures (outputs) are part of the "trial and error" process that may lead to a successful outcome. For instance, research on more durable alloys for coins may result in the rejection of many metals before arriving at the final outcome. However, these failures may be considered a necessary step to arrive at the final outcome.

One of the major obstacles to measuring R&D is the measurement of failed experiments. However, they can be measured by ensuring that the failed experiment results in an output, such as a report on the results of the experiment. Additionally, one can measure the process to ensure that adequate controls were in place to avoid bias in the experiment.

Difficulties in Measuring Outcomes: Even if one can define the outcome of a program, it may be difficult to develop an appropriate indicator or measure. Outcome indicators are invariably more difficult to develop than input and output indicators. For example, it is more difficult to collect data on a reduction in crime (an outcome indicator) than the number of arrests (output), or the number of law enforcement officers (inputs). Furthermore, the correlation between a reduction in crime and an increase in arrests or law enforcement officers is difficult to ascertain.

Development of a sound performance measurement system is often an evolutionary project because it may be difficult to develop outcome indicators. Initially, data may be available to support input indicators and perhaps some output indicators. However, the development of outcome indicators may require specialized efforts, such as surveys or improved technology, to collect data. One way to approximate outcome indicators is to develop a mix of output indicators, such as number of seizures, dollar value of seizures, and net amount realized from seizures. These output indicators offer a general picture of the success or failure of a program.

Financial Reporting Problems: Within the Federal government, cost is frequently not accumulated at the program level. This can be a major obstacle in measuring program performance. For example, overtime costs are tracked in the payroll system on an agency-wide basis, but not identified by program. This result in management establishing a parallel system to track program overtime costs. These program costs, on which a performance measurement system may be based, may not be easily reconciled with the agency-wide system.

Additional Measurement Obstacles: The performance measurement process should be an extension of the strategic planning and budgeting process. However, improperly prepared strategic plans may be too vague and general to be of much use. Performance measurement can be integrated into this process only after the broader strategic goals are translated into very specific operational objectives, against which actual performance may be compared and measured.

Another obstacle in developing indicators is the creation of a duplicative reporting system. It is critical to identify mandated reporting requirements and those where one has more control in order to avoid duplication and to simplify others where possible.

In addition to duplicate reporting, overmeasuring--the problem of measuring in too much detail--has often been cited as the reason for the failure of a measurement system. Care should be taken to avoid voluminous reports that will not be used.

Another consideration is the definition of the activity that is being measured. For example, managers have different definitions for what constitutes "computer equipment." Does it include software, peripheral equipment, and paper? Without standard definitions, comparisons among offices would be misleading. Furthermore, any aggregation of the data would be meaningless.

Resource Issues: Resource constraints, such as dollars, personnel and time, can be another obstacle. The collection and analysis of additional data can be costly and time-consuming. One must weigh the costs versus the benefits of trying to capture or format these data. Additionally, one may not have the proper mix of staff expertise (e.g., statistical and analytical skills) to properly address performance measurement issues.

CONCLUSIONS

In the United States, as in many other countries, increased budget constraints have led to heightened interest in finding ways to increase the efficient and effective use of government resources. Both the Bush Administration and Congress are promoting the development of performance indicators for selected programs and agencies. These initiatives are part of a definite trend towards more performance measurement within the Government.

This paper has presented the various approaches and criteria that Treasury is using to develop performance measurement systems. Some of these approaches include: long-range strategic planning, a Treasury working group to assist the bureaus, and participation in interagency committees. Several Treasury bureaus, such as the IRS, have performance measurement systems that are integrated into the bureau strategic plan. Furthermore, Treasury is in the early stages of developing a Department-wide performance measurement system based on a proposed Department-level strategic planning process.

The strategic planning approach is a comprehensive approach for developing a performance measurement system. This approach requires a well-defined organizational structure, extensive coordination among program stakeholders, and reliable financial and program information systems. The system should consist of a limited number, but representative mix of performance indicators and measures. However, the development of a performance measurement system is an evolutionary process which entails many obstacles, some of which we have discussed in this paper. Initially, it may be advantageous to rely primarily on input and output indicators, which are easier to develop. In the long-run, management should seek to develop the optimum measurements of program outcomes.

