

**THIRD IN A SERIES
UPDATE ON THE PERFORMANCE BASED
BUDGETING PILOT PROGRAM
HB 502 OF THE 2000 REGULAR SESSION**

February 2002- UPDATE

The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.



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AUDITOR OF PUBLIC ACCOUNTS

March 12, 2002

To the Legislative Research Commission and the Honorable Paul E. Patton, Governor

Re: Third in a Series: Update on the Performance Based Budgeting Pilot Program, HB502 2000 Regular Session

Ladies and Gentlemen:

We present our referenced update prescribed by HB 502 for release in February, 2002. Because this date occurs prior to the end of the budget session, we are unable to provide our final assessment of the success of the Performance Based Budgeting Pilot Program. If significant performance based budgeting issues arise before the end of the session, we will advise you.

We are distributing this report in accordance with the mandates of Kentucky Revised Statute 43.090. In addition, we are distributing copies to members of the Appropriations and Revenue Committees of the General Assembly and other interested parties.

Our Division of Performance Audit evaluates the effectiveness and efficiency of government programs. The Division also performs risk assessments and benchmarks government operations. We will be happy to discuss with you at any time this audit or the services offered by our office. If you have any questions, please call Gerald W. Hoppmann, Director of our Division of Performance Audit, or me.

We appreciate the courtesies and cooperation extended to our staff during the assessment.

Respectfully submitted,

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Summary and Background

Summary

Since HB 502 was passed in 2000, GOPM and the pilot budget units have taken successful steps toward implementing the Performance Based Budgeting Pilot Program. In addition, GOPM and the pilot budget units have satisfactorily addressed findings in our June 14, 2000 assessment of the current budget process. GOPM has:

- Developed guidelines and criteria for the development of performance information;
- Hosted training workshops for pilot budget units;
- Directed the pilot budget units to correlate performance information to agency strategic plans;
- Modified the Budget Reporting and Analysis Support System (BRASS) in order to track and report performance information; and
- Drafted a *Data Check List*, which will require agencies to report the source and storage of performance indicators.

The pilot budget units did a commendable job developing performance information that correlates to their respective agency strategic plans. In addition, they have fully embraced the development of performance information for internal purposes. They also provided calculations, which detailed the expenditures incurred to develop a performance-based budget. The Office of the State Budget Director recently provided an accounting of the \$750,000 appropriated for use implementing the Performance Based Budgeting Pilot Program. However, because we received the information during the release of this update, we were not able to verify the information.

There are three primary benefits to be derived from the development of performance information.

1. Including performance information in the Commonwealth's current budget process creates additional rationale for budget decisions. Performance information may now be entered, stored, and tracked in the state's accounting system, and included in the budget request of the Executive Branch.
2. Legislators may use BRASS-generated reports to view performance information throughout the legislative appropriations process.
3. Agency managers may use performance information for internal purposes, and the Governor's budget staff may use the information during the development of budget submissions.

Although our assessment generally reflects positively on the Performance Based Budgeting Pilot Program, the following areas deserve improvement:

- Ensuring the consistent development and reporting of objectives and performance indicators to illustrate specific and measurable targets.
- Increasing the interaction between Executive and Legislative branch staffs in the development of performance information for the pilot budget units.
- Ensuring that information submitted on the new Performance Budgeting Pilot Forms is not duplicated in other budget forms.

Summary and Background

Background

HB 502 (Kentucky Acts 549) acknowledged the value of performance based budgeting and established a pilot program to test the approach in Kentucky. The bill requires the Auditor of Public Accounts (APA) to:

- Study and report on the flow of budget information from executive branch budget units (particularly the budget units selected for the pilot program) to various entities including the Governor, Legislative Research Commission (LRC), and the General Assembly.
- Monitor the progress of the performance based budgeting pilot program and present an evaluation by February 1, 2002 to the Governor and the Legislative Research Commission.

Our first report of October 12, 2000 flow-charted the overall budget process and discussed preliminary findings on the use of performance information and strategic planning. That report could not discuss the budget process employed by those programs, since the Office of the State Budget Director did not select the performance based budgeting pilot programs until March 2001.

The Office of the State Budget Director selected the following programs to participate in the performance based budgeting pilot program:

- Program Operations, Department for Juvenile Justice, Justice Cabinet (Juvenile Justice Program Operations)
- Division of Forestry, Department for Natural Resources, Natural Resources and Environmental Protection Cabinet (Natural Resources Forestry Program)
- Division of Motor Carriers, Department for Vehicle Regulation, Transportation Cabinet (Transportation Motor Carrier Program)
- Office of Infrastructure Services, Governor's Office for Technology (GOT Infrastructure Services Program)

The following table illustrates the budget request and Governor's Recommendation for FY2002 and FY2004 for each pilot budget unit.

