

PERFORMANCE MEASUREMENT – BEST PRACTICE TO ENSURE STATE AGENCY ACCOUNTABILITY, ECONOMY, EFFICIENCY, AND EFFECTIVENESS

A Report Prepared for the
Legislative Finance Committee

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INTRODUCTION

This report summarizes the use of performance measurement in other states and best practice recommendations on performance measurement by Governing, the National Association of State Budgeting Officers (NASBO), Governmental Accounting Standards Board (GASB), and the National Governor's Association (NGA). The report outlines current Montana budgeting practices for performance measurement as outlined in statute and examines how Montana efforts compare with those in other states.

PROGRAM BUDGETING USED IN MONTANA

In Montana, budgetary statutes require:

- state agencies to include a balanced financial plan including a statement of the agency mission and the goals and objectives for each program of the agency
- goals and objectives to have sufficient specific information and quantifiable information to enable the legislature to formulate appropriations policy
- goals and objectives that allow a determination, at a future date, on whether the agency has succeeded in attaining its goals and objectives.

These requirements are part of program budgeting, which is the methodology currently used by the state of Montana for budgeting state agency appropriations.

The statutes allow the state legislature to fulfill one of its fundamental responsibilities to oversee governmental operations and to ensure public services are delivered to the state's citizens in an effective and efficient manner. Goals define what a state agency is trying to accomplish. Objectives, sometimes referred to as performance measures, are the segments of the goals which show how the agency will accomplish its goals. Objectives should be specific, time-bound, and measurable to articulate the who, when, and how of the agency's plans for accomplishing their goals. This allows the legislature to ensure agencies are accountable for the taxpayer resources it has appropriated. Accountability means state agencies measurably achieve their missions in cost-effective, efficient and open manner. Goals and objectives requirements are included in statute, in part, to provide the legislature information to make public policy decisions affecting the economy and efficiency of state agencies.

CRITERIA AND BEST PRACTICES

The statutory duties of the Legislative Fiscal Division (LFD) include the investigation and study of the possibilities of effecting economy and efficiency in state government. To examine areas where economy and efficiency can be improved, one tool LFD staff utilizes is the examination of criteria and best practices established by national boards and associations relating to methodologies for improving performance. Implementing nationally recognized methods for budgeting can result in improved accountability and transparency for Montana citizens.

Governing

Governing, a resource for state and local governments, completes a government performance project every few years. In 2005 they issued a Grading the States report on management in the states. Included in this report was a measurement on how well states utilized performance measurements in their budgeting process. Figure 1 shows those states that were recognized for using this best practice methodology for good government.

The figure shows which states are using performance measurements as part of executive initiative and which are due to legislative initiative. As can be seen the majority of the states utilizing this best practice are doing so because the Governor and their budget office are requiring it, in part, to ensure accountability of state resources for taxpayers.

Among the states recognized is Washington. According to the report:

“The Washington Priorities Of Government (POG) system may be the best example in the country of the use of performance information for budgeting on a government-wide basis. Governor Locke used the system as part of the process of making budget adjustments in the 2003-2005 biennial budget, and it’s anticipated that its utility will be heightened for the next budget. The reason that it was possible to carry out such a system is that Washington has a long history of producing high quality performance information.

- *One of the key components of the POG initiative is the production of performance information at the agency level. Most agencies report on their performance quarterly, and it is possible to track this performance information compared to the past, particularly for higher level indicators related directly to the 11 POG results areas.*
- *Clearly the executive branch has performance information when considering resource allocation decisions. In fact, the entire POG process was structured around making budget decisions informed by performance. There’s been a concerted effort to make the information accessible and not too complicated to legislators by deliberately focusing on a few indicators for each result.*
- *The legislature was apparently engaged in the POG process. Managers at the Department of Ecology noted that the legislature was very aware of the decision making process that was occurring before the budget reached them and so was much more engaged with the system and the information.*