Finally, one should be cautious when selecting a mix of performance indicators and measures. We have suggested some criteria to follow in this regard. While we consider these criteria important, the list is not meant to be comprehensive. Agencies should be flexible in applying these criteria to fit their specific situation. Furthermore, agencies need to be creative in overcoming obstacles to the development of a performance measurement system.

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COMMITTEE ASSIGNMENTS
CHAIRMAN OF THE DEMOCRATIC CAUCUS
MEMBER: EDUCATION
GOVERNMENTAL ORGANIZATION AND
ELECTIONS
INTERSTATE COOPERATION
LEGISLATIVE POST AUDIT

HOUSE OF
REPRESENTATIVES

TESTIMONY ON H.B. 2228

Before the Senate Governmental Organization Committee

THANK YOU, MR. CHAIRMAN, FOR THE OPPORTUNITY TO TESTIFY ON H.B. 2228. I AM A PROPONENT OF THIS BILL BECAUSE I BELIEVE THIS LEGISLATURE SHOULD QUESTION CURRENT GOVERNMENTAL STRUCTURE, OUTCOMES, AND PERFORMANCE IN A COMPREHENSIVE MANNER.

H.B. 2228 PROVIDES FOR SUCH A COMPREHENSIVE REVIEW OF STATE GOVERNMENT BY INCLUDING LEGISLATORS, EXECUTIVE AND JUDICIAL BRANCH OFFICIALS IN AN ORGANIZED AND FORMAL REVIEW.

THIS BILL IS BASED, IN PART, ON THE TEXAS EXPERIENCE WHERE THE GOVERNOR LED THE EFFORT TO PROVIDE SWEEPING GOVERNMENTAL REFORM. THE TEXAS LEGISLATURE ACTIVELY PARTICIPATED IN THAT EFFORT AND TOGETHER TRUE REFORMS AND CHANGES IN GOVERNMENT WERE ENACTED.

THIS BILL ALLOWS FOR THE GOVERNOR AND EXECUTIVE BRANCH TO LEAD THE EFFORT, ASSISTED BY THE LEGISLATIVE DIVISION OF POST AUDIT AND AN ADVISORY COMMITTEE MADE UP OF STATE OFFICIALS. BY USING THE FORMAT IN H.B. 2228, NO ADDITIONAL STAFF MEMBERS ARE REQUIRED AND THE FISCAL NOTE REFLECTS TRAVEL AND SOME OOE COSTS.

AT THE END OF THIS REVIEW, YOU CAN EXPECT THE RE-ALLOCATION OF

*G.O. Comm.
Attachment 2
3/10/93*

DOLLARS AND RECOMMENDATIONS ON HOW GOVERNMENT CAN BETTER SERVE THE PEOPLE OF THIS STATE.

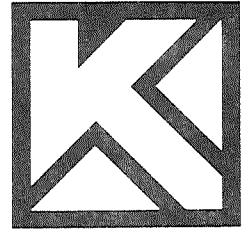
H.B. 2228 IS A TRULY UNIQUE OPPORTUNITY FOR THIS LEGISLATURE TO CHANGE THE WAY KANSAS GOVERNMENT OPERATES. I URGE YOU TO RECOMMEND THE BILL FAVORABLE FOR PASSAGE.

I WILL BE HAPPY TO STAND FOR ANY QUESTIONS.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

March 10, 1993

HB 2228

KANSAS CHAMBER OF COMMERCE AND INDUSTRY
Testimony Before the
Senate Governmental Organization Committee
by
Bob Corkins
Director of Taxation

Mr. Chairman and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I appreciate the chance to express our support for HB 2228. KCCI has long endorsed the goal of greater economy and efficiency in state government spending, and we see this bill as an important step in that direction. We have worked earnestly in the last several months on a campaign which includes this concept and which is designed to bring about tangible results.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Last fall, KCCI organized a special ongoing task force to brainstorm the broad subject of government spending at all levels. We firmly believe it to be a distinguished

*S. O. Committee
Attachment 3
3/10/93*

group of bipartisan experts, consisting of two former state secretaries of revenue, former legislators, persons with significant experience in local government and school board budgeting, and various prominent representatives from the business community.

