

***STATE OF LOUISIANA
LEGISLATIVE AUDITOR***

**Louisiana's Planning, Budgeting,
and
Program Evaluation System**

February 1995



Performance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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February 1995



**Performance Audit
Office of Legislative Auditor
State of Louisiana**

**Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor**

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LEGISLATIVE AUDITOR

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February 8, 1995

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Honorable Samuel B. Nunez, Jr.,
President of the Senate
Honorable John A. Alario, Jr.,
Speaker of the House of Representatives
and
Members of the Legislative Audit Advisory Council

Dear Legislators:

This is our report of the performance audit of Louisiana's Planning, Budgeting, and Program Evaluation System. This audit was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) project. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. All performance audits are conducted in accordance with generally accepted government auditing standards.

The report presents our findings, conclusions, and recommendations. Also included as Appendix B are the responses of the Office of Planning and Budget.

Sincerely,

A handwritten signature in cursive script that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK/jl

ILEGLTRI



Office of Legislative Auditor

Executive Summary

Performance Audit Louisiana's Planning, Budgeting, and Program Evaluation System

Despite requirements set forth in state law, Louisiana has not implemented a comprehensive and functioning program budgeting system. Our performance audit of the state's planning, budgeting, and program evaluation system found that:

- ♦ Numerous obstacles inhibit the state's transition to a program budgeting system.
- ♦ Substantial time and resources are currently being spent on a system that has yet to be fully implemented.
- ♦ Less than one-fourth of the performance indicators in Louisiana's Fiscal Year 1994-95 executive budget are categorized as effectiveness measures, even though effectiveness measures are the most meaningful type of performance indicator.
- ♦ The number of performance indicators submitted by executive branch departments in their operational plans and the number of indicators reported in the state's 1994-95 executive budget varied significantly.
- ♦ The Office of Planning and Budget does not provide formal, systematic training to state departments in the areas of strategic planning, operational planning, and performance indicator development.

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Audit Initiation and Objectives

This audit of Louisiana's planning, budgeting, and program evaluation system was conducted by the Performance Audit Division of the Office of Legislative Auditor. The Legislative Audit Advisory Council approved the concept of this audit on September 20, 1994. The audit was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) project. The audit objectives were to determine the following:

- ♦ Whether and to what extent the state has developed the necessary mechanisms for implementing the program budgeting system mandated by state law; and
- ♦ Whether and to what extent Louisiana's executive branch departments are carrying out the planning and performance measurement activities also required by state law.

Status of Implementation

Although the legislature mandated the implementation of program budgeting be completed by 1992, the state has failed to do so. Louisiana has not developed a single, overall plan that establishes long-term statewide policy. Less than half of the executive branch departments have submitted strategic plans to the Office of Planning and Budget (OPB). Some of the state departments have not updated their operational plans annually, as required. State departments have also not updated their reports of program evaluations and performance monitoring activities since 1986. As a result, the state does not have a functioning program budgeting system.

Despite its mandate to implement a program budgeting system, the legislature continues to make budgetary decisions on a line-item basis. As a result, substantial time and resources are being spent on a system that has yet to be fully implemented. A comprehensive program budgeting system cannot operate in Louisiana without the full commitment of the legislature and individual state departments.

Performance Indicators

Only 24 percent of the performance indicators contained in the state's Fiscal Year 1994-95 executive budget are effectiveness measures, even though effectiveness measures are the most meaningful type of indicator. Without useful information on program effectiveness, legislators cannot make informed budget decisions.

The performance indicators presented in the Fiscal Year 1994-95 executive budget differ somewhat from the performance indicators submitted by the individual state departments. The number of performance indicators submitted by state departments in their operational plans and the number of indicators included by OPB in the Fiscal Year 1994-95 budget varied significantly. OPB often adjusts the performance indicators submitted by individual state departments without explaining why the changes were made. Without departmental input, the consistency of performance indicators over time is jeopardized.

Training

At present, OPB does not provide formal, systematic training to state departments in the areas of strategic planning, operational planning, and performance indicator development. Without a comprehensive and systematic training program in place, the state cannot move forward in its goal of implementing a comprehensive program budgeting system.

Glossary

- Effectiveness** A performance indicator that measures program impact or the quality of benefits or services or shows output related to the total problem.
- Efficiency** A performance indicator that measures productivity and resource allocation or the ratio of input to output.
- Extensiveness** A performance indicator that measures the quantity of benefits or services.
- Input** A performance indicator that reports the amount of resources used.
- MANAGEWARE** The policy manual developed by the Office of Planning and Budget to provide guidance to state departments on Louisiana's strategic management process.
- Mission** A broad, comprehensive statement of purpose, identifying what a department or program does (or should do) and for whom.
- Objective** A specific and measurable target for accomplishment.
- Operational Plan** An annual work plan that draws on the strategic plan and sets out the portion of the strategic plan that is to be achieved during that year. The operational plan contains data on the plans and achievements of a department and its individual programs.
- Performance Accountability** The process of measuring the performance of policies, plans, and programs.
- Performance Indicator** A tool used to measure performance. Types of performance indicators are effectiveness, efficiency, extensiveness and input.

- Philosophy** A statement setting out how the department or program conducts itself in carrying out its mission.
- Policy Development** The process of setting policy and of selecting a definite course of action to carry out that policy.
- Program** A grouping of activities that results in the accomplishment of a clearly defined objective or a set of clearly defined objectives in the carrying out of policies.
- Program Budgeting** A budget system that focuses on program objectives, program achievements, and program cost effectiveness.
- Strategic Plan** A work plan that, for at least a four year period, provides information on department and program philosophies and plans. The strategic plan drives the operational plan and the budget process.
- Strategy** The method used to accomplish goals and objectives.

Chapter One: Introduction

Audit Initiation and Objectives

This audit of Louisiana's planning, budgeting, and program evaluation system was conducted by the Performance Audit Division of the Office of Legislative Auditor. The Legislative Audit Advisory Council approved the concept of this audit on September 20, 1994. The audit was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) project.

The goal of this audit is to provide Louisiana's legislators with the reliable and independent information needed to determine whether state government is carrying out the legislative mandate to implement program budgeting in Louisiana. The audit objectives were to determine the following:

- ♦ Whether and to what extent the state has developed the necessary mechanisms for implementing the program budgeting system mandated by state law; and
- ♦ Whether and to what extent Louisiana's executive branch departments are carrying out the planning and performance measurement activities also required by state law.

This was not an audit of all functions, activities, and operations of the Office of Planning and Budget.

Report Conclusions

Despite the requirements set forth in state law, Louisiana has not implemented a comprehensive and functioning program budgeting system. Although certain elements of that system are currently in place, others have not been fully implemented or are not functioning as specified by law. The legislature continues to make budgetary decisions on a line-item basis.

Numerous obstacles inhibit the state's transition to a program budgeting system. The primary obstacle is the lack of commitment from the legislature and executive branch personnel.

Substantial time and resources are currently being spent on a system that has yet to be fully implemented.

Less than one-fourth of the performance indicators in Louisiana's Fiscal Year 1994-95 executive budget were categorized as effectiveness measures, even though effectiveness measures are the most meaningful type of performance indicator. In addition, the number of performance indicators submitted by executive branch departments in their operational plans and the number of indicators reported in the state's Fiscal Year 1994-95 executive budget varied significantly.

The Office of Planning and Budget does not provide formal, systematic training to state departments in the areas of strategic planning, operational planning, or performance indicator development.

Program Background

According to the Division of Administration's Office of Planning and Budget (OPB), program budgeting is defined as "a budget system that is focused on program objectives, program achievements, and program cost effectiveness." More specifically, program budgeting is concerned with outcomes or results rather than individual items of expenditure. Program budgeting supports informed decision making, provides information necessary to make the best allocation of resources, and helps establish budgetary priorities.

Although line-item budgeting provides for maximum control over expenditures, it is not a good system for planning. Program budgeting, on the other hand, has a strong planning component that links together the different planning activities of the state. More specifically, statewide plans feed into individual state department's strategic plans. The department's strategic plans, in turn, are used as a basis for developing the department's operational plans. Finally, departmental operational plans are used to gauge the performance of specific programs.

The concept of program or performance-based budgeting was first supported in 1949, at the federal level, by the Hoover Commission. Congress has recently shown renewed interest in performance-based budgeting. The Chief Financial Officer's

Act, which became law in 1990, requires the systematic measurement of performance in federal agencies. The Government Performance and Results Act, which passed in 1993, establishes pilot projects in performance measurement and performance-based budgeting.

Senate Bill 649, a measure mandating program budgeting in Louisiana, was introduced in the 1987 Louisiana Regular Legislative Session. The bill passed both houses of the legislature unanimously in its final form. It was signed into law on July 20, 1987, as Act 814, which enacted Chapter 1, Part II of Title 39 of the Louisiana Revised Statutes.

Louisiana Revised Statute (LSA-R.S.) 39:43(A) required the state to adopt a program budgeting system beginning in Fiscal Year 1989 and to have it fully implemented by Fiscal Year 1992. In 1989, further provisions relating to budget development were put into law. Act 836 of 1989 enacted LSA-R.S. 39:36, which requires the executive budget to be presented in a complete financial and programmatic plan. This law also specifies that the budget be configured in a format that clearly presents and highlights the programs operated by state government. In addition, each department of state government is required to provide information on:

- ♦ All substantial elements of departmental policy;
- ♦ Its program structure, including an itemization of all programs and a clear description of the objectives of each program;
- ♦ The activities intended to accomplish each objective; and
- ♦ Clearly defined indicators of the quantity and quality of performance of these activities.

To carry out the legislature's mandate to implement program budgeting, OPB has developed management processes for policy development, strategic planning, operational planning and budgeting, and performance accountability.

Strategic planning is a process that sets goals for the future and strategies for achieving those goals, with an emphasis on how to best use resources. **Policy development** is the process of setting policy and of selecting specific courses of action to carry out that policy. **Operational planning and budgeting** is a task-by-task scheduling of operations and the allocation of

resources to implement strategies and accomplish objectives. **Performance accountability** is a way to judge policies and programs by measuring their results. These measures are referred to as performance indicators.

According to criteria established by the Governmental Accounting Standards Board, performance indicators are classified as either input, output, outcome, or efficiency measures. **Input** measures the amount of resources used by a program. **Output** measures the quantity of benefits or services provided. **Outcome** measures program impact, the quality of benefits or services, or the output related to the total problem. **Efficiency** measures productivity and resource allocation or the ratio of input to output.