2002-2004 Budget Information	Performance Based Budgeting Pilot Agencies			
	GOT Infrastructure Services Program	Juvenile Justice Program Operations	Natural Resources Forestry Program	Transportation Motor Carriers Program
Requested FY 2003	\$36,696,000	\$115,177,300	\$17,781,500	\$2,451,200
Recommended FY 2003	36,167,000	107,580,900	13,817,400	2,374,600
Dollar Difference	(529,000)	(7,596,400)	(3,964,100)	(76,600)
Percent Difference*	(1%)	(7%)	(22%)	(3%)
Requested FY 2004	\$37,467,000	\$125,601,300	\$17,749,700	\$2,596,100
Recommended FY 2004	36,167,000	111,435,200	13,905,700	2,509,900
Dollar Difference	(1,300,000)	(14,166,100)	(3,844,000)	(86,200)
Percent Difference*	(3%)	(11%)	(22%)	(3%)

Source: Auditor of Public Accounts, from pilot budget unit budget submissions and the Governor's Budget Request 2002-2004

Summary and Background

Our second report of June 14, 2001 concluded that the Commonwealth's current budget process does not preclude consideration of performance information during the budget process. However, we found that in order to consider performance information, the budgeting process had to improve in the following areas:

- Consistency of submitting agencies in developing, reporting and verifying performance information
- Criteria development to help agencies produce performance information
- Assurance that performance information for new or expanded programs for a current biennium is included in the current services budget A-4 form for the next biennium
- Reporting and tracking performance information in BRASS.

Scope and Methodology

This report discusses the progress of the Performance Based Budgeting Pilot Program and offers recommendations for further implementation. It also provides an update as to the progress GOPM and the pilot agencies are making related to findings from our second report. Findings and recommendations are discussed in the following section.

In order to provide this update, APA staff interviewed budget analysts from GOPM and LRC, as well as program officials for the pilot budget units and Appropriations Committee staff. Finally, APA staff reviewed performance information submitted by the pilot budget units as part of their FB 2002-2004 budget submissions, and performance information reported in the Governor's Budget Request.

Findings and Recommendations

Implementation of the Performance Based Budgeting Pilot Program Showing Success

GOPM and the pilot budget units have taken positive and successful steps toward implementing the Performance Based Budgeting Pilot Program. They have worked to address the findings presented in our assessment of the current budget process released in June 2001. The inclusion of performance information in the Commonwealth's current budget process creates additional rationale for budget decisions. Continued and more frequent interaction between GOPM and the pilot budget units will further improve the performance based budgeting process for future application.

The following provides a brief description of positive developments concerning findings in our June 2000 assessment of the budget process.

GOPM Developed Criteria and Guidance for Pilot Budget Units to Ensure Consistent Development and Reporting of Performance Information

During 2001, GOPM held two formal workshops for pilot budget units to discuss the development and reporting of performance information. Each workshop provided overall guidance on the initiative. During the first workshop, GOPM distributed the *Performance Budgeting Pilot Project Handbook* to "...provide direction and information to the four pilot budget units and to the Office of State Budget Director on the implementation of the Performance Budgeting Pilot project". The handbook provides guidance on the development of performance information and its relationship to the strategic plans of the agencies.

GOPM Ensured that the Pilot Budget Units Tied Performance Information Back to Strategic Plans

All of the pilot budget units used agency strategic plans as a basis for developing objectives and performance indicators. Ensuring that the strategic plan is a critical component of the performance based budgeting process is an important element for success.

Modifications to BRASS Allowed Performance Information to Be Reported and Tracked

As part of the effort to bring more accountability to the budget process, GOPM worked with American Management Systems (AMS) to modify BRASS so performance information can be entered, tracked, and reported. GOPM spent only \$1,793 on this modification. GOPM also developed performance budgeting pilot forms for agencies to use in submitting performance information for current services and additional budgets. In October 2001, GOPM conducted training on the expanded BRASS capabilities.

Prior to this modification, only financial and personnel information could be entered directly into BRASS. Performance information could only be accessed through BRASS by opening a Word document. Standard reports like those generated for financial and personnel information could not be generated. As a result, performance information was not being reported in external documents such as the Governor's Budget Request.

The BRASS modification now facilitates external reporting of performance information. GOPM was able to use a BRASS report to include performance information in the Governor’s Budget Request presented to the General Assembly. In addition, Legislative Research Commission (LRC) staff will be able to generate reports containing performance information for use by legislators throughout the budget process.

GOPM Data Checklist Being Finalized

GOPM is in the process of finalizing a data fact sheet, which agencies may use to disclose information on the source, frequency reported, and storage of each indicator. Currently there are no criteria related to ensuring the reliability and validity of performance information submitted as part of the budget process

Although agencies will be able to use the data fact sheet to provide information to GOPM, they are still responsible for ensuring that all performance information is valid and reliable. According to GOPM, during the workshops in 2001 pilot budget units were made aware that validity and reliability of performance information will be an important component of performance based budgeting.

Cost of Performance Based Budgeting Pilot Program

The costs incurred by pilot budget units to implement performance based budgeting mostly relates to personnel and travel costs for training. To date, no pilot budget unit has been reimbursed for these additional expenditures. The following table provides more specific information for each agency:

Pilot Budget Unit	Personnel Salaries	Travel and Lodging	Other	Total
Juvenile Justice Program Operations	\$37,256	\$5,495	\$ 0	\$42,751
Natural Resources Forestry Program	\$ 5,444	\$ 0	\$ 0	\$ 5,444
Transportation Motor Carrier Program	\$12,790	\$3,937	\$53	\$16,780
GOT Infrastructure Services Program	\$16,034	\$ 0	\$0	\$16,034
Grand Total	\$71,524	\$9,432	\$53	\$81,009

Source: Auditor of Public Accounts, from information provided by the pilot budget units.

