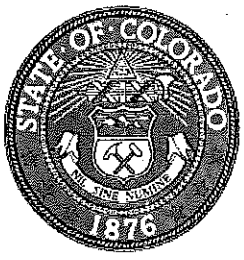
Attachment A

Implementation of the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act

Performance Audit
August 2012



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Office of the State Auditor

Dianne E. Ray, CPA
State Auditor

August 3, 2012

Members of the Legislative Audit Committee:

This report contains the results of a performance audit related to the SMART Government Act. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government and Section 2-7-204(4), C.R.S., which requires the State Auditor to conduct performance audits of departments subject to the SMART Government Act. The report presents our findings, conclusions, and recommendations, and the responses of the Office of State Planning and Budgeting, Independent Ethics Commission, Judicial Department, Department of Law, Office of the Colorado State Public Defender, Office of the Child's Representative, Department of State, and Department of the Treasury.

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Implementation of the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act

Performance Audit, August 2012
Report Highlights

Dianne E. Ray, CPA
State Auditor

State of Colorado

Purpose

Review departments' strategic plans, including associated goals and performance measures, to test compliance with the requirements of the SMART Government Act.

Background

- The SMART Government Act (House Bill 10-1119) introduced performance-based budgeting in Colorado. The Office of State Planning and Budgeting plays a central oversight role in the State's budgeting system.
- The SMART Government Act requires departments to create 5-year strategic plans that include goals and performance measures.
- The SMART Government Act requires the State Auditor to annually conduct performance audits of departments covered by the Act beginning this year.

Our Recommendations

The Office of State Planning and Budgeting (OSPB) should:

- Improve its written guidance related to performance-based budgeting and strategic plans.
- Establish policies and procedures for reviewing strategic plans to ensure that the strategic plans of departments subject to its oversight comply with statutory requirements and its own written guidance.

The Independent Ethics Commission, Judicial Department, Department of Law, Office of Colorado State Public Defender, Office of the Child's Representative, Department of State, and Department of Treasury should:

- Ensure that their strategic plans comply with the SMART Government Act.
- Either follow OSPB's written guidance or establish their own policies and procedures for developing strategic plans.

The agencies generally agreed with our recommendations.

Evaluation Concern

Departments did not follow all statutory requirements and best practice guidance put forth by the Office of State Planning and Budgeting when developing their Fiscal Year 2013 SMART Government Act strategic plans.

Key Facts and Findings

- A total of 14 (58 percent) out of 24 department strategic plans lacked at least one of the five basic required components stipulated in statute.
- Strategic plans were not always available to the public on the Office of State Planning and Budgeting's and departments' websites, as required by statute. Specifically, as of March 1, 2012, nine strategic plans were missing from department websites and six were missing from the Office of State Planning and Budgeting's website.
- The performance measures included in strategic plans were not always understandable to the general public. Out of the 521 performance measures included in departments' strategic plans, we concluded that 128 (25 percent) measures were not understandable to the public because they used technical language, jargon, or undefined terms.
- Departments often included performance measures in their strategic plans that did not appear to be realistic. For example, 233 (45 percent) measures had corresponding benchmarks that either underestimated the potential of the department or appeared to be too difficult to achieve.
- Four departments did not include at least one performance-based goal that addressed either cost savings or increased efficiency, which are both secondary goals outlined in statute.
- Nine departments did not solicit input from employees, as called for by statute, when developing their performance measures.
- We identified 87 budget line items in Fiscal Year 2013 budget requests that were each more than $1 million that were not covered by any of the performance measures included in department strategic plans. Overall, 89 percent of Fiscal Year 2013 requested budget line items were covered by at least one performance measure.