Rather than elaborate on the data about government growth which motivated this group, I'll refer you to the "Progressive Spending?" brochure which I am providing today. An outline of their initial recommendations based on such information was contained in a press release issued in November. Those recommendations included the formation of a Kansas-style "Grace commission" like that proposed in HB 2228.

KCCI is not terribly concerned about the particulars of this bill. Its clear intent is perfectly consistent with ours. The most important thing is the very creation of such an oversight body itself.

We do feel strongly that business persons should have a meaningful avenue of input into deliberations by the proposed State Governmental Practices Advisory Committee. The bill's provision for five Committee members from the general public appears adequate in that regard, although not totally reassuring. KCCI has, however, already been asked to produce a list of names we would recommend to fill some of these positions.

I'll conclude by emphasizing what KCCI believes to be the first and most critical issue for the Advisory Committee to consider: an accurate and specific cost accounting of current government services. All possible solutions the Advisory Committee may consider will hinge upon this determination. How can *any* government service be privatized until we have an accurate comparison of *true* public sector versus private sector costs?

Our concern is that the "management reviews" to be performed by the Post Auditor may not provide this essential information. The Advisory Committee will ultimately need to examine specific government services and review the full cost of labor, employee benefits, facilities' overhead, transportation, machinery depreciation costs (if applicable), and all other expenses which are directly allocable to each such service in question. Only with this degree of detail could the state reliably determine which functions may be better and more inexpensively performed by the private sector.

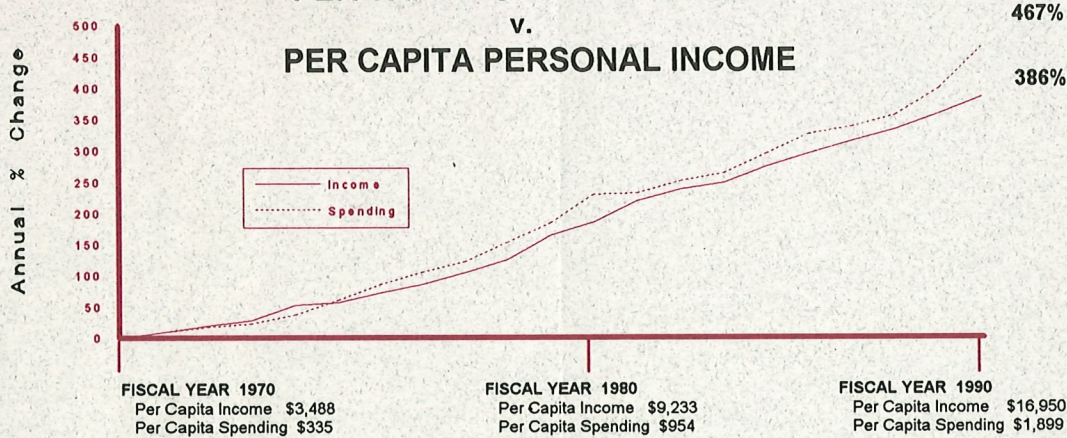
The Advisory Committee and the Post Auditor would probably have the authority to generate this kind of information as the bill is currently written. However, the bill does not explicitly require a cost accounting of this specificity. Therefore, I call the issue to your attention now in an attempt to clarify legislative intent and persuade future members of the Advisory Committee as to its importance.

Again, thank you for the opportunity to speak today.

