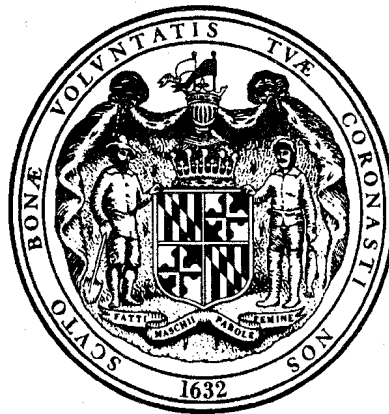


Performance Audit Report

**Department of Budget and Management
Managing for Results Initiative**

Initiative as Implemented is Not an Effective Decision Making Tool

January 2004



Office of Legislative Audits
Department of Legislative Services
Maryland General Assembly

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

January 13, 2004

Delegate Van T. Mitchell, Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted a performance audit to determine to what extent the Managing for Results initiative (MFR) has become part of the statewide and agency decision making processes. We also reviewed a Department of Budget and Management (DBM) report estimating the fiscal year 2002 costs for MFR spending. We conducted this audit, and reviewed the DBM report, in response to a request made in April 2003 by the Chairmen of the Senate Budget and Taxation Committee and the House Committee on Appropriations.

MFR has been designed to shift the culture of State government management to focus on measuring and achieving results, rather than primarily focusing on processes. Although it could be a valuable planning and budgeting tool, our audit results indicate that MFR is not being effectively used by DBM in the statewide budget process, or by agencies in formulating budgets or administering and implementing programs. A lack of application of MFR concepts to budget issues and agency operations by both DBM and State agencies has significantly decreased MFR's value in managing State government. Specifically, although MFR information is collected annually by DBM during the budget preparation process, DBM was frequently unable to demonstrate that MFR results affected budget recommendations. In many cases, the information was submitted late in the budget review process. This is significant because DBM estimated in its report that the State incurred \$1.9 million in MFR direct operating costs during fiscal year 2002, which, according to our review, appears to be understated.

State agencies that we reviewed generally did not document the use of MFR as a budgeting and operational management tool. Although MFR results are to be accumulated and monitored throughout the year, our audit disclosed that minimal, if any, monitoring by State agencies was occurring, except at fiscal year-end for budget submission preparation purposes.

Even if effective ongoing monitoring of MFR results was put in place by agencies, the value of the data is questionable due to reliability issues. Specifically, DBM does not require agencies to provide assurance or document that appropriate processes are in place to ensure the accuracy of the MFR submissions, and our separate audits of certain agencies' MFR data, conducted over the past several years, raised significant concerns about data reliability.

An executive summary can be found on page 5 of the report. Our audit objectives, scope, and methodology are explained on page 13.

We wish to acknowledge the cooperation extended to us during our audit by DBM and the agencies selected for review.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

Background

We conducted an audit to determine to what extent the Managing for Results (MFR) process has become part of statewide decision making. We also reviewed for reasonableness a report, prepared by the Department of Budget and Management (DBM), of fiscal year 2002 Statewide MFR cost data. This performance audit, as well as the review of the cost data, was requested by the Chairmen of the Senate Budget and Taxation Committee and the House Committee on Appropriations.

MFR is a future-oriented strategic planning process begun in 1997 and phased in over a three-year period, intended to emphasize achieving measurable results in every State government program. It is intended to represent a shift in the State's management culture from one that primarily focuses on processes, to one that also focuses on results and efficiencies. The current MFR processes and policies were established under the authority of the Governor's Interagency Steering Committee for MFR, which consists of members from various State agencies. DBM is generally responsible for overseeing the routine operation of MFR and implementing statewide initiatives, mainly through the annual budget submission process. This includes reviewing and approving agencies' MFR missions, goals, objectives, and measures, and requiring the annual submission of yearly MFR performance indicators as part of the annual budget preparation process.

Conclusions

Our audit results identified a number of issues related to the implementation and the ultimate usefulness of MFR as a statewide and agency-specific strategic planning, program management, and budgeting tool. For the most part, we noted no direct documented link between MFR results and strategic planning, or the allocation of appropriations during the budget process. Although in some isolated cases MFR results seemed to impact an agency's budget request, generally, MFR data appear to be seen as statistical data included in the budget documents for informational purposes. For agencies we reviewed, we generally noted that they could not document the use of MFR to monitor program performance, but instead, MFR data were gathered and reported, usually at fiscal year end, to simply comply with DBM budget submission instructions. At a DBM estimated cost of \$1.9 million for fiscal year 2002, MFR's cost effectiveness and current value to the State appears limited. In addition, these estimated costs appear to be understated. The failure to fully implement MFR raises questions as to whether the State government is committed to results-based management and budgeting.

Objective 1 – Adequacy of DBM’s Oversight of MFR and Use of MFR Data in Budget Recommendations

Our audit disclosed that certain MFR implementation and operational issues need to be addressed, and centralized oversight of MFR could be improved.

Overview of Major Findings – Objective 1	
Problem Area	Comments / Examples
MFR Was Not Formally Linked to the Budget and Statewide Planning Processes	Although MFR objectives and measures have been created for what are deemed critical State agency functions and programs, and have been incorporated by DBM into the annual budget submission process, there is no effective link between MFR and budget recommendations. DBM’s guidebook envisions the use of MFR data in a constrained fiscal environment to provide justification for the allocation of limited resources. In theory, using MFR, various State missions and programs would be identified and prioritized, with MFR being used to determine success and justify allocating limited resources. (Finding 1)
	MFR has not been linked to statewide strategic planning as was intended when it was originally conceived. Such an omission is all the more critical now, given the State’s unfavorable financial condition. (Finding 2)
Success of MFR Initiative Has Not Been Evaluated	MFR has existed since 1997 and has been fully operational since 2001, yet DBM has not analyzed the success of the initiative. Such an analysis could not be performed since about half of the State agencies had not developed outcome measures for fiscal year 2002, which typically provide the best information for gauging program effectiveness. (Finding 3) Many reported results were not measured in a manner consistent with the related agency objectives. (Finding 4)
Critical MFR Elements Were Not Submitted as Required and the Number of Measures Was Excessive	Agencies often did not submit strategies with the MFR submissions to identify courses of action to achieve goals and objectives. In addition, in the fiscal year 2004 budget requests, almost two-thirds of the agencies had not submitted a required critical document that discussed recent program performance and quantified that performance. (Finding 5)
	DBM could better manage the number of performance measures or other MFR indicators. For example, one agency submitted 18 agency-wide goals and 135 related performance measures. These significantly exceeded DBM’s MFR guidelines of 8 agency goals and 10 related measures. In addition, this agency submitted 2,000 performance measures related to its individual programs. The large number of measures could overload users of the data and hamper the usefulness of MFR. (Finding 6)
Assurance Was Lacking that Annual MFR Submissions Were Reliable	Agencies were not required to provide DBM with assurances regarding the accuracy or reliability of the annual MFR data submissions. MFR guidelines require agencies to have quality assurance processes in place to ensure the accuracy, reliability, and validity of MFR data. However, we noted that agencies are not required to give DBM assurances of adequate system controls or descriptions of the controls in place over MFR data collection and reporting. In addition, the results of our past audits of selected MFR measures have disclosed a general lack of data reliability. (Finding 7)

Objective 2 – Adequacy of Agency MFR Data Development Processes and Routine Use in Program Evaluation

Our review of the MFR process, as implemented by four judgmentally-selected State agencies, indicates that agencies have established DBM approved MFR goals, objectives, and other components of MFR, and are compiling and reporting annual MFR results; however, they frequently were not in compliance with certain MFR guidelines, such as the requirement to develop program strategies and action plans, and could not document the usage of the performance data as a management tool. (Finding 8) In addition, agencies frequently did not submit MFR information to DBM in a timely manner, possibly precluding users of MFR information from having adequate time to consider the effect of MFR information on agency budget requests. (Finding 9)

Reasonableness of DBM Reported Fiscal Year 2002 MFR Costs

Our review indicated that DBM estimated MFR costs based on State agencies' self-reporting. We found that, although the cost estimates were not verified by DBM, the original DBM-prepared survey to be used by agencies to develop their individual cost estimates was comprehensive and well thought out. DBM did disclose in its report to the General Assembly that the estimate was based on self-reporting agency data, as well as DBM's lack of verification. Furthermore, because DBM only required agencies to report personnel costs when at least 20 percent of an employee's time was spent on MFR, these estimated costs appear to be understated. Accordingly, we concluded that the submitted report was not misleading; but given its acknowledged reliability limitation, we could not determine its reasonableness.

