

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

GOVERNMENT PERFORMANCE AND ACCOUNTABILITY COMMITTEE

Wednesday, January 28, 2004
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Al Carlson, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Al Carlson, Ken Svedjan, Dave Weiler; Senators Randel Christmann, Michael A. Every; Citizen Members Dick Hedahl, John Patrick Traynor; Executive Branch Members Pam Sharp, Gordy Smith

Member absent: Senator Ray Holmberg

Others present: See attached appendix

It was moved by Representative Svedjan, seconded by Representative Weiler, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

GOVERNMENT PERFORMANCE AND ACCOUNTABILITY STUDY

The Legislative Council staff presented a memorandum entitled *Performance Measures - Other States* which includes summary information on government performance and accountability systems in Alaska, Florida, Louisiana, New Mexico, and Texas.

The Legislative Council staff presented the following chart comparing legislative and performance measure information for the selected states to North Dakota:

	North Dakota	Alaska	Florida	Louisiana	New Mexico	Texas
Session	Biennial	Annual	Annual	Annual	Annual	Biennial
Length of session	80 legislative days	121 calendar days (may be extended by 10 days)	60 calendar days (may be extended)	60 legislative days in odd-numbered years, 30 legislative days in even-numbered years	60 legislative days in odd-numbered years, 30 legislative days in even-numbered years ¹	140 calendar days ¹
Number of legislators	House - 94 Senate - 47	House - 40 Senate - 20	House - 120 Senate - 40	House - 105 Senate - 39	House - 70 Senate - 42	House - 150 Senate - 31
Number of legislators on appropriations committee	House - 23 Senate - 14	House - 11 Senate - 7	House - 48 Senate - 16	House - 21 Senate - 12	House - 18 Senate - 10	House - 27 Senate - 15
Number of legislative fiscal analysts	Joint staff - 5	Joint staff - 6 Each legislator has from 2 to 5 personal staff	House - 43 Senate - 29	House - 10 Senate - 6 Joint - 18	Joint staff - 18	Joint staff - 89
Budgeting period	Biennial	Annual	Annual	Annual	Annual	Biennial
Number of appropriations bills	Several	2	1	1	1	1
Approximate appropriations bill(s) length	135 pages	100 pages plus 55-page performance measure bill	369 pages	294 pages	242 pages	1,002 pages
2003 general fund budget	\$874 million ²	\$2.1 billion	\$20 billion	\$6.6 billion	\$3.9 billion	\$31 billion ²
Number of performance indicators maintained by agencies	N/A	Unknown	Unknown	5,900	Unknown	7,035
Number of performance indicators considered by legislature	For select agencies - Higher education - 25; Commerce - 25	550	1,000	2,300	1,000	2,200

	North Dakota	Alaska	Florida	Louisiana	New Mexico	Texas
Location of performance indicators considered by legislature	In select appropriations bills	In a separate bill	In the appropriations bill	In the appropriations bill	In the appropriations bill	In the appropriations bill
Agencies excluded from performance budgeting	N/A	Legislative and judicial branches and higher education	Legislative branch	Legislative branch	None	Legislative branch
¹ Legislative committees meet prior to the legislative session to develop a legislative budget recommendation. ² Based on 2001-03 biennial appropriation.						

The Legislative Council staff summarized the performance measurement systems in the selected states, reviewed statutory provisions providing for the performance measurement systems, and provided examples of appropriation bills and performance measures for each state. The following is a summary of each state's system.

Alaska

Alaska began its performance measurement system in 1997 and phased it in over a three-year period. In year 1, mission statements were established for each program of each agency. In year 2, performance indicators for one-half of the agencies were established and in year 3, performance indicators for the remaining agencies were established.

By statute, Alaska requires agencies to submit performance measurement information to the legislature.

State agencies submit proposed program missions and performance indicators to the legislature prior to each legislative session. Subcommittees of the Appropriations Committees review the proposed missions and measures as they develop the missions and measures for each agency for the next fiscal year. These missions and measures are included in a separate bill that is approved by the legislature. The Alaska legislature includes approximately 550 measurement indicators in the bill that is approved each year. Agencies are not required to develop a strategic plan as part of performance budgeting in Alaska.