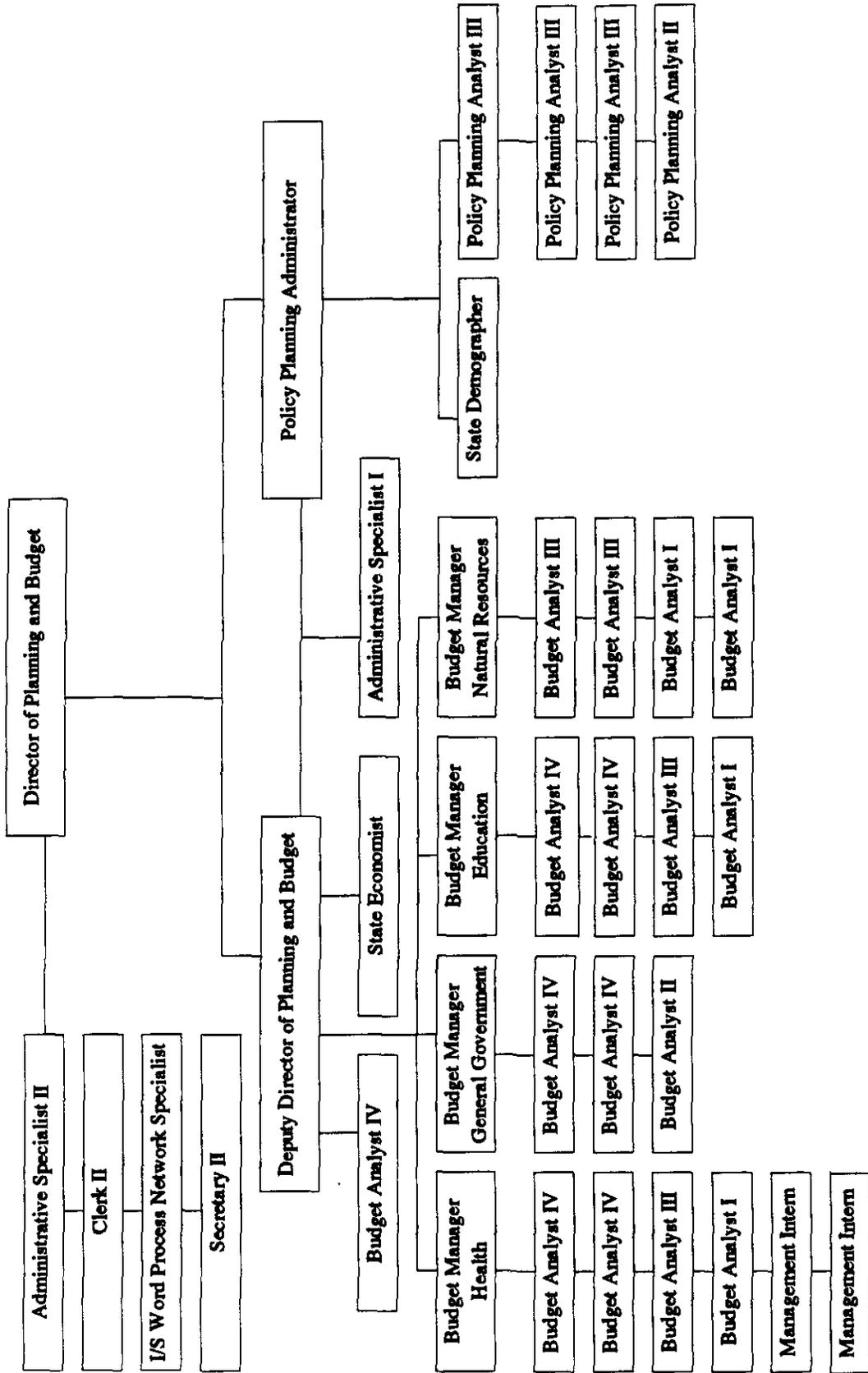
Program Organization

OPB has overall responsibility for the implementation of program budgeting. This responsibility is carried out in coordination with each executive branch department. See Exhibit 1 on the following page for OPB's current organizational chart.

LSA-R.S. 39:21 gives OPB the authority to:

- ♦ Assist and advise governmental units in the formulation and development of goals and policies of the state;
- ♦ Review current programming and future planning of all state departments, agencies, and commissions;
- ♦ Publish a program of expected planning standards on the state level and encourage the development of planning programs within and by state departments;
- ♦ Assist state fiscal agencies in the joint development and implementation of a program evaluation and comprehensive budgeting system, securing from all state departments, agencies, and commissions information, plans, and other materials to assist in developing and implementing the system;
- ♦ Recommend fund allocation to programs to achieve objectives established by state goals. The result will be a recommended programs budget; and

Exhibit 1
Office of Planning and Budget
Organization Chart



Source: Prepared by Legislative Auditor's staff using information provided by the Office of Planning and Budget.

- Coordinate with other state agencies and relate the program budget to an administrative budget designed to achieve total program objectives.

Furthermore, as the agency responsible for implementing and overseeing program budgeting in Louisiana, OPB is responsible for conducting training on and monitoring of the state's program budgeting process.

The Office of Management and Finance, within each state department, is responsible for the coordination of planning and budgeting activities. Staff within this office work in conjunction with department program managers to develop strategic plans, operational plans, and performance indicators.

This audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. All performance audits are conducted in accordance with generally accepted government auditing standards as promulgated by the Comptroller General of the United States. Work began in August 1994 and ended in January 1995.

Scope and Methodology

To obtain a general background on developments in the field of program budgeting, we reviewed studies on this subject from sources including the National Association of State Budget Officers, the Southern Growth Policies Board, and the U.S. General Accounting Office. We also reviewed the implementation of program budgeting in other states, with particular emphasis on Minnesota, Oregon, and Texas. We concentrated on these three states because they have comprehensive program budgeting systems in place.

We also reviewed applicable provisions of the Louisiana Revised Statutes; policies and procedures developed by OPB regarding strategic planning, operational planning, performance indicator development, and program budgeting; information on OPB's training of agency staff; and information on OPB's monitoring activities.

To determine the extent to which Louisiana has developed the necessary mechanisms for implementing a program budgeting system, we assessed the following:

- ♦ Statutory requirements for program budgeting;
- ♦ Policy development;
- ♦ Strategic planning;
- ♦ Operational planning and budgeting; and
- ♦ Performance accountability.

Our assessment was primarily accomplished through interviews with various staff, including those of legislative committees, the Legislative Fiscal Office, the Governor's Office, OPB, and department staff who are responsible for planning and budgeting activities.

We determined the extent to which Louisiana's executive branch departments are performing operational planning and performance measurement activities through an assessment of *operational planning efforts and performance indicator development activities*. We accomplished this assessment through a review of information contained in state executive budgets and department operational plans. In addition, we asked each of the executive branch departments to categorize, according to criteria established by OPB, the performance indicators contained in the Fiscal Year 1994-95 executive budget.

We conducted a broad overview of the program budgeting process of all executive branch departments, with more intensive examination given to the performance indicators of the following departments: Civil Service; Culture, Recreation and Tourism; and Elections and Registration. We selected these three departments for detailed analysis based on our examination of performance indicators for all executive branch departments, as explained on the following page.

To select specific departments for detailed analysis, we reviewed the performance indicators contained in the Fiscal Year 1994-95 operational plans submitted by each department as well as the performance indicators contained in the executive budget for the same time period. We calculated the number of performance indicators that appeared in both documents and divided that number into the total number of performance indicators submitted in the operational plans. The result is the percentage increase or decrease in the number of performance indicators used in the executive budget. Those departments with the most significant percent changes were the ones chosen for detailed examination.

One of the objectives of this audit is to address the extent to which executive branch departments carry out performance measurement activities. A factor in the extent and success of these activities is the process that occurs after a department submits its performance indicators in its operational plan and how OPB subsequently uses them in the executive budget. We interviewed staff at both OPB and the affected state departments to determine how this process works.

Report Organization

The remainder of this report is organized into three additional chapters.

- ♦ **Chapter Two** addresses the mechanisms the state has established for implementing a program budgeting system.
- ♦ **Chapter Three** addresses the development and use of agency performance indicators.
- ♦ **Chapter Four** addresses issues for further study.

Officials at OPB were given an opportunity to provide written responses to report conclusions and recommendations. Their responses are included as Appendix B of this report.

Chapter Two: Implementation of Program Budgeting

Chapter Conclusions

Despite the legal requirements set forth in Louisiana Revised Statutes Title 39, Louisiana has not implemented a comprehensive and functioning program budgeting system.

Although certain elements of that system are currently in place, others have not been fully implemented or are not functioning as specified by law. The legislature continues to make budgetary decisions on a line-item basis.

Numerous obstacles inhibit the state's transition to a program budgeting system. The primary obstacle is the lack of commitment from the legislature and executive branch personnel.

Substantial time and resources are currently being spent on a system that has yet to be fully implemented.

Legal Requirements

LSA-R.S. 39:36 requires the executive budget to present a complete financial and programmatic plan for the ensuing year. The statute requires the plan to be configured in a format so as to clearly present and highlight the programs operated by state government and the financial requirements associated with each of those programs. More specifically, LSA-R.S. 39:36(4)(A-F) provides that for each budget unit, detailed statements identifying all substantial aspects of agency policy and plans for programs and activities must be provided. The statute further states that these detailed statements shall specifically include:

- ♦ An outline of the agency's programmatic structure to specifically include an itemization of all programs with a clear description of the objective or the objectives of each program;
- ♦ A description of the activity or activities that are intended to accomplish each objective;

- ♦ Clearly defined indicators of the quantity and quality of performance of these activities;
- ♦ A description of the programmatic and financial changes by budget unit for the current fiscal year as reflected in the latest version of the legislative summary of appropriations as required by LSA-R.S. 39:55;
- ♦ The financial requirements related to each program, the source of funding for each program, and the extent to which the financial requirements for each program are proposed to change for the ensuing fiscal year; and
- ♦ A statement for each budget unit which separately states the cost of administration for each program and the cost of providing the services or benefits from each program. This statement shall reflect actual costs for the last fiscal year concluded, cost for the initial operating budget and the existing operating budget for a date certain to be established by the budget office for the current fiscal year, and the continuation budget and recommended costs for the ensuing fiscal year.

Under LSA-R.S. 39:21, the Division of Administration is given the authority, and, where appropriate to the context may be required, to undertake the following activities:

- ♦ Conduct basic surveys and studies concerning the development of coordinated state resources;
- ♦ Review current programming and future planning of all state departments, agencies, and commissions;
- ♦ Review current programming and future planning of all municipal and regional planning commissions;
- ♦ Publish a program of expected planning standards on the state level and suggested planning standards at the regional levels and encourage the development of planning programs within and by state departments and local governmental agencies;
- ♦ Coordinate with the state information center to identify all information to be collected and assembled with respect to the goals of the state and the

development of programs and plans affecting the state and be responsible for the establishment of basic statistics to provide a common source for all planning;

- ♦ Assist and advise citizen's groups, as well as other governmental units and private organizations, in the formulation and development of goals and policies of the state;
- ♦ Assist state fiscal agencies in the joint development and implementation of a program evaluation and comprehensive budgeting system, securing from all state departments, agencies, and commissions information, plans, and other materials to assist in developing and implementing the system;
- ♦ Collect, analyze, and report physical, social, and economic information relevant to state government operations;
- ♦ Aid the governor in making better decisions on allocation of resources among alternative ways to attain government objectives;
- ♦ Provide technical assistance to operating departments and agencies of state government in developing their respective planning programs;
- ♦ Advise the governor as well as other public officials with respect to long-range planning proposals;
- ♦ Represent the state of Louisiana on matters relating to long-range planning;
- ♦ Maintain effective liaison with other administrative agencies of the state to facilitate planning coordination;
- ♦ Provide, upon the request of any appropriate municipal, parish, or other local board or official, such information as is possessed by the division and conduct studies and prepare reports upon any planning program of such parish, municipality, or subdivision and;
- ♦ Cooperate and assist in the development, current programming, and future planning of metropolitan and regional planning commissions within the state of Louisiana.