Recommendations

We believe that the MFR concept could be a positive force for better managed State government, and that this Executive Department initiative is well meaning and could be a valuable planning and budgeting tool, especially in times of financial distress. However, before MFR can be shown to be truly useful, certain corrective actions must be taken. Specifically, DBM must formally use MFR in statewide strategic planning as envisioned at MFR's inception, and must formally link MFR to the annual budget. It will also be necessary for DBM to ensure that all critical MFR elements are properly implemented, and that the performance measures are controlled and properly linked to agency and statewide desired outcomes. Finally, agencies will have to adhere to MFR guidelines, develop appropriate system controls to ensure data reliability, and use MFR data to assess program success and performance as intended.

Background Information

Managing for Results History and Description

In 1997, the State implemented its Managing for Results (MFR) process in order to help government better address the needs of the citizens of Maryland. MFR was introduced to agency leadership as a strategic planning process to help officials set goals, objectives, and performance measures for programs, and to assess the results of those programs. MFR was intended to help leaders determine the effectiveness of programs, make decisions regarding agency priorities, and allocate resources as part of the annual budget cycle.

The Governor created an interagency steering committee and tasked the Department of Budget and Management (DBM) with the responsibility of designing and implementing MFR. The committee and DBM developed the initiative in consultation with University of Baltimore faculty and other public policy officials. The Governor issued a MFR guidebook for agencies to use beginning with the fiscal year 1999 budget request. According to budget instructions issued in 1997, MFR was to be phased-in over a three-year period, initially starting with elements on an agency-wide basis and then expanding that to greater detail at the programmatic level.

Unlike performance improvement initiatives for federal agencies and many other states, Maryland's MFR is not grounded in statute or an executive order. Therefore, although DBM functioned as the MFR administrator, specific use of MFR by the Governor and the General Assembly in the State's budget decision-making process is not mandated.

Since 1997, the *Managing for Results Guidebook* and annual budget instructions have been the primary methods used by DBM to implement the State's MFR process, with much of the responsibility for the effective use of MFR delegated to agencies. The budget instructions require that specific MFR information be incorporated into each agency's budget request, for DBM review and approval of the MFR data. Furthermore, the budget instructions require agencies to establish adequate system controls and processes to ensure the accuracy and reliability of published MFR data.

At our request, DBM estimated that the number of total published MFR measures for fiscal year 2004 exceeded 8,900 for 64 State departments and agencies. For MFR purposes, certain individual agencies on a budgetary basis are consolidated (for example, the Department of Health and Mental Hygiene is considered one agency for MFR purposes.)

Past Audit Coverage

In response to a request from the legislative budget committees, during the period from fiscal year 2001 to fiscal year 2003, the Office of Legislative Audits audited selected agency performance measures. These audits were conducted under an arrangement whereby the Department of Legislative Services' Office of Policy Analysis annually selected the agencies and specific measures for audit. The results of these past audits have shown a general lack of data reliability, with approximately 60 percent of the measures audited found to have inadequate data accumulation and/or reporting control processes in place, or the reported data were judged to be incorrect. These annual audits were discontinued in anticipation of this performance audit.

Fiscal Year Results Audited	Number of Agencies	Number of Individual Measures	Number (%) of Measures Deemed Unreliable
2000	8	56	24 (43%)
2001	6	44	34 (77%)
2002	4	20	18 (90%)
Total	18	120	76 (63%)

Past Proposed Legislation

During the 2003 legislative session, Senate Bill 511 was introduced, according to the related fiscal and policy note, to establish a Managing for Results Strategic Planning Committee for the purpose of developing an MFR State comprehensive plan to improve and preserve State resources. In addition, State agencies were to be required to develop an MFR agency strategic plan. Although the bill did not pass, the Chairmen of the Senate Budget and Taxation Committee and the House Committee on Appropriations requested the Office of Legislative Audits to conduct a performance audit of the MFR process. In addition, they requested DBM to consider reforming the MFR process to address a number of concerns that contributed to the submission of the aforementioned legislation. DBM was to consider the following specific issues:

- Restructuring the steering committee to develop a smaller body with representatives from the legislature and customers of State government services, with a focus on broad statewide goals
- Reducing the number of measures reported and improving data relevancy and reliability

- Increasing the reporting frequency of performance outcomes to the steering committee and legislative committees to better determine progress on statewide goals
- Improving budget instructions and procedures regarding use of MFR data to develop agency budget requests and the Governor's allowance, and manage everyday operations in the agencies

The resultant DBM report was submitted on September 3, 2003, and generally concurred with the Chairmen's concerns and suggested actions; see Exhibit 3.

It should be noted that the fiscal note for Senate Bill 511 commented that the State's MFR lacked a statutory basis to give it permanence and direction. Specifically, the present MFR is based on an initiative established under a previous administration. In contrast, the Council of State Governments, in its *Book of States 2003*, noted that 33 states had legislatively mandated the use of MFR as of 1999. In addition, the Federal government, under the Government Performance and Results Act of 1993, implemented performance-based government at the Federal level.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to determine to what extent the MFR process has become part of the statewide decision making process. We audited the State's administration of MFR and performance information developed by selected agencies. This audit was conducted in response to a request made in April 2003 by the Chairmen of the Senate Budget and Taxation Committee and the House Committee on Appropriations. We conducted the audit under the authority of the State Government Article, Section 2-1221 of the Annotated Code of Maryland, and performed it in accordance with generally accepted government auditing standards (GAGAS).

We also reviewed the fiscal year 2002 MFR cost estimates developed by the Department of Budget and Management (DBM). The review of cost estimates, which was also requested by the Chairmen of the Senate Budget and Taxation Committee and the House Committee on Appropriations, did not constitute an audit and was not conducted in accordance with GAGAS.

Objectives

We had two specific audit objectives:

- (1) To evaluate the procedures used by DBM to request MFR data from executive branch agencies, and to determine how DBM used agency MFR information to make budget recommendations.
- (2) To determine how selected agencies developed MFR data when developing budget requests, and used MFR data throughout the year while administering and implementing programs.

Our audit objectives did not include an assessment of the appropriateness of individual agency missions, goals, and objectives. In addition, we did not assess the reliability of any reported agency performance measures reviewed as part of the audit.

Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations, as well as policies and procedures established by DBM and selected State agencies. We also interviewed personnel at DBM, selected agencies who submitted MFR information as part of the budget request, past and present members of the Governor's Interagency Steering Committee for MFR, and consultants from the University of Baltimore's Schaefer Center for Public Policy who were instrumental in the design and development of the State's MFR initiative. We obtained and

audited fiscal year 2003 and 2004 MFR and budget information provided by DBM. We also reviewed relevant reports published by the United States General Accounting Office, the National Conference of State Legislatures, the Council of State Governments, and other states. Finally, we reviewed DBM's report of proposed MFR reforms that was issued on September 3, 2003 in response to a request made in April 2003 by the Chairmen of the Senate Budget and Taxation Committee and the House Committee on Appropriations.

Agency Selection Process

Specific State agencies chosen for review and testing were judgmentally selected based on one or more of the following criteria: (1) DBM recommendation based on perceived existence of best practices, (2) past audit findings in the MFR area, and/or (3) significant budget decisions made in fiscal year 2003 and 2004. The following four agencies were selected for review and testing:

- Department of Business and Economic Development
- Department of Human Resources
- Department of State Police
- Office of the Public Defender

Fieldwork and Agency Responses

We conducted our fieldwork from June to October 2003. DBM's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DBM regarding the results of our review of its response.

Findings and Recommendations

Conclusion

MFR is not being effectively used by DBM in the statewide budget process. In addition, the State agencies reviewed generally could not document the usage of MFR when formulating budgets, or for administering and implementing ongoing operations. The State had no current comprehensive statewide strategic plan, and as a result, agencies could not ensure that agency plans aligned with the overall direction of the State. In addition, the State agencies reviewed often did not develop all required components of MFR, such as program strategies and action plans, and did not submit MFR information to DBM in a timely manner for review and comment when making budget recommendations.

DBM Oversight and Usage of MFR Data

Finding 1

Evidence does not support that MFR information was routinely used to make key specific budget recommendations.

Analysis

While DBM budget analyst instructions required a link between MFR objectives, related performance data, and the budget requests submitted by agencies, our audit disclosed that DBM generally did not use the MFR information to make key budget recommendations. Specifically, based on our tests, we noted that the analysts did not formally document the link between requested and recommended budget amounts and related MFR objectives and results because the budget analyst instructions did not provide guidance on this requirement. In response to concerns about linking MFR information with budget requests, DBM made enhancements to the analyst instructions related to this issue, effective for the fiscal year 2005 budget. We were not able to review the impact of these changes since DBM had not yet received or analyzed the budget submissions for fiscal year 2005 during our audit.

We reviewed DBM documentation for eight significant funding recommendations totaling \$52 million which were made during fiscal years 2003 and 2004 and were applicable to the four agencies audited. Our review disclosed that DBM documented the effect of MFR information for only three of the recommendations. In addition, our review of the fiscal year 2004 statewide \$208 million budget reduction, implemented by the Executive Department as a result of the State's budget shortfall, disclosed that there was no evidence to suggest that MFR objectives or related performance data were formally considered in the decision-making process.

Subsequent to the end of our fieldwork, at DBM's request, we reviewed additional funding recommendations made by DBM analysts for fiscal years 2003 and 2004. DBM provided the additional documentation in an effort to demonstrate the use of specific MFR information for funding recommendations. Our review of 43 funding recommendations for two large departments revealed that, for over one half of the budget recommendations, the budget analyst concluded that MFR was not considered when making budget recommendations or had no impact on the recommendations. These funding recommendations were often for significant amounts. For example, for one agency in fiscal year 2004, there were 13 funding recommendations affecting approximately \$41 million in general funds. Since MFR is intended to be a budgeting tool, the lack of direct impact on significant funding recommendations suggests that MFR is not critical for budget decision making.

The Council of State Governments' *Book of the States 2003* noted that DBM, in response to a Council survey, indicated that Maryland did not use performance measures to aid in the formation of the budget, denoting the absence of a critical link between strategic planning and allocating resources.

Recommendation 1

We recommend that DBM make full use of MFR information when analyzing agency budget requests, and fully document its effect on the resultant funding recommendations.

Finding 2

Statewide strategic planning was not formally incorporated into MFR on an ongoing basis.

Analysis

MFR requirements did not formally link comprehensive statewide strategic planning to the budget process, and did not ensure that agencies linked key program goals to statewide priorities. A strategic plan represents a long-term process to determine how to use limited resources to accomplish certain goals, and is often linked in other states to respective MFR initiatives. Although DBM's MFR webpage states "*Maryland Managing for Results (MFR) is a future-oriented strategic planning process that emphasizes achieving measurable results in every State government program based on customer and stakeholder needs,*" we were not able to locate any other documentation outlining such an intent. Specifically, neither the *Managing for Results Guidebook* nor the annual budget instructions anticipate or require the preparation of any statewide strategic plan.

In February 2002, using agency-specific data, DBM issued *Moving Maryland Forward: 2002 and Beyond, A Strategic Direction for Maryland State Government*, which was intended to represent a statewide strategic plan. This publication was essentially a collection of fiscal year 2001 agency-based goals, objectives, and measures, which resulted in the development of statewide goals using certain pre-existing agency MFR goals and objectives; as a result, there was a link to agency budget submissions for fiscal year 2001. Our review of strategic planning as practiced by other states found that Maryland appeared unique using the agency-specific MFR goals as the basis, instead of first setting higher level goals and objectives, and establishing agency specific actions and plans necessary to achieve those statewide goals. Furthermore, since DBM did not formally incorporate this document in the annual budget instructions, agencies were not required to formulate subsequent budget submissions based on this plan. Finally, this document has not been updated.

We also noted that the State's MFR process does not specifically require agencies to establish long-term strategic plans to achieve their key goals and objectives. Three of the four agencies audited could not document that long-term strategic plans had been established. The annual budget instructions state that agencies should use the *MFR Guidebook* for strategic planning but does not provide the methodology.

The Council of State Governments' *Book of the States 2003* states that each state agency should have a strategic plan that covers at least three years and includes analyses of background information, alternatives, costs and benefits, and specifications for implementation. The *Book* also noted that 19 states legislatively mandated strategic planning at the agency level.

Recommendation 2

We recommend that DBM, in conjunction the Office of the Governor and other interested parties, develop and periodically update a statewide strategic plan, based on input from various stakeholders. In addition, we recommend that this be formally communicated to agencies and that agencies be required to develop agency-specific strategic plans linked to both the statewide plan and agency goals and objectives.

Finding 3

DBM could not adequately determine the success of the State's overall MFR performance because many agencies did not measure program effectiveness.

Analysis

DBM did not require agencies to develop appropriate outcome measures as part of their MFR information. Since outcome measures specifically address the direct benefit customers receive from agency programs, they are necessary to determine program effectiveness. As a result, DBM could not readily determine success of the overall MFR initiative in enhancing program results.

We noted that 37 State agencies, of the approximately 70 agencies¹ for which DBM monitored MFR information for fiscal year 2002, did not provide outcome measures for DBM to subsequently use in reporting statewide statistics on meeting performance measures. According to DBM, the majority of these agencies either could not provide fiscal year 2002 results, or did not have measurable outcome-based objectives applicable to 2002. Furthermore, among the remaining agencies, DBM and its consultant have determined that, in a number of instances, measures published as outcome-based were actually other types of measures (such as output measures).

Outcome measures specifically address the direct benefit customers receive from the agency, unlike the commonly reported input and output measures, which show productivity without regard to the program's ultimate impact on or the value to customers or stakeholders being served by the agency. Although outcome measures are more difficult to develop, they arguably provide the most meaningful measure of results. Consequently, the *Managing for Results Guidebook* and DBM's annual budget instructions to the agencies require the establishment of outcome-based performance measures. In addition, the Government Finance Officers Association recommends that state governments use outcome measures to address the extent to which goals of a program have been accomplished.

