Management Alert: District Government Not in Compliance with Statutory Performance Budget Requirement

February 13, 2019

Office of the District of Columbia Auditor

Kathleen Patterson, District of Columbia Auditor
www.dcauditor.org

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The Hon. Phil Mendelson, Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue N.W.
Washington DC 20004

Mr. Rashad Young
City Administrator
1350 Pennsylvania Avenue N.W
Washington, DC 20004

Mr. Jeffrey S. DeWitt
Chief Financial Officer
1350 Pennsylvania Avenue N.W.
Washington, DC 20004

Management Alert: *District Government Not in Compliance with Statutory Performance Budget Requirements*

Dear Chairman Mendelson, Mr. Young, and Mr. DeWitt:

The Office of the D.C. Auditor (ODCA) writes this Management Alert to inform the Executive and Legislative branches of the District of Columbia government that requirements of D.C. Code related to the District's Performance-Based Budget (PBB) have not been met in the current year as well as in immediate past years. D.C. Code §47-308.01 sets out the timetable and requirements for the District's budget and states: "each agency that has transitioned to the performance-based budget format shall submit a copy of its strategic business plan to the Council prior to January 31 of each year." All major agencies transitioned to a "performance-based budget" between 2003 and 2007. Further, §47-308.01(g)(2) states that, "The Office of the City Administrator, in conjunction with the Office of the Chief Financial Officer, shall make available in electronic format copies of agency strategic business plans to the public and shall display the strategic business plans on the District government's internet site." Strategic business plans have not been provided to the Council as of the January 31, 2019, deadline, nor have they been posted to the dc.gov website.

We provide this Management Alert with the recommendation that the Executive Branch comply with the provisions of the D.C. Code or consider, with the D.C. Council, altering the provisions of the code. This office has recommended previously that the Mayor and Council carefully review the requirements of the 2001 Performance-Based Budget law as well as the Government Managers Accountability Amendment Act of 1995 to ensure that performance management is used successfully as "a tool for better management and operations."[1] In 2008 ODCA recommended that the Mayor and Council consider statutory revisions so that "requirements for strategic planning and program performance measures" are integrated into "one body of law governing planning, performance measurement, performance reporting, *and budgeting*." (emphasis added).[2]

Our recommendation to clarify and confirm the coordination of performance management and Performance-Based Budgeting is particularly timely today. The District's Office of the Chief Financial Officer has initiated[3] a complex and costly effort to replace the government's financial management system—the System of Accounting and Reporting (SOAR)—which was brought online in the same timeframe as the adoption of a performance-based budget process during the Williams Administration.

Given the timing of the prospective purchase and implementation of a new enterprise financial system (EFS), ODCA reiterates our 2008 recommendation that policymakers give careful thought to how performance and budget are closely integrated to ensure that a major investment like a new financial system will be an efficient tool to allow for oversight and accountability for effective expenditure of taxpayer funds. In other words, if the Mayor and Council determine that the current Performance Based Budget law should not be adhered to, now would be a prudent time to replace that law with a statute that elected and appointed officials are prepared to embrace.

Background

The Mayor and Council approved the "Performance and Financial Accountability Act of 2001" as a title in the FY 2002 Budget Support Act of 2001 creating a budget structure for District agencies that would tie funding to specific *activities* and *services*, not merely to subordinate organizations within the government. The Performance-Based Budget is defined in DC Code §47-308.01(a)(3) as "a budget presentation consisting of agency programs, estimated total program and activity costs, as well as full-time equivalents for the current and next fiscal year; agency strategic results goals; an overview describing the activities within each program; estimated program costs; and program performance measures."

