STATE OF INDIANA

Mitchell E. Daniels, Jr.
Governor

OFFICE OF MANAGEMENT & BUDGET
212 State House
Indianapolis, Indiana 46204-2796
317-232-5610

Charles E. Schalliol
Director

January 3, 2006

Indiana House of Representatives
Indiana State Senate
200 W. Washington Street
Indianapolis, Indiana 46204

Dear General Assembly:

On behalf of the Governor, I submit for your review this interim report pursuant to your request outlined in **P.L. 246–2005, Section 255**:

> (a) All revenue that funds government comes from the people and it is the responsibility of every elected official to carefully guard against misuse of this revenue. Therefore, it is the intent of the general assembly that the state budget be reviewed comprehensively before the budgetary process for the next biennium begins in 2007.
>
> (b) The general assembly requests that the Governor direct the office of management and budget to thoroughly review the:
>
> (1) budget of each executive department agency and instrumentality; and
>
> (2) overall functions of the executive department of state government;
>
> for the purpose of finding efficiencies that might yield significant cost savings. The general assembly requests that both the size and the scope of these agencies and functions be reviewed.
>
> (c) The general assembly requests that:
>
> (1) *an interim report on the progress of the review under this section be submitted to the general assembly in an electronic format under IC 5-14-6 before January 3, 2006*; and
>
> (2) the results of the comprehensive review, including recommendations for budgetary reforms and spending reductions throughout state government through the appropriation and allotment process be shared with the speaker of the house of representatives and the president pro tempore of the senate before December 2, 2006.

I welcome any questions you have regarding this report and look forward to discussing it with you.

Sincerely,

Charles E. Schalliol
Director

Office of Management and Budget

Interim Report

Budgetary and Functional Review of Executive Branch Agencies

January, 2006

Contents

Introduction	**1**
Workplan Development	**2**
Project Status	**3**
Summary of Preliminary Findings and Themes	**4**
Appendices	**8**

Introduction

Outcomes and results matter.

Workplan Development

How do you analyze a $21 billion organization? One program at a time.

Project Status

Currently in the middle of first wave of a two-wave project plan.

Summary of Preliminary Findings and Themes

Program Measurement

We can't tell how we're performing unless we keep score.

Program Overlap and Duplication

The challenge is to break down the silos.

Program Relevance

"It's always been done that way" is not an adequate justification.

Financial Oversight

Vigilant controls and practices must be followed to maintain the public trust.

Appendices

A – Program Description and Assessment

B – PROBE (Program Results: an Outcome-Based Evaluation)

Introduction

One of Governor Daniels' first initiatives upon taking office in January 2005 was the creation of the Office of Management and Budget (OMB). The new agency was tasked with measuring state government performance and efficiency. OMB immediately began collaborating with other agencies to develop performance metrics and to identify opportunities for improvement.

Consistent with the Governor's objectives, the Indiana General Assembly requested (through Section 255 of Public Law 246–2005) that OMB review the budget and function of each executive department, agency, and instrumentality of state government for the purpose of finding efficiencies that might yield significant cost savings. This document is an interim report on the progress of that review.

OMB's approach to this project has been to develop a framework for continuous, long-term improvement of state government. If our final report generates some one-time savings but then sits on a shelf somewhere, it will not have been worth the effort. Our guiding principle in conducting this review is simple: **Outcomes and results matter.** We will examine and will have recommendations regarding process, structure, and legislation. These elements are important and suggested changes to them are certain to generate debate. However, during the discussion we should not forget the bottom line of increasing public value.

In order to implement the broad scope of the legislative directive while still at a level of detail to be meaningful, OMB decided to focus on the programs for which executive branch agencies and departments are responsible. We developed a measurement instrument called the PROBE, which stands for Program Results: an Outcome-Based Evaluation. This tool seeks to ascertain the effectiveness of Indiana state programs in achieving desired results and outcomes while considering the efficiencies in which program services are delivered. The objectives of the PROBE are to:

- Align resources according to program priorities and effectiveness
- Identify obstacles that may hinder program performance and provide recommendations for corrective action
- Migrate toward a performance-informed budget by introducing program results in the budget development process

The PROBE will allow OMB, along with the appropriate budget analysts, to systematically ask agency program managers questions about key program characteristics: 1) *Purpose and design*, 2) *Planning*, 3) *Management*, and 4) *Results*. It consists of eighteen "yes/no" questions and seeks explanations and evidence to support the responses. Each section's score is then weighted and summed for an overall program effectiveness rating. While the questions are standard across all programs to promote consistent application, OMB recognizes that there will be elements of subjectivity and the rating will not be the result of "exact science." The scores should not be used as a comparison to other programs but rather as a benchmark to measure program improvement.