Despite numerous requests to the Office of the State Budget Director, no cost information has been provided on the office’s implementation of the Performance Based Budgeting Pilot Program. Nor has the office provided the statutorily required quarterly reports detailing the use of the \$750,000 appropriation. The enabling legislation details this reporting requirement as follows:

“A performance budgeting pilot project fund shall be established in the Office of the State Budget Director to defray extraordinary expenses related to the pilot project. The State Budget Director shall make disbursements from the fund to units that incur costs related to the pilot project. Information about each disbursement, including the reason for the disbursement, a description of how the expense is related to performance budgeting, and a discussion of why the expense cannot be covered within the normal cost of budget information reporting, shall be reported quarterly

Findings and Recommendations

beginning October 15, 2000, to the Auditor and the Legislative Research Commission, who shall forward the information to the Interim Joint Committee on Appropriations and Revenue and the Program Review and Investigations Committee.”

Although the office has not been submitting the statutorily required quarterly reports, it did provide information related to the use of the \$750,000 during the release of this report. We did not have time to verify this information.

Activity	Object Code	Fiscal Year 2000- 01	Fiscal Year 2001-02	Total
Employee Training	E133	\$ 53,801.56	\$ 299.72	\$ 54,101.28
Consulting Services	E146	118,339.00	49,918.00	168,257.00
Rental-State Owned Building	E222	446.04	125.00	571.04
Rental of Equipment	E223	463.50	100.00	563.50
Printing Paid to State Agency	E251	5,676.19		5,676.19
In Sys-Tech Serv Comp Chg	E271	26,455.62		26,455.62
Computer-Service Support	E284		1,793.00	1,793.00
Office Supplies	E321	1,788.76		1,788.76
Books for Dept. Use	E351	696.75		696.75
In-State Travel	E361	2,568.40		2,568.40
Other	E399		68.50	68.50
Total		\$210,235.82	\$52,304.22	\$262,540.04

Source: Auditor of Public Accounts, from information provided by GOPM.

Performance Information Is Not Consistently Portrayed by all Pilot Budget Units

The performance information submitted by the pilot budget units is not consistently portrayed in the Performance Budgeting Pilot Forms. Although each budget unit submitted a mission, objectives and performance indicators, there were differences related to the measurability and broadness of objectives and indicators. However, all pilot budget units were able to develop outcome related indicators.

According to a GOPM official, there is room for improvement in consistency in the development and reporting of performance information. In time, as those preparing the budgets become more familiar with the concepts and practice of performance based budgeting, consistency should improve.

The *Performance Budgeting Pilot Project Handbook* provided by GOPM provides basic guidance on the development of performance information. For example, Section VI states that an “objective is a specific, measurable statement of achievements that will lead to the accomplishment of the Program Mission by explaining: (1) what must be done, and (2) when it must be done”. In addition, the handbook states that there should be an emphasis on developing outcome measures that gauge the results of the program.

The pilot budget units submitted four mission statements, 23 objectives and 116 performance indicators. Only 6 (26%) of the objectives were measurable and projected a target date for attainment, and 21 (91%) objectives had at least one outcome indicator.

Natural Resources Forestry Program

The following is information related to each pilot budget unit's performance information:

The Natural Resource Forestry Program submitted one mission, 8 objectives, and 24 performance indicators as part of its budget submission. Six (75%) of the objectives were specific and measurable and expressed a date for reaching a designated target. All but two objectives (#6, and #7) included at least one performance indicator that sets an outcome target. This program was the only pilot budget unit that submitted objectives that were both measurable and time bound.

The performance information submitted to GOPM is as follows:

Mission: To protect and enhance Kentucky's forest resources by:

- Provide environmental leadership and expertise.
- Shaping a vision for the sustainability of Kentucky's forest.
- Serving as a bridge linking Kentucky's citizens, government, and forest industry.
- Monitoring forest trends and anticipating needs.

Objective 1: By June 30, 2007 decrease the number of Kentucky's acres burned from forest fires by 20% from the ten-year average.

Performance Measure 1.1: The number of acres burned each year due to wildland fires.

Objective 2: Identify and acquire 3,800 additional acres of high-quality forestland for management by 2006.

Performance Measure 2.1: The number of acres identified through KHLCF applications received annually.

Performance Measure 2.2: The number of high-quality forestland acres acquired.

Performance Measure 3.3: The dollar amount of all fund sources awarded for high-quality forestland acquisition.

Objective 3: By June 30, 2008, increase the number of acres planted to forestland by 5,000 acres.

Performance Measure 3.1: The number of acres planted to forestland annually.

Performance Measure 3.2: The number of seedlings sold by the Division of Forestry annually.

Performance Measure 3.3: The number of acres planted through urban and community forestry programs annually.

Objective 4: Increase landowner participation in forest stewardship activities by 10% over five years (2001 as the baseline year).

Performance Measure 4.1: The number of landowners participating in forest stewardship activities annually.

Performance Measure 4.2: The percentage change in the number of new landowners participating in forest stewardship activities.

Performance Measure 4.3: The number of new forest stewardship/management plans annually.

Performance Measure 4.4: The number of acres improved through forest stewardship activities.

Objective 5: Increase citizen participation in activities that enhance water quality.

Performance Measure 5.1: The number of master loggers, including new and redesignations annually.

Performance Measure 5.2: The annual increase in the number of stewardship/management plans.

Performance Measure 5.3: The number of days that timber bridges are loaned out.

Findings and Recommendations

Performance Measure 5.4: The annual increase in the number of timber harvesting inspections with master loggers on-site.

Performance Measure 5.5: The annual reduction in the number of emergency orders issued.

Performance Measure 5.6: The number of inspections of known timber harvesting operations.

Objective 6: Promote and increase awareness of forest biodiversity.

Performance Measure 6.1: The number of publications annually distributed.