In addition, state law requires the Division of Administration to submit to the governor an annual State-of-the-State report outlining current economic conditions and progress of the state during the past year.

**The State Has
Not Fully
Implemented a
Program
Budgeting
System**

**Louisiana Has Not Fully Implemented the Legislative
Mandate for Program Budgeting**

Although the legislature mandated that implementation of program budgeting be completed by 1992, the state has failed to do so. Louisiana has not developed a single, overall plan that establishes long-term statewide policy. Less than half of the executive branch departments have submitted strategic plans to OPB. Some of the state departments have not updated their operational plans annually, as required. State departments have also not updated their reports of program evaluations and performance monitoring activities since 1986. As a result, the state does not have a functioning program budgeting system.

To carry out the legislature's mandate to implement program budgeting, OPB has developed management processes for policy development, strategic planning, operational planning and budgeting, and performance accountability. OPB provides information on these processes to each executive branch agency through its Strategic Management Manual for the State of Louisiana (MANAGEWARE). This manual contains detailed chapters on the key elements of the state's strategic management process.

According to MANAGEWARE, strategic management is the process by which an organization is positioned so that it can prosper in the future. The goal of strategic management is to link vital management functions into one organized process. As such, strategic management allows the state to determine where it currently is, where it wants to go, how it plans to get there, and how to measure progress toward that goal. The strategic management process in Louisiana relies on policy development, strategic planning, operational planning and budgeting using the program budgeting approach, and performance accountability.

Policy development. At present, Louisiana does not have a single, overall plan that establishes long-term statewide policy. Instead, policy goals tend to change every four years with the

election of the governor. There is no linkage between statewide goals and departmental goals. As a result, agency activities are carried out independently and are not coordinated with an overall vision of where the state wants to go.

Policy development involves the process of setting policy and selecting a definite course of action to carry out that policy. Policies should reflect values and provide guidance toward the attainment of goals and objectives. In Louisiana, state policies are formulated by the governor, legislature, and other elected state officials. At the beginning of each gubernatorial term, the governor expresses his vision, goals, policies, and priorities for the state. These statements generally relate to broad policy areas such as education, economic development, the environment, infrastructure, and public safety. Ultimately, these policies are communicated to executive branch state departments for incorporation into departmental strategic plans.

OPB produces an annual State-of-the-State report to provide information on government performance to the public. This report includes state trends, rankings, and departmental activities in major functional areas such as education, economic development, or the environment. The State-of-the-State report, however, does not reflect the overall policy goals of the state.

In several other states that have implemented program budgeting systems, independent entities have been created to formulate statewide policies. The state of Oregon is an acknowledged leader in this area. Through its Benchmarks Project, Oregon has developed a statewide strategic plan. With extensive citizen involvement, the state has articulated its goals for the future.

Following the development of a statewide strategic plan, the Oregon Legislature created the Oregon Progress Board to translate the strategies identified in the strategic plan into measurable performance goals for the state. These goals revolve around "benchmarks" or measurements of agency performance. The idea behind the benchmarks is that they allow the state to measure where they currently are and set goals for where they would like to be in the future. The Oregon Progress Board identified over 250 benchmarks in its report to the 1993 legislature.

Several other states have embarked on a similar course as Oregon. For a listing of states and the degree to which they have implemented program budgeting, see Appendix B.

Because Louisiana has not established long-term, statewide policy goals for the future and has chosen instead to formulate policy every four years with the election of a governor, the state's goals may change with each administration. Because of the linkage between planning processes, statewide goals should feed directly into the strategic plans developed by individual departments. When they do not, agency activities are carried out independently and not necessarily in conjunction with overall policies that have been established for the state.

Strategic planning. Although Louisiana law does not specifically require state departments to engage in strategic planning, it encourages them to do so by authorizing OPB to assist departments in planning activities. We found that several state departments have not submitted strategic plans to OPB even though some of them, according to OPB personnel, were actually engaged in strategic planning. Without strategic planning documents, operational planning of individual departments may lack specific direction.

Strategic planning is a process that sets goals for the future and strategies for achieving those goals, with an emphasis on how best to use resources. Strategic planning relies on careful consideration of an organization's capacities and environment and leads to significant resource allocation decisions. Although MANAGEWARE states that the strategic planning process is flexible, strategic plans should cover the four-year administrative term of the governor. Individual departments may, however, develop strategic plans that cover longer periods of time.

According to MANAGEWARE, the strategic plan is to be completed down to the program level within each state department. After a department's strategic plan has been approved by the head of the department, it is to be submitted to OPB. The Governor and the Commissioner of Administration use the strategic plans to support long-range planning approaches to decision making and management. The appropriate legislative committees also receive copies of the strategic plans.

We found that only 9 executive branch departments, or 43 percent, have submitted strategic plans to OPB. Because operational planning is guided by strategic planning, it is critical

for state departments to complete their strategic plans. Without a strategic planning document, the operational planning of a department may lack specific direction. According to staff at OPB, a department's operational plan is only as good as its strategic plan.

Although OPB allows flexibility in the development of departmental strategic plans, specific items are required. The following information must be completed for the department as a whole: mission statements, philosophy statements, and goal statements. For each program, the strategic plan must contain information on program mission, philosophy, goals, objectives, and strategies. We found that all departments that submitted strategic plans to OPB generally followed the guidelines provided in MANAGEWARE for completion of this document.

Operational planning and budgeting. Although state departments are required by OPB to update their operational plans each year, all departments have not done so. Five state departments (24 percent) did not submit any new information to OPB in their most recent operational plans. Since performance indicators must be updated annually to be effective, program performance could not be measured for these state departments.

Operational planning and budgeting is a task-by-task scheduling of operations and the allocation of resources to implement strategies and accomplish objectives. Operational planning and budgeting are guided by strategic plans. More specifically, they concentrate on how to implement the strategic plan on an operational basis. Operational plans are based on a continuation of the prior year budget amounts and include objectives, strategies, and performance indicators. Although there is no prescribed format for an agency to use when completing its operational plan, MANAGEWARE does provide a suggested format as well as key elements that should be included in the operational plan.

To obtain funding for a program, it is necessary for state departments to document the extensiveness, effectiveness, and efficiency of their programs. Departments accomplish this task through the use of performance indicators. Performance indicators are the means by which the performance, progress, and accomplishments of an agency are judged.

OPB requires performance indicators to be reported for actual expenditures in the prior budget year, requested budget

expenditures in the current budget year, and budget expenditures for the current budget year based on a continuation of the prior year budget amounts. According to OPB budgeting instructions, performance indicators are to be presented in a tabular format.

We found that all of the state's executive branch departments submitted operational plans to OPB for Fiscal Year 1994-95. However, even though OPB requires each department to update its operational plan on an annual basis, all departments have not done so. We found that five departments (24 percent) submitted operational plans or parts of operational plans that were copies of the previous year's document. More specifically, one of these departments submitted the previous year's operational plan in its entirety without making any changes to it. The other four departments submitted plans that contained individual sections that were either copies of the previous year's document including last year's date, copies of the previous year's document with the date updated, or nothing at all. In effect, those agencies did not submit any new information to OPB for those applicable parts of the plans.

We also found that several state departments did not follow the guidelines provided by OPB for completion of their operational plans. Specifically, some departments did not provide performance indicators for all years required, while others discussed their performance and accomplishments in narrative rather than tabular format. Finally, several departments submitted significant numbers of performance indicators in their operational plans that were either altered or not used by OPB in the state's executive budget.

To judge program effectiveness, the performance indicators developed by state departments in their operational plans must be consistent from year to year and must be updated on an annual basis. For a more detailed discussion on performance indicators, see Chapter Three of this report.

Performance accountability. Executive branch state departments have not completed required reports on evaluations of programs and activities since 1986. OPB has not completed formal progress review meetings since 1992. The failure to complete these activities has led to the inability to measure the results of the state's policies and programs.

Performance accountability measures the performance of policies, plans, and programs. The policy development, strategic

planning, and operational planning and budgeting processes all incorporate accountability. Accountability includes the periodic review of the strategic plan and the regular monitoring of policies, programs, and operational plans. Accountability examines the extent to which strategies have been implemented and compares actual results to expected results. According to MANAGEWARE, performance accountability is a means of judging policies and programs by measuring their outcomes against agreed-upon standards. A performance accountability system provides the framework for measuring results, not merely processes or workloads.

There are two reporting activities relating to performance accountability. They are the completion of reports required by Act 160 of 1982, and the conducting of progress review meetings. Act 160 reports are to be completed by department undersecretaries while the progress review meetings are to be completed by OPB. The purpose of the Act 160 reports is for state departments to evaluate their programs and activities. OPB has chosen to conduct the progress review meetings as a means of overseeing departmental activities in the area of performance accountability. In the progress review meetings, OPB examines the operational performance and strategic progress of each department.

Based on interviews with OPB staff, we found that none of the state departments had completed the Act 160 reports since 1986. In follow-up interviews we conducted with department personnel, they all stated that they were not familiar with the Act 160 reports. This unanimous comment is significant because all of the department representatives we interviewed had been involved with program budgeting in their departments for over two years.

We also found that, according to an official at OPB, their staff has not conducted the progress review meetings since 1992. According to this official, the formal review process was discontinued by the new administration. This official did state, however, that OPB has conducted limited site visits at selected agencies over the past two years. We reviewed documentation showing that OPB conducted site visits at 13 executive branch departments over this two year period.

The Act 160 reports and the progress review meetings are designed to monitor performance accountability. Without some

form of performance accountability, it is impossible to measure the results of the state's policies and programs.

Obstacles Inhibit Full Implementation

The State's Commitment to Program Budgeting is Questionable

Despite its mandate to implement a program budgeting system, the legislature continues to make budgetary decisions using the traditional, line-item method of budgeting. Legislative staff we interviewed said that numerous obstacles inhibit full implementation, and the legislature lacks commitment to the process. Likewise, departmental staff we interviewed expressed little interest in program budgeting or performance measurement. A comprehensive program budgeting system cannot operate in Louisiana without the full commitment of these parties. Without their commitment, substantial time and resources are being spent on a system that has yet to be fully implemented.

Legislative staff we interviewed stated that there are numerous problems with the implementation of Louisiana's program budgeting system. First, the performance indicators currently in use tend to reflect processes rather than outcomes. To assess program performance, outcome measures are needed. Second, the data needed to support a program budgeting system is not available in a central data base. To make resource allocation decisions, the availability of reliable data is critical. Third, the accuracy of existing performance measures has not been determined. Without accurate information, the system lacks credibility and is not used. Finally, there is a lack of commitment to the process by some of those who are responsible for making it work. This lack of commitment is primarily due to the problems outlined above.

We also conducted interviews with planning and budgeting staff in each of the three executive branch state departments selected for detailed examination. Staff in these departments confirmed that there is little interest in performance measurement activities and program budgeting at the department level. As a result, their commitment to the process is also lacking.