	Executive	Legislature
Alabama	X	
Alaska	X	
Arizona	X	
Arkansas	X	
Colorado	X	
Delaware	X	
Florida		X
Georgia	X	
Idaho	X	
Illinois	X	
Iowa	X	
Kansas	X	
Kentucky	X	
Louisiana	X	
Minnesota	X	
Missouri	X	
Nebraska	X	
Nevada	X	
New Mexico	X	
Ohio	X	
Oklahoma	X	
Oregon	X	X
Pennsylvania	X	
Rhode Island	X	
South Carolina	X	
Tennessee	X	
Texas		X
Utah	X	
Vermont	X	
Virginia	X	
Washington	X	
West Virginia	X	
Wisconsin	X	

While the report discusses Governor Locke, the process remains under current Governor Gregoire. The institutionalization of the process allows it to continue through changes in the executive, ensuring the legislature is making appropriation decisions based on good performance information.

In the report, Montana received an overall grade of C+, a combination of grades for categories including money, people, infrastructure, and information. Montana was one of 16 states with this ranking. 29 other states received a grade of B- or better, in many cases because they use performance measurement reporting as part of their legislative budget considerations. Part of the reason Montana received an overall grade of C in the information category was due to the lack of performance information used in budgeting. According to the report:

The production, availability, and use of performance information in Montana are an area of weakness. The state primarily produces output rather than outcome performance information and there is little evidence of its wide use and availability.

- *The majority of performance information reviewed did not go beyond output information. The performance information reviewed did not demonstrate how state programs are performing and if they are meeting agency goals. The governor’s budget included mostly output information and some target and benchmark information across major policy areas.*

- *The state lacks a consistent statewide structure or vehicle to present and disseminate performance information and there appears to be no real movement to improve or create a new process.*
- *Evidence of the state using performance information is lacking. The state did not provide concrete examples of using performance information in the budget process.*

National Governor’s Association

NGA developed a NGA Center for Best Practices. Included on the website for the center are products and projects related to results-based management across policy areas. Performance measurement is included as one of the best practices for state governments to demonstrate accountability and develop public trust. Systemized techniques for tracking spending and activities of government in relation to the results they are trying to achieve is included as part of best practice concepts issued by NGA.

National Association of State Budgeting Officers

NASBO includes program budgeting concepts in their training materials for budgeting. As the state of Montana budgets using program budgeting, the concepts outlined are particularly relevant. As stated in fundamentals of budgeting concepts, because program budgeting focuses on program outcomes, program budgets have the most potential for allowing policy makers to review the policy implications of spending decisions. Program budgeting requires management effort in developing programs with goals and reportable performance measures. It requires accountability for services rendered and for performance which can be documented. Agencies should be held accountable for meeting their goals and objectives ...

Governmental Accounting Standards Board

GASB’s mission is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

As part of its continuing mission to improve financial reports, GASB has defined performance measurement and developed concept papers on performance measurement reporting. The objective of the reporting is to provide more complete information about a governmental entity’s performance than can be provided by the traditional financial statements and schedules to assist users in assessing the economy, efficiency, and effectiveness of services provided.

WHERE ARE WE NOW?

As discussed above, several major legislative governance organizations recognize performance measurement reporting as an important legislative tool to ensure accountability, efficiency, economy, and effectiveness in state governments, especially in those instances where program budgeting is used to appropriate resources to state agencies as is done in Montana. A description of the previous process for program budgeting and oversight of the executive, and LFC initiatives to implement performance measurement reporting, follows.

Previous Utilization of Goals and Performance Measures

Prior to the 2007 Legislature, state agencies submitted program goals and in some cases measurable objectives to the Office of Budget and Program Planning during the budget process. The goals and reportable performance measures were not included as part of budget considerations by the legislature. In some cases, state agencies did not develop measurable objectives for their programs and did not post measurable objectives or goals on their websites as required by statute.

Concerns relating to the performance of state agencies and areas of economy and efficiency were outlined by LFD analysts in the budget analysis and presented to the legislature at the beginning of the session. The goals, objectives, risks, milestones, and justification of new proposals were not always included in decision packages presented to the legislature. Presenting issues regarding the performance of state agencies in the highly charged political atmosphere of the session, without previous legislative involvement and input, increases the combative

atmosphere of the legislative budgeting process. It can also lead to continued funding of program budgets where the performance of the program does not necessarily indicate continued funding is in the best interests of the citizens of Montana.