In our final report (which shall be completed by December 2, 2006), each PROBE will be summarized on one page which will include a program summary, recommendations for improved program performance, recent funding history, and the PROBE section scores and overall rating.

Workplan Development

Our first task was to define a program. In 2001, the State of Indiana developed a Program Budget Book that grouped appropriations in approximately 80 programs (e.g., Community Mental Health) and then those programs were reported within eleven major categories or functions (e.g., Human Services) of government. The high-level presentation of the Program Budget Book is informative for how much money is spent by the major functions of government but it does not address performance or how well those appropriations are spent. For that reason, OMB started with the foundation for the aggregated reporting of the Program Budget Book: the fund center. Close to 900 program-related fund centers across 75 executive branch agencies and departments received appropriations for the 2005-2007 biennium.

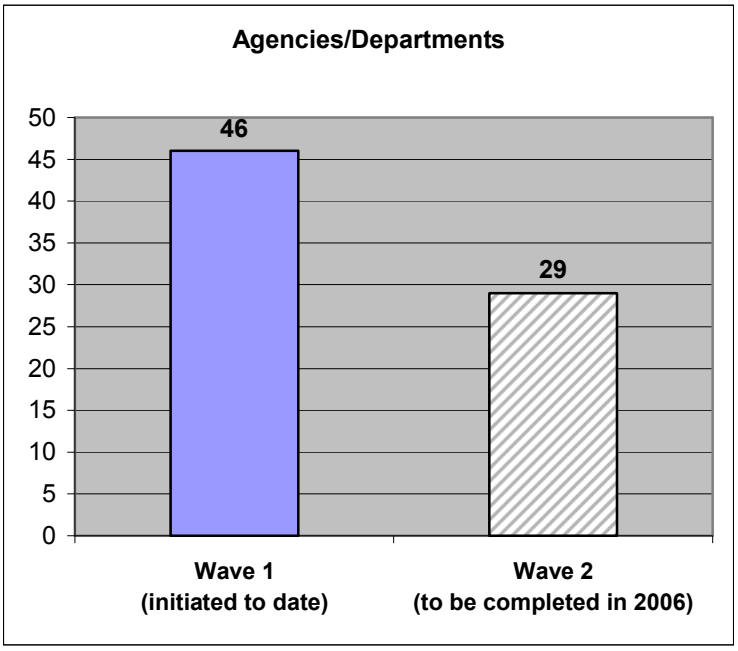
A challenge with correlating a fund center to a program is the inconsistent creation and use of fund centers across state government. This is usually driven by accounting needs and the funding source for the government activity. Some agencies' appropriation is recorded and accounted for in a single fund center even though it conducts several types of activities. Other agencies, often those administering grant programs, use a fund center for each grant, or each year's funding for a given grant, even though the program mission and purpose is the same. OMB is working with the responsible agency to define the program in these instances and segregate or combine activities where appropriate.

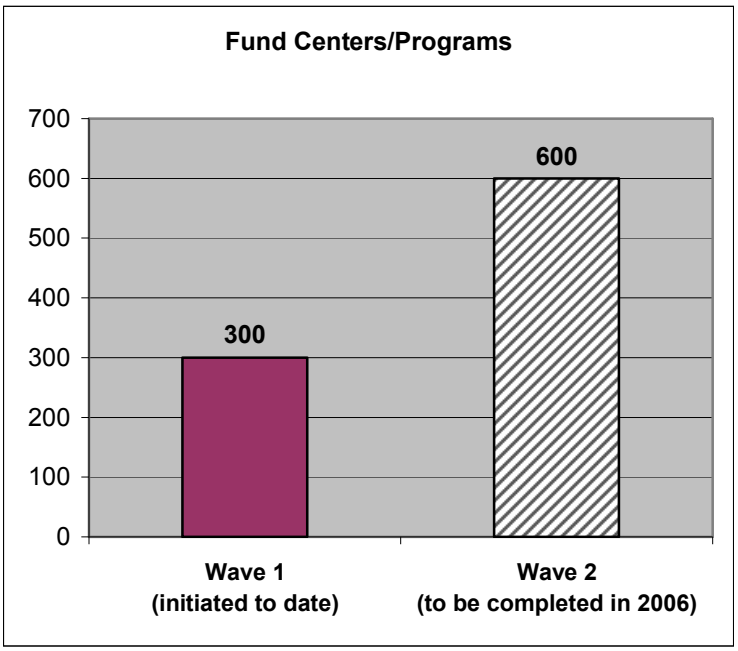
Each responsible agency, department or instrumentality has been or will be requested to complete a Program Description and Assessment (PDA) for each fund center. Following receipt and review of the PDA as well as other research, the assigned OMB staff and budget analyst meet and collaborate with the program manager and other agency representatives to complete the PROBE. Both the PDA and PROBE templates can be found in the Appendices.