Matters for Legislative Consideration

Three things should be considered by the legislature to promote an effective program budgeting system. They are to:

1. Legislatively mandate the preparation and periodic updating of a statewide strategic plan. An independent entity should be formed to prepare this plan. The entity should be required to obtain extensive statewide citizen input so that the plan contains the vision of where citizens want to go as a state in the future. The Oregon Progress Board could be used as a model.
2. Legislatively mandate the preparation and periodic updating of strategic plans.
3. Enforce the mechanisms that have already been established for implementing a program budgeting system, through the specific recommendations listed below.

Recommendations

1. The newly created entity discussed above should develop a statewide strategic plan. This plan should project the state's goals over the next 10 to 20 years. Strategic planning is crucial to the development of agency operational plans.
2. All state departments should complete their operational plans on an annual basis. The departments should ensure that performance indicator data remains consistent over time and is updated regularly.
3. All department heads should complete the Act 160 reports on an annual basis. These reports are useful because they require state departments to evaluate their programs and activities.
4. OPB should complete the progress profile reviews. These reviews are important in that they allow OPB to examine the operational and strategic performance of each department.

Chapter Three: Development of Performance Indicators

Chapter Conclusions

Less than one-fourth of the performance indicators in Louisiana's Fiscal Year 1994-95 executive budget were categorized as effectiveness measures, even though effectiveness measures are the most meaningful type of performance indicator. In addition, the number of performance indicators submitted by executive branch departments in their operational plans and the number of indicators reported in the state's Fiscal Year 1994-95 executive budget varied significantly.

The Office of Planning and Budget does not provide formal, systematic training to state departments in the areas of strategic planning, operational planning, or performance indicator development.

Few Effectiveness Measures are Reported in the Executive Budget

The State's Fiscal Year 1994-95 Executive Budget Contains Few Effectiveness Measures

Only 24 percent of the performance indicators contained in the state's Fiscal Year 1994-95 executive budget are effectiveness measures. Over half of the indicators reported in the budget are extensiveness measures. Effectiveness measures are the *most* meaningful type of performance indicator, and extensiveness measures are the *least* meaningful type of performance indicator. Without useful information on program effectiveness, legislators cannot make informed budget decisions.

Performance indicators are the tools that are used to measure the performance of policies, programs, and plans. According to OPB's MANAGEWARE manual, performance indicators should possess the following characteristics:

- ♦ They must relate to performance standards that are developed jointly by those who will judge the performance and those who will be held accountable;
- ♦ They must define terms thoroughly and be easily understood by everyone, especially the public;
- ♦ They should be simple but informative;
- ♦ They should be easily calculated, presented, and understood;
- ♦ They should be consistent; and
- ♦ They should include both internal and external comparisons.

The Governmental Accounting Standards Board categorizes performance indicators as either input, output, outcome, or efficiency measures. Although essentially the same, OPB uses the following terminology: input, extensiveness, effectiveness, and efficiency measures. **Input** indicators report the amount of resources used. **Extensiveness** indicators measure the quantity of benefits or services. **Effectiveness** indicators measure program impact or the quality of benefits or services. **Efficiency** indicators measure productivity and resource allocation.

OPB places emphasis on the measurement of outcomes for strategic planning, policy development, operational planning, and budgeting. As such, OPB states in its **MANAGEWARE** manual that effectiveness indicators are the most important type of performance indicator because they measure the impact or success of a program. For that reason, it is critical for state departments to differentiate between the various types of performance indicators they report. In addition, in a true program budgeting system, budgetary decisions are ultimately based on performance, so it is crucial for legislators to have access to effectiveness data for consideration during the budget process.

In an attempt to focus on program effectiveness, OPB originally instructed each state department to categorize its performance indicators by type. We found that for Fiscal Year 1991-92, all of the performance indicators contained in the state's executive budget were categorized by type. In the following fiscal year, however, only some of the performance indicators

were categorized by type. By Fiscal Year 1993-94, none of the performance indicators were categorized by type.

OPB instructions on the development of performance indicators specify that outcomes, or effectiveness measures, are the *most* important indicators of performance. In a memorandum to executive branch departments regarding completion of the Fiscal Year 1993-94 budget, Louisiana's budget director stated that extensiveness indicators are the *least* important type of performance indicator. Despite this emphasis on the types of performance indicators, OPB does not require state departments to categorize their indicators by type. Instead, OPB simply asks the departments to select and report the most meaningful indicators to describe the results of their programs.

To determine the extent to which state departments are developing effectiveness indicators, we asked each department to categorize the performance indicators contained in the Fiscal Year 1994-95 executive budget. We found that only 24 percent (647) of the total number of performance indicators reported were categorized as effectiveness measures. In comparison, 51 percent (1352) of the performance indicators were categorized as extensiveness indicators. Thus, the budget contained over twice as many extensiveness measures (the *least* important type of measure) as it did effectiveness measures (the *most* important type of measure). As a result, those with decision making authority had little meaningful information on which to base funding decisions. See Exhibit 2 on the following page for a detailed listing of the number and types of performance indicators for each department that are contained in the Fiscal Year 1994-95 executive budget.

**Performance
Indicators in the
Budget Were Not
Always
Determined by
the Departments**

**Performance Indicators Reported in the Fiscal Year
1994-95 Executive Budget Did Not Always Reflect
the Data Submitted by Individual State Departments**

The performance indicators presented in the Fiscal Year 1994-95 executive budget differ somewhat from the performance indicators submitted by the individual state departments. The number of performance indicators submitted by state departments in their operational plans and the number of indicators included by OPB in the Fiscal Year 1994-95 executive budget varied significantly. Department staff we interviewed noted that OPB

Exhibit 2

Departmental Categorization of Performance Indicators by Type

| Department | Input | Output/ Extensiveness | Outcome/ Effectiveness | Efficiency | Not Classified | More Than One | Total |
|---|-------|--------------------------|---------------------------|------------|-------------------|---------------------|--------|
| Agriculture and Forestry | 2 | 36 | 43 | 0 | 6 | 93 | 180 |
| Civil Service | 0 | 18 | 1 | 9 | 0 | 0 | 28 |
| Corrections | 19 | 70 | 139 | 69 | 6 | 10 | 313 |
| Culture, Recreation and Tourism | 10 | 16 | 19 | 6 | 0 | 0 | 51 |
| Economic Development | 0 | 47 | 57 | 25 | 11 | 0 | 140 |
| Education | 20 | 219 | 11 | 41 | 16 | 0 | 307 |
| Elections and Registration | 0 | 11 | 2 | 3 | 0 | 0 | 16 |
| Environmental Quality | 0 | 56 | 32 | 12 | 15 | 0 | 115 |
| Health and Hospitals | 39 | 283 | 148 | 78 | 1 | 0 | 549 |
| Insurance | 0 | 16 | 9 | 0 | 0 | 0 | 25 |
| Justice | 2 | 44 | 15 | 17 | 0 | 0 | 78 |
| Labor | * | * | * | * | * | * | * |
| Natural Resources | 0 | 48 | 16 | 6 | 0 | 0 | 70 |
| Public Safety | 20 | 200 | 33 | 23 | 5 | 0 | 281 |
| Public Service | 0 | 46 | 0 | 0 | 0 | 0 | 46 |
| Revenue and Taxation | 14 | 23 | 38 | 2 | 56 | 0 | 133 |
| Social Services | 26 | 105 | 50 | 30 | 0 | 0 | 211 |
| State | 0 | 18 | 0 | 0 | 5 | 0 | 23 |
| Transportation and Development | 0 | 36 | 3 | 0 | 0 | 0 | 39 |
| Treasury | 0 | 0 | 10 | 0 | 0 | 0 | 10 |
| Wildlife and Fisheries | 0 | 60 | 21 | 3 | 2 | 0 | 86 |
| Total Indicators | 152 | 1352 | 647 | 324 | 123 | 103*** | 2701 |
| Total as a percent of all indicators | 6% | 50% | 24% | 12% | 5% | 4% | 101%** |

* Agency did not respond to our request for data.

** Total is greater than 100 due to rounding.

*** Of the 103 categorized as more than one type:

- 97 were categorized as both input and output measures.
- 6 were categorized as both output and efficiency measures.

Source: Prepared by Legislative Auditor's staff based on our analysis of performance indicator information obtained from individual state departments.

often adjusts the performance indicators they submitted without explaining why the changes were made. However, the departments are the best judges of which performance indicators are appropriate for their programs, thus a vital link in the process is missing. Without departmental input, the consistency of performance indicators over time is jeopardized.

We compared the performance indicators contained in departmental operational plans for Fiscal Year 1994-95 to the performance indicators contained in the state executive budget for the same time period. We focused our analysis on the 12 state departments that had fewer than 100 performance indicators in the executive budget. Overall, we found that only 437 of 1008, or 43 percent, of the indicators submitted by these 12 agencies were actually contained in the final executive budget. Although some of the variation may be attributable to limited space in the budget document, this explanation does not account for the total variation. See Exhibit 3 on the following page for more detailed information on the submission and use of performance indicators for these 12 departments.

To illustrate, we found the following for the three target departments. The Department of Culture, Recreation and Tourism submitted 162 *more* indicators (76 percent) in its operational plan than were reported in the executive budget. However, the Department of Elections and Registration submitted 12 *fewer* indicators (300 percent) than the number that ultimately appeared in the executive budget. Finally, we found that the number of performance indicators submitted by the Department of Civil Service in its operational plan was the *same* as the number reported in the executive budget. Specific figures for the other departments can be seen in Exhibit 3. It should be noted that these three departments are not considered "cabinet" departments. OPB informed us that they have placed more emphasis on the departments that are under the direct control of the governor.

Once a department submits its operational plan to OPB, the following process occurs. First, the OPB planning analyst assigned to that particular department reviews the contents of the operational plan. After completion of the review, the analyst formats the information to fit the budget document. At that point, OPB returns the budget narrative to the department for proofing. Department staff then check the budget narratives and complete any missing information. This process can occur several times before the final draft of the executive budget is

Exhibit 3
Comparison of Performance Indicators in Fiscal Year 1994-95
Departmental Operational Plans to
Fiscal Year 1994-95 State Executive Budget

| Department | Total Number of Indicators in Operational Plan | Total Number of Indicators in Executive Budget | Number of Operational Plan Indicators Used in Executive Budget | Total Used as Percent of Operational Plan Indicators | Number of Operational Plan Indicators Altered in Executive Budget | Total Altered as Percent of Total Used in Executive Budget | Number of New Indicators Used in Executive Budget | Total New as Percent of Total Used in Executive Budget | Number Increase/Decrease of Operational Plan Indicators Used in Executive Budget | Total Percent Increase/Decrease of Operational Plan Indicators Used in Executive Budget |
|---------------------------------|--|--|--|--|---|--|---|--|--|---|
| Civil Service | 28 | 28 | 28 | 100% | 0 | 0% | 0 | 0% | 0 | 0% |
| Culture, Recreation and Tourism | 213 | 51 | 45 | 21% | 1 | 2% | 6 | 12% | -162 | -76% |
| Elections and Registration | 4 | 16 | 4 | 100% | 0 | 0% | 12 | 75% | 12 | 300% |
| Insurance | 44 | 25 | 25 | 57% | 1 | 4% | 0 | 0% | -19 | -43% |
| Justice | 54 | 78 | 37 | 69% | 5 | 14% | 41 | 53% | 24 | 44% |
| Labor | 185 | 81 | 65 | 35% | 2 | 3% | 16 | 20% | -104 | -56% |
| Natural Resources | 107 | 70 | 65 | 61% | 5 | 8% | 5 | 7% | -37 | -35% |
| Public Service | 59 | 46 | 45 | 76% | 2 | 4% | 1 | 2% | -13 | -22% |
| State | 22 | 23 | 18 | 82% | 0 | 0% | 5 | 22% | 1 | 5% |
| Transportation and Development | 127 | 39 | 30 | 24% | 0 | 0% | 9 | 23% | -88 | -69% |
| Treasury | 13 | 10 | 10 | 77% | 0 | 0% | 0 | 0% | -3 | -23% |
| Wildlife and Fisheries | 152 | 86 | 65 | 43% | 6 | 9% | 21 | 24% | -66 | -43% |
| Overall Total | 856 | 467 | 372 | 43% | 16 | 4% | 95 | 20% | -389 | -45% |

Source: Prepared by Legislative Auditor's staff.

completed. According to staff at OPB, this is a very interactive process.