There is no formal interim reporting of performance measure information to legislative committees in Alaska.

Florida

Florida began its performance measurement system in 1994 and phased it in over a seven-year period. Use of the system is mandated in statute. Agencies are required to include performance information in their budget requests and the Governor is required to submit a performance-based program budget to the legislature.

When implementing the system, the first agencies selected to utilize performance budgeting were those that expressed interest in being involved. In each subsequent year, a mix of large, medium, and small agencies was incorporated.

Performance measures are included in each agency's budget request. Actual performance for two previous years, the current year's estimate, and the proposed target for the next year are presented. Key indicators for each agency are included in the appropriations bill and the implementing bill (a bill providing guidance and direction to agencies for implementing their appropriation). The Florida legislature considers approximately 1,000 measures associated with state agency programs. Although not required as part of performance budgeting, agencies in Florida are required to have a long-range strategic plan to guide their activities.

Unless an agency is requested by the legislature to report more frequently, agencies report their performance data annually as part of the agency budget request. Performance data of an agency is audited periodically as part of an agency performance review conducted by the legislature's Office of Program Policy and Government Accountability.

Louisiana

Louisiana began its performance measurement system in 1997. Louisiana phased in components of the system rather than phasing in agencies. All agencies implemented a component of the system at the same time. Louisiana statutes require agency strategic plans and the use of performance-based budgeting.

The components were phased in over three years. All agencies implemented the same component the same year. In year 1, **program descriptions** for each agency were included in the appropriations bill. In year 2, key **performance indicators** were included in the appropriations bill, semiannual reporting began, and agencies developed strategic plans. In year 3, **key objectives** were included in the appropriations bill and quarterly reporting began.

Agencies include proposed objectives and performance measures for the upcoming fiscal year in each agency's annual operational plan that is submitted as part of the agency's budget request. The Governor includes the key objectives and performance measures for each agency in the executive budget recommendation. During the session, the objectives and measures are considered by the Appropriations Committees and included in the appropriations bill. The Louisiana legislature includes

approximately 1,100 objectives and 2,300 performance indicators in its appropriations bill each year. Agencies are required to develop and maintain a five-year strategic plan.

Agencies report quarterly on performance relating to key performance indicators and semiannually relating to supporting indicators. An interim legislative performance review subcommittee meets semiannually to review agency performance. The State Auditor reviews agency performance systems for reliability and validity but does not conduct an audit of the performance data.

New Mexico

New Mexico began its performance and accountability system in 1999 and is phasing it in over a five-year period. A mix of small, medium, and large agencies began using the system in each of the five years. Performance budgeting is required by statute in New Mexico.

Agencies submit proposed performance measures along with each agency's budget request. Actual performance for two previous years, the current year's estimate, and the proposed target for the next year are presented. The performance measures, including output, outcome, efficiency, and quality measures, are included in the appropriations bill. New Mexico includes approximately 1,000 measures in its appropriations bill. Agencies are not required to prepare strategic plans as part of performance budgeting.

Agencies report actual performance annually as part of the budget request process. Periodically, the legislature has required quarterly reporting. The performance data reported by agencies is not audited.

Texas

Texas began its performance measurement system in 1992. All agencies implemented the system at the same time. Performance budgeting is required by statute.

Texas requires agencies to develop a strategic plan, and as part of the plan, to include five-year outcome measure projections. Agencies also include performance measures in their budget request. The Texas legislature considers output, outcome, efficiency, and explanatory measures as it develops each agency's appropriation. Approximately 2,200 performance measures are included in the appropriations bill.

Agencies submit quarterly reports of actual performance. Any variance from the target exceeding 5 percent requires an explanation. The Legislative Budget Board staff prepares budget and performance assessments based on actual agency performance which are provided to all legislators.

The State Auditor's office is responsible for auditing the performance measure information provided by state agencies.