Performance Measure 6.2: The number of teacher education kits distributed annually.

Performance Measure 6.3: The number of radio, newspaper advertisements, and public service announcements.

Performance Measure 6.4: The number of State of the Forest Biennium Reports distributed.

Objective 7: Create a statewide forest-based economic development workgroup by June 30, 2003.

Performance Measure 7.1: The number of active partners contributing to the workgroup's efforts.

Objective 8: Determine the status and trends of Kentucky's forest resources every six years.

Performance Measure 8.1: Percentage of forest plots measured annually.

Performance Measure 8.2: The number of forest plots measured for forest health indicators annually.

Juvenile Justice Program Operations

Juvenile Justice Program Operations submitted one mission, 6 objectives, and 49 performance indicators as part of its budget submission. None of the objectives were specific, measurable, or expressed a date for reaching a designated target. All objectives included at least one performance indicator that sets an outcome target.

It should be noted that all of the performance indicators reported by Juvenile Justice Program Operations were phrased like goals. Although the program set targets related to the performance indicators, their presentation could cause confusion. For example, Indicator 1.1 states that "Juvenile Service workers contact all committed or probated juveniles not placed by the courts to the care and supervision of the Department". Although we know from discussions with agency officials that the program is setting targets related to this performance indicator, it is not apparent from this illustration. Especially, given that the objective is also very broad, stating: "To effectively supervise and treat 2,300 youth (average daily population) residing in the community who are committed or probated by the courts to the care and supervision of the Department".

A different portrayal of the information could have included an objective such as: Juvenile Service workers will contact 95% of all committed or probated juveniles in FY03 not placed out of the home on a monthly basis. This objective is very measurable and time bound. A corresponding performance indicator could be: The number or percentage of committed or probated juveniles contacted. This indicator shows outcome related to its objective.

Findings and Recommendations

The performance information submitted to GOPM is as follows:

Mission: Promote public safety by providing balanced, comprehensive services that hold youth accountable, and provide the opportunity for youth to develop into productive, responsible citizens.

Objective 1: To effectively supervise and treat 2,300 youth (average daily population) residing in the community who are committed or probated by the courts to the care and supervision of the Department.

Indicator 1.1: Juvenile Service workers contact all committed or probated juveniles not placed out of the home on a monthly basis.

Indicator 1.2: Youth that complete the program in a youth development/treatment center and return to the community attain age 18 without additional placement outside the home. This excludes step-down placement in a group home or foster care following residential...

Indicator 1.3: Probated youth complete probationary period with no additional public offense convictions, excluding traffic violations.

Indicator 1.4: Committed youth residing in the community that have never been placed out of the home attain age 18 or the commitment is rescinded without placement outside the home.

Indicator 1.5: Committed youth in the community that have never been placed out of the home attain age 18 or the commitment is rescinded without additional convictions for public offenses, excluding traffic violations.

Indicator 1.6: Probated and committed youth residing in the community and enrolled in school show improvement in school attendance compared to the year prior to probation or commitment.

Indicator 1.7: Probated or committed youth residing in the community are enrolled in an educational program or are gainfully employed.

Indicator 1.8: Probated and committed youth residing in the community and enrolled in school show successful progression through class levels.

Indicator 1.9: Youth that complete a residential program and return to the community have no additional public offense convictions, excluding traffic violations, prior to their release from commitment or prior to reaching age 18.

Indicator 1.10: Youth that complete a residential program and return to the community have no additional public offense convictions more serious than the ones convicted of prior to placement while remaining committed to the Department.

Objective 2: To effectively provide treatment and educational opportunity to 600 (average daily population) youth in state-operated and contracted day treatment programs.

Indicator 2.1: Youth assigned to day treatment programs complete the program.

Indicator 2.2: Youth assigned to day treatment programs have no convictions for public offenses, excluding traffic violations, during the duration of their participation in the program.

Indicator 2.3: Youth assigned to day treatment are not placed out of the home while enrolled in the day treatment program.

Indicator 2.4: Youth that have never been placed out of home, excluding foster care, and complete a day treatment program are not placed outside the home within one year of completing the program.

Indicator 2.5: Youth assigned to day treatment programs show an increase in school attendance during the day treatment program period compared to a one-year period prior to assignment to the program.

Indicator 2.6: Youth assigned to day treatment programs show an increase in school attendance for one year after completion of the program. This is compared to the one year prior to assignment to the program. Youth who graduate or attain a GED are excluded.

Indicator 2.7: Youth show improvement in educational attainment by the end of their assignment to the day treatment program, based on standardized testing.

Indicator 2.8: Youth attending the day treatment program are involved in community service projects, are provided some form of career training, or have jobs at some time during the treatment period.

Findings and Recommendations

Objective 3: To protect the public and provide rehabilitative treatment services to 400 (average daily population) youth removed from the community and placed in a state-operated residential programs.

Indicator 3.1: Escapes from the centers are limited to a maximum percent of those placed per year in the youth development/treatment center system.

Indicator 3.2: Youth placed in the centers nine months or more before their 18th birthday complete the required program prior to attaining age 18.

Indicator 3.3: Youth that complete the program in a youth development/treatment center and return to the community attain age 18 without additional placement outside the home. This excludes step-down placement in a group home or foster care following residential...

Indicator 3.4: Youth that complete a residential program and return to the community have no additional public offense convictions (excluding traffic violations) prior to age 18.

Indicator 3.5: Youth that complete a residential program and return to the community have no additional public offense convictions more serious than the ones convicted of prior to placement prior to age 18.