To understand this process further, we interviewed staff at the Departments of Culture, Recreation and Tourism; Elections and Registration; and Civil Service about the performance indicators contained in the state's executive budget. We learned four significant pieces of information from these interviews. First, staff at all three departments said that they generally do not become aware of the exact performance indicators that are going to be used in the executive budget until OPB gives them the budget narrative for proofing. Second, when we questioned them about indicators in the budget that appeared to be newly created or altered, staff at one department said that these indicators had been created by OPB and not by the department. Third, staff at another department said that, while department representatives may make comments on the draft of the budget narrative, OPB independently determines which performance indicators will be included in the final executive budget. Fourth, staff at one department said that they were not aware that they had a planning analyst at OPB. This was because they had always dealt with their budget analyst.

For the departments to develop appropriate performance indicators, it is critical for OPB to discuss with them the reasons behind the use of particular indicators in the executive budget. Not doing so could potentially lead to inconsistency in the performance indicators over time. Furthermore, the departments themselves are the best judges of the performance indicators that are most indicative of their program results. As such, they should have the final say on what their performance indicators should be, provided they have had adequate training on how to develop performance measures.

Even though we found that department level staff should have more input into the process than they currently have, the individuals we interviewed expressed little concern over their lack of involvement. Specifically, staff at the three departments for which we performed detailed work stated that because performance indicators are not used by legislators to make budgetary decisions and because little attention is paid to them otherwise, they are not concerned about their lack of input into the decision making process. These comments, combined with similar comments from legislative staff, caused us to conclude in Chapter Two that there is a lack of interest in and commitment to program budgeting in Louisiana.

**The State Lacks
a Formal,
Systematic
Training
Program on
Program
Budgeting**

**State Departments Do Not Receive the Formal,
Systematic Training Needed to Fully Implement
Program Budgeting**

At present, OPB does not provide formal, systematic training to state departments in the areas of strategic planning, operational planning, and performance indicator development. OPB does, however, provide technical assistance whenever a department or agency requests it. Without a comprehensive and systematic training program in place, the state cannot move forward in its goal of implementing a comprehensive program budgeting system.

The primary tool that OPB uses to train departmental staff is the MANAGEWARE manual. It contains information on the following topics:

- ♦ Strategic management;
- ♦ Policy development;
- ♦ Strategic planning;
- ♦ Operational planning and budgeting;
- ♦ Capital outlay planning and budgeting; and
- ♦ Performance accountability.

The MANAGEWARE manual was first published in 1991 and has been updated regularly as needed. We found that appropriate staffs at the Departments of Culture, Recreation and Tourism; Elections and Registration; and Civil Service, where we completed detailed analysis, all had copies of the MANAGEWARE manual. However, staff at two of these departments reported that they had never referred to their manuals for assistance.

Furthermore, staff from only one of these departments reported that they had participated in a formal training session with OPB. That training session took place in 1992. Staff at the other two departments stated that they had not received formal training on operational planning or performance indicator development, but that OPB does work with them informally before and after submission of their budget requests.

Staff at all three departments agreed that additional training would be helpful. They stressed the need for more training in the development of performance indicators. They attributed the need for training in this area to the fact that performance indicators can also be used for internal management purposes.

Staff further indicated, however, that until more attention is paid to performance indicators by legislators and others, they have little incentive to learn more about them.

Recommendations

The task of developing appropriate performance indicators is critical in order for the state to be in a position to budget programmatically. Therefore, we recommend that state departments and OPB work together to develop and finalize the performance indicators that will be used in the state executive budget. To facilitate this process, we recommend that OPB do the following:

1. Assist all state departments in developing performance indicators that measure program effectiveness.
2. Require all state departments to categorize their performance indicators by type.
3. Provide formal training to all state departments on strategic planning, operational planning, and performance indicator development and schedule this training on a regular basis.
4. Rely more heavily on individual departments' input into the development of performance indicators.
5. Monitor all state departments' activity in the area of performance indicator development to ensure that appropriate and reliable indicators are being created.

Chapter Four: Issues for Further Study

Because this audit was conducted as part of Phase Two of the Select Council on Revenues and Expenditures in Louisiana's Future (SECURE) project, the deadline for completion did not allow us to examine all aspects of Louisiana's program budgeting system.

Information provided in the first three chapters of this report give a broad overview of the implementation of program budgeting in Louisiana and departmental planning and performance indicator development activities. Based upon information obtained during this audit, we have identified three additional areas that warrant review. These areas are critical to the implementation of a comprehensive program budgeting system in the state. They are:

- ♦ **The appropriateness of performance indicators.** To be meaningful, performance indicators should be directly relevant to the goals and objectives of a department. Appropriate performance indicators must assess activities that are within the control of a department. This element is essential for measuring departmental performance.
- ♦ **The accuracy of performance indicator data.** To be useful, performance indicator data must be accurate and reliable. Without confidence in the accuracy of the data, true budgeting based on performance cannot occur.
- ♦ **The availability and/or adequacy of management information systems.** State departments that do not have comprehensive management information systems that can readily integrate data from a variety of sources will find it difficult to develop meaningful performance indicators.

These additional areas should be addressed in each of Louisiana's executive branch departments.

Appendix A

Program Budgeting Activities in Other States

**Appendix A
Program Budgeting Activities in Other States**

| State | Performance Budget | Program Budget | Program Evaluation | Outcome Measures | Long Range Planning | Strategic Planning | Other |
|-------------|--|----------------|--|---|------------------------------------|--|-------|
| Alabama | N/A | N/A | N/A | N/A | N/A | Development stage | N/A |
| Arkansas | N/A | N/A | N/A | Development encouraged | Criminal Justice System only | Formulated by Commission for Arkansas Future | N/A |
| California | Pilot Proposed | N/A | Agency Level Reports to Legislature/Guides Funding for Several Offices | N/A | N/A | Included in Budget Pilot | N/A |
| Colorado | Department of Revenue and limited use in some agencies | N/A | N/A | Required with budget requests | N/A | N/A | N/A |
| Connecticut | N/A | N/A | N/A | Development by Office of Policy and Management in conjunction with state agencies | Used by Transportation Fund | N/A | N/A |
| Florida | Limited initiatives underway | N/A | Office of Policy Analysis and Agency Review | Included with strategic plans | Used to assess future budget needs | Required with budget requests | N/A |
| Georgia | Developmental stages | N/A | By auditor and state Budget Office tied to funding and policies | N/A | N/A | Introducing to interested agencies | N/A |
| Idaho | N/A | N/A | N/A | N/A | Used to assess future budget needs | N/A | N/A |
| Illinois | N/A | N/A | N/A | Developmental stages for 3 pilot agencies | N/A | Human Services/ tied with budget process | N/A |
| Iowa | N/A | N/A | N/A | Currently studying | N/A | For identified critical issues | N/A |

Appendix A Program Budgeting Activities in Other States

| State | Performance Budget | Program Budget | Program Evaluation | Outcome Measures | Long Range Planning | Strategic Planning | Other |
|----------------|-----------------------------------|-------------------------------|--|---|-------------------------------------|---------------------------------------|--|
| Kansas | At budget review level | N/A | N/A | At budget review level | N/A | N/A | N/A |
| Kentucky | N/A | N/A | N/A | Beginning phase of development | Legislative initiative | Legislative initiative | Foresight and future oriented commissions initiatives |
| Maryland | N/A | N/A | Agency level and Budget Office evaluations, but not fully incorporated into budget process | N/A | N/A | N/A | N/A |
| Minnesota | All agencies for 1994-1995 | Limited use for some agencies | Auditor and proposed agency | Required for select agencies | Capital planning | N/A | N/A |
| Missouri | N/A | N/A | Proposal to tie with budget | N/A | N/A | Required with budget requests | N/A |
| North Carolina | Pilot project for select agencies | N/A | Component of budget pilot | Development by select agencies for health and environment | Used in part to assess budget needs | Developmental stages tied with budget | N/A |
| Oklahoma | N/A | N/A | N/A | N/A | N/A | N/A | Oklahoma Futures and others developing plans for select programs |
| Oregon | Proposed for 1995/1997 | N/A | Component of budget planning | Required with strategic tie in to budget 1995/1997 | In developmental stages | Incorporating into budget process | N/A |

Source: "Restructuring and Innovations in State Management," National Association of State Budget Officers, July 1993.

Appendix A
Program Budgeting Activities in Other States

| State | Performance Budget | Program Budget | Program Evaluation | Outcome Measures | Long Range Planning | Strategic Planning | Other |
|--------------|---|----------------|---|--|------------------------------------|-----------------------------------|--|
| South Dakota | N/A | N/A | N/A | N/A | N/A | Required with budget requests | N/A |
| Tennessee | N/A | N/A | N/A | Beginning development in select agencies Required to be used for appropriations 1995/1997 | Used to assess future budget needs | N/A | N/A |
| Texas | Implementation in 1995 | N/A | Used to gauge performance and needs | | N/A | Incorporating into budget process | N/A |
| Utah | Budget increases to be based on expected outcomes | N/A | N/A | N/A | N/A | For identified critical issues | Utah Tomorrow Strategic Planning Committee |
| Virginia | Performance Measurement "System" established 1992 | N/A | N/A | N/A | Capital Outlay Plan | N/A | N/A |
| Washington | Developmental stages | N/A | Evaluations by budget committee/auditor to conduct performance audits | Development required | N/A | N/A | N/A |

Appendix B

Agency Responses



Edwin W. Edwards
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF PLANNING AND BUDGET

Raymond J. Laborde
COMMISSIONER OF ADMINISTRATION

February 6, 1995

Daniel G. Kyle, PhD., CPA, CFE
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

Thank you for the opportunity to respond to the preliminary draft of your February 1995 performance audit captioned "Louisiana's Planning, Budgeting, and Program Evaluation System." This response is quite lengthy, however it consists mainly of information provided to the audit team during the course of the audit, but not included in the final draft report. At the outset, I would like to emphasize a point made in Chapter One of the audit. Despite the audit's caption, it focused on a small, albeit important, part of our responsibilities, i.e., implementation of program budgeting. I would not want a reader of this audit to assume that our limited resources are devoted entirely to this activity.