Recommendation 3

We recommend that DBM work with the State agencies to develop, as practicable, relevant outcome performance measures that provide information regarding how well each agency accomplishes its goals.

¹ For MFR purposes, a number of individual agencies on a budgetary basis are consolidated (for example, the Department of Health and Mental Hygiene is considered one agency for MFR purposes.)

Finding 4

DBM did not have a process in place to ensure that published outcome measure results were measured in a manner consistent with the related agency objectives.

Analysis

DBM did not have a process to ensure that agencies' reported performance outcome measure results were measured in a manner consistent with agency objectives as stated in the MFR submissions. Our review of outcome measures included in fiscal year 2004 budget submissions disclosed a number of instances where agency objectives defined success or failure based on a percentage change. However, the related performance measures stated results in terms of numbers of incidents or other activities. Since the two pieces of information were not comparable, it was difficult for users of MFR information to determine whether agencies were meeting the stated objectives. A review of internal instructions for DBM analysts disclosed that budget analysts are not required to ensure that outcome performance measures are aligned with agency stated objectives.

Guidance issued by the Government Finance Officers Association recommends that performance measures be based on program goals and objectives. In addition, the Baldrige National Quality Program, a Federal government program that recognizes business excellence, states that reported results should address progress toward the accomplishment of key organizational goals.

Recommendation 4

We recommend that DBM modify the annual MFR instructions provided to agencies to require that all outcome-based performance measures are measured in a manner consistent with agency objectives. We also recommend that DBM amend its internal MFR review procedures to ensure that agencies comply with this requirement.

Finding 5

DBM did not ensure that agencies included all required information in the annual MFR submissions.

Analysis

DBM did not ensure that agencies submitted all required MFR information in the fiscal year 2004 budget requests. Although the annual budget instructions provided to agencies required the submission of various MFR information,

agencies often did not provide all information, and DBM did not subsequently obtain the missing documents since the budget analyst instructions did not require them to do so.

- Agencies often did not submit strategies for each program goal as required in the budget instructions. The *Managing for Results Guidebook* defines strategies as a course of action to be undertaken to achieve goals and objectives. According to information compiled by DBM for the fiscal year 2004 MFR submissions, 53 of 217 programs statewide did not include strategies. In addition, our test of 4 agencies disclosed that these agencies did not include strategies for 16 of the 56 programs.
- Only 26 of the approximately 70 agencies monitored by DBM submitted a discussion of program performance. This required document, which is not intended for publication, requires agencies to discuss recent program performance, and to quantify that performance for the most recent fiscal year. Although we frequently did not see a direct documented link between MFR and budget recommendations, DBM specifically stated that this required document would be used to assess program performance when making budget recommendations.

Recommendation 5

We recommend that DBM enforce its existing requirements for MFR submissions by ensuring that agencies submit all required documents. We also recommend that DBM modify its procedures for budget analysts by requiring them to obtain all missing documents.

Findings 6

The number of performance measures and other indicators could be better managed and controlled.

Analysis

DBM did not adequately manage the number of measures submitted by agencies in the annual MFR submissions and published in the annual budget documents. As a result, there appeared to be an excessive number of measures, making it difficult for budget analysts, both DBM and legislative, and other users of MFR data to determine critical goals, objectives, and performance measures when assessing agency performance.

Although DBM has provided instructions to agencies regarding an appropriate number of goals, objectives, and performance measures at the agency level, it has not developed guidance to help agencies determine an adequate number of program level performance measures. In addition, DBM analyst instructions did not provide specific guidance for determining if an agency reported too many program level measures.

As part of this audit, and at our request, DBM determined that it published at least 8,900 performance measures in the fiscal year 2004 budget book. Since DBM did not categorize the measures by type (that is, input, output, outcome) it could not readily determine if agencies were focusing on critical types of measures (such as outcome measures).

We noted one large department that included 18 agency goals and 135 related agency performance measures in its fiscal year 2004 budget submission. These significantly exceeded DBM's guidelines of 8 agency goals, and up to 10 agency measures. In addition, this Department's number of program-related performance measures grew from 820 in fiscal year 1999 to approximately 2,000 in fiscal year 2004. Although DBM believed this was due to increasing budgets and a fine-tuning of MFR measures, we noted the number of budgeted programs decreased from 54 to 47 in the same period.

We believe that this situation hinders the usefulness of MFR and strains State agencies' resources to reliably collect and analyze appropriate results. In its report to the General Assembly, issued in September 2003, DBM concurred that the number of measures needed to be reduced, and that measures needed to better clarify the missions of agencies.

Recommendation 6

We recommend that DBM, in conjunction with the MFR Steering Committee, develop criteria for agencies to use in determining an appropriate number of program level performance measures that are consistent with the agencies' strategic plans. We further recommend that DBM amend its analyst instructions and annual instructions to agencies to include this additional guidance, and ensure that this policy is enforced.

Finding 7**DBM did not require agencies to provide assurances regarding the reliability of MFR information provided in annual submissions.****Analysis**

DBM did not require agencies to assure the accuracy of results related to the performance measures published annually by DBM (which totaled almost 9,000 in fiscal year 2004). In addition, DBM did not establish internal procedures for use by its budget analysts to determine the accuracy of the reported measures, but basically relied on very limited auditing performed by the Office of Legislative Audits (OLA) to verify the accuracy of selected measures.

The DBM *Managing for Results Guidebook* provides specific steps for agencies to follow when developing performance measures, and states that agencies must develop processes for ensuring the accuracy and reliability of reported results. However, it does not identify steps for agencies to follow to assure data integrity, or require communication of such assurance to DBM.

We did note that, in the fiscal year 2005 budget instructions, prepared in June 2003, for the first time DBM has reminded agencies that they need to ensure that reported performance measure results are complete, accurate, and consistent. We were advised by DBM that this information was added primarily in response to OLA audit results related to the accuracy of agency submitted information, which showed that often the OLA was not able to certify agency performance measures results as accurate (OLA was unable to certify the accuracy of 63 percent of the 120 measures audited from fiscal year 2001 to 2003). The fiscal year 2005 budget instructions, however, did not require submitting agencies to certify the accuracy of the performance data and did not provide agencies with guidance for assuring the accuracy of the data. In addition, as of September 2003, DBM budget analyst procedures had not been revised to specify how analysts were to review the measures and approve the submitted information. As a result, there may continue to be a lack of assurance that the agency MFR submissions, and MFR information ultimately published in the budget book, are accurate.

The Council of State Governments recommends that agencies be assigned the primary responsibility for the quality of data and that they should report annually on the steps taken to assure data quality.

Recommendation 7

We recommend that DBM provide formal written guidance to assist agencies in establishing control processes to help ensure the reliability of annually submitted MFR information. In addition, we recommend that agencies be required to provide written assurances as to the reliability of the reported results. We also recommend that DBM establish procedures to ensure the reliability of MFR information submitted by agencies and subsequently published in the budget book, at least on a test basis.

State Agency MFR Data Collection and Usage

Finding 8

Agencies tested did not generally document the implementation of all key components of MFR and the use of MFR for operational decisions.