Indicator 3.6: Eligible youth placed in a youth development/treatment center obtain a GED or high school diploma while in placement.

Indicator 3.7: Youth placed in a youth development/treatment center receive a certification in some type of vocational training while in placement.

Indicator 3.8: Youth placed in the centers demonstrate educational progress through standardized testing.

Objective 4: To protect the public and provide rehabilitative treatment services to 400 (average daily population) youth removed from the home and placed in privately operated programs.

Indicator 4.1: Escapes or run-aways are limited to a maximum percent of the total number placed in a given year.

Indicator 4.2: Youth placed nine months or more before their 18th birthday complete the required program prior to attaining age 18.

Indicator 4.3: Youth that complete the program in a private child-care center and return to the community attain age 18 without additional placement outside the home. This excludes step-down placement in a group home or foster care following residential ...

Indicator 4.4: Youth that complete the program in a private child-care center and return to the community have no additional public offense convictions, excluding traffic violations, while remaining committed to the Department.

Indicator 4.5: Youth that complete a private child-care program and return to the community have no additional public offense convictions more serious than the ones convicted of prior to placement prior to age 18.

Indicator 4.6: Eligible youth placed in a private child-care facility that do not have a GED prior to placement obtain one while in placement.

Indicator 4.7: Eligible youth placed in a private child-care facility that do not have a high school diploma obtain one while in placement.

Indicator 4.8: Youth placed in the centers demonstrate educational progress through standardized testing procedures.

Objective 5: To provide effective rehabilitative services to 120 youth (average daily population) in a community group home setting enabling these youth to reintegrate into the community.

Indicator 5.1: The number of youth running away from the homes is limited to a percent of the total number placed in group homes per year.

Indicator 5.2: Youth placed in the group homes for six months or more before their 18th birthday complete the required program prior to attaining age 18.

Indicator 5.3: Youth that complete the program in a group home and return to the community attain age 18 without additional placement outside the home.

Indicator 5.4: Youth that complete a group home program and return to the community have no additional public offense convictions (excluding traffic violations) prior to age 18.

Indicator 5.5: Youth that complete a group home program and return to the community have no additional public offense convictions more serious than the ones convicted of prior to placement prior to age 18.

Indicator 5.6: Eligible youth placed in a group home that do not have one obtain a GED or high school diploma while in placement.

Indicator 5.7: During their stay, youth placed in a group home have a job in the community or are involved in group home sponsored work projects that generate income for the youth or the youth activity fund.

Indicator 5.8: Youth placed in the centers demonstrate educational progress through standardized testing procedures.

Objective 6: To protect the public and serve the state criminal justice system by securely holding youth in regional juvenile detention centers or by placing appropriate youth in a non-secure alternative to detention programs.

Indicator 6.1: Number of escapes from secure detention facilities.

Indicator 6.2: Injuries to youth while in secure detention are no higher than a rate per 100 admissions.

Indicator 6.3: Additional offenses committed by youth placed in a non-secure detention alternative remain below a rate per 100 youth placed in the alternative placement.

Indicator 6.4: A rate per 100 youth placed in non-secure alternative programs runs away.

Indicator 6.5: Youth under the detention care and custody of the Department appear in court as ordered.

Indicator 6.6: Juveniles admitted to Department detention programs, selected in random surveys, report that they believed they were in a “safe” environment while under the detention custody of the Department.

Indicator 6.7: Juveniles admitted to department detention programs, selected in random surveys, report that they were treated appropriately by staff while under the detention custody of the Department.

Transportation Motor Carrier Program

The Transportation Motor Carrier Program submitted one mission, 4 objectives, and 11 performance indicators as part of its budget submission. None of the objectives were specific, measurable, or expressed an attainment date. All objectives included at least one performance indicator that sets an outcome target.

It should be noted that all of the performance indicators submitted by the Transportation Motor Carrier Program follow the criteria for a measurable and time bound objective. For example, Indicator 1.1 states: “Have 15% of all International Fuel Tax Agreement (IFTA) tax filers submitting returns electronically by the end of fiscal year 2004”. A better way to report the information would have been to use this indicator as an objective, and develop a more simplified performance indicator. For example, an appropriate outcome indicator for this objective would be: The number or percentage of International Fuel Tax Agreement (IFTA) tax filers submitting returns electronically.

The performance information submitted to GOPM is as follows:

Mission: The Division of Motor Carriers strives to provide an expedient, efficient, and economical way to administer tax collections and the issuance of credentials, licenses, and permits for our customers in the motor carrier industry.

Objective 1: Continue to add more of the Division’s processes to the Internet and increase the number of web filings made to the Division.

Indicator 1.1: Have 15% of all International Fuel Tax Agreement (IFTA) tax filers submitting returns electronically by the end of fiscal year 2004.

Indicator 1.2: Have 15% of all weight distance tax filers submitting returns electronically by the end of fiscal year 2004.

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Indicator 1.3: Have 10% of all International Registration Plan (IRP) registrants using the Internet to renew their fleet(s) by the end of fiscal year 2004.

Indicator 1.4: Issue 50% of all Kentucky Highway Use (KYU) credentials over the Internet by the end of fiscal year 2004.

Indicator 1.5: Develop an Overweight/Over-dimensional (OW/DD) Internet permitting system by the end of fiscal year 2004.

Indicator 1.6: Develop a Kentucky Intrastate Tax (KIT) Internet tax filing system by the end of fiscal year 2004.

Indicator 1.7: Develop an electronic interactive trucking application using the Internet by the end of fiscal year 2004.