We believe this audit suffers from a serious bias in that its methodology is both unscientific and judgmental. The draft report indicates a selection methodology which is based solely upon a numerical calculation rather than any analytical basis or sampling technique which focuses on pertinent performance indicator results. The numerical calculation basis utilized (Percentage Variation Between Reporting Periods) produces skewed reporting results since, in essence, the increase in variation was often the result of inaccurate or non-relevant indicators being utilized.

This bias is reflected by the sample selected for extensive study. A valid sampling technique with a sound analytical basis would have focused on relevant and accurate performance indicators and not on raw mathematical calculations. In our opinion, the selection basis seriously undermines the stated objectives of the audit - determination of whether and to what extent the state has developed the necessary mechanisms for implementation of program budgeting and whether and to what extent executive branch agencies are engaging in planning and performance measurement activities. Because the methodology results in only departments at a low level of implementation being selected, conclusions and recommendations based upon this sample are in error.

As we pointed out to the audit team, our primary initial focus has been cabinet departments. Our rationale for this should be obvious. The Governor directly appoints the department heads in these departments and they are accountable to him. The sample, however, includes none of these entities and, in fact, includes departments which were clearly identified as problematic by our staff. Although your cover letter states the audit was

Daniel G. Kyle, PhD., CPA, CFE

February 6, 1995

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conducted in accordance with "generally accepted government auditing standards", we are unable to find such standards for performance audits and, thus, cannot compare the methodology with them. While we certainly would not have encouraged or expected an audit with a positive bias, it is difficult to accept that any standards would dictate ignoring every positive result achieved over the past six years.

While we are not aware of the standards applied to this audit, we are familiar with standard program evaluation tenets, techniques, and procedures. One technique that might have provided a more meaningful analysis would have been a simple "before/after" comparison. In other words, how performance was being measured and reported by particular departments before program budgeting implementation versus now. The information necessary to do such comparisons is readily available in EXECUTIVE BUDGET documents. Benchmarking techniques could also have been employed to determine how our efforts actually compare with those of the states identified in Appendix A of the audit, or with any other states the audit team considered leaders in program budgeting efforts. I should point out that evidence presented in Appendix A does not indicate to us that any of these states have even progressed as far as we have, but a step-by-step analysis of our progress versus theirs was not performed.

Over the last six years, Office of Planning and Budget (OPB) staff members have communicated with many other states, federal agencies, and national organizations about program/performance budgeting, strategic planning, and performance accountability. The consensus among these groups is that Louisiana is far ahead of most other states in the practical aspects of applying the processes to departments, agencies, and programs. For example:

- In 1991, three states (Louisiana, Oregon, and Florida) were selected by the Council of Governors' Policy Advisors to form a technical assistance team to visit Texas and conduct training sessions on strategic planning.
- Louisiana was one of only five states visited by the U.S. General Accounting Office (GAO) in its 1992 survey of innovative management processes among state and local governments (a copy of this report was provided to Performance Audit Division). It should be noted that the GAO holds such a high opinion of OPB efforts and methods that the GAO continues to refer both state and federal agencies to OPB for assistance and guidance in strategic planning and performance measurement. The latest referral occurred just last week.
- In 1993-1994, the State of Arizona used Louisiana's processes and management manual to "jump start" their own performance budgeting process. Executives and officials from the states of Kentucky, North Carolina, and

Alabama (including consultants from Arthur Andersen and Peat Marwick) have acknowledged the excellence or advanced application of Louisiana materials and progress.

- Officials from Louisiana departments who attended the 1994 Southern Growth Policies Board conference on performance measurements have reported that Louisiana's application of actual processes on a program basis is far ahead of other states.
- A California consultant is currently marketing "Strategic Asset Management" based, in part, on Louisiana's own management processes.

The Performance Audit Division cites other "successful" states in the audit report. However, the honeymoon enjoyed by states such as Oregon is now over. Nationally recognized policy analyst Hal Hovey has given negative reviews to two "reinvented" states-- Kentucky and Oregon--recently in his State Policy Reports (Vol. 12, Issue 21; Vol. 13, Issue 2). Mr. Hovey's article on Kentucky's strategic plan pointed out that the plan is preoccupied with process rather than with substance and lacks an assessment of trade-offs and hard choices. His analysis of Oregon labels the Roberts Administration (which laid claim to Oregon Benchmarks) a failure since the administration was unwilling to tackle substance while taking refuge in process. Since reproduction of this publication without permission is prohibited by law, we cannot attach copies of these articles. The original publications, however, are on file at OPB.

We agree that numerous obstacles have inhibited the state's transition to a program budgeting system and that there is a general lack of commitment from the legislative and executive branches. We do not believe this lack of commitment can be legitimately extended to the Office of Planning and Budget. We have expended the maximum resources possible in this regard. Our specific efforts include the following:

- All departments were moved to a program structure by FY 1991-92.
- Sound, effective processes and methodologies were developed and refined, using the input of agency personnel.
- Extraordinary efforts were made by OPB to seek activation of the Consensus Estimating Conferences.
- Presentations on program budgeting and strategic planning were made to legislative committees and staff.

- Efforts were concentrated on cabinet departments but all agencies were offered assistance and training.
- Strategic planning sessions were actually facilitated by OPB staff in many agencies. In addition, OPB staff regularly conducts training in budget development, strategic planning and performance accountability through the Comprehensive Public Training Program.

The one overwhelming obstacle to implementation of program budgeting which, in our opinion, is the major reason for the lack of commitment cited is not even mentioned in the audit - the state's continuous negative budgetary outlook throughout the period. It is difficult to focus attention on development of a new budgetary process when the state faces a fiscal crisis each year. In addition, the administrative budget reductions which have resulted from the crisis have led to elimination of staff resources which could have been devoted to the effort. For example, in Fiscal Year 1984-1985 staff comprising the current Office of Planning and Budget totalled 61. Today we have 36 staff members. The Office of Management Review, which reported directly to the Commissioner of Administration, was eliminated in 1986. Similar reductions have occurred throughout state government. To our knowledge, only the Department of Transportation and Development has created a position to address strategic planning and program budget related activities.

In our exit conference with the audit team, its representatives stated that a better audit could have been conducted if more time had been available. This is not an acceptable justification. A poor audit, even if timely, is still a poor audit. The following is a more detailed discussion of the audit and its recommendations, arranged by subject matter.

Statewide Strategic Plan

The Performance Audit Division notes that: "At present, Louisiana does not have a single, overall plan that establishes long-term statewide policy."

We must note that it is commonly accepted management practice to develop policy(ies) before formulating a plan. We agree that Louisiana needs a statewide framework of policies and goals that will drive strategic planning at the department level. We have stated this need many times in many places and over many years. This need is echoed by the state network of Strategic Planning Coordinators. However:

- To be truly effective, any statewide strategic planning effort must be a joint executive-legislative-public process. A strategic plan developed without the direct involvement of all is doomed to failure; to obtain the commitment of all, all must be involved.

Louisiana has a history of "futures" programs involving executive-legislative-public teamwork (the "Goals for Louisiana" Program and the "Priorities for the Future" Program are examples). There have also been independent efforts to formulate and establish policies and plans by both the executive and the legislative branches. Unilateral processes have brought limited, generally short-lived successes (example: the original teacher evaluation reform plan). Earlier team efforts, however, have brought notable progress to the state (examples: major Constitution revision and the reorganization of state government, both of which were identified and recommended by the "Goals for Louisiana" Program).

- Although a ten-year plan may be feasible, a twenty-year plan is unrealistic and impractical. A twenty-year plan would, at best, be a poor long-range plan; it would not be a strategic plan. Long-range planning is based less on anticipation and more on projections that continue existing trends or patterns. Strategic planning must anticipate and plan reactions to possible future scenarios. As strategic planning efforts probe further into the future, a larger number of less certain alternatives are generated. We applaud the efforts of futurists but recognize that they are more often wrong than right in their predictions.

There is, unfortunately, a tendency to regard the plan as sacrosanct. That is not the purpose of strategic planning. Blind persistence or commitment to a specific plan does not allow an organization to react quickly to an unanticipated factor in its operating environment. Strategic plans are meant to be modified as things change. It's the strategic planning process (which makes an organization look at where it stands, where it wants to be, how to get there, and how to measure progress) that counts. So, efforts to construct a twenty-year plan would, for the most part be wasted; and, in the worst case, could limit the state's flexibility and agility when responding to future change.

Further, state government has short time horizons. This is a fact of life; it is built in. We have elections; candidates express ideas and make promises; public office holders come into their positions with agendas. As a result, new state leadership can and will change statewide policies and plans. They are elected to do so; and few are willing to do business just the way their predecessors did. So any strategic planning process, whether at the statewide level or at the program level, must take into account the changes in leadership and policy that are bound to occur.

Methodology and its Implications

The methodology used by the Performance Audit Division to conduct this evaluation was, at best, poorly conceived and ill-considered. The methods provide little meaningful analysis of OPB performance. Standard program evaluation techniques and procedures are absent, as are the basic tenets of performance evaluation.

As indicated in our opening paragraphs, if the primary focus of the audit was performance indicators themselves, then particular departments and programs could have been analyzed for meaningfulness and appropriateness to the budget decision making process. A survey of state decision-makers could have measured the extent to which information necessary for budget decision making is being provided. Or Louisiana's performance indicators for particular programs or functions could have been compared to those of similar programs or functions in other states (particularly those states that are identified by the Performance Audit Division as leaders in performance budgeting), the federal government, or the private sector.

- Selection of Departments for Intensive Review: The selection of the Departments of Elections and Registration, Civil Service, and Culture, Recreation and Tourism guaranteed a negative bias. We are not asserting that the methodology for selection was chosen to purposefully select these entities. However, this bias clearly skewed the entire audit.

None of these departments is a cabinet department. Further, these departments are all relatively small. None of the larger line agencies are included in the sample. The inclusion of even one cabinet department would have resulted in a less biased, more meaningful audit. It is known to OPB that the performance auditors talked with at least one cabinet department official (Nadia Goodman, Department of Economic Development) about methods used and assistance provided by OPB. Yet none of this information was presented in the report.

The review group selected by the Performance Audit Division does not provide a representative sample for study. Moreover, the Performance Audit Division was in possession of information that would have allowed them to avoid this error in selection. In the summer of 1994, when Performance Audit Division staff first visited the OPB, they were informed that OPB had concentrated its efforts on cabinet departments (those headed by officials appointed by the governor) and on other departments that had responded to OPB's offer for assistance.