For further information about this report, contact the Office of the State Auditor
303.869.2800 - www.state.co.us/auditor

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SMART Government Act

The State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act (House Bill 10-1119) established a performance-based budgeting system for Colorado. This legislation repealed the zero-base budgeting system in place from the 1970s—which theoretically meant that legislators reviewed budget requests from point zero each year and did not assume that existing programs should continue—and put in place a system that emphasizes developing budgets based on how agencies perform. According to research conducted by the National Conference of State Legislatures (NCSL), "the hallmarks of performance management include establishing strategic plans, setting agency goals and objectives, identifying ways to meet them, and measuring how well they are accomplished over time." This approach is consistent with the system now in place in Colorado, which requires departments to create strategic plans outlining their goals and to describe how those goals will be evaluated through performance measures. House Bill 11-1212 subsequently amended the SMART Government Act to encourage departments to consider "lean" principles when developing their strategic plans. "Lean" principles focus on increasing a department's efficiency and effectiveness by eliminating non-value-added processes.

Colorado's transition to performance-based budgeting through the SMART Government Act reflects a national trend toward demanding more accountability from government. According to NCSL, for the past two decades, state governments across the country have moved to employing various forms of performance-based budgeting in an effort to "reward efficient, effective programs and to encourage remodeling programs that cannot meet specific goals." In revising Colorado's budgeting process, legislators hoped to improve state government, as expressed in the legislative declaration for the SMART Government Act (Section 2-7-201, C.R.S.), by:

- Ensuring that state government is accountable and transparent in such a way that the general public can understand the value received for the tax dollars spent by the State.
- Increasing efficiency in program administration.
- Holding departments accountable for programs and services they deliver.

Section 2-7-202(2), C.R.S., identifies 24 departments and offices that are subject to the new performance-based budgeting requirements under the SMART Government Act. In this report, we refer to all of these departments and offices as "departments." The departments identified in statute include the:

- Nineteen principal departments of the Executive Branch of state government, as specified in Section 24-1-110, C.R.S., including the three elected offices of the Department of Law, Department of Treasury, and Department of State.
- Judicial Department (which is situated within the Judicial Branch and oversees the state court system and probation services).
- Office of the Colorado State Public Defender.
- Office of the Alternate Defense Counsel.
- Office of the Child's Representative.
- Independent Ethics Commission.

The offices of the Governor and Lieutenant Governor and the Legislative Branch are not subject to the SMART Government Act's budgeting requirements.

Colorado's Performance-Based Budgeting System

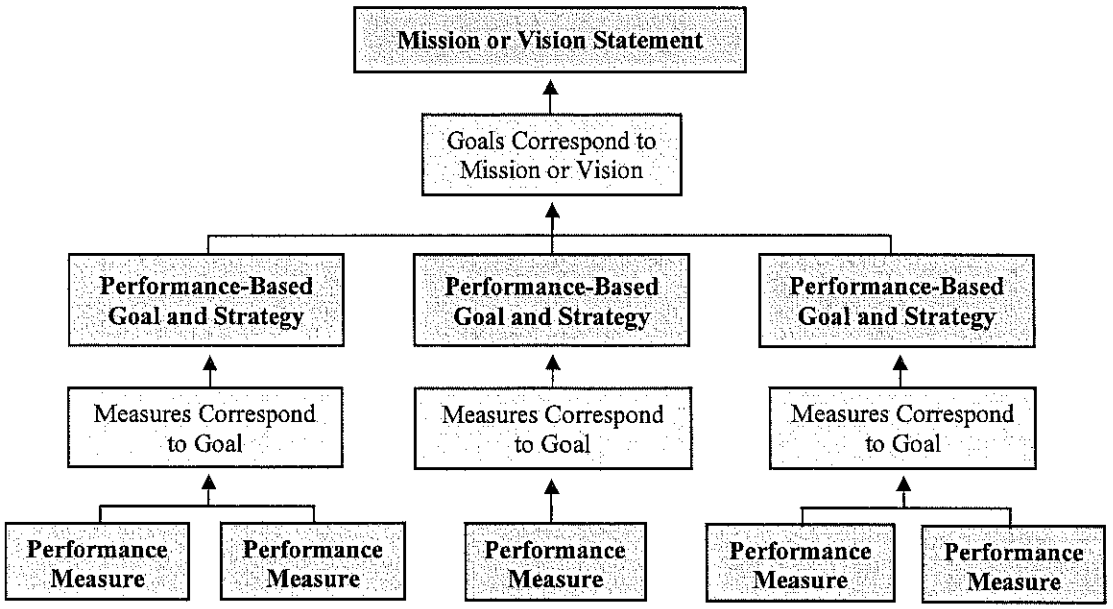
To achieve the goals of increased transparency, accountability, and efficiency, the SMART Government Act created specific changes in three areas related to budgeting: (1) department strategic plans, (2) the annual budgeting process, and (3) the role of the Office of State Planning and Budgeting (OSPB) in the budgeting process. In the following paragraphs, we discuss each of these areas and the scope of the changes.