The LFC reviewed areas related to state agency performance and program implementation only if concerns were noted by LFD analysts as part of review of the budget or if LFC members expressed an interest. The majority of new proposals and program budgets were not examined or discussed, limiting legislators and the public's exposure to information on the performance of the majority of state agencies and the use of billions of taxpayer dollars.

Legislative performance auditors examine program goals and measurable objectives as part of their audit work when auditing state agencies. Recommendations for changes or improvements are included as part of the final audit report. As is the case with LFD analysts, performance auditors are charged with making recommendations for improvement to economy and efficiency in state government.

LFC Initiatives on Performance Measurement

The actual power behind performance measurement is the interactive discussion process between the agency and the legislature. Successful performance measurement systems start conversations, create ideas, facilitate debates and encourage interactive inquiry. If this was done during the interim, imagine the focusing ability of the legislature during a 90 day session. Issues of importance are raised and addressed or are well identified for discussion during key points in the appropriations process. A successful performance measurement system is sustainable over time, leaving future leaders the ability to carry on fruitful discussions regarding the path the state needs to take in a variety of issues. It is a powerful tool for educating newly elected legislators on the effects and potential outcomes of their appropriation decisions.

During the 2007 biennium, the Legislative Finance Committee (LFC) undertook several projects to increase the use of outcome performance measurement in the budget process and move Montana state government along the path recommended by national budget and financial reporting organizations. Included in the projects were:

- Pilot project on performance measurement reporting – managerial information on 2 page form
- Evaluation process for new initiatives – justification, goals, performance measurements, risks, funding, milestones included in decision packages
- Standardized format for information presentations to appropriations subcommittees– included goals and measureable objectives for programs

As part of the workplan for the 2009 biennium the LFC unanimously included performance measurement reporting as one of its priority projects. The LFC formed workgroups made up of members of the Joint Appropriation Subcommittees to review critical goals and measurable objectives for each state agency. Limiting the review to critical goals reduces the burden of reporting on state agency personnel and increases the effectiveness of the LFC workgroup review.

LFD staff met with state agencies and staff from the Office of Budget and Program Planning to reach consensus on the goals and new initiatives included in the review process. In many cases the process required reducing the number of goals and initiatives the state agencies wanted to report on. The agreed upon goals and initiatives were then presented to the members of the workgroups. Additions and additional requirements were added by the various legislators and presented to the full LFC for discussion.

In addition, LFD staff provided state agency personnel training on the revised performance measurement reporting form originally developed by the previous LFC. Agency comments and concerns were incorporated into the form. An electronic process was developed and LFD entered the majority of the first page of the reporting form to reduce the time and effort required on the part of state agency staff.

The process ensures the majority of state agencies report on those critical goals and related performance measures of legislative interest, significantly increasing LFC member exposure to the successes and challenges

of the majority of state agencies programs and new initiatives. Further, other interim committees have requested reports on the performance measurements selected by the LFC, again increasing legislator exposure to performance measurements of state agencies during the interim. In addition, the information presented to the LFC will be used by LFD analysts for the budget analysis conducted prior to the 2009 Legislative Session, increasing the efficiency and effectiveness of the LFD process.

The power of performance measurement reporting to increase efficiency and effectiveness in state government is shown in the Montana University System (MUS). The issue of transferability of credits and coursework between campuses, raised by numerous legislators over a long period of time, appears to be on track for resolution this biennium as it is outlined by performance measures presented to the LFC workgroup. The performance measures have specific milestones to insure MUS meets its goal. To date, OCHE and MUS are actively progressing towards the implementation of this goal as half of the milestones have been met as of November 2007, and the remainder of the milestones appear to be on track to be completed by September 2008. The milestones already attained include hiring 2.5 FTE to oversee the process, identifying 11 facility discipline-based councils, holding preliminary meetings with 4 of the councils, and developing a policy, approved by the Board of Regents, mandating a common course numbering system throughout MUS. As a result of attaining the milestones, the MUS will be able to increase the number of pre and postsecondary education credits accepted for transfer by the MUS by as much as 15 percent over 2007 and reduce the number of student appeals of credit transfer decisions by up to 50 percent in FY 2010.

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