It should be noted that the PROBE questionnaire was based on the federal OMB's Program Assessment Rating Tool (PART). In addition, the PROBE should not be considered in its final form. As we continue to utilize the tool, as well as to research best practices in performance-based budgeting from other states, we will seek to refine and improve the PROBE process for the future.

Project Status

The project plan comprises two waves. The first wave is focused on the smaller to mid-sized agencies and departments. Program PROBE's of 46 agencies containing about 300 fund centers/programs have been initiated in this first wave. The second wave to be started in late winter/early spring of 2006 will be the larger agencies and instrumentalities. There will be fewer agencies in the second wave but more programs/fund centers. None of the PROBE's will be considered final or closed until all have been completed so that the performance of programs/fund centers with common purposes or missions can be considered across the responsible agencies.





Summary of Preliminary Findings and Themes

This section includes selected illustrations of preliminary findings from the first wave of PROBE's. These findings reflect a few very basic themes:

- A dearth of program measurement and data preventing any performance assessment or progress reporting
- "Siloed" program and activity management that has fostered overlap and duplication and obstructed cross agency cooperation
- Lack of inquiry into continued program relevance
- Lack of financial and management oversight

Program Measurement

Imagine if you were to attend a basketball game between two rival high schools. You arrive and the game is already in progress. You look up and notice that there aren't any scoreboards in the gym. You ask the person next to you if the home team is winning. He indicates that he's not really sure. Both teams have made several baskets, but no one appears to know who's ahead. As silly as this story sounds, it underscores the obvious fact that unless someone keeps track of the score, we can't determine how we're performing.

Sample Finding

The most consistent finding thus far is the lack of program measures to assess performance and hold programs, employees, and contractors accountable. Of those programs PROBE'd to date, only thirty-eight percent (38%), have performance measures in place. Because most programs lack long-term, results-based performance measures, these programs are unable to demonstrate adequate progress in achieving long-term goals. Therefore, these programs tend to score very poorly on the PROBE, especially in "Section II: Program Planning" and "Section IV: Program Results," which will translate into a poor overall rating. Those programs without performance measures will also be designated "Results Not Measured" to distinguish them from programs with established measures. It is the goal of this undertaking that all programs will have measures in the future.

The programs that have performance measures generally fall into one of two categories: 1) programs that are required to report to the federal government on a regular basis, or 2) programs that have been included in Governor Daniels' performance measurement initiative.

Agencies vary widely in the quality and quantity of information they collect, analyze, and utilize to manage their programs and improve performance. Often, regular reporting is required but does not contain the necessary information or the requisite detail for the agency to use the data for management purposes.

Program Overlap and Duplication

Section I-Program Purpose & Design, generally sets the tone for the remainder of the PROBE. The questions in this section ask about the problem being addressed by the program and whether its design allows for resources to be effectively targeted for the need identified. It is here that discussions ensue with the program manager about common missions or duplicative service delivery with other organizations within state government, other levels of government or the private sector.

Sample Finding

PROBE results thus far reveal that many opportunities exist for state agencies to share assets that are in many cases "owned" by individual agencies. These assets include seven print/copy centers and ten mailing centers in executive branch agencies that report to the Governor. Over the years, state government has allowed agencies with high print and mail volumes to build their own print/copy and mail centers. Of the seventeen resources mentioned above, only one operates for more than one shift per day. This is a wasteful practice in almost every instance because each agency is paying tens of thousands of dollars per month to maintain equipment that sits idle typically more than 50% (and in some cases 90%) of the time.

Public and private sector best practices for print and mail typically involve a "shared services" model for support services. Under this model, a central print/mail service agency serves all state agencies. Instead of agencies owning their own (underutilized) equipment, state agencies use the print/mail service for all of their print and mail needs. This saves the agencies and taxpayers money because the state can process the same amounts of mail and print/copy jobs using a fraction of the machines.