OTHER STATES' COMMENTS AND SUGGESTIONS

The Legislative Council staff reviewed the following comments and suggestions from representatives of states that have implemented a government performance and accountability system:

1. Require use of the system by statute.
2. Customize the system to accomplish the intended result for North Dakota - Don't duplicate another state's system - Each state is unique.
3. Keep the system simple initially - It can be refined later.
4. Agree on a system approach among legislative leadership.
5. Authorize an agency or committee (legislative or legislative/executive) to oversee development and implementation of the system.
6. Preplanning is very important to ensure that the system operates as intended and to eliminate changes during implementation which frustrate everyone involved.
7. Provide adequate and ongoing training.
8. Provide consistent direction for agencies.
9. Define the data to be measured so everyone understands the result.
10. Commit to the process for the long term.
11. Be patient - Implementing the system takes time.
12. Performance measures assist in understanding agency activities but do not provide firm answers to budgeting.
13. Refrain from having unrealistic expectations about the system - It is a tool to use in decisionmaking - It does not make decision-making easier.

STATE AGENCY TESTIMONY

Mr. Dean Mattern, Human Resources Director, Department of Human Services, commented regarding the Department of Human Services performance and accountability practices and suggestions for improving government performance and accountability. Mr. Mattern said the department began its strategic planning efforts in 1998. He said each division within the department developed program purpose statements and results measures which relate to the department's mission statement. He said the department strategic plan contains two types of information:

1. Program output/demand information - Used to measure program results or the quantity of program services. It is often used to predict trends in program use and demand.
2. Program results/efficiency information - Used to measure how well a program's processes work or how efficiently the program is delivering services.

Mr. Mattern said most federal funding sources require plans detailing accountability and performance practices.

Mr. Mattern said in the process of developing the department's system, it has learned:

1. More is not better - Too many measures and objectives for each program are difficult to maintain and evaluate.
2. Appropriate technology is needed to collect and analyze data.
3. For some programs, quality data is available but quantitative or unit-cost data is not available.

Mr. Mattern said the department is improving its performance system by:

1. Implementing the regional office automation project which is a new data collection system allowing for more efficient data gathering and analyzing.
2. Reviewing program objects and measurements to refine or abandon superfluous measurements.
3. Updating the department's strategic plan and refining the objectives for the department and its divisions. He said the objectives will relate to outcomes, quality, unit cost, and client satisfaction.
4. Developing performance-based contracting for the special needs adoption program of the department.

Mr. Mattern presented a summary of the department's strategic plan with various performance measures for each of the major programs of the department. Mr. Mattern said graphs provide useful information in showing trends in program performance. He said the department has learned that providing trend data over multiple years provides useful information.

A copy of the testimony is on file in the Legislative Council office.

Citizen Member Traynor asked Mr. Mattern for suggested incentives for agencies that meet performance targets. Mr. Mattern suggested additional flexibility in managing the department's budget.

In response to a question from Representative Carlson, Mr. Mattern said that a strategic plan is useful in the development of performance measures for the department.

Representative Carlson asked how the department analyzes the success of achieving its strategic plan. Mr. Mattern said the department uses its strategic plan in evaluating department personnel and department progress in achieving its strategic plan is analyzed and used for developing the next year's strategic plan.

Mr. David Krabbenhoft, Fiscal Director, Department of Corrections and Rehabilitation, commented on the department's performance and accountability

practices and suggestions for improving government performance and accountability.

Mr. Krabbenhoft said the department has been developing strategic plans for four bienniums. He said two strategic plans are developed for the department, one for the adult population which covers a two-year period and one for juveniles which covers a five-year period.

Mr. Krabbenhoft said some performance information is communicated to the Legislative Assembly during the legislative session, but due to time constraints during a legislative session, this information is generally not the focus of legislative discussions. He said a more formal process would improve the communication of this information to legislators.

Mr. Krabbenhoft said in addition to the internal evaluation of the department's performance, external organizations also measure the department's performance through the accreditation process.

Representative Carlson asked how often the department monitors its strategic plans. Mr. Krabbenhoft said the plans are reviewed continually for select issues that need to be addressed.

Representative Carlson asked whether the department would support the Legislative Assembly or the Governor requiring certain components to be included in a strategic plan. Mr. Krabbenhoft said that the department would support having consistent information in agency strategic plans. He said development of a performance system needs to be a cooperative effort.