The timing was significant: the District's budget including the Support Act Title was debated and approved in the spring of 2001. A few months later on September 30, 2001, the Financial Responsibility and Management Assistance Authority (the control board) went dormant, ending its active oversight of District finances and governance after four years of balanced District budgets. The PBB initiative was one step policymakers took to help assure District residents and federal overseers that they and their successors would remain vigilant with regard to the costs of programs and services, thereby improving their stewardship of the city's finances for the long term. It is now two decades after the financial crisis, the District has seen 20 years of balanced budgets, and has achieved a Triple A bond rating. At the same time, cognizant of national indicators of a potentially weakening economy, Mayor Muriel Bowser used the opportunity of her swearing in for a second term on January 2, 2019, to issue this warning: "We are

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[1] Performance Measurement System Needs Long-Term Stability and Commitment to Maximize Effectiveness, ODCA, March 26, 2008

[2] Compliance with the Government Managers Accountability Amendment Act of 1995 Has Been Incomplete and Inconsistent, ODCA, March 28, 2008

[3] http://dcauditor.org/wp-content/uploads/2019/02/EFS.RFP_.pdf

resilient, but we are not financial-tsunami-proof… . We must resist writing checks now that we cannot cash in recessionary times."

In 2001 the new Performance Based Budget structure was to be phased in over several years with the CFO's Office of Budget and Planning in the lead, tasked with reviewing expenditures, program definitions, performance measures, and benchmarks. As of FY2006, according to the Code, "no operating agency budget shall be forwarded to the mayor for approval without the Office of Budget and Planning's determination that it is a performance-based budget." The performance-oriented structure, the CFO explained in the FY2003 budget book, "allows public officials and managers to better monitor whether a specific department program is meeting anticipated goals from a fiscal and performance perspective, PBB also lets the budget be used as a management tool." The 2007 Proposed Budget and Financial Plan explained further that the PBB program had the goal of "enabling public officials, program managers, and the public to evaluate whether money is being spent wisely on a program that is meeting its goals or if the money could be better spent elsewhere."

The front end of the PBB process was the Strategic Business Plan that each agency coming under the PBB structure was required to produce, with a delivery date to the Council each year of January 31. It was described in CFO testimony in 2004: "As the first step in the budgeting process before any budgeting is done, the Office of Budget and Planning works with agencies to draft agency strategic business plans. These plans outline the program structures for the agencies, as well as link funding to key result measures. OBP staff work with agency program and financial staffs to develop these structures and, in turn these structures serve as the basis for agency PBB budgets."[4]

The Plans basically required each operating agency to describe in detail the businesses it was engaged in—every program, activity, and service—with the expenditures identified down to the activity level. See the two attachments as examples from FY 2004-2005 plans. The Office of Property Management, the predecessor to today's Department of General Services, identified five programs. One of the five is Asset Management, which included seven activities. One of the seven activities, Lease Management, comprised seven "services" from lease projection reports to relocation services, all rolling up to an expenditure for lease management of just over $10 million.[5]

The Metropolitan Police Department's plan identified seven programs, one of which was Investigative Field Operations. Within that program were five activities, one identified as Child Investigations. Child Investigations comprised three services, identified as child abuse and neglect investigations, missing child investigations, and juvenile processing. The activity of child investigations was budgeted at $5.7 million.[6] The business plans identified performance measures for every service and identified the managers responsible for each activity. The law's requirement to complete the business plans and to make them available on line was designed not simply for government, but as a critical transparency tool to be readily available to District taxpayers.

Planning for the performance-based budgeting called for major agencies to phase in use of the new planning and oversight structure, with the final agencies—including the D.C. Council—required to adopt the structure in the FY 2006 budget. Though it was not a requirement in the initial years to actually

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[4] https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/release_content/attachments/5914/molina021704.pdf

[5] https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/release_content/attachments/5914/molina021704.pdf

[6] http://dcauditor.org/wp-content/uploads/2019/02/MPD.Business.Plan_.pdf

budget to the third tier or service level, the Council mandated service-level budgeting for some agency program areas, to illustrate the granularity possible in budget planning and the "how" of building a budget from the ground up. This, the District's version of a zero-based budget, was designed to enable officials to identify what each significant activity of the government actually costs. In an Office of Budget and Planning (OBP) special study called for in the proposed FY 2005 budget, service-level budgets were to be presented for 20 distinct areas. In testimony that year OCFO representatives explained that budgeting to the service level throughout the government would be a daunting task, desirable though it might be. "It is worth nothing that in the 57 existing PBB agencies," as of spring 2005, "there are 224 programs. In these 224 programs, there are 1,256 activities. In these activities, there are 12,602 services," according to the OBP testimony.[7]