Analysis

Our review of MFR implementation and use at four State agencies disclosed these agencies often did not document the implementation of all of the key components required by MFR and the use of MFR as a management tool for routine operations:

- Three of the four agencies tested had not developed strategies and/or action plans for each program as required by the *Managing for Results Guidebook*. Strategies represent specific courses of action to accomplish goals and objectives, and action plans signify detailed descriptions of strategy implementation. These components allow an entity to determine how it will use budgeted resources to accomplish a specific mission.
- Two of the four agencies could not provide any documentation that program performance measures were used in making budget recommendations when preparing the fiscal years 2003 and 2004 budget requests. According to DBM's records, almost 500 performance measures were collectively published in the fiscal year 2004 budget for these two agencies.
- Three of the agencies could not document the use of MFR data to manage program operations on an ongoing basis. For example, the agencies did not generate periodic reports containing MFR performance data to determine if existing resources were accomplishing stated performance

targets, or if resource adjustments were needed to meet goals and objectives. MFR data were primarily only generated at year-end in conjunction with the budget submission. The fourth agency could not document the ongoing usage of MFR data for certain of its units.

Recommendation 8

We recommend that State agencies, with the assistance of DBM when necessary, comply with the requirements of the MFR initiative as stipulated in the MFR Guidebook. Specifically, we recommend that agencies develop all critical components of MFR. We also recommend that agencies develop processes to use MFR data both for annual budgeting purposes and for managing operations on a routine basis throughout the year. The application of such processes should be adequately documented.

Finding 9

DBM did not take appropriate action to ensure that State agencies provided DBM with MFR submissions in a timely manner.

Analysis

State agencies often did not submit MFR information to DBM prior to the actual submission of the appropriation requests (generally two weeks earlier), as required by the budget instructions. This reduced the time available to analysts, both DBM and legislative, for considering the effect of MFR information on agencies' budget requests. Furthermore, DBM did not take action to encourage agencies to submit the required information more timely, although we were advised it did grant certain agencies filing extensions. Our test of MFR submissions for fiscal years 2003 and 2004 disclosed the following delays:

TABLE 2				
Summary of MFR Submission Delays				
	Fiscal Year 2003		Fiscal Year 2004	
Total Number of MFR Submissions Monitored by DBM	217	-	217	-
Number of Submissions Received by the Due Date	5	2%	15	7%
Number of Submissions Received Late, but within 30 days of date due	136	63%	134	62%
Number of Submissions Received between 30 and 60 days late	54	25%	41	19%
Number of Submissions Received more than 60 days late	22	10%	27	12%

Source: DBM

Note: The number of submissions exceeds the number of agencies reported elsewhere in this report due to the method used by DBM to count the submissions. For example, the Department of Human Resources represents one agency in previous items but was counted as nine submissions by DBM when tracking timeliness since the Department is made up of nine distinct budgetary units.

In its instructions to the agencies, DBM stated that the submission of MFR information prior to the budget information provides DBM analysts with an opportunity to review the submissions and discuss them with agency staff.

Recommendation 9

We recommend that DBM take the action necessary to ensure State agencies submit required MFR information in a timely manner, as required in the agency budget instructions.

DBM Reported Costs of MFR for Fiscal Year 2002

Review Results

As requested by the Joint Chairmen of the House Appropriations and Senate Budget and Taxation Committees, DBM prepared and submitted a report estimating the total State spending for MFR for fiscal year 2002. For fiscal year 2002, DBM estimated that State agencies incurred costs totaling \$1.9 million to implement and maintain MFR. According to the report, agencies spent approximately \$400,000 for MFR training, \$170,000 for consulting (primarily University of Baltimore), and \$840,000 in personnel related costs. Other costs, such as costs to maintain data systems and costs to audit performance measures, totaled approximately \$490,000. See Table 3 below. For costs by agency, see Exhibit 2.

TABLE 3					
ESTIMATED COMPONENT COSTS OF MANAGING FOR RESULTS					
Fiscal Year 2002					
(by category of expenditure)					
Category of Expenditure	Total Funds	General Funds	Special Funds	Federal Funds	Other Funds
Training:					
Paid to University of Baltimore	\$ 174,989	\$ 105,698	\$ 21,777	\$ 41,192	\$ 6,322
Other	30,027	16,508	12,143	1,236	140
Staff time spent in training	183,406	76,269	25,793	78,914	2,430
Travel for training	8,143	5,190	696	2,202	55
Subtotal	\$ 396,565				
Consulting:	173,465	113,324	9,066	29,258	21,817
Salary and Fringe Costs:					
MFR Coordinators	838,793	565,205	159,332	114,256	0
Other Costs:					
Staff time for MFR data systems	73,829	35,309	38,520	0	0
Other data costs	120,448	93,448	27,000	0	0
Audit Costs: audits of agency reported MFR data for accuracy	233,000	233,000	0	0	0
Other costs	64,583	62,948	62	1,573	0
Subtotal	491,860				
TOTAL	\$ 1,900,683	\$ 1,306,899	\$ 294,389	\$ 268,631	\$ 30,764

Source: DBM

We reviewed DBM's report of fiscal year 2002 State spending for MFR for reasonableness. We found that, although the cost estimates used in the report were not verified by DBM, the original DBM survey to be used by agencies to develop their individual cost estimates was comprehensive and well thought out. DBM did disclose in its report to the legislature the self-reporting aspect of the estimate as well as DBM's lack of verification. We compared certain reported costs to total cost information submitted by the agencies; for those costs reviewed, we found them to have been properly reported by DBM.

Furthermore, we noted that the parameters established by DBM for the collection process appear to have resulted in certain unknown costs being unreported. Specifically, DBM only required agencies to report personnel costs when at least 20 percent of an employee's time was spent on MFR. We also noted that 28 agencies indicated no MFR expenditures for the fiscal year. Agencies that reported no expenditures included both small agencies and large departments, such as the State Department of Education and the Department of Housing and Community Development. These agencies stated two primary reasons for the lack of reported expenditures: (1) decentralized operations resulted in no employees spending 20 percent or more of their time on MFR, and (2) there were no training costs incurred during the year.

Since certain costs were not reported, and DBM did not require agencies to provide detailed information to support those costs that were reported, we could not determine the reasonableness of the estimate. However, based on the methodology used and aforementioned information, the agency reported cost of \$1.9 million appears to be understated.

Exhibit 1
Governor Glendening's June 1997 Letter Announcing
MFR to State Employees

STATE OF MARYLAND
OFFICE OF THE GOVERNOR



June 19, 1997

PARRIS N. GLENDENING
GOVERNOR

ANNAPOLIS OFFICE
STATE HOUSE
100 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401
(410) 574-3901

WASHINGTON OFFICE
SUITE 311
444 NORTH CAPITOL STREET, N.W.
WASHINGTON, D.C. 20001
(202) 638-2215

TDD (410) 333-3098

Dear State Employee:

The statewide implementation of *Managing for Results* will provide Maryland's citizens with many positive benefits, and will strengthen accountability for the State's use of tax dollars. The power and appeal of *Managing for Results* is that it integrates current management tools and techniques, provides a direction for the future based on what is important for meeting customer needs and leads government to do the right thing with the best use of resources. The overarching goal is excellence in government.

Meeting customer needs by providing quality, cost effective services and products must be the focus of every State agency. The challenge is to shift the management culture of State Government from a primary focus on processes, to a focus on results as well as processes. *Managing for Results* will be integrated into the budget process which will ensure accountability to customers, stakeholders, policy makers and all the citizens of Maryland. The *Managing for Results* process will be phased in over a three year period, culminating with a full reporting of performance measurement data with the budget submissions by agencies during the third year and thereafter.

Results-based management is not a new initiative. Many of you have made significant progress in creating missions, visions, goals, objectives, and performance measures, all of which are part of the *Managing for Results* process. I now want you to build on what progress you have already made. Your enthusiastic participation in *Managing for Results* will move Maryland forward into the next century as one of the premier states utilizing results-based management. Through the talent and dedication of all State employees, I expect good results!