Senator Christmann asked for Mr. Krabbenhoft's comments on the previous performance budgeting pilot project. Mr. Krabbenhoft said he believes that the amount of data required under the previous system was too overwhelming for agency personnel. He believes if a new performance measurement system is implemented there will again be agency concern regarding the increased workload required to gather additional data which will need to be addressed.

Ms. Arvy Smith, Deputy State Health Officer, State Department of Health, commented on the department's performance and accountability practices and suggestions for improving government performance and accountability. Ms. Smith said the department has begun its first departmentwide strategic planning effort. She said previous planning efforts have been conducted for specific programs or as required by federal grants.

Ms. Smith said the department has not yet developed departmentwide outcome measures. She said performance measurement efforts have been limited to federal grant requirements. She said the department administers approximately 70 different programs to address public health needs.

Ms. Smith said the department is concerned with having adequate resources to develop a plan and associated measures. She said additional resources

may not have to be in the form of funding or full-time equivalent positions, but could be assistance from another agency with expertise in this area to assist in the development of a process, good measures, and a system to monitor results.

Ms. Smith said planning and monitoring performance can be neglected as agency managers respond to one crisis after another. She said requirements, coupled with adequate resources, could raise performance and accountability practices to a higher priority among upper-level management.

Ms. Smith said data collection and analysis systems are needed to measure performance and make meaningful decisions regarding resource allocation and program effectiveness. She said concerns regarding data include:

1. Data collection systems may not be available.
2. Methods to evaluate the data may not be available.
3. Data available may not be current.
4. The allocation of agency administrative costs to programs may be difficult and time-consuming.

A copy of the testimony is on file in the Legislative Council office.

Representative Svedjan asked whether federal funds would be available to provide for the costs of collecting and analyzing data. Ms. Smith said whenever possible the department utilizes federal funds for this purpose.

Representative Carlson asked whether the department would be supportive of the Governor or the Legislative Assembly requiring certain components to be included in agency strategic plans. Ms. Smith said the department would support having a consistent structure for strategic plans.

Representative Svedjan asked whether training from outside sources such as the National Conference of State Legislatures would be helpful for agencies as they develop strategic plans and performance measures. Ms. Smith said any training provided would be appreciated.

Mr. Eric Hardmeyer, President, Bank of North Dakota, commented on the Bank's performance and accountability practices and suggestions for improving government performance and accountability.

Mr. Hardmeyer said the Bank develops an annual strategic plan which contains specific objectives for each business unit of the Bank. He said these objectives are reviewed quarterly. Mr. Hardmeyer said the three major areas of evaluating the Bank's performance are:

1. Financial performance - Standards for financial performance of banks are maintained within the banking industry which are useful for measuring the Bank's financial performance.
2. Accomplishment of its mission - Evaluating whether the Bank is meeting its mission to

deliver quality, sound financial services that promote agriculture, commerce, and industry.

3. Legislative expectations - Providing the expected level of revenue for the state general fund each biennium.

A copy of the report is on file in the Legislative Council office.

The committee recessed for lunch at 11:55 a.m. and reconvened at 1:15 p.m.

Mr. Bob Indvik, Chairman, Workforce Safety and Insurance Board of Directors, commented on performance and accountability practices. Mr. Indvik said through the implementation of performance measures at Workforce Safety and Insurance, major improvements have been made in the delivery of services. He said the use of performance indicators require accountability by staff and ensure that the organization sustains its mission.

A copy of the testimony is on file in the Legislative Council office.