ODCA 2008 Review

In 2008 ODCA published two companion reports on the District's performance management process, including the critical role of performance management in performance-based budgeting. At that point, ODCA found, "performance-based budgeting does not seem to have met its goal" of evaluating whether funds were spent effectively "and its future in budgeting and performance management also seems unclear."[8]

Two years into the Fenty Administration, the PBB strategic business plans—a cornerstone of the process describing the agency's goals and program and activity structure, intended to span several years and, thereby, encourage long-range planning—came to be described as cumbersome and more useful as a budget structure than a means of framing issues and supporting long-term planning. Agency staff interviewed by ODCA expressed "significant dissatisfaction" with the strategic business plans. With its focus on developing and reporting out performance metrics, the Fenty Administration replaced the strategic budget plans with its own version of performance plans. This shift in emphasis is corroborated in an OCA instruction manual[9] published to give agencies direction—a step taken by the new administration in spite of the fact that the strategic budget documents were required by the Code. ODCA concluded that PBB was not being used as envisioned and therefore did not deliver on the promise of the budget itself serving as a management and oversight tool.

ODCA reported in 2008:

> Although performance measurement is intended to inform budget decisions and the District's adoption of performance-based budgeting wrote that expectation into law, the Auditor found no evidence that performance information has influenced budget decisions. For the six sample agencies, the Auditor identified 53 policy initiatives (also referred to as budget enhancements) that were funded in the FY 2008 operating budget…None of the 53 initiatives was accompanied by a description of expected results in the District's FY 2008 budget submission to the U.S.

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[7] https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/release_content/attachments/5914/molina021704.pdf

[8] http://zd4l62ki6k620lqb52h9ldm1.wpengine.netdna-cdn.com/wp-content/uploads/2018/07/DCA052008.pdf, p. 32

[9] http://zd4l62ki6k620lqb52h9ldm1.wpengine.netdna-cdn.com/wp-content/uploads/2018/07/DCA052008.pdf

> Congress. Furthermore, the Auditor's field interviews did not yield any examples of how the performance-based budgeting process had influenced budget decisions.[10]

The Fenty Administration responded to drafts of the two ODCA reports on performance management and sought to explain challenges they faced as an incoming administration. "For many years our performance measurement system was working better in theory than in practice," wrote Kevin Donahue on behalf of the Office of the City Administrator. "The city's Strategic Business Plans became ignored, or worse, maligned by agencies because they neither conveyed a strategy nor a plan of any kind." He said a costly reporting system was developed but never utilized, a reference to the ARGUS system that was abandoned as ineffective. When PBB was introduced and implemented during the Williams Administration there were several staff members within the OCFO Office of Budget and Planning dedicated to the budget process, working closely with the Office of the City Administrator. Donahue wrote in 2008: "We also need a full commitment by the Office of the Chief Financial Officer (OCFO) to maintain a performance program integrated with the budget process. The OCFO has reduced the number of staff dedicated to performance budgeting over the last several years, downsizing from three to four staff to now devoting one person, part-time, to the effort."

In the proposed FY 2012 Budget and Financial Plan further change was explained: "During FY 2010, selected agencies further transitioned to Division-Based Budgeting, and the Performance Plans were expanded from the agency level down to the operating divisions within the agency. Additional measures were developed to assess performance within the agency's divisions, and objectives were created for the divisions." By this budget book admission, the Executive moved further away from the PBB goal of being able to say what government *services* and *activities* cost, returning to an emphasis on organizational structures.