RELATIONSHIP TO INCOME

COMPARING KANSAS GROWTH RATES:

PER CAPITA STATE SPENDING v. PER CAPITA PERSONAL INCOME

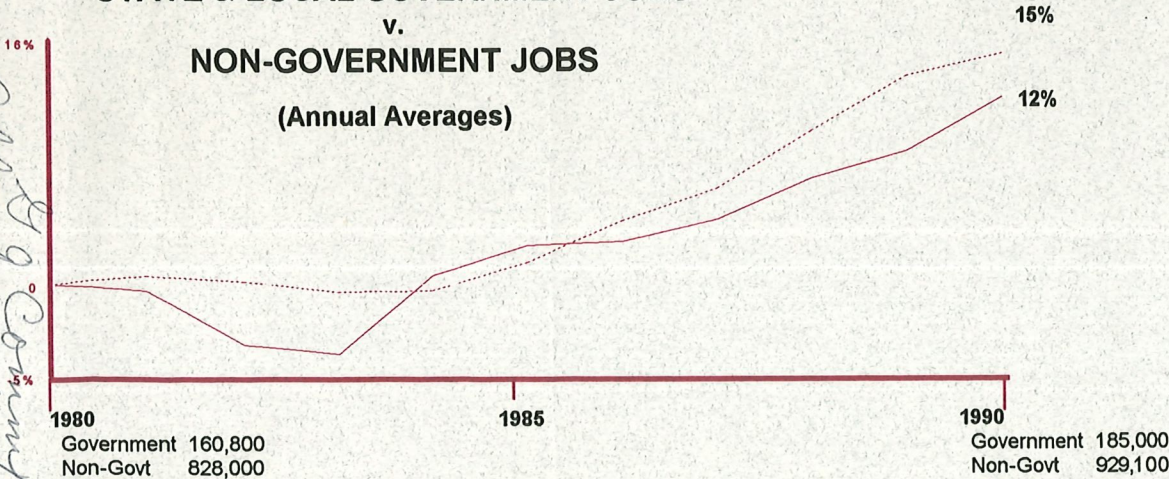


GOVERNMENT EMPLOYEES

The single largest expense of state and local government is the cost of public employees. More employees mean not only a higher payroll, but also more in their retirement benefits, health care benefits, workers compensation claims, transportation, facilities, and other related costs.

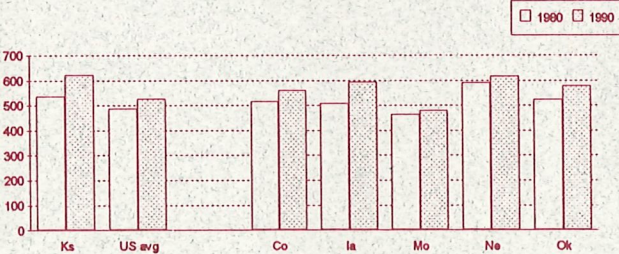
COMPARING KANSAS GROWTH RATES:

STATE & LOCAL GOVERNMENT JOBS v. NON-GOVERNMENT JOBS (Annual Averages)



While state employees increased 31% during the 1980s and local government employees increased 17% (full-time equivalent employees), our total state population went up only 5%. Again, we can examine how Kansas compares to other states in this regard.

STATE & LOCAL GOVERNMENT EMPLOYEES Per 10,000 Population



* KANSAS Up 16% (over pop. growth)

At 621 government workers for every 10,000 Kansans, ours is the highest ratio in this six-state area and 18% higher than the national average.

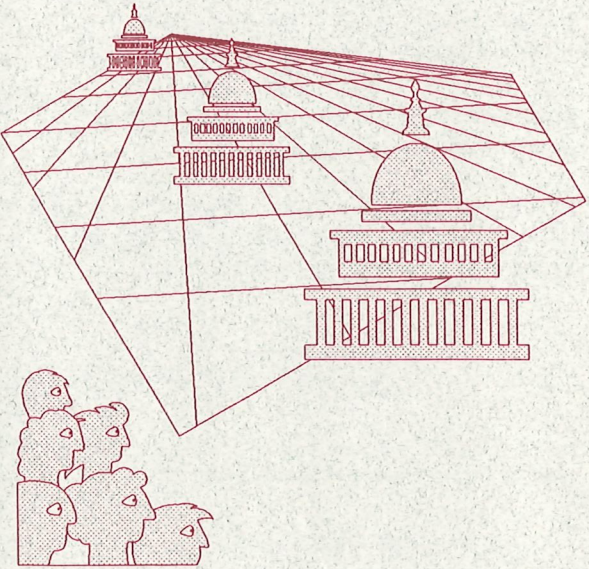
YOUR ABILITY TO PAY

Clearly, Kansas government has become much larger as each of these trends show. Unfortunately, it has not grown in harmony with our citizens' income.