Objective 2: Timely pursue the collection of delinquent taxes and fees.

Indicator 2.1: Increase the amount collected from bond demands by 25% by the end of fiscal year 2004.

Objective 3: Administer the Division's automated and manual systems in an efficient manner.

Indicator 3.1: Decrease the amount of space for the Kentucky Highway Use (KYU) files by 20% by the end of fiscal year 2004. Notes: This filing system contains approximately 83,000 files and can be reduced by discarding KYU files of motor carriers no longer in business and greater than 5 years old. Also, we will purge records more than 5 years old in our active motor carrier files.

Indicator 3.2: Reduce the uncollectables on the Accounts Receivable program by 30% by the end of fiscal year 2004. Notes: Uncollectables on the Accounts Receivable program consist of bankruptcies, carriers out of business, audit protest, reinstatement penalties, and jeopardy assessments.

Objective 4: Timely process applications and issue credentials that have been properly filed.

Indicator 4.1: Process 98% of all December 31st renewal applications by that date of each calendar year. Notes: Renewal applications consist of all interstate and intrastate operating authority, IFTA fuel tax KIT fuel tax licenses, Kentucky Regulated (household goods carriers, taxis, limos, airport shuttle, disabled persons vehicles), and solid waste transport licenses.

GOT Infrastructure Services Program

The GOT Infrastructure Services Program submitted one mission, 5 objectives, and 32 performance indicators as part of its budget submission. None of the objectives were specific, measurable, or expressed an attainment date. All objectives included at least one performance indicator that sets an outcome target.

The majority of performance indicators submitted by the GOT Infrastructure Services program were essentially broad goals. Although we know from discussions with program officials that targets for each indicator are being reported, users of the performance information may not realize this. For example, Indicator 1.3 states: "Increase availability of OS390 server". A better approach would have been to add some measurability and timeframes and develop an objective. For example, the objective could state: "Increase the availability of the OS390 server by 35% for FY03". A corresponding performance indicator could be: "Time that the OS390 server is available".

Findings and Recommendations

The performance information submitted to GOPM is as follows:

Mission: To provide a scalable, reliable, cost effective, and secure IT infrastructure.

Objective 1: Meet the expectation of infrastructure availability in support of agency requirements.

Indicator 1.1: Increase availability of GOT Wide Area Network (WAN).

Indicator 1.2: Decrease number of outages effecting 25% or more of the state.

Indicator 1.3: Increase availability of OS390 server.

Indicator 1.4: Increase availability of NT/UNIX server.

Indicator 1.5: Increase availability of enterprise messaging per criteria of established Service Level Agreements (SLAs).

Indicator 1.6: Increase availability of the Internet per criteria of established SLAs.

Objective 2: Provide a cost effective infrastructure that meets the needs of our customers.

Indicator 2.1: Decrease mainframe rated costs.

Indicator 2.2: Decrease network infrastructure costs.

Indicator 2.3: Increase percentage of favorable review of OIS services as determined by customer feedback.

Indicator 2.4: None provided.

Indicator 2.5: Increase monthly meetings with customer contact for issue resolution.

Objective 3: Enhance security awareness through staff development, training, and increased communications.

Indicator 3.1: Number of security assessments performed per month.

Indicator 3.2: Number of physical/badge/unattended PC security issues identified at GOT facilities on a monthly basis .

Indicator 3.3: Number of enterprise password audits performed annually.

Indicator 3.4: Decrease percent of passwords not meeting acceptable standards.

Indicator 3.5: Increase number of GOT staff participating in semi-annual security seminars.

Indicator 3.6: Increase percentage of major cabinets participating in semi-annual security seminars.

Indicator 3.7: None provided.

Indicator 3.8: Increase number of agencies reporting security incidents.

Objective 4: Develop a support/service strategy and program for firewalls.

Indicator 4.1: Decrease number of web defacements on sites inside the Internet firewall systems.

Indicator 4.2: Increase number of web servers managed proactively by GOT staff on behalf of customers in order to reduce vulnerabilities.

Indicator 4.3: Increase number of firewall managed by GOT on behalf of customers.

Indicator 4.4: Increase number of server farms protected by firewalls.

Objective 5: Increase utilization of shared services through proactive education of customers and eliminating redundancies by providing enterprise solutions for all state agencies.

Indicator 5.1: Increase number of customer visits educating customers on shared services.

Indicator 5.2: Increase agencies using shared RJE operations.

Indicator 5.3: Increase electronic messaging users excluding K-12.

Indicator 5.4: Reduce number of non-GOT executive branch agency-maintained e-mail services.

Indicator 5.5: Reduce number of personnel providing RJE support for state government executive branch.

Indicator 5.6: Consolidate telephone maintenance for agencies participating as a new shared service offering.

Indicator 5.7: Increase number of servers maintained as a new shared service.

Indicator 5.8: Consolidate agencies with remote access servers.

Indicator 5.9: None provided.

Performance Information Was Condensed for the Governor’s Budget Request

The performance information submitted to GOPM as part of the budget submission process was not included in its entirety in the Governor’s Budget Request for 2002-2004. Officials from the pilot budget units stated that GOPM encouraged them to choose the “top three” objectives for inclusion in the Governor’s budget. GOPM officials stated that too much information in the Governor’s Request could be confusing.

GOPM reported four missions, 11 objectives, and 29 performance indicators for all four pilots. The Natural Resource Forestry Program was the only program that reported measurable objectives (2 or 18% of total). All of the objectives reported for the pilot budget units included at least one outcome indicator.