Strategic Plans. Section 2-7-201, et seq., C.R.S., provides that each of the 24 departments subject to the SMART Government Act must create strategic plans to show the impact of management strategies and funding and to link funding in the department's budget to the results of that funding. Prior to enactment of the SMART Government Act, many departments had been involved with strategic planning initiatives. However, the SMART Government Act now formally requires departments to create 5-year strategic plans and to make those plans readily available to legislators and the public. Specifically, each strategic plan must be posted on the department's website and on OSPB's website and must contain the following five basic components:

- The department's 5-year mission or vision
- Performance-based goals that correspond to the mission or vision
- Performance measures that correspond to the performance-based goals
- Strategies to meet the performance-based goals
- A performance evaluation providing a review of the department's outcomes as compared to the benchmarks stated in its performance measures

As the flowchart below demonstrates, these basic components are intended to work together to ensure that departments fulfill their mission or vision.

SMART Government Act
Relationship of Required Components of Strategic Plans



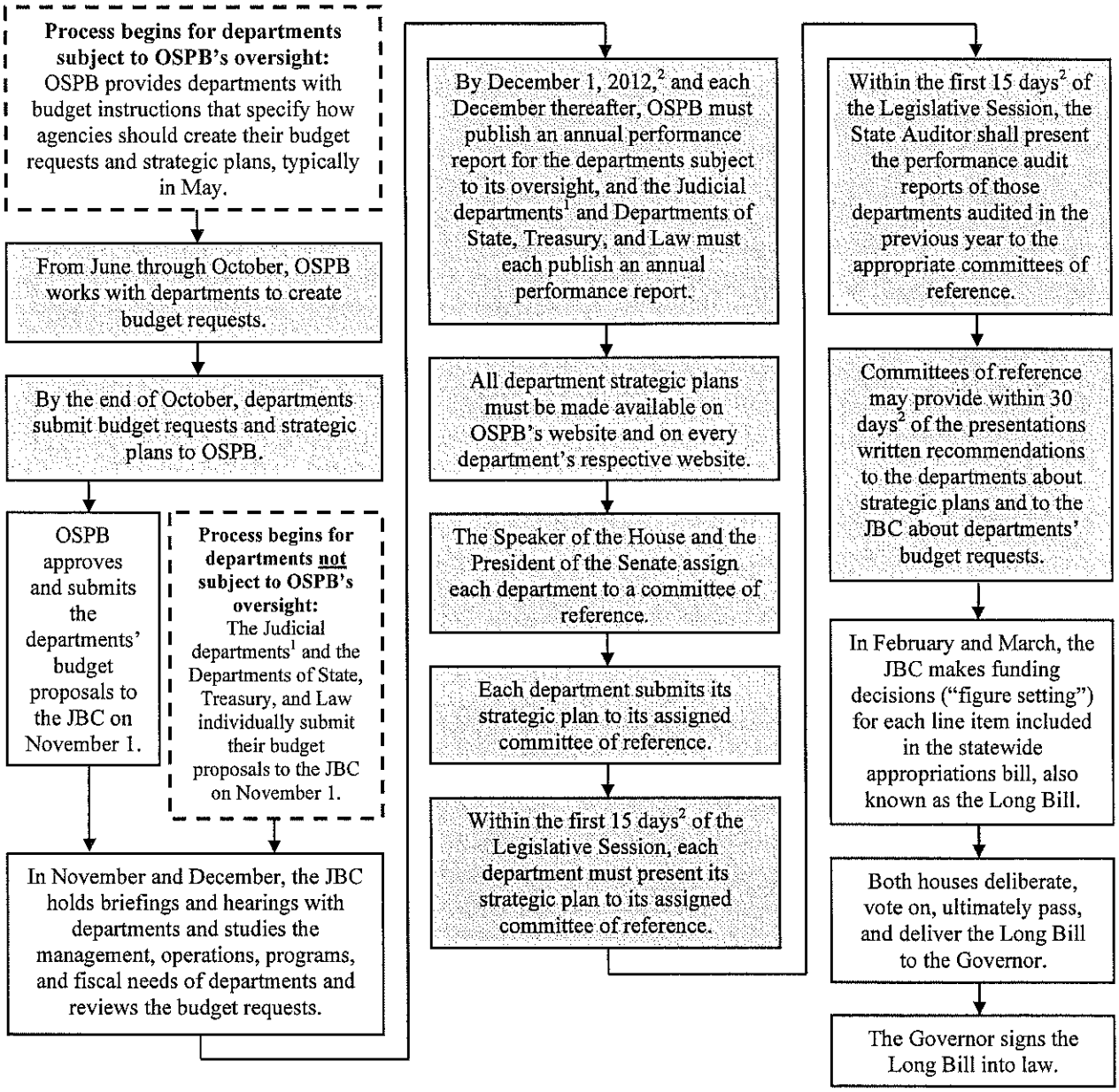
Source: Office of the State Auditor's analysis of the SMART Government Act (Section 2-7-201, et seq., C.R.S.).