Sample Finding

The Standardbred Advisory Board and the Standardbred Advisory Committee have been created within the Indiana Horse Racing Commission (IHRC). Both of these entities are to make recommendations to the IHRC for the furtherance of the standardbred industry in Indiana. The Standardbred Advisory Committee focuses upon pari-mutuel racing in Indiana and is conducted under the rules of the IHRC. The Standardbred Advisory Board focuses upon non pari-mutuel racing (e.g., racing at Indiana county fairs) and is conducted under the rules of the United States Trotting Association. The opportunity exists to combine these advisory entities into a single entity charged with the promotion and conduct of the industry.

Program Relevance

This theme is best illustrated by an anecdote commonly told about the British army during World War II. A researcher was asked to observe a battalion with hopes that he could suggest ways for them to become more efficient. After monitoring an artillery crew in action, he noticed that each of the soldiers involved with firing a large gun had a distinct task except for one man who just stood at attention during the whole process. After inquiring the reason for this extra person, it was discovered that his role was to hold the horses who might be startled from the sound of the gun. Even though horses hadn't pulled the artillery guns for nearly twenty years, the operating procedure had never been changed to reassign the soldier whose job it was to hold the horses.

Just because something has "always been done that way," doesn't mean it should continue to be done. In several instances there are well-intentioned programs that were established many years ago, but have not been re-evaluated in light of societal or environmental changes. This inquiry involves just a few basic questions. Does a need for this program still exist? Does the current configuration effectively address this need at the least possible cost? Is the program considered a priority by its current "owner" agency? A "no" to any of these questions suggests corrective action.

Sample Finding

The Department of Revenue (DOR) is responsible for charity gaming oversight and enforcement. Legislation adopted in 1992 moved this responsibility from the Secretary of State to the DOR. Most of the assigned tasks are regulatory and consumer-protection driven. These include licensing of operators, workers, and suppliers. Charities must also comply with specified reporting requirements. Many of these same tasks, which are critical to maintaining the integrity of the industry, are performed by the Indiana Gaming Commission. The Gaming Commission was created in 1993 to oversee the riverboat gaming industry in Indiana. While there are certain tasks that may be well suited to DOR, the function as a whole is not central to the mission of DOR as compared to the Indiana Gaming Commission.

Sample Finding

The Indiana Professional Licensing Agency supports the activities of 39 separate occupational professional licensing boards and commissions. In the 1980's, recovery funds were created for three of these occupations. The intent of the fund was to pay out damages for the failure of a licensee to satisfy the final court judgment to an aggrieved person. The funding is generated from license surcharges to the licensee population. The statute includes minimum fund balances (aggregate balance for the three funds is $1.14 million), target balances (aggregate of $1.4 million) and a ceiling (aggregate balance of $1.85 million). Once the balance in the fund exceeds its ceiling, that overage is transferred to the general fund. In the last three and a half years, two claims totaling $40,000 have been paid from the fund.

Financial and Management Oversight

Government program managers are keepers of the public trust. Taxes and fees are levied against citizens and the resulting collections are exchanged for public value in a wide range of services and activities. As fiscal stewards, vigilant financial controls and practices must be maintained to optimize the effectiveness of these resources and to ensure that appropriations are used for their intended purpose.

Sample Finding

For years, the Indiana Department of Veterans Affairs (IDVA) has been funding the operations and maintenance of the Indiana Veterans Memorial Cemetery (IVMC) from the department's main operating account even though the Veterans' Cemetery Fund was established by the legislature "for the purpose of providing money for planning, construction, operation, and maintenance of the cemetery." The Veterans' Cemetery Fund currently has a balance of more than $2.5 million (and growing), although annual costs for operations and maintenance range from just $200,000 to $225,000. The IDVA should fund the IVMC from the Veterans' Cemetery Fund.

Limited resources and the complexity of issues being addressed have created the need for program managers to develop partnerships. These partners may be across state agencies or other levels of government, may include private sector entities or not-for-profit organizations, or may consist of some combination of these. Section III-Program Management includes questions about the effective collaboration among program partners and the accountability to which each is held. Program management skills, including setting expectations, monitoring and evaluation, will be critical to future program success. We have observed the same recognition by some of the first-wave agencies.