Sincerely,

Parris N. Glendening
Governor

Exhibit 2

Summary of Managing for Results Estimated Costs by Agency Fiscal Year 2002

AGENCY	Total Funds	General Funds	Special Funds	Federal Funds	Other Funds
General Assembly	\$ 233,000	\$ 233,000			
Office of the Public Defender	25,724	25,724			
Attorney General	0				
Office of the State Prosecutor	9,733	9,733			
Maryland Tax Court	0				
Public Service Commission	18,818		18,818		
Office of the People's Counsel	6,500	6,500			
Subsequent Injury Fund	0				
Uninsured Employers' Fund	0				
Workers' Compensation Commission	17,246	17,246			
Board of Public Works	0				
Executive Department – Governor	114,135	34,471	2,580	77,084	
Historic St. Mary's City Commission	30	30			
Interagency Comm. for Public School Construction	20,459	20,459			
Department of Aging	10,870	9,870		1,000	
Commission on Human Relations	0				
Maryland Stadium Authority	0				
Maryland Food Center Authority	773				773
State Board of Elections	345	345			
State Board of Contract Appeals	345	345			
Department of Planning	0				
Military Department	88	88			
Maryland Inst. of Emergency Medical Services Systems	20,009		20,009		
Department of Veterans' Affairs	0				
Maryland State Archives	0				
Maryland Automobile Insurance Fund	1,186				1,186
Maryland Insurance Administration	1,448		1,448		
Governor's Workforce Investment Board	1,332	546			786
FORVM for Rural MD	0				
Canal Place Preservation Authority	0				
Office of Administrative Hearings	0				
Comptroller	0				
Treasurer	0				
Department of Assessment and Taxation	0				
State Lottery Agency	44,700		44,700		
Property Tax Assessment Appeals Board	0				
Department of Budget and Management	298,215	298,215			
MD State Retirement Agency	0				
Supplemental Retirement	0				

Exhibit 2 (continued)

**Summary of Managing for Results Estimated Costs by Agency
Fiscal Year 2002**

AGENCY	Total Funds	General Funds	Special Funds	Federal Funds	Other Funds
Injured Workers' Insurance Fund	0				
Department of General Services	6,680	6,680			
Department of Transportation	116,725		116,725		
Maryland Transportation Authority	27,412				27,412
Department of Natural Resources	15,716	15,716			
Department of Agriculture	37,325	37,325			
Department of Health and Mental Hygiene	5,918	5,918			
Department of Human Resources	223,504	130,363	1,215	91,319	607
Department of Labor, Licensing and Regulation	84,606	1,803		82,803	
Department of Public Safety and Correctional Services	117,457	117,457			
State Department of Education	0				
St. Mary's College of Maryland	1,069	1,069			
Morgan State University	0				
Maryland Public Broadcasting Commission	0				
University of Maryland System	136,591	136,591			
College Savings Plans of Maryland	0				
Maryland Higher Education Commission	1,758	1,758			
Maryland Higher Education Labor Relations Board	0				
Baltimore City Community College	2,500	2,500			
Maryland School for the Deaf	0				
Department of Housing and Community Development	0				
Department of Business and Economic Development	187,026	98,132	88,894		
Department of the Environment	20,596	4,171		16,425	
Maryland Environmental Service	0				
Department of Juvenile Services	57,658	57,658			
Department of State Police	33,186	33,186			
TOTAL	\$1,900,683	\$1,306,899	\$294,389	\$268,631	\$30,764

Source: DBM

Exhibit 3

DBM Report on Reforming the MFR Process

Report on Reforming the Managing for Results Process

Prepared By:

Department of Budget and Management
Office of Budget Analysis

As Requested by the

Report of the Chairmen of the
Senate Budget and Taxation Committee
And the
House Appropriations Committee

2003 Session

Page 60-61

September 3, 2003

Exhibit 3 (continued)

Report on Reforming the Managing for Results Process

The Department of Budget and Management (DBM) will continue to work towards improving the Managing for Results (MFR) process to make it a valuable tool for management, decision-making, and assisting the General Assembly in its oversight function. This will involve significant restructuring in order to improve and streamline the process. In the coming weeks, the Department will consider such changes, while keeping the Department of Legislative Services (DLS) apprised of developments.

In immediate response to the JCR request, DBM has considered four modifications to the MFR process. Each of these is addressed in turn.

- Restructuring the steering committee to develop a smaller body with representatives of the legislature and customers of government services, with a focus on broad statewide goals;

DBM agrees to add legislative representatives and one or more customers of state services to the MFR Steering Committee.

DBM believes that 25+/- is an appropriate size for the MFR Steering Committee, to assure representation from a variety of subject matter experts, agencies of varying sizes, and individuals at different levels of management, as well as legislators and other customers.

DBM asserts that the Steering Committee should provide input on process rather than policy. For example, the committee's major activities should include updating the MFR training program, revising the MFR Guidebook, and promoting good practices.

- Reducing the number of measures reported and improving internal controls and documentation of supporting material to improve relevancy and reliability;

DBM is reducing and improving the number of measures presented in the budget books. These measures will better clarify the mission of core agencies as they develop their budgets and analyze performance.

DBM will re-emphasize to agencies the importance of good internal controls and encourage documentation of performance. Appropriate training will be continued.

Exhibit 3 (continued)

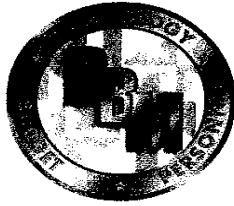
- Increasing the reporting frequency of performance outcomes to the steering committee and legislative committees to better determine progress on statewide goals;

DBM will prepare additional performance reports, submitted in a timely fashion, to permit legislative review during session. DBM will explore the feasibility of bi-annual reporting.

- Improving the budget instructions and procedures regarding use of MFR data to develop agency requests, develop the Governor's allowance, and manage everyday operations in the agencies.

DBM has instituted a number of procedures to ensure that strategic planning and results information are considered when agencies formulate and present their budget requests. Budget instructions have been modified to incorporate these concepts. DBM will continue to offer training on the use of MFR data in budget formulations.

DBM will continue to emphasize to agencies the value of routine reviews of performance data. This will enable agency management to better manage their programs and to set priorities for both budget reductions and potential budget increases.



*Maryland Department of
Budget & Management*

*DBM - people and technology...
a partnership for the new millennium*

Office of the Secretary

APPENDIX

*ROBERT L. EHRLICH, JR.
Governor*

*MICHAEL S. STEELE
Lieutenant Governor*

*JAMES C. DIPAULA, JR.
Secretary*

*CECILIA JANUSZKIEWICZ
Deputy Secretary*

January 12, 2004

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Myers:

The Department of Budget and Management has reviewed your draft performance audit report on the Managing for Results Initiative. We appreciate the opportunity to provide responses and information pertaining to the findings noted during your audit. As requested, attached are our responses to findings in the report.

The Department will continue to work towards improving the Managing for Results (MFR) process to make it an effective management tool for state agencies in formulating the budget as well as measuring performance. The Department looks forward to continuing its relationship in working with the Department of Legislative Services and the Office of Legislative Audits as we reform MFR.

If you have any questions or need additional information, you may contact Mr. David Treasure at 410-260-7049 or me at 410-260-7042.

Sincerely,


Cecilia Januszkiewicz
Deputy Secretary

cc: James C. DiPaula, Jr., Secretary, Department of Budget & Management
Neil Bergsman, Executive Director, DBM Office of Budget Analysis
David Treasure, Deputy Director, DBM Office of Budget Analysis

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DBM Oversight and Usage of MFR Data

Finding 1

Evidence does not support that MFR information was routinely used to make key specific budget recommendations.