As shown in the chart, if a strategic plan component is missing or deficient, it is difficult for the system to function as intended by statute. For example, if a performance measure is not related to a performance-based goal, then it may not be clear to the public or members of the General Assembly why a department is reporting on that measure and ultimately how the measure pertains to the department's mission or vision.

Budgeting Process. The SMART Government Act changed the State's budgeting process to allow for greater transparency and accountability. The flowchart below provides an overview of the process, which involves the Joint Budget Committee (JBC), OSPB, and the departments, and the changes made by the SMART Government Act. The shaded boxes contain procedures that the SMART Government Act created or modified; unshaded boxes contain procedures that existed prior to its enactment. As the chart shows, the most significant changes made by the SMART Government Act formalize the processes for legislators to

engage with departments regarding their goals and performance by (1) requiring departments to present their strategic plans to committees of reference and (2) allowing committees of reference the opportunity to provide formal recommendations on departments' strategic plans and budget requests.

Colorado's Performance-Based Budgeting Process As Created by the SMART Government Act



Source: Office of the State Auditor's analysis of statutes related to the budgeting process (Sections 2-7-201, et seq., and 24-37-301, et seq., C.R.S.) and OSPB budget instructions.

[1] "Judicial departments" refers to the Judicial Department and the Judicial Branch offices that are subject to the SMART Government Act: Independent Ethics Commission, Office of the Alternate Defense Counsel, Office of the Colorado State Public Defender, and Office of the Child's Representative.

[2] Time frame outlined in statute (Section 2-7-201, et seq., C.R.S.).

The SMART Government Act also requires committees of reference to assign two liaisons to each department and the JBC to assign one liaison. The liaisons work with departments to inform the committees of the performance-based budgeting processes and of departments' performance-based goals, performance measures, and performance evaluations.