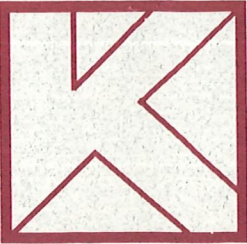
So while one type of tax might be more "progressive" than another, and while our overall combination of state and local taxes might be more "progressive" than it once was, the bottom line is government **spending**.

Year after year, the average Kansan has experienced less and less **ABILITY TO PAY** for this spending.

PROGRESSIVE SPENDING ?



Your Ability to Pay for Expanding Government



Kansas
Chamber of
Commerce
and Industry

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essivity". It's a word which gets thrown around a lot when policy makers decide how Kansans should be taxed. It describes a tax structure which burdens people according to their ability to pay.

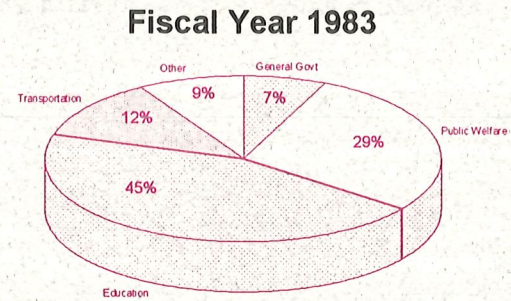
The bottom line is income. If a particular tax is levied relative to the income of the taxpayer, it is considered more "progressive" than one which is a flat amount due...or one which is based on property value.

The **Kansas Chamber of Commerce and Industry** has done a little of its own "progressivity" analysis. We look not only at the degree to which Kansas *taxes* are progressive, but also to the "progressivity" of government *spending*.

How do government expenditures in this state compare to personal income? Are Kansas taxes in line with *your* ability to pay?

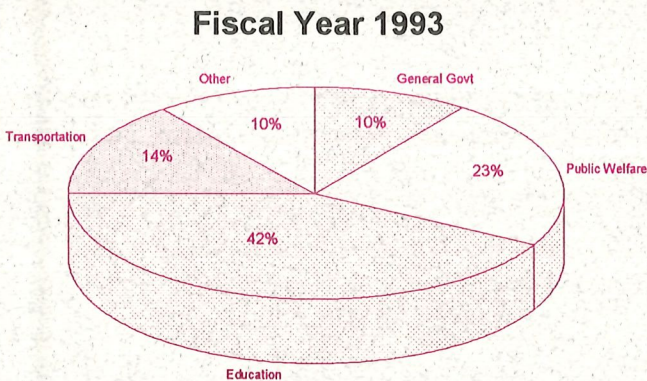
TOTAL STATE SPENDING Up 114%

These numbers show state spending of revenue from all sources, including the SGF. Federal assistance accounts for most of the non-SGF revenue. Therefore, your federal income taxes fund a large part of this additional amount.



\$2.910 Billion

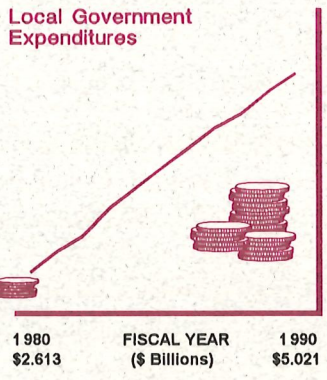
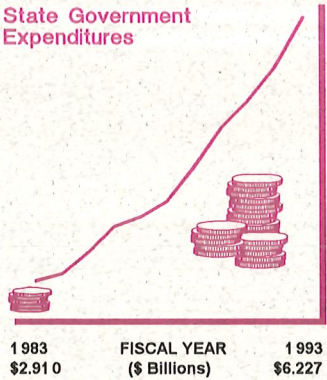
* "Other" expenditures, 1983:
Health, 5%; Public safety, 2%; Agriculture and Recreation, less than one percent each.