Program budgeting (along with strategic planning and performance accountability) was introduced to all budget units in a series of presentations beginning in 1989 and through MANAGEWARE . Both the meetings and MANAGEWARE made clear offers of training and assistance. (For example, every MANAGEWARE chapter ends with instructions on how to obtain assistance and training.) Some non-cabinet departments have chosen not to avail themselves of this training and assistance. For example, the Department of Elections and Registration acknowledged receipt of MANAGEWARE and expressed thanks for a clear presentation of the management processes, then declined offers for assistance (in a telephone conversation with Joan Wharton in FY 1991-92). Allen Reynolds, who serves as the Strategic Planning Coordinator for the Department of Civil Service, went on record in a 1992 meeting of strategic planning coordinators as opposed to OPB's planning and accountability processes. Although the Department of Culture, Recreation and Tourism is not a cabinet department, it maintains a wealth of information from which to produce performance indicators. While we have not worked as closely with this department as cabinet departments, we consider our working relationship to be a good one. Although we do not count the department among our clear success stories, it is certainly the least negative entity in the sample.

At the beginning of the audit process, OPB personnel were asked to identify those departments/agencies that had done the best job of planning and accountability as well as those that had done the worst job--in essence, which departments had or had not cooperated and made efforts to improve their planning, budgeting, and accountability efforts. None of the departments or agencies identified by OPB in the positive group met the audit team's selection criteria.

- Comparison of Numbers of Performance Indicators in Operational Plans and Program Narratives: We do not understand the logic underlying this selection methodology. Further, given this methodology, the selection of the Department of Elections and Registration should have been and could easily have been avoided because of information provided by OPB to the Performance Audit Division. Early in the audit, a simple explanation was provided by OPB for the difference in the number of performance indicators in the department's Operational Plan (OP) and in the EXECUTIVE BUDGET Program Narrative (PN). This information, if used by the division, would have eliminated the department from the study group because the data upon which selection was based was clearly flawed.

Operational Plans are department documents and are part of the budget requests submitted to both the OPB and the Legislature. The EXECUTIVE BUDGET, which contains the Program Narratives, is an OPB publication. In an effort to produce some "quantifiable" basis for selection of three departments for intensive review, the Performance Audit Division focused on the difference between the number of performance indicators submitted by a department and the number of indicators included in the program narrative of the EXECUTIVE BUDGET. Since both the Operational Plans and the Program Narratives are contained in publications submitted to the Legislature for its consideration, it is difficult to determine the meaningfulness of selection on the basis of a comparison of a count of indicators contained in each. The Legislature has access to both the data submitted by departments and to the data determined to have the greatest relevance and reliability by the OPB.

Although space is not our major consideration in the selection of performance data for inclusion in the EXECUTIVE BUDGET, it is an important one. The Fiscal Year 1987-1988 EXECUTIVE BUDGET (last budget prior to implementation of program budgeting) contained 904 pages. The Fiscal Year 1994-1995 EXECUTIVE BUDGET contains 2,048 pages. Therefore, even if all data submitted by departments were found to be accurate, reliable, and of equal importance, an already unwieldy document would grow to tremendous size.

When the auditors counted indicators in the program narratives, they counted only those indicators that were listed in tables. Many other indicators are woven into the program description itself. Therefore, the count, itself, is questionable.

In the case of the Department of Elections indicator count, the count contained an obvious flaw. As pointed out to a member of the audit team by OPB, when the department's operational plan was submitted, several pages were left out of the document. This was obvious from page enumeration and comparison with Operational Plans submitted in prior years. Despite repeated requests by OPB for a complete Operational Plan, no corrected copy was submitted by the department. This omission was recognized by Elections personnel, but even after two requests by OPB for the pages, none were sent. Finally, OPB prepared a draft program narrative, using Operational Plan materials from prior years but leaving the actual tables blank and sent them to Elections for input. Only after additional calls were made to the department did OPB get a response. Therefore, it would be expected--it would, in fact, be obvious--that the EXECUTIVE BUDGET program narrative would have more

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performance indicators than the operational plan on file, since a complete Operational Plan was never submitted by that department. Even under the Performance Audit Division's criteria, the department should have been eliminated.

The performance audit implies that OPB capriciously throws out or alters performance indicators submitted in department Operational Plans and randomly adds additional indicators in the Program Narrative. Later, the auditors produce a contrary implication when it is said that OPB merely "formats" the Program Narrative.

Planning analysts do more than just "format" the program narrative. They do develop the presentation format, but they also develop the content. They review OPs; compare them to previous OPs, strategic plans, state of the state submissions, achievement reports to the governor, annual reports, state rankings, national data bases, materials from the Legislative Fiscal Office, and anything else that may provide performance information. They call or visit agencies to clarify statements and ask for additional information. They extract the substance from the Operational Plans and write a draft narrative that is sent to the agencies for review.

Agencies do not just "proof" narratives. They respond, revise, add, and adjust as necessary to reflect service levels. For example, agencies are asked to adjust performance shown at the continuation level to reflect service levels that will occur at the recommended budget level. This is crucial if the recommended funding level differs significantly from the continuation level for the next fiscal year.

OPB makes strong efforts to provide information that decision makers will find useful. If OPB simply reproduced the Operational Plans as submitted, less information would be available for decision making, both within OPB and at the legislative level. OPB staff can explain each difference or alteration in indicators for departments and programs. If auditors were uncertain about these differences, then it was incumbent upon them to ask for further information.

There are a variety of valid reasons why indicators in the Operational Plans differ from those in the Program Narrative. Many programs submit exhaustive lists of specific transactional subsets. OPB analysts will aggregate many of these output indicators (for example, present one indicator that totals all inspections rather than list each individual type of inspection performed). Is the Performance Audit Division suggesting that OPB include each and every output item listed, regardless of how many there are or how much light they shed on program efficiency and effectiveness--particularly when these items can be aggregated without loss of meaning?

Some programs submit some indicators in a narrative context rather than in a tabular context. If these indicators can and should be shown in tabular form, then an OPB analyst will usually do so. This can, from time to time, work in the other way, with a tabular measure being transferred to a textual presentation. Is the Performance Audit Division suggesting that OPB fail to present information because it is not in tabular form or, on the other hand, show a table that provides little insight when a narrative reference would make more sense?

Although OPB suggests that historical data be provided in order to identify trends, OPB is authorized to require only one year of actual performance data. Over the last few years, however, OPB has been able to compile several years worth of the same performance indicators for many programs. Program narratives are including more and more historical data to show progress over time. Is the Performance Audit Division suggesting that OPB omit historical data that reveal progress or lack of progress over time--particularly when these data came from the departments themselves in Operational Plans from prior years?

To put Louisiana's performance in perspective, departments are asked to compare their programs to programs in other states or the private sector. Some departments do not provide this information. When OPB staff have access to national rankings and ratings, these are often included in the program narrative. However, departments are provided the opportunity to respond to the inclusion of this information. Is the Performance Audit Division suggesting that OPB ignore or refuse to provide additional information that could assist in decision making?

Sometimes the performance data provided by departments is inaccurate, inadequate, or flawed. An example that was cited by OPB in both audit interviews and the exit conference (tape and transcript available) was that of a table provided annually by the Louisiana State Police (LSP). The table shows current year numbers of total commissioned troopers and traffic enforcement troopers for southeastern states. State population figures for those states are always from the 1990 census. The LSP then calculates the number of total troopers and number of traffic troopers per 100,000 population. The OPB analyst, however, corrects the table to use the current year population estimate from the U.S. Bureau of the Census in the calculation. This provides a more accurate, timely calculation. Is the Performance Audit Division suggesting that OPB allow inaccurate, inadequate, or meaningless data to appear in the Program Narrative when OPB staff can obtain or calculate better data?

Sometimes the performance information provided by departments conveys no real sense of input, output, outcome, efficiency, or quality. An example cited to the auditors at the exit conference is that of the museums operated by the Department of State. In its FY 1994-1995 Operational Plan the department simply said they were operating these facilities

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and made vague reference to stimulating local economies through these operations. OPB requested more specific information (number of visitors at each facility, for example) and included extra department-provided information in the Program Narrative. Is the Performance Audit Division suggesting that OPB not prod departments for performance data when the department fails to provide any information of value to decision makers in its Operational Plan?

Again, Operational Plans are public documents. They are sent to the Legislature. They are available for review by anyone. If someone wants to see an original Operational Plan, including all the performance indicators submitted, it is readily available. OPB is not preventing anyone from analyzing the complete Operational Plan. Legislative fiscal officers, for example, analyze the same Operational Plans as the OPB.

Expenditure of Resources

The audit report states that: "...substantial time and resources are being spent on a system that has yet to be fully implemented."

As noted in our opening paragraphs, OPB staff has declined over time. The OPB Planning Section has primary responsibility for strategic management and performance accountability. Four planning analysts and one administrator work on these processes in addition to their other responsibilities. The State Demographer, who is responsible for the State Data Center, is not directly involved in program budgeting activities. The Budget Section works with the Planning Section and the departments in the development of performance data.

To our knowledge, only the Department of Transportation and Development (DOTD) has created a position to address strategic planning and program budget related activities. This occurred within the last year. All other departments have used existing personnel and have received no additional funding to implement program budgeting. Obviously, state departments that undertook strategic planning and performance accountability did expend some staff time. However, planning and evaluation are good management practices and should be done with or without program budgeting. Further, the departments would have expended resources on budget development regardless of the method to be used (line item, zero base, program, etc.). Therefore, we see no general evidence of substantial new resource outlay by departments for program budgeting. The resources which have been devoted to this effort have come from existing or diminished resources.

To our knowledge, the largest expenditure of resources for program evaluation activities is made in the Legislative branch by the 33-person Performance Audit Division in the Office of the Legislative Auditor.

Response to Specific Audit Recommendations

We have provided responses to most of these recommendations in the other sections of this response. However, certain of the recommendations require additional response.

Chapter Two Recommendations:

1. Create a new independent entity to develop a statewide strategic plan. Project the state's goals over the next 10 to 20 years.

We have already indicated our response with regard to the 10 to 20 year horizons. While planning over this time frame is certainly desirable for certain activities (infrastructure needs, for example) it is very difficult to project and retain policies over a period of that length. We cannot agree that a new, independent entity should be formed to further strategic planning. While maximum citizen input is certainly desirable, we believe it and the formulation of a meaningful statewide strategic plan is possible within the existing framework.

2. Completion of consistent operational plans by departments on an annual basis.

This is a current requirement and, as noted elsewhere in this response, we will continue to devote the maximum resources possible to its achievement. Our greatest concern in this area is consistency. We have tried to develop and retain a consistent program structure over time. However, we must expect the existing structure to change over time in response to changes in government organization and in response to executive and legislative requirements.

3. Require all department heads to complete Act 160 reports on an annual basis.

Under the provisions of Act 160, OPB has no control over whether these reports are submitted to the Division of Administration. However, both editions of MANAGEWARE cite and describe Act 160. MANAGEWARE 2.0 even includes copies of the forms originally developed for reporting per Act 160. As the Performance Audit Section reports, surveyed agencies had copies of MANAGEWARE. In addition, Act 160 requirements are discussed in Comprehensive Public Training Program and customized training provided by OPB.

Auditors report that all department personnel interviewed were unfamiliar with Act 160 reports. However, we know that most, if not all, strategic planning coordinators are familiar with Act 160 because the requirements of this act were discussed in a meeting of

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coordinators. Further, OPB has received questions and comments on Act 160 from the Departments of Economic Development and Wildlife and Fisheries. Act 160 requirements fall on department undersecretaries. Under law, these individuals are required to submit the reports to the department head who may make further distribution.