OSPB's Role in the Budgeting Process. OSPB serves as the central coordinating office for the State's budgeting process. Specifically, Section 24-37-301, et seq., C.R.S., outlines OSPB's oversight and administrative role in helping the Governor to develop the executive budget for the State, including (1) designing instructions to be used for the preparation of budget requests; (2) developing an annual budgeting cycle; (3) conducting annual executive budget hearings related to departments' programs, plans, and budget requests; (4) presenting briefings to legislators and other interested parties on the annual executive budget proposals; and (5) continually reviewing and recommending changes in department plans, policies, and programs. The SMART Government Act added to OSPB's coordinating responsibilities by requiring it to (1) post strategic plans for all departments subject to the Act—including those not subject to OSPB's oversight—on its website [Section 2-7-204(1)(b), C.R.S.], (2) publish annual performance reports for departments subject to its oversight [Section 2-7-205(1)(a), C.R.S.], and (3) receive a copy of any recommendations that committees of reference have about strategic plans for departments subject to its oversight [Section 2-7-204(3)(a)(I), C.R.S.]. Additionally, Section 2-7-202(13), C.R.S., authorizes OSPB to issue guidance further defining the components required to be included in SMART Government Act strategic plans.

The SMART Government Act establishes different processes for departments that are subject to OSPB's oversight versus those that are not. OSPB's oversight responsibilities related to the State's budget, including requirements under the SMART Government Act, are generally limited to the 16 Executive Branch departments without elected leaders. OSPB does not provide oversight over the budgeting processes for Department of Law, Department of State, and Department of Treasury—all of which are led by elected officials—or the Judicial and Legislative Branches. Departments subject to OSPB's oversight submit their strategic plans to OSPB for review and later, after OSPB approves the plans, to their assigned committees of reference. By contrast, departments not subject to OSPB's oversight each submit their strategic plans directly to the General Assembly and are not required to work with OSPB when preparing them. Furthermore, the SMART Government Act states that OSPB shall not have access to edit any of the strategic plans for departments that must comply with the law but are not subject to OSPB's oversight.

Audit Scope and Methodology

The SMART Government Act [Section 2-7-204(4), C.R.S.] requires the State Auditor to annually conduct performance audits of one or more programs in at least two departments so as to audit all departments in a 9-year cycle. The first audit must be completed before the 2013 legislative session. According to statute, these audits may include, but are not limited to, the review of:

- The integrity of the department's performance measures included in its strategic plan.
- The accuracy and validity of the department's reported results.
- The overall cost and effectiveness of the audited programs or services in achieving legislative intent and the department's goals.

For this first audit required under the SMART Government Act, we reviewed the strategic plans, including associated goals and performance measures, developed by all 24 of the departments subject to the Act's requirements. Our audit did not include the Offices of the Governor or the Lieutenant Governor or the Legislative Branch because they are not subject to the requirements of the SMART Government Act.

The primary objective of this audit was to determine whether departments' strategic plans complied with applicable requirements in statute and in guidance provided by OSPB. To accomplish our audit objective, we evaluated whether the strategic plans included the required components defined in statute. We also evaluated whether the goals and performance measures in the plans met standards outlined in statute and OSPB guidance. As part of this work, we categorized the types of performance measures that departments included in their strategic plans and compared those performance measures with department budget requests and lists of each department's key programs. We then determined the extent to which the performance measures covered all of a department's activities. We interviewed leadership at OSPB and at all 24 departments to learn about their implementation of the SMART Government Act. We also attended or listened to each department's SMART Government Act briefing at its committee of reference hearing and Joint Budget Committee hearings on the departments' SMART Government Act strategic plans. Finally, we reviewed literature on performance-based budgeting in other states.

We did not rely on sampling techniques to support our audit work.