Ms. Tammy Dolan, Vice President for Finance, Workforce Safety and Insurance, commented on the agency's performance and accountability practices and suggestions for improving government performance and accountability. Ms. Dolan said the agency has developed a performance measurement and accountability system that includes objective performance measures that helps to ensure that the agency is fulfilling its responsibilities to workers and employers in North Dakota. She said the key components of this system are:

1. The board governance policy manual that includes expected levels of performance and provides proposed measurements for assessing the achievement of these outcomes.
2. Strategic planning process that establishes the short-term and long-term plan for the organization and development of 10 strategic goals.
3. Quarterly operating report which compares performance to benchmarks.
4. A biennial performance evaluation that is conducted by workers' compensation industry experts and coordinated by the State Auditor's office. The evaluation is conducted at least every other year and evaluates selected departments to determine whether the agency is providing quality services quickly and cost-effectively. Results of these evaluations are reported to several legislative committees as well as the agency's board of directors and management.
5. An internal audit department that conducts internal audits and compliance reviews and ensures that the departments and programs are properly functioning and operating.
6. A pay for performance personnel system which allows each employee and manager

through their annual performance review to be held accountable for their performance. Goals and benchmarks are integrated into the performance evaluations and salary increases are based solely on performance.

Ms. Dolan made the following observations for improving government performance and accountability:

1. Meaningful performance measures evolve over time and require commitment of management and staff - Patience is essential.
2. Considerable staff resources are needed to compile the operating report.
3. Investment is required to develop systems that can gather relevant data and generate required reports.
4. Continual monitoring of performance measures by appropriate individuals is essential for the measure to be meaningful and allow an appropriate, proactive response by staff, if necessary.
5. Evaluation of the performance measures on a regular basis ensures the measures are appropriate.
6. Every employee must have a stake in the success of the organization. Rewarding positive performance entices employees to be innovative which moves the organization to higher levels of achievements.

A copy of the testimony is on file in the Legislative Council office.

Citizen Member Traynor suggested that any recommendation of the committee should be broad enough to allow for growth and refinement of the system. He commented that any system recommended by the committee will evolve over time.

Ms. Maren Daley, Executive Director, Job Service North Dakota, commented on the agency's performance and accountability practices and suggestions for improving government performance and accountability. Ms. Daley said that Job Service North Dakota utilizes outcome measurements that are validated by procedures developed by the federal government.

Ms. Daley said Job Service North Dakota has been developing annual plans since 1997. She said the goals or objectives for the following year are called "critical success factors" which guide all areas of the agency to achieve these goals and objectives. She said the agency identifies specific strategies that will result in successful implementation of the agency's plan. At the end of each year, Ms. Daley said the agency evaluates its performance and learns from its successes and from areas that need continued improvement as it develops the plan for the following year.

A copy of the testimony is on file in the Legislative Council office.

Mr. Alvin A. Jaeger, Secretary of State, commented on performance and accountability

practices and suggestions for improving government performance and accountability. Mr. Jaeger said the Secretary of State's office uses both formal and informal methods to monitor its performance, accountability, productivity, and workload. Mr. Jaeger said the agency does not have a formal strategic plan currently in place.

Mr. Jaeger suggested the committee consider the amount of additional workload that may be required of agency personnel as it considers potential recommendations for government performance and accountability systems.

A copy of the testimony is on file in the Legislative Council office.

Mr. Rick Clayburgh, Commissioner, Tax Department, commented on the agency's performance and accountability practices and suggestions for improving government performance and accountability. He said the Tax Department uses indicators to measure its performance. He said some indicators are easily quantifiable and measurable while others are more difficult to measure. He said the Tax Department has a strategic plan and the department continually monitors its effectiveness by examining what it does, how it accomplishes it, why it is being done, and how it can be done better.

Mr. Clayburgh said the department believes performance measurements have a role in enhancing agency performance and operational efficiencies. He suggested that measures be:

1. Useful to the agency and understandable and important to the Legislative Assembly.
2. Simple to compile.
3. Identified with involvement from agency employees.
4. Limited in number.
5. Easily communicated to the public.
6. Flexible and adaptable to a changing environment.

A copy of the testimony is on file in the Legislative Council office.

PERFORMANCE-RELATED AUDITS

Mr. Ron Tolstad, Audit Manager, State Auditor's office, reported on performance reviews conducted as part of state agency financial and performance audits.