4. The OPB should complete progress profile reviews.

Although there is no statutory requirement that OPB conduct formal progress review meetings, the value and necessity of progress review are obvious. Field visits are conducted annually in the summer and early fall before the beginning of the budget development season. Over and above these site visits, planning and budget analysts spend time in the departments associated with their other responsibilities. The OPB report on assistance provided to departments, which was submitted to the auditors, documents this. In addition, OPB is aware of at least one interview with a department official (Nadia Goodman of Department of Economic Development) in which this fact was verified. Progress review is also accomplished annually as performance data are analyzed for inclusion in the EXECUTIVE BUDGET.

Chapter Three Recommendations:

1. The OPB should assist all state departments in developing performance indicators that measure program effectiveness.

Admittedly, OPB has directed less intense efforts toward non-cabinet departments, particularly those that have refused to participate in strategic planning and accountability processes. *It is our firm position that it is appropriate, at this stage of development, to devote our limited resources to those that have sought our help and have undertaken strategic planning and accountability efforts.*

There is no question that outcome indicators are the best for identifying actual outcomes (or results), as compared to the anticipated outcomes (objectives or performance standards). However, Louisiana's budget development process demands inclusion of other indicators. For example, to arrive at workload adjustments for the continuation level, output measurements must be provided. Efficiency indicators are important to measure productivity as well as cost-effectiveness. Even if a program is meeting its objectives, we must know if it is using its resources well. So, even though other types of indicators are less important than outcome measurements, they are still necessary.

Modern management principles stress a balanced set of performance measurements. Other states, Arizona, for example, emphasize balance rather than preponderance of one

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particular type of indicator. To enable departments to develop a balanced set of indicators, **MANAGEWARE** (Version 2.0 - the revised edition that will be published in early 1995 but has been circulated in draft format to departments and the Performance Audit Division) includes a performance indicator matrix, with examples of each type of indicator. Definitions of indicators used by OPB have always paralleled those used by the Governmental Accounting Standards Board (GASB); now they use the same names as well. **MANAGEWARE** still clearly describes the purpose and need for each type of indicator.

Sometimes, output (extensiveness) is outcome (effectiveness). If a program has an objective of serving 15,000 people and it reports serving 15,000 people, that number can be reported as an output (extensiveness) indicator as well as an outcome (effectiveness) indicator.

Input, output, and efficiency indicators often reflect information that is of particular interest to legislators (that is, things that are often asked in committee), the public, the media, or auditors.

Because outcome measures relate directly to achievement of the stated objective, these measures are the most difficult, time-consuming, and costly to generate. Outcome measures do not have to be numerous to show results. Precisely because outcome indicators are related to specific objectives, they are expected to be fewer in number than process and transaction-related output measures.

The audit is critical of the fact that its count yields a ratio of only 24% for outcome indicators versus total indicators. Based on our knowledge and experience, 24% is certainly not a poor achievement at this time. And that is an average. Several of the cabinet departments (Corrections, Economic Development, and Revenue and Taxation) as well as non-cabinet departments (Agriculture and Forestry, Culture, Recreation and Tourism, and Treasury) list more outcome indicators than any other kind of indicator.

It could hardly be expected that outcome indicators alone would outnumber all other types of indicators combined. Given the requirements of our budget development process plus the real need to review program outputs and efficiency, it is to be expected that numerous input, output, and efficiency indicators would be provided for each program and department. Plus, as stated earlier, outcome indicators are related directly to objectives and are supported by other types of performance indicators.

The auditors report that legislative staff who were interviewed consider outcome data to be insufficient and doubt the reliability of data and accuracy of measurements provided. As noted in the exit conference, before the **SECURE** project began looking at program budgeting, OPB received no feedback from legislative staff on performance measurement

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within departments. Several OPB planning and budget analysts have informally exchanged information with legislative staff, and OPB has included Legislative Fiscal Office Staff in many site visits. Until SECURE, however, legislative staff seemed generally disinterested in performance measurements and none formally questioned performance or suggested that OPB obtain more or different information for inclusion in the EXECUTIVE BUDGET.

Again, since the audit provides no measurement of the ratio of effectiveness measures before and after implementation of program budgeting, it does not report progress. Further, no comparison is provided with the other states cited by the auditors.

2. OPB should require all state departments to categorize their performance indicators by type.

For reasons indicated in our response to number 1. above and as noted elsewhere in this letter, we do not see the value of this recommendation. We have long recognized that resources are better utilized in the development of a balanced set of indicators than by categorizing them. Moreover, it is generally obvious into which category or categories an indicator falls.

3. Provide formal training to all state departments on strategic planning, operational planning, and performance indicator development and schedule this training on a regular basis.

The Division of Administration does offer regular training in budget development, strategic planning and performance accountability through the Comprehensive Public Training Program. OPB staff teach this course. The course is usually taught twice a year, but there are preliminary plans to expand this to quarterly. In addition, this course will be provided to a department upon request by the department. This information was provided to the auditors.

OPB customizes training to meet the individual needs of agencies. Moreover, we attempt to develop in-house capabilities in large departments so that those we train can train others.

A department or agency has only to request technical assistance or training. No request has ever been refused by OPB. Instructions on how to obtain technical assistance and training is clearly presented in MANAGEWARE. This same information has been transmitted to budget managers by OPB in meetings and presentations.

4. OPB should rely more heavily on individual departments' input into the development of performance indicators.

We strongly disagree with this recommendation. The development of performance indicators is a very interactive process with departments. Again, OPB efforts have been concentrated in cabinet departments and in those non-cabinet departments that have joined planning and accountability efforts. However, other non-cabinet departments have received materials and assistance from OPB planning and budget staff regarding performance indicators. As detailed above, all departments have the opportunity to review and question drafts of budget Program Narratives prior to publication.

OPB planning analysts routinely work with cabinet and some non-cabinet department staff in the development of performance indicators. This is a process of negotiation. Interviews with officials from Economic Development (Nadia Goodman); Treasury (Don Hutchinson, Cy Buchert); Revenue and Taxation (Ellen Rhorer); Corrections (Beverly Shaw, Mike Smith, Jean Wall); and Justice (Doreen Brasseaux), for example, would reveal this. Departments often ask OPB staff to recommend indicators, to find benchmarks, and to evaluate indicators. This occurs before Operational Plans are even submitted. Then after Operational Plans are submitted, OPB/department interaction continues.

Examples: One OPB analyst is helping the Department of Treasury develop new performance indicators for department programs. This is being done at the specific request of the department. In this process, the analyst has made six site visits, worked with every program in the department, reviewed several Operational Plan drafts, and contacted numerous public and private organizations to search for benchmark performance standards and measurements.

This same analyst was asked by the Department of Justice to suggest performance indicators for their strategic plan and Operational Plan. These suggestions were merged with department ideas and refined into the indicators now used by the department. As a result of this interactive process, the initial Operational Plan submitted by the department for FY 1994-95 and the Program Narrative for that year do not have identical performance information.

This same analyst has visited the Department of Corrections regularly to work with administrative staff throughout the department on performance indicators. That department even formed an internal committee to develop a balanced set of meaningful indicators.

The Department of Revenue and Taxation (DORT) submitted a list of proposed performance indicators in the action plans that supported the department's strategic plan. For the FY 1994-95 EXECUTIVE BUDGET, however, OPB requested that DORT include more meaningful measurement of auditor efficiency. The OPB planning analyst, along with the OPB budget analyst and the OPB Director, worked with Ralph Slaughter (Secretary), Virginia Burton (Undersecretary) and Ellen Rhorer (State of the State and Operational Plan Coordinator) at the Department of Revenue and Taxation to do this. This cooperative effort ruled out some measurements that OPB proposed but DORT opposed, then generated a measure that all parties felt was appropriate. (Note: This exchange between OPB and DORT occurred after the DORT Operational Plan had been submitted and while the Program Narrative was in development, so the number of indicators in the Operational Plan and the Program Narrative differed. However, the Program Narrative was a better product and held no surprises for DORT.)

The OPB planning analyst who works with education programs has made numerous visits to the Department of Education and Board of Regents. Despite repeated promises by these agencies to improve their performance reporting, performance measurement remains a problem. On page 25, the audit report says: "Without department input, the consistency of performance indicators over time is jeopardized." Education, however, keeps changing the methodology for reporting many basic measurements--dropout rate, for example--so consistency over time cannot be achieved. These problems were explained to the auditors.

At the request of auditors, OPB provided information on the types of assistance provided and work done with departments. The examples cited above were listed in this report by the OPB analysts who did the work. In addition, OPB analysts described these efforts, often in detail and showing the paper trail, to auditors.

On page 27, the audit states that the departments themselves are the best judges of the performance indicators that are most indicative of their program results and recommends that departments have the final say in what their performance indicators should be. We differ with this assumption and recommendation--as would many legislators. On the same page, the report states that OPB should discuss with departments the reasons behind the use of particular indicators in the EXECUTIVE BUDGET. This is already being done.

Modern principles of management state that performance measurements should be jointly developed by those who provide the service and those who will be evaluating the performance. OPB is charged with the evaluation of budget requests as part of the budget

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development process. As shown above, OPB goes to great effort to work with departments on development and refinement of performance indicators.

Frankly, it is an unfortunate fact that some departments or programs, if left to their own devices, would report only the information that makes them look good. Without OPB's management of the Program Narrative, a rather lop-sided portrait of program objectives and performance could result. Even when a department knows what the best measure of performance is, it may not report it.

There are many sources of performance information: strategic plans, operational plans, materials submitted for inclusion in State of the State, department annual reports, special reports, and national and regional data bases, for example. During the budget development process, OPB planning and budget analysts look at all of these. A management problem often manifests itself as a budget problem. Whether this management problem occurs during the budget development process or as a requested budget amendment during the operating year, OPB seeks and acquires the information necessary to resolve the situation.

5. The OPB should monitor all state departments' activity in the area of performance indicator development to ensure that appropriate and reliable indicators are being created.

We consider this recommendation redundant and it is answered elsewhere in this letter of response.

Issues for Further Study

We do not disagree with the first two of these and feel we have adequately addressed them in this letter of response.

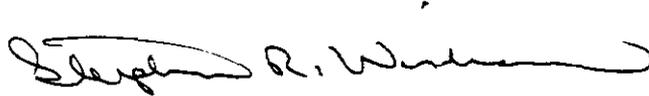
The third issue relates to the availability and adequacy of management information systems. As we noted in the exit conference, enhanced capabilities in this area will certainly make the process more efficient and effective. In this regard, the Louisiana Database Commission has become active and the budget development system is currently under development as part of the Integrated Statewide Information System implementation. All such efforts should be supported to the maximum extent possible.

Notwithstanding the entirely negative findings of this audit, we firmly believe that we have made substantial progress in the areas studied. Furthermore, we believe that program

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budgeting has not only already saved the state substantial money due to the flexibility it provides, but has also placed greater accountability on the people responsible for the management of the state's programs.

Sincerely,



Stephen R. Winham
Director

c: Senator Samuel B. Nunez, Jr.
President of the Senate

Representative John A. Alario, Jr.
Speaker of the House of Representatives

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