Audit work was performed from November 2011 through July 2012. We acknowledge the cooperation and assistance provided by staff at OSPB and all of the departments that were included in our review. We conducted the audit in accordance with generally accepted government auditing standards. Those

standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary of Findings

Our audit found that all departments subject to the SMART Government Act prepared strategic plans and participated in the State's new performance-based budgeting process. However, we also found that departments did not follow all statutory requirements and best practice guidance put forth by OSPB when developing their strategic plans. Specifically, 14 (58 percent) of the 24 departments' strategic plans lacked at least one of the five basic components required by statute. Additionally, strategic plans were not always readily accessible to the public on department and OSPB websites, as required by statute. Finally, we found that many of the performance goals and measures included in strategic plans did not meet statutory requirements or best practice standards.

This report is separated into four sections. The first section addresses the compliance problems we found with strategic plans. The second and third sections discuss areas in which performance-based goals and performance measures can be improved. Finally, the fourth section outlines our recommendations to OSPB and the departments for improving the strategic plans and the performance-based goals and performance measures contained therein.

Strategic Plans

Strategic plans are integral to the performance-based budgeting process, because they are the mechanism that departments use to demonstrate to the General Assembly and public the value received for the tax dollars they spend. Statute defines a strategic plan as "a document prepared by a department that shows the impact of management strategies and funding and links funding in the department's budget to the results of that funding" and "serves as an overarching guide to a department's core functions and as a tool to evaluate performance over time" [Section 2-7-202(13)(a), C.R.S.].

As discussed, department strategic plans must satisfy two main statutory requirements under the SMART Government Act. First, each strategic plan must contain five basic components defined in Section 2-7-202(13)(b), C.R.S., as outlined in the bullets below.

- **Five-Year Mission or Vision Statement.** Strategic plans must include a 5-year mission or vision statement. As further defined in OSPB's guidance, a mission statement should articulate the reason for a department's existence, and a vision statement should be a brief description of the operational focus necessary for a department to reach its future goals.

- **Goals That Correspond to Mission or Vision.** Strategic plans must include performance-based goals that correspond to the department's mission or vision. Statute defines performance-based goals as being broad policy-oriented goals that indicate to the public and members of the General Assembly the intended purposes of a department and its programs and services [Section 2-7-202(9), C.R.S.].

- **Performance Measures That Correspond to Goals.** Strategic plans must include performance measures that correspond to the performance-based goals. Statute defines a performance measure as a "quantitative or qualitative indicator used to assess a department's progress toward [achieving] performance-based goals using benchmarks within the department" [Section 2-7-202(11), C.R.S.].

- **Strategies to Meet Goals.** Strategic plans must include strategies designed to achieve a department's performance-based goals.

- **Performance Evaluation.** Strategic plans must contain a performance evaluation. As further defined in OSPB's guidance, a performance evaluation should explain a department's actual performance compared with its benchmarks and could be used to explain variances from anticipated performance.

The second main SMART Government Act requirement is that departments must make their strategic plans available to the public by posting the plans on their websites and on OSPB's website [Section 2-7-204(1)(b), C.R.S.]. We reviewed all 24 departments' strategic plans to determine compliance with these requirements. Overall, we found that all departments created a strategic plan, but not all plans were fully compliant with statute. We outline our findings in two areas below.

Lack of Required Components. We reviewed each department's strategic plan to determine whether the plans included each of the five basic required elements. We found that 10 (42 percent) departments included all of the required components in their plans, and 14 (58 percent) departments did not. The table on the next page provides a breakdown of the results of our review.

Implementation of the SMART Government Act
Department Compliance With Strategic Plan Requirements
Fiscal Year 2013 Budget Cycle