Mr. Tolstad said the State Auditor's office conducts financial statement audits, information systems audits, and two types of performance audits. He said two types of performance audits are conducted--operational audits and performance audits. Mr. Tolstad said operational audits are conducted every two years for most state agencies. He said the State Auditor has a statutory responsibility to determine the scope of the operational audits after consulting with the Legislative Audit and Fiscal Review Committee. Mr. Tolstad said the objectives of the biennial operational audit are to provide reliable

financial statements and to answer the following questions:

1. What are the most important areas of the agency's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the agency and is the agency in compliance?
3. Are there areas of agency operations where the auditor can help to improve efficiency or effectiveness?

Mr. Tolstad said performance audits are conducted by the State Auditor's performance audit team consisting of five staff members. He said the performance audits are comprehensive and in-depth audits. He said the agency completes two or three performance audits each year. Performance audits address a number of objectives, including objectives relating to assessing program effectiveness and results, economy and efficiency, internal control, and compliance with legal or other requirements. He said the specific objectives for each performance audit vary based on the circumstances for which the audit is selected.

A copy of the report is on file in the Legislative Council office.

BUDGET FORMS

Ms. Sheila Peterson, Fiscal Management Director, Office of Management and Budget (OMB), presented OMB's plans for incorporating performance measures in budget data to be submitted as part of state agencies' 2005-07 biennium budget requests.

Ms. Peterson said OMB plans to expand the narrative portion of the budget request forms to include program measures and mission statements. Ms. Peterson said OMB plans to keep the information simple and focused by limiting this information to the narrative sections. She said OMB will provide guidelines to the agencies on what should be included in each section.

A copy of the report is on file in the Legislative Council office.

Representative Weiler suggested that agencies be instructed to include only a limited number of measures.

Representative Svedjan expressed a concern that asking agencies to include this information in their budget request forms may be premature and cause agencies to do extra work. He said OMB's activities should be coordinated with the direction of this committee.

Representative Carlson said including the information for the 2005-07 biennium could begin the agency planning process for developing strategic plans and performance indicators.

COMMITTEE CONSIDERATIONS

The Legislative Council staff presented a memorandum entitled *Development of a Government Performance and Accountability System in North Dakota - Items to Consider*. The memorandum reviewed the performance budgeting history in North Dakota and reviewed items for committee consideration relating to government performance and accountability systems.

The Legislative Council staff said that the committee may wish to consider a motion regarding OMB's plan to incorporate performance-related information as part of agencies' 2005-07 biennium budget requests. The Legislative Council staff said the committee may wish to consider either encouraging OMB to include this type of information in the 2005-07 biennium budget requests or encouraging OMB to delay including this type of information in budget requests until the committee completes its study.

The Legislative Council staff said the committee may wish to address the following items if the committee chooses to recommend a government performance and accountability system:

1. Administrative or statutory authorization.
2. Pilot project or full implementation.
3. Implementation schedule.
4. Strategic plan requirement.
5. Identification of measurement indicators.
6. Establishment of measurement targets.
7. Performance reporting.
8. Performance auditing.
9. Interim legislative committee involvement.
10. Legislative Assembly activities.

Senator Christmann suggested that to begin gathering performance indicator information, OMB could instruct agencies to include in agency budget request forms proposed measurement indicators that the agency believes identify the key activities of the agency.

Citizen Member Hedahl said because a number of agencies have put much effort into the development of strategic plans and performance measures, it may be appropriate for these agencies to include the items they feel are important in agency budget request forms.

The legislative budget analyst and auditor said if OMB is instructed to proceed with including the performance measure data in the 2005-07 budget request forms, agencies should be informed that the type of information being requested is for preliminary purposes and substantial changes could be made in the type of information that may be required as part of the system that may be approved by the Legislative Assembly and the Governor.

Chairman Carlson asked OMB to provide the budget request form guidelines relating to performance measure information to committee members. He said the committee members will review the information and meet again prior to OMB's distribution of

the budget request guidelines to state agencies. He said this will allow the committee to have input into the performance measure guidelines that will be used by agencies in the development of their 2005-07 biennium budget requests.

Chairman Carlson said the next committee meeting is tentatively scheduled for Wednesday, March 3, 2004, from 9:00 a.m. to 12:00 noon.

The committee adjourned subject to the call of the chair at 4:05 p.m.

Allen H. Knudson
Assistant Legislative Budget Analyst and Auditor

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1