\$6.227 Billion

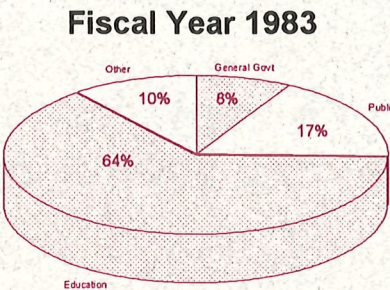
* "Other" expenditures, 1993:
Health, 4%; Public safety, 4%; Agriculture, Recreation, and Salary Plan, less than one percent each.

The following graphs give a better picture of how steady the spending increases have been.



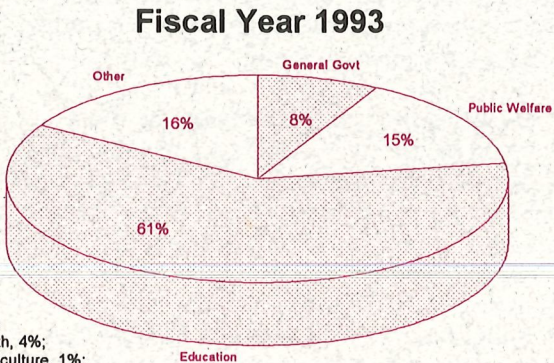
STATE GENERAL FUND SPENDING Up 94%

Basically, the State General Fund (SGF) is made up of your state tax dollars. *State* income tax, sales tax, severance tax, and others make up the mix. Here is how those receipts have been appropriated over the last ten years.



\$1.406 Billion

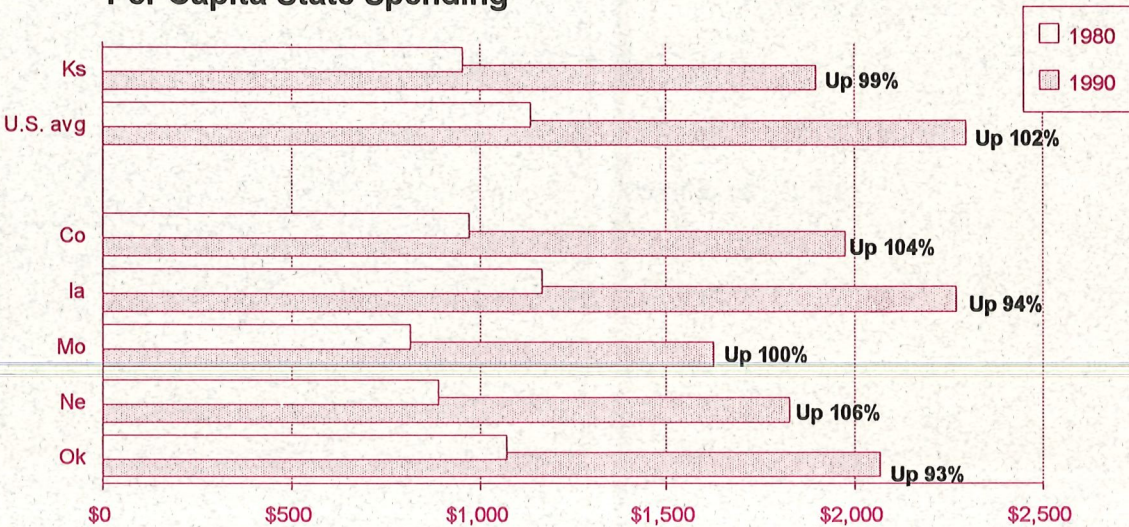
* "Other" expenditures, 1983:
Health, 5%; Public Safety, 4%; Agriculture, 1%; Transportation and Recreation, less than one-half percent each.



\$2.728 Billion

* "Other" expenditures, 1993:
Public Safety, 8%; Health, 4%; Transportation, 3%; Agriculture, 1%; Salary Plan Reserve, 1%; Recreation, less than one-half percent.