OLA Recommendation 1

We recommend that DBM make full use of MFR information when analyzing agency budget requests, and fully document its effect on the resultant funding recommendations.

DBM Response

DBM does use MFR information as a factor in analyzing agency budget requests. This may not be clearly documented since MFR is one of many other factors considered when reviewing agency budget requests. DBM will continue to use MFR data in its budget recommendation and decision process. In addition, DBM will continue to refine the budget analysis process, including improving the use of MFR in budget recommendations and decisions. It is not possible to document, however, all instances of such use. Moreover, the principle of executive privilege argues against providing public documentation of the Governor's reason for each budget decision, since to do so would have a chilling effect of the practical policy and fiscal advice provided by budget professionals.

During the past four budget cycles, DBM analysts have used MFR information (goals, objectives, performance measures) to analyze many proposals for increased funding. These analyses of requests for increased funding describe the MFR goals, objectives or strategies that the proposal addresses and what quantified results or improved outcomes would be obtained if the item were funded. Budget analysts have often recommended against funding budget proposals because they did not address MFR goals or outcomes.

One of the limitations of the method used by the Auditor in its particular review of eight budget recommendations is that it looked at only budget items that were funded in the budget. Many recommendations, concerning requests for funding increases, are for items not to be allowed in the budget. Such recommendations are missed by this method.

Budget analysts have also analyzed budget reduction recommendations to determine whether they would affect any MFR goal, objective, strategy or outcome. A budget analysts' determination that there was no impact of a recommended budget reduction on MFR does not mean that MFR information was not used in the analysis of the recommendation. DBM wants its analysts to find budget reductions that do not adversely affect key MFR objectives and outcomes. If a recommended reduction does have such an effect on key MFR objectives or outcomes, it should be noted.

During the FY 2004 budget cycle, DBM analysts used MFR data to assess the performance of numerous state programs. Programs whose performance was questionable were often recommended for reduction or elimination.

Budget Analysts consider MFR factors, along with other budgetary factors such as funding availability, legal requirements, policy priorities, emerging issues, federal requirements, and the ability to leverage federal and special funding in making their recommendations. To document all these factors and effect of MFR on every budget recommendation would be very time consuming and extensive. Thus, DBM does not currently require budget analysts to maintain such documentation. A lack of documentation of the effect of MFR on budget recommendations does not mean that MFR information was not used in formulating budget recommendations.

We recognize that there are instances where MFR data was not used in budget recommendations. MFR information is not always applicable to every budget recommendation. However, this does not mean that MFR information is not widely used.

Finding 2

Statewide strategic planning was not formally incorporated into MFR on an ongoing basis.

OLA Recommendation 2

We recommend that DBM, in conjunction with the Office of the Governor and other interested parties, develop and periodically update a statewide strategic plan, based on input from various stakeholders. In addition, we recommend that this be formally communicated to agencies and that agencies be required to develop agency-specific strategic plans linked to both the statewide plan and agency goals and objectives.

DBM Response

DBM concurs that a formal written State Strategic Plan has not been updated since the current administration took office. However, the Governor has communicated his strategic priorities and agencies have worked to implement these. DBM will work with the Office of the Governor and other interested parties to develop, periodically update and communicate to State agencies a formal written statewide strategic plan. DBM will also consider the auditor's recommendation to institute a formal requirement that agencies prepare a formal strategic plan. Such consideration will include a review of agency capabilities, costs, and whether the value to be gained from increasing existing strategic planning requirements will be worth the extra investment of staff time and resources.

DBM has encouraged agencies, through the MFR process, to do strategic planning. Emphasis had been on the products that would come from such planning rather than the process. They were required to present for the budget the products of strategic planning: mission statements, goals, objectives, and performance measures. The approach was to see whether the most valuable strategic planning components could be obtained from agencies without the burden on all agencies of producing a formalized strategic plan. A significant fraction of state agencies have no planning staff and little capacity for preparation of a formal strategic plan. Preparation of such

plans would generate additional costs in staff time and consultants. Cost containment over the past several years has exacerbated the problem of limited resources for such tasks. The Department believes that agencies can think and plan strategically and can develop goals, objectives and performance measures and that these activities are within the scope of normal managerial tasks.

It should be noted that there are no proven ‘best practices’ for an approach to MFR planning. When the State decided to implement a statewide MFR process, a bottom-up planning approach was the best method. This method was chosen because agencies are usually in the best position to identify their agency’s mission, goals, and objectives since they are the subject matter experts of the state in their area of responsibility and have contact with how their programs are working in the field. In ‘starting from scratch’ and in order to best determine what each agency’s mission and goals should be, this is was the method chosen.

The auditor did not find a formal written requirement for a state strategic plan, but DBM did do a statewide strategic plan, *Moving Maryland Forward: 2002 and Beyond*. The Statewide Strategic plan is not “essentially a collection of agency-based goals, objectives and performance measures,” as the auditor has stated. This plan was developed by reviewing the (then) Governor’s priorities along with a collection of several multi-agency strategic planning efforts to develop three statewide goals. When the planning team then began to look for linkages to these statewide goals among agency plans, they were not difficult to find. Agencies had clearly already been aligning their MFR goals and objectives with the then Governor’s priorities. .

Finding 3

DBM could not adequately determine the success of the State’s overall MFR performance because many agencies did not measure program effectiveness.

OLA Recommendation 3

We recommend that DBM work with the State agencies to develop, as practicable, relevant outcome performance measures that provide information regarding how well each agency accomplishes its goals.

DBM Response

DBM disagrees with the finding. DBM will continue to work with State agencies to develop (as practicable) and to improve their outcome measures. It should be noted that auditor’s analysis attempted to use a tabulation of outcome objectives to conclude that most agencies did not have outcome measures. However, the majority of State department and agencies did have outcome measures. Outcome reporting is clearly comprehensive in Maryland’s MFR process. In FY 2004 Budget, all cabinet departments and all other agencies, with the exception of 10 small agencies, have outcome measures. Several of the agencies that the auditor concluded did not have outcome measures, had outcome measures but did not have outcome objectives with target dates for achieving their objectives by FY 2002 and were therefore properly excluded from the tabulation.

It was decided early in the MFR process that agencies could set objectives with targets beyond the budget year. The 37 agencies cited by the auditor in his analysis include eight agencies that fall into this category. The 37 agencies also included three non-budgeted agencies that are not required to submit budgets in accord with DBM instructions but that do participate to some extent in MFR and four budgetary units that are not actually agencies (e.g. Survey Commissions and the Commission on Uniform State Laws.) The remaining twenty-two agencies did not have outcome objectives formulated for FY 2002. (Eight of these had outcome measures, but not outcome objectives.) These objectives would have been formulated in the year 2000. State agencies have progressed in developing MFR outcome objectives and measures since then. During FY 2004 only ten agencies, which represent less than 0.2% of State appropriations, do not have outcome measures.

Finding 4

DBM did not have a process in place to ensure that published outcome measure results were measured in a manner consistent with the related agency objectives.

OLA Recommendation 4

We recommend that DBM modify the annual MFR instructions provided to agencies to require that all outcome-based performance measures are measured in a manner consistent with agency objectives. We also recommend that DBM amend its internal MFR review procedures to ensure that agencies comply with this requirement.