An ODCA request in 2016 for current Strategic Business Plans submitted to Deputy CFO Gordon McDonald was referred to the Office of the City Administrator for response. In the FY 2017 Proposed Budget and Financial Plan the administration explained its intended use of performance documents: "Annual performance plans will be used at several points during the year to help the Mayor, City Administrator and Deputy mayors prioritize resources, track progress, and make adjustments during the year as needed. The draft annual performance plans will be used during budget meetings to understand how changes in funding are expected to affect performance." This is significantly different from the vision of Performance-Based Budgeting in which the budget is built around the actual costs of services and activities to be able to calibrate increases or reductions in budget allocations based on the efficiencies of current service delivery, a focus shift to "programs costs and outcomes." Performance-based budgeting was designed to account for all expenditures of the District government; the performance measurement as implemented in more recent administrations has focused on those programs and services that are seen as administration priorities and has not encompassed the totality of government expenditures.

One conclusion from ODCA's earlier review of best practices in performance management was that performance metrics and reports should not be viewed as an end in themselves. Measuring performance "is most beneficial as a tool for planning, budgeting, and management" which was the original intent of the Performance Based Budget policy and structure.

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[10] http://zd4l62ki6k620lqb52h9ldm1.wpengine.netdna-cdn.com/wp-content/uploads/2018/07/DCA052008.pdf, p. 30

The need for the kind of expenditure detail called for in the Performance-Based Budget legislation is most obvious at this time of year when the District's elected officials want to provide additional funding for one or more priorities. But knowing how much is allocated to a unit of government without knowing what a particular activity or service costs limits the ability to make choices among activities. The fact is that officials do not know precisely what the money is buying, other than salaries. If a Councilmember wishes to propose a new activity there is not a mechanism readily available to say: what are we spending on such an activity today? We have not required agencies to spell out with precision the third or "service level" of spending as was—and still is—statutorily required in the PBB strategic business plans that have not been produced in the current budget cycle.

Next Steps

The vision and the promise of Performance Based Budgeting outlined in 2001 have not been met. Performance indicators continue to be reported, and in an increasingly robust fashion, but without the close alignment with a zero-based budget formulation envisioned earlier. Only the first step in the structure—programs divided into activities—persists but without identification of responsible officials or the additional breakdown into services that can then be costed out. The District continues to budget for "subordinate organizations" within agencies, and not *activities* and *services* as envisioned. What has been lost in a very practical sense is to be able to tell taxpayers precisely what they are paying for. They're paying for salaries, by and large, with little further definition.

As Assistant City Administrator Donahue noted in the Fenty Administration response to ODCA's 2008 reports, the Performance Based Budget program included a web-based budget and performance system dubbed ARGUS. That system, which was never utilized, was described as providing an automated information flow between agencies and the OBP, integration between revenue forecasting and funding projections and other features to aid in budget and performance planning and integration. After the failure of ARGUS came what was described as a "budget formulation system" described in FY 2009 OCFO testimony as an "interim solution" awaiting a replacement of SOAR which would include the replacement of the budget module.[11]

Some nine years later, the Request for Proposals (RFP) for a new enterprise financial system was explicit in that the new system will include a budget module: the "Oracle Planning and Budgeting Cloud Services." And the RFP also describes what should occur in the "Blueprint" phase designed to last six months and produce a comprehensive implementation plan for the new financial system. Among other tasks, the contractor is to "analyze and recommend how budget execution tasks should be performed in the new system, including whether these tasks will originate in Planning and Budgeting or in Financial Management" and "Define and document financial management and budget reporting capabilities required to meet the District agencies' needs such as the Budget Book, CAFR and Popular Annual Financial Report; identify the scope of reports to be developed versus the canned reports that are include with the Oracle Cloud product suite."

If the budget reporting capabilities defined and documented for the new system were to comport with current law, they would reflect the Performance-Based Budget requirements, requirements that are, today, not being met by the D.C. government. It is critical, now, for the elected and appointed leadership to determine what, exactly, they want the District's budget to look like. *Programs* divided

[11] https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/release_content/attachments/16187/Testimony%20-%20Cap%20Improvement%20Program%20022009.pdf

into *Activities*, divided into *Services*, all with cost information attached, and identified by responsible party and performance metrics as in current law—or something else?

Please let me know if you have any questions on this Management Alert. I look forward to continuing to work with you and members of your staff with the goal of improving the District government and benefiting the residents of the District.