Per Capita State Spending



ATT 4-2

ATT 4-3

TESTIMONY
BEFORE SENATE GOVERNMENTAL ORGANIZATION COMMITTEE
BY
GARY RESER
GOVERNOR'S LEGISLATIVE LIAISON
ON H.B. 2228

*G.O. Comm.
Attachment 5
3/10/93*

Senator Ramirez and members of the Committee, thank you for the opportunity to appear today.

Governor Finney congratulates the Legislature for its willingness to investigate ways to cut costs and bring about efficiencies in government.

However, the Governor is strongly opposed to H.B. 2228. She feels the bill is an intrusion on the executive branch of government and disregards the separation of powers.

The Governor began similar initiatives as early as April 1991 through Executive Order 91-133, which called for the elimination of waste and duplication and improvement of the efficiency of the executive branch. Over twenty major objectives in six major categories have already been achieved or are nearing completion. This does not include the efficiency and quality efforts being pursued by individual agencies. The Governor's Office of Efficiency Management receives continual reports from State agencies on the results of cost savings efforts. A comprehensive total quality management effort is already underway throughout State government through Kansas Quality Management. There was a net reduction of 91 FTEs from the Governor's budget in her first full year in office.

The Governor is now prepared to expand this effort through the involvement of the private sector.

The Governor will soon be announcing a public/private partnership which will look at the structure of executive branch agencies. A task force of business CEOs from all over Kansas will be formed to direct the Governor's review. It is anticipated that task force members will also provide loaned executives from their companies who will work hand in hand with cabinet secretaries and agency heads to scrutinize agency operations in the following potential areas: organization, personnel management, planning and budgeting, financial administration and control, and general management. The Governor's commitment and the private sector's involvement is what distinguishes this approach from H.B. 2228.

The Governor will provide direction to this approach. The CEOs will provide the oversight. Results can be provided through the loaned executives and agency heads partnership. Cost savings and efficiencies in government could result. The citizens of Kansas will benefit.

Policy formulated out of the work of the Governor's task force will naturally be subject to legislative review. The Legislature will be totally involved in recommended policy changes.

Although H.B. 2228 is designed to address many of the Governor's concerns in this area, I believe there are some problems with the bill.

H.B. 2228 is patterned after a Texas law enacted in 1991. Texas was facing critical state government financial and deficit problems at the time the law was passed and has a budget approximately five times greater than Kansas. Fiscal and budget preparation procedures in Kansas government are nationwide models of restraint and effectiveness.

The Fall 1992 issue of "Public Budgeting and Finance" reports on a comprehensive study of all state budget offices' use of budget ceilings from 1970 to 1990. A list of the types of ceilings are included in Attachment I. The survey clearly identified a strong national trend toward greater use of multiple forms of budget preparation guidance. Kansas was the highest rated state in 1990 index scores. Texas was noticeably absent. Texas was in a crisis situation in 1989-1990. Kansas is not today. The Governor believes we can and must do better, but it also is clear we should work within current structures.

H.B. 2228 raises crucial separation of powers questions about the intrusion of the legislative branch of government upon the executive.

The development of public policy through H.B. 2228 is inappropriate. Determining the best way to "manage" and "organize" state government should be determined by the executive branch, through its Governor, agencies, and Division of Budget, subject to legislative approval. The Legislature

obviously has a major role already in "financing" government and reviewing public policy, but the policies must not be developed by a management review committee directed by Legislative Post Audit. If public policy development is not the purpose of H.B. 2228, that leaves cost savings and efficiencies goals. The public/private sector management review that will be announced by the Governor very soon has very bright prospects for success in the areas of policy, financing, management, and efficiency.

It must be noted that the \$108,000 State General Fund financial impact estimate is only the cost of Legislative Post Audit participation. If the management review envisioned in H.B. 2228 is to be substantial and productive, the fiscal note on the meaningful participation of Legislative Research, Division of Budget, and agency management personnel must be considered as well. In addition, the proposed legislation raises concerns in regard to the fate of other planned post audit studies including K-GOAL and KPERS. Is Kansas being best served by delaying these studies or contracting for them? K-GOAL was passed only last session to help address some of these concerns. Perhaps it should be allowed to work before Post Audit takes on another major initiative.