DBM Response

DBM agrees that there could be some improvement in this area. There are still some MFR presentations in which objectives are formulated one way and the measures are formulated in a different way that makes it difficult to evaluate the objective. **However, we do not agree that there is no process to correct this. Departmental staff do suggest improvements to agencies. We will emphasize this point in MFR instructions and remind staff to work with agencies to correct these discrepancies.**

Finding 5

DBM did not ensure that agencies included all required information in the annual MFR submissions.

OLA Recommendation 5

We recommend that DBM enforce its existing requirements for MFR submission by ensuring that agencies submit all required documents. We also recommend that DBM modify its procedures for budget analysts by requiring them to obtain all missing documents.

DBM Response

DBM agrees with the finding and will remind staff of the potential value of these documents and to obtain them from agencies if not submitted.

Since the beginning of the MFR program, the Department has assisted programs with measuring their outcomes, improving their objectives, goals, and mission statements and analyzing what the performance data reveals about agency operations and resource requirements. Strategies have been something of a subsidiary concern during this time. The Department will consider the usefulness of requiring strategies to be submitted. If the requirement is continued, we will remind staff to obtain strategies from agencies.

The Discussion of Program performance was a document requested for the benefit of the budget analysts. This was to provide agencies a chance to express in their own terms how they performed or did not perform. While this discussion should be useful to analysts, its absence has not prevented budget analysts from arriving at and reporting on their own assessment of agency performance as part of the budget analysis process.

Finding 6

The number of performance measures and other indicators could be better managed and controlled.

OLA Recommendation 6

We recommend that DBM, in conjunction with the MFR Steering Committee, develop criteria for agencies to use in determining an appropriate number of program level performance measures that are consistent with the agencies' strategic plans. We further recommend that DBM amend its analyst instructions and annual instructions to agencies to include this additional guidance, and ensure that this policy is enforced.

DBM Response

DBM agrees to reduce the number of performance measures in the Budget Books and has taken steps this year to reduce the presentation. We will consider developing criteria for agencies to use in determining an appropriate number of program level performance measures that are consistent with the agencies' strategic plans but, currently, are not convinced that strict numerical criteria will be that useful in this endeavor.

What the auditor may determine to be excessive information submitted by agencies is often useful to budget analysts to raise and pursue questions about program operations and budgets. However, DBM does recognize that the presentation of these data in the budget should be reduced and is working towards that end. DBM will also be rethinking in the future how to make its overall presentation of MFR data less burdensome and more useful to users and policy-makers.

The example cited by the auditor is a good example of the limitations of strict numerical criteria in dealing with such a situation. The number of measures presented for an agency may and should vary depending upon the range and significance of the activities being reported on. The department cited has a budget of more than \$5 billion and deals with many significant public health issues. It is unlikely that ten performance measures would be sufficient to describe all the important aspects of its performance. The data presented for FY 2004 include many appropriate health outcome measures. Since the criteria mentioned by the Auditor were promulgated by DBM, it is within DBM's purview to waive such criteria when appropriate.

The Auditor's recommendation for fewer measures in the MFR presentation in the budget books is inconsistent with its recommendation about making full use of MFR data for budget recommendations. With fewer MFR goals, objectives, and performance measures, there will be fewer instances where specific budget requests can be linked to MFR information that appears in the budget books.

Finding 7

DBM did not require agencies to provide assurances regarding the reliability of MFR information provided in annual submissions.

OLA Recommendation 7

We recommend that DBM provide formal written guidance to assist agencies in establishing control processes to help ensure the reliability of annually submitted MFR information. In addition, we recommend that agencies be required to provide written assurances as to the reliability of the reported results. We also recommend that DBM establish procedures to ensure the reliability of MFR information submitted by agencies and subsequently published in the budget book, at least on a test basis.

DBM Response

DBM concurs with the finding and will implement the audit recommendations, where feasible. DBM will issue general guidance about control processes to help ensure the reliability of the annually submitted MFR information. DBM will require agencies to provide written assurances as to the reliability of the reported results. On a test basis, budget analysts will examine how MFR data elements from their assigned agencies are collected, maintained and verified. However, budget analysts are not statisticians or auditors, so there may be some limitations on what can be concluded from such testing. The availability of staff time for this activity is also a factor.

State Agency MFR Data Collection and Usage

Finding 8

Agencies tested did not generally document the implementation of all key components of MFR and the use of MFR for operational decisions.

OLA Recommendation 8

We recommend that State agencies, with the assistance of DBM when necessary, comply with the requirements of MFR initiative as stipulated in the MFR Guidebook. Specifically, we recommend that agencies develop all critical components of MFR. We also recommend that agencies develop processes to use MFR data both for annual budgeting purposes and for management operations on a routine basis throughout the year. The application of such process should be adequately documented.

DBM Response

(Although this finding is more directed to the individual agencies, DBM has provided the following comments.)

DBM agrees to assist agencies, when requested, in complying with requirements of the MFR initiative.

DBM would like to note, however, that there is no requirement for State agencies to comply with all components of the MFR Guidebook. The MFR Guidebook was to provide guidance to agencies on how they might do their strategic planning and performance measurement. When the Guidebook was developed, it was recognized that agencies might achieve the same results in different ways. DBM has specified in the budget instructions the key components of MFR that agencies should maintain: missions, goals, objectives with targets, performance measures including outcome measures where possible, and strategies.

DBM does concur with the Auditor that agencies would benefit from developing processes to use MFR data both for annual budgeting purposes and from managing operations on a routine basis throughout the year. DBM has promoted such processes in the MFR Steering Committee and with MFR coordinators.

Finding 9

DBM did not take appropriate action to ensure that State agencies provided DBM with MFR submissions in a timely manner.

OLA Recommendation 9

We recommend that DBM take the action necessary to ensure State agencies submit required MFR information in a timely manner, as required in the agency budget instructions.

DBM Response

DBM agrees with the finding. To ensure that agencies submit required MFR information in a timely manner, DBM will have analysts note on their budget analysis reports (for late agencies) how late the MFR information was submitted so that appropriate discussions with the agency head can occur.

When a MFR submission date in advance of the date for budget submission was instituted several years ago, a number of our agency stakeholders advised that they would be unable to meet the early submission date. For another significant number of agencies who had not completed their MFR submissions but were working to improve them, the Department agreed that rather than review the material twice, it would be more efficient to review a completed product that was submitted late. In the most recent submission cycle the number of on-time submissions increased.

Whenever there were not such understandings, the Department contacted the agency to urge the agency to submit the MFR information. In some cases the lateness of submissions has been raised as an issue in the budget meeting with the agency.

DBM Reported Costs of MFR for Fiscal Year 2002

The OLA report stated:

“Since certain costs were not reported, and DBM did not require agencies to provide detailed information to support those costs that were reported, we could not determine the reasonableness of the estimate. However, based on the methodology used and aforementioned information, the agency reported costs of \$1.9 million appears to be understated.”

DBM Response

The methodology used by DBM to calculate the reported costs of State Spending for MFR for FY 2002 was discussed and agreed to in a meeting with representatives of the Department of Legislative Services, including Office of Legislative Audit. The methodology (requiring agencies to report personnel costs when at least 20 percent of an employee’s time was spent on MFR) was adopted to recognize that agencies would incur some level of costs relating to data collection and planning with or without the Managing for Results program and that it would be hard to separate these from the costs of MFR. The methodology used was disclosed in DBM’s report.

Due to time constraints, detailed supporting documentation for costs reported by agencies could not be collected and reviewed to ensure the reasonableness of figures reported. Because of this, DBM disclosed in its report to the legislature the self-reporting aspect of the estimate as well as DBM’s lack of verification.

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