Sincerely yours,

Kathy Patterson

Kathleen Patterson
District of Columbia Auditor

cc: Councilmembers
Officers of the Council
Jennifer Reed, EOM
Betsy Cavendish, EOM
Gordon McDonald, OCFO

Attachments:

Activity Purpose Statements and Performance Measures

PROGRAM	Asset Management
Activity	**Lease Management**
Activity Purpose Statement	The purpose of the Owned and Leased Buildings activity is to provide space location and space management services for District agencies in both owned and leased buildings so they can work in the most appropriate available environment. Appropriate program/project manager – meets requesting agency needs in fulfilling its mission (e.g., geographic location if a community clinic, proper neighborhoods if eligibility office)
Services that Comprise the Activity	Lease negotiations completed Lease projections reports Agency space requests Agency Space Located/Identified Master Space List Relocation services Occupancy Services • Structure Maintenance • Common Area Maintenance
Activity Performance Measures	**Results:** (Key Result Measures Italicized) *80% of customers reporting that space located and provided by OPM enables them to work in an environment that assists in fulfilling the agency's mission (FY05 target: 85%)*(This to include locations services - space located and provided.) *100% of rent collections and receivable balance measured against the total amount owed to the District (FY05 target: 100%)* Achieve 90% of all acquisitions, replacements or relocations of operational locations projected for 2004. FY 2005 –07 to include two – (2) additional locations associated to the government centers project. **Outputs:** # of agency requests for space completed # of relocations completed # of leases negotiated. **Demand:** # of agency requests for space anticipated # of relocations anticipated **Efficiency:** Cost per agency space fulfilled (Measure definition would detail "space fulfilled", i.e., agency has made the request, and OPM has identified office or working space, worked with agency to tailor space and moved the agency into the new space.) Cost per relocation completed
Responsible Program Manager	Carol Mitten
Responsible Activity Manager	Iris Proctor; Alyssa Turner; Leon Walker; Phyllis David
FY 2005 Budget (Gross Funds)	$10,306,435
FTE's	44

PROGRAM	INVESTIGATIVE FIELD OPERATIONS
Activity	**Child Investigations**
Activity Purpose Statement	The purpose of the Child Investigations activity is to provide investigative services to child victims of abuse and neglect and their families so they can be referred to proper protection and social service agencies and so that the offenders can be brought to justice.
Services that Comprise the Activity	Child Abuse and Neglect Investigations Child Missing Persons Investigations Juvenile processing (Detention Facility)
Activity Performance Measures (Target & Measure)	**Results** *(Key Result Measures are Italicized):* *Clearance rate for child abuse and neglect cases (FY04 target: 5%, FY05 target: 5%)* *Court overtime hours per arrest (FY04 target: -5%; FY05 target: -5%)* **Outputs:** No. of juveniles processed/referred to protection and social service agencies No. of child abuse and neglect case investigations No. of missing persons case investigations No. of juveniles processed (Detention Facility) No. of child abuse or neglect cases closed by arrest or exceptional means No. of court overtime hours **Demand:** No. of juveniles to be processed (5-yr avg.) No. of child abuse and neglect cases (5-yr avg.) No. of missing persons cases (5-yr avg.) No. of juveniles to be processed (Detention Facility) (5-yr avg.) No. of child abuse or neglect cases **Efficiency:** Cost per juvenile processed Cost per child abuse and neglect case Cost per missing persons case Cost per juvenile processed (Detention Facility)
Responsible Program Manager	AC Winston Robinson
Responsible Activity Manager	Inspector Lillian Overton
FY 2005 Budget (Gross Funds)	$5,703,704
FTE's	78

About ODCA

The mission of the Office of the District of Columbia Auditor (ODCA) is to support the Council of the District of Columbia by making sound recommendations that improve the effectiveness, efficiency, and accountability of the District government.

To fulfill our mission, we conduct performance audits, non-audit reviews, and revenue certifications. The residents of the District of Columbia are one of our primary customers and we strive to keep the residents of the District of Columbia informed on how their government is operating and how their tax money is being spent.

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