The following performance information was included as part of the Governor’s official budget request:

Natural Resources Forestry Program

Mission: Protect and enhance Kentucky’s forest resources by:

- Providing environmental leaderships and expertise.
- Shaping a vision for the sustainability of Kentucky’s forests.
- Serving as a bridge linking Kentucky’s citizens, government, and forest industry.
- Monitoring forest trends and anticipating needs.

Objective #1: By June 30, 2007 decrease the number of Kentucky’s acres burned from forest fires by 20% from the ten-year average.

Performance Indicator 1.1: The number of acres burned each year due to wildland fires.

Objective #2: Increase landowner participation of forest stewardship activities by 10% over five years (2001 baseline year).

Performance Indicator 2.1: The number of landowners participating in forest stewardship activities annually.

Performance Indicator 2.2: The percentage change in the number of new landowners participating in forest stewardship activities.

Performance Indicator 2.3: The number of acres improved through forest stewardship activities.

Objective #3: Increase citizen participation in activities that enhance water quality.

Performance Indicator 3.1: The number of master loggers, including new and redesignations annually.

Performance Indicator 3.2: The annual increase in the number of forest stewardship/management plans.

Performance Indicator 3.3: The number of inspections of known timber harvesting operations.

Juvenile Justice Program Operations

Mission: Promote public safety by providing balanced, comprehensive services that hold youth accountable, and provide the opportunity for youth to develop into productive, responsible citizens.

Objective #1: To effectively supervise and treat 2,300 (average daily population) residing in the community who are committed or probated by the courts to the care and

supervision of the Department for Juvenile Justice.

Performance Indicator 1.1: Percentage of contact for committed or probated juveniles out of the home on a monthly basis.

Performance Indicator 1.2: Youth that complete the program in a youth development/treatment center and return to the community attain age 18 without additional placement outside the home.

Performance Indicator 1.3: Probated or committed youth residing in the community are enrolled in an educational program or are gainfully employed.

Performance Indicator 1.4: Youth that complete a residential program and return to the community have no additional public offense convictions more serious than the ones convicted of prior to placement while remaining committed to the Department for Juvenile Justice.

Objective #2: To effectively provide treatment and educational opportunity to 600 (average daily population) youth in state-operated and contracted day treatment programs.

Performance Indicator 2.1: Youth assigned to day treatment programs completing the program.

Performance Indicator 2.2: Youth assigned to day treatment are not placed out of the home while enrolled in the day treatment program.

Performance Indicator 2.3: Youth that never have placed out of home, excluding foster care, and complete a day treatment program are not placed outside the home within one year of completing the program.

Performance Indicator 2.4: Youth assigned to day treatment programs show an increase in school attendance during the day treatment program period compared to a one-year period prior to assignment to the program.

Objective #3: To protect the public and provide rehabilitative treatment services to 900 (average daily population) youth removed from the community and placed in a state-operated or privately contracted residential programs.

Performance Indicator 3.1: Escapes from the centers are limited to a maximum percent of those placed per year in the youth development/treatment center system.

Performance Indicator 3.2: Youth placed in the centers none months or more before their 18th birthday complete the required program prior to attaining age 18.

Performance Indicator 3.3: Youth that complete the program in a youth development/treatment center and return to the community attain age 18 without additional placement outside the home.

Performance Indicator 3.4: Youth that complete a residential program and return to the community have no additional public offense convictions more serious than the ones convicted of prior to placement prior to age 18.

Transportation Motor Carrier Program

Mission: Provide an expedient, efficient, and economical way to administer tax collections and the issuance of credentials, licenses, and permits for our customers in the motor carrier industry.

Objective #1: Continue to add more of the Division's processes to the Internet and increase the number of web filings made to the Division.

Performance Indicator 1.1: Have 15% of all International Fuel Tax Agreement (IFTA) tax filers submitting returns electronically by the end of the fiscal year 2004.

Performance Indicator 1.2: Develop an Overweight/Over-dimensional (OW/OD) Internet permitting system by the end of fiscal year 2004.

Performance Indicator 1.3: Develop a Kentucky Intrastate Tax (KIT) Internet tax filing system by the end of fiscal year 2004.

Objective #2: Timely pursue the collection of delinquent taxes and fees.

Performance Indicator 2.1: Increase the amount collected from bond demands by 25% by the end of fiscal year 2004.

GOT Infrastructure Services Program

Mission: Provide a scalable, reliable, cost effective, and secure information technology infrastructure.

Objective #1: Meet the expectations of infrastructure availability in support of agency requirements.

Performance Indicator 1.1: Increase availability of the Wide Area Network (WAN).

Performance Indicator 1.2: Decrease the number of outages affecting 25% or more of the state.

Objective #2: Enhance security awareness through staff development, training, and increased communications.

Performance Indicator 2.1: Number of security assessments performed per month.

Performance Indicator 2.2: Decrease the percent of passwords not meeting acceptable standards.

Objective #3: Increase utilization of shared services through proactive education of customers and eliminating redundancies by providing enterprise solutions for all state agencies.

Performance Indicator 3.1: Increase the number of agencies using shared Remote Job Entry (RJR) operations.

Performance Indicator 3.2: Reduce the number of personnel using RJE support for the Executive branch of state government.