Finally, the Governor believes the executive branch is most able, and has the responsibility, to bring about efficiencies and savings in the executive branch. That can be accomplished

in the fastest and most meaningful way through a partnership with the private sector. For the past fifteen years, Kansas business and industry has been addressing these issues in exhaustive and agonizing fashion. Governor Finney will be calling upon the private sector in Kansas to become partners with the executive branch of government in earmarking and implementing changes that could result in an efficient and cost-conscious state government.

The executive branch will be extremely motivated to implement important changes if it is directed to do so by the Governor, its chief executive officer. Governor Finney is moving in that direction.

In spite of the fate of H.B. 2228, the Governor and the executive branch will make the work of the private/public partnership task force a priority over the next couple of years.

For the reasons cited above, Mr. Chairman and committee members, the Governor opposes H.B. 2228

Thank you again.

I

TABLE 2
Highest Ranked States
In the Use of Budget Guidance, 1990

Index Score	State	Region
Six	Kansas	North Central
	Vermont	Northeast
Five	Arkansas	South
	Connecticut	Northeast
	Kentucky	South
	Louisiana	South
	Montana	West
	New Hampshire	Northeast
	North Dakota	North Central
	Utah	West
	Virginia	South

by the states. With a possible range of zero to six, no state received a score of five or six for 1975, compared with seven states in 1980, nine states in 1985, and eleven states in 1990. The "average" state in 1990 used three or four of the six methods of guidance. Table 2 indicates the states with the highest 1990 index scores with Kansas and Vermont at the top. While all regions of the nation are represented in this listing of highest-ranked states, noticeably absent are some of the largest states such as California, New York, and Texas. The surveys clearly identify a strong trend toward greater use of multiple forms of budget preparation guidance.

Although some states use all or most forms of preparation guidance, one might expect that states using dollar-level ceilings would not use policy guidance. States that emphasize keeping budget requests manageable in size through the use of dollar-level ceilings might largely ignore issues of policy when commencing the preparation phase of budgeting. Table 3, therefore, considers whether these two forms of ceilings are inversely related to one another, namely the use of one, such as dollar-level ceilings, tends to preclude the use of the other, namely policy guidance. As can be seen from the table, neither a negative nor positive relationship exists between these variables. About one-quarter of the states in 1990 used both types of ceilings and about one-fifth used neither.

REGIONS AND STATE CHARACTERISTICS

Since the United States is obviously a diverse nation and states vary on a host of factors, such as when they were settled, their tax bases, and the characteristics of their populations, states might be expected to vary in their use of budget guidance. Regional differences have been the subject of investigation for more than a half-century, namely since the publication of Odum and Moore's *American Regionalism* in 1938.⁶ Although

ENCLOSURE ~~II~~

ON-GOING INITIATIVES

Organization

Wichita consolidation

Personnel Management

Personnel/payroll Study

Planning and Budgeting

Fee fund study and recapturing of appropriate cost

Financial Administration and Oversight

Highway signage

Travel contract

Travel reimbursement policy (agency by agency)

Utilization of state owned aircraft

Outstanding accounts receivable/debt setoff

Electronic filing

Consolidation of tax billing and collection

General Management

Implementation and institutionalization of Kansas Quality Management

Developing a singular comprehensive records management program

Possible centralization/consolidation of microfilm/microfiche functions

Energy conservation:

- competitive bidding for natural gas
- analysis of monthly energy bills to determine accuracy of rate structure and billing
- alternative fuels - conversion of vehicles from gasoline to CNG/ethanol

Video conferencing

Increased utilization of prison made goods

Printing/central duplication

Compact/mid-size vehicles vs. full-size vehicles

Various state employee recommendations

State building custodial services (in-house vs. private)

Executive-Legislative Relationships

NOTE: The above initiatives do not include individual agencies efficiency and quality efforts.