Sample Finding

The Indiana Criminal Justice Institute (ICJI) manages and administers tens of millions of dollars in federal grants. Previously, much of this money was distributed without mutually agreed upon expectations between ICJI and sub-grantees regarding the desired outcomes to be achieved using these funds. Recently, ICJI implemented a Memorandum of Agreement (MOA) which all sub-grantees are required to sign. The Memorandum of Agreement requires all sub-grantees to provide a timeline, deliverables, and performance measures associated with the program they will be administering using these federal and/or state funds.

Appendices

Appendix A: Program Description and Assessment

This questionnaire has been given to each agency prior to any interviews or data collection with OMB staff. The agency is asked to complete the survey for each fund center within its budget as a starting point to determine which programs are to go through the PROBE process.

Appendix B: PROBE (Program Results: an Outcome-Based Evaluation)

The PROBE is the primary instrument used as a basis for the budgetary and functional review of each program. Generally, agency personnel and OMB staff collaborate in its completion.

Appendix A: Program Description and Assessment

Agency or Department: _____
Agency Contact: _____
Program/Fund Center Name: _____
Fund Center: _____
FTE's Assigned to Program: _____

	Response/Description
Program Purpose:	
Services Provided:	
Customers Served (number, demographic, eligibility requirements, etc.):	

Program Assessment

How will Hoosiers know if this program is successful or making progress?	
Which of your quarterly measures are impacted by this program? If none, for what program activities should measures be developed to link with program purpose and mission?	
Describe statutory or operational barriers to exceptional program performance.	
If your agency or department did not offer this program, who would deliver these services?	
What other entities, public or private, are considered best-in-class at delivering these services?	
What opportunities are there to improve results through alternative service delivery such as competitive sourcing?	
What other public or private sector program partners are critical for program success?	
What or where are the most significant opportunities to improve program results?	

Appendix B: PROBE (Program Results: an Outcome-Based Evaluation)

Agency:
Program Name:
Program Fund Center:
Date Completed (MM/YY):

Section I-Program Purpose & Design					
Questions	**Answer**	**Comments**	**Evidence**	**Weight**	**Score**
Is the program purpose clear?				20%	
Does the program address a specific and existing problem, interest or need?				20%	
Is the program designed so that it is not redundant or duplicative of other state, federal, local or private efforts?				20%	
Is the program free of design flaws or other obstacles that would limit its effectiveness or efficiency?				20%	
Is the program effectively designed and targeted, so that resources will reach intended beneficiaries and/or address the program's purpose?				20%	
Section I-Program Purpose & Design Score				**100%**	

Section II-Program Planning					
Questions	**Answer**	**Comments**	**Evidence**	**Weight**	**Score**
Have specific long-term, results-based performance measures that are linked to the program purpose been established?				25%	
Does the program have ambitious targets and timeframes for its long-term measures that reasonably compare with peer group activities?				25%	
Have the program purpose, goals and measures been communicated throughout the organization and across program partners?				25%	
Has the agency or department responsible for this program taken meaningful steps or developed a plan to address any deficiencies indicated by the questions above?				25%	
Section II-Program Planning Score				**100%**	

Section III-Program Management					
Questions	**Answer**	**Comments**	**Evidence**	**Weight**	**Score**
Does the agency regularly collect timely and credible performance information, including information from key partners, and use it to manage the program and improve performance?				20%	
Are managers, key personnel and program partners held accountable for cost, schedule, efficiency and performance results?				20%	
Does the program have procedures (e.g., competitive sourcing/cost comparisons, IT improvements, incentives) to measure and achieve efficiencies and cost effectiveness in program execution and service delivery?				20%	
Does the program collaborate and coordinate effectively with related programs?				20%	
Does the program participate in the statewide strategic sourcing initiative to ensure inputs are purchased at the lowest possible cost?				20%	
Section III-Program Management Score				**100%**	

Section IV-Program Results					
Questions	**Answer**	**Comments**	**Evidence**	**Weight**	**Score**
Has the program demonstrated adequate progress in achieving its long-term performance goals?				25%	
Does the program demonstrate improved efficiencies or cost effectiveness in achieving program goals each year?				25%	
Does the performance of this program compare favorably to other programs with similar purposes, including government, private, etc.?				25%	
Is input regularly sought, gathered and reviewed to address any deficiencies in customer service or address any changes in programmatic circumstances?				25%	
Section IV-Program Results Score				**100%**	

Section	Weighting	Score	Weighted Score
Section I-Purpose & Design	20%		
Section II-Planning	20%		
Section III-Management	25%		
Section IV-Results	35%		
Total Program Score	**100%**		
Program Rating			