In addition to submitting the Performance Budgeting Pilot Forms, pilot budget units also submitted quantitative information in the Program Narrative/Documentation Records (A-4 and B-4 Forms). According to GOPM and officials from the pilot budget units, this type of information is different from the performance information submitted in the pilot forms and should continue to be developed and reported separately. Although they agreed that there could be potential for duplication, the consensus was that this type of information is an important component of the budget submission.

Examples of information reported on the A-4 and B-4 forms for the pilot budget units for FY 2002-2004 are as follows:

Natural Resources Forestry Program:

- Landowners Assisted
- Communities Assisted Stewardship Plan Acres
- Fires Suppressed
- Acres Burned

Juvenile Justice Program Operations:

- Youth Development Centers
- Group Homes
- Private Child Care
- Detention

Transportation Motor Carrier Program

- Fuel Surtax
- Weight Distance Tax
- Truck Apportion Registration
- Kentucky Share (SSRS)

GOT Infrastructure Services Program

- Customer Support Calls
- Network Connected Devices
- Local Area Networks
- E-mail Users

Reporting Information on the Program Narrative and Documentation Records May Cause Confusion

Legislative Feedback on the Development of Performance Information Was Lacking

Although the information reported in the A-4 and B-4 forms is generally different in that it represents isolated input and output measures, the chance of confusing readers of both sets of forms exists. A better approach would be to combine the traditional A-4 and B-4 forms with the new performance budgeting pilot forms. According to an official from GOPM, this could be done, but would require some work and technical expertise to include both sets of information on one form.

Although the pilot budget units worked with GOPM budget analysts to develop their performance information, there was little interaction with LRC budget and appropriations staff. This is unusual given that the performance based budgeting pilot program was established as a legislative initiative during the 2000 Regular session. States such as Texas and Louisiana that are successfully implementing performance based budgeting have established frameworks that include interaction and feedback from agency, legislative, and executive budget staffs.

According to LRC, staff has not historically taken active roles in policy-making groups, committees, or task forces. Typically, they will wait until they receive direction from leadership before becoming involved. In addition, LRC stated that if they became too involved with the development of performance information, there might be a conflict of interest when they have to review agency budget submissions.

Although we understand the need for agencies to determine their own performance targets, it is still important for legislative staff to interact with GOPM and the pilot agencies to communicate the types of performance information that legislators may wish to see reported in the budget submissions. Such interaction helps to ensure that appropriations committees are seeing the type of information needed to make funding decisions. It also helps to inspire a collective attitude which recognizes the importance of performance based budgeting to achieve better informed, more rational, and more accountable budget decisions.

Finally, GOPM, the Legislature, and pilot budget units should be discussing how performance information could ultimately be used. For example, should performance information be reported only as part of an agency's budget submission, or should it be included in various legislative budget memoranda and ultimately the final budget bill? Before decisions like these can be made, there has to be a discussion of the pros and cons related to all aspects of performance based budgeting.

Conclusion

GOPM and the pilot budget units are taking successful steps to ensure that performance based budgeting becomes an integral part of the Commonwealth's budget process. In addition, enhanced involvement by the legislative branch will add valuable feedback to ensure greater success.

Recommendations

1. The General Assembly should expand the performance based pilot project to require all agencies to submit performance information using the newly developed GOPM forms.
2. GOPM should produce quarterly reports to show how the \$750,000 in the *Performance Budgeting Pilot Project Fund* is being spent.
3. GOPM should consider reimbursing the pilot budget units for extraordinary costs incurred to submit their performance-based budget.
4. GOPM should continue to work with agencies to develop and report consistent performance information.

Findings and Recommendations

5. GOPM should work towards combining the performance indicators reported in the traditional A-4 and B-4 forms with information in the new performance budgeting pilot forms.
6. Legislative budget and appropriations staff should become more involved with the development of performance information for all agencies.
7. GOPM, pilot budget units, and LRC staff should regularly meet to discuss the progress of the performance based budgeting pilot project. They should also discuss the pros and cons of including performance information in legislative budget memoranda and the budget bill.

Auditor of Public Accounts Information

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Obtaining Audit Reports

Copies of this report or other previously issued reports can be obtained for a nominal fee by faxing the APA office at 502-564-2912. Alternatively, you may

order by mail: Report Request
 Auditor of Public Accounts
 144 Capitol Annex
 Frankfort, Kentucky 40601

visit : 8 AM to 4:30 PM weekdays

email: Hatchett@kyauditor.net

browse our web site: <http://www.kyauditor.net>

Services Offered by Our Office

The staff of the APA office performs a host of services for governmental entities across the commonwealth. Our primary concern is the protection of taxpayer funds and furtherance of good government by elected officials and their staffs. Our services include:

Performance Audits: The Division of Performance Audit conducts performance audits, performance measurement reviews, benchmarking studies, and risk assessments of government entities and programs at the state and local level in order to identify opportunities for increased efficiency and effectiveness.

Financial Audits: The Division of Financial Audit conducts financial statement and other financial-related engagements for both state and local government entities. Annually the division releases its opinion on the Commonwealth of Kentucky's financial statements and use of federal funds.

Investigations: Our fraud hotline, 1-800-KY-ALERT (592-5378), and referrals from various agencies and citizens produce numerous cases of suspected fraud and misuse of public funds. Staff conducts investigations in order to determine whether referral of a case to prosecutorial offices is warranted.

Training and Consultation: We annually conduct training sessions and offer consultation for government officials across the commonwealth. These events are designed to assist officials in the accounting and compliance aspects of their positions.

General Questions

General questions should be directed to Harold McKinney, Intergovernmental Liaison, at (502) 564-5841 or the address above.