Department	5-Year Mission or Vision Statement	Goals Correspond to Mission	Measures Correspond to Goals[1]	Strategies to Meet Performance Goals[2]	Performance Evaluation
Agriculture	✓	✓	✓	☒	☒
Corrections	✓	✓	✓	✓	☒
Education	✓	✓	✓	✓	✓
Health Care Policy and Financing	✓	✓	✓	✓	✓
Higher Education	✓	✓	✓	☒	☒
Human Services	✓	✓	✓	✓	☒
Independent Ethics Commission	✓	✓	☒	✓	☒
Judicial Department	✓	✓	✓	✓	☒
Labor and Employment	✓	✓	✓	✓	✓
Law	✓	✓	✓	☒	☒
Local Affairs	✓	✓	✓	✓	☒
Military and Veterans Affairs	✓	✓	✓	☒	☒
Natural Resources	✓	✓	✓	✓	✓
Office of the Alternate Defense Counsel	✓	✓	✓	✓	✓
Office of the Child's Representative	✓	✓	✓	✓	✓
Office of the Colorado State Public Defender	✓	✓	✓	✓	☒
Personnel & Administration	✓	✓	✓	✓	☒
Public Health and Environment	✓	✓	✓	✓	☒
Public Safety	✓	✓	✓	✓	✓
Regulatory Agencies	✓	✓	✓	✓	✓
Revenue	✓	✓	✓	✓	✓
State	✓	✓	✓	✓	☒
Transportation	✓	✓	✓	✓	✓
Treasury	☒	☒	☒	☒	☒

Source: Office of the State Auditor's analysis of departments' Fiscal Year 2013 SMART Government Act strategic plans.
✓ = Contained required component.
☒ = Did not contain required component.
[1] Departments received a check mark if at least 50 percent of the performance measures in the strategic plan corresponded to the plan's goals.
[2] Departments received a check mark if at least 50 percent of the performance goals had strategies outlined in the strategic plan.

As the table above shows, all department strategic plans included at least three of the required components and were generally in compliance with statute, except for the Department of Treasury, whose strategic plan did not contain any of the

required components. The two components most often missing from the strategic plans were performance evaluations and strategies to achieve their goals. Specifically, 14 (58 percent) departments did not include performance evaluations in their strategic plans, and five (21 percent) departments did not have strategies for achieving the goals in their plans. To achieve the SMART Government Act's intent of increasing transparency and accountability in government, all five of the basic strategic plan components must be present in every plan. For example, if a department's strategic plan does not include strategies designed to meet its performance-based goals, then it would not be clear to the public and members of the General Assembly what initiatives the department is undertaking to achieve its goals. Further, when a department does not include a performance evaluation in its strategic plan, it may not be clear why a department did or did not achieve its annual benchmarks.

Availability of Plans to the Public. We reviewed OSPB's and the departments' websites as of March 1, 2012, after all departments had presented their strategic plans to their committees of reference. We were unable to locate strategic plans for nine (38 percent) departments on their own websites and for six (25 percent) departments on OSPB's website. All six of the strategic plans missing from OSPB's website were for departments not subject to OSPB's oversight. Although statute requires these departments to ensure that OSPB receives their strategic plans for posting on OSPB's website, we also found that OSPB did not contact them with instructions or deadlines for submitting their plans. Conversely, six (67 percent) of the nine departments that did not post their strategic plans on their respective websites were departments subject to OSPB's oversight. When strategic plans are not available to the public on department websites or on OSPB's website, it reduces government transparency and accountability because the public does not have access to information about how departments intend to use public funds or about the results of those plans.

Strengthened policies and procedures at OSPB and at departments would help address the problems we found with both strategic plans missing required components and the plans not being available on the departments' and OSPB's websites. We discuss these remedies in more detail in the recommendation section at the end of the report.

Performance-Based Goals

In the previous section, we documented our results on whether departments' strategic plans contained all five basic elements required by statute, including having performance-based goals that correspond with their mission and performance measures and strategies to achieve those goals. In this section, we discuss whether the departments' performance-based goals encompassed other characteristics intended by statute but not included among the five basic components of a strategic plan. Specifically, Section 2-7-202(9), C.R.S., defines a performance-based goal as "a broad, policy-oriented goal that indicates to the public and members of the General Assembly the intended purpose of a department and its programs or services, with secondary goals of realizing cost savings to the state and saving taxpayers' money." Statute further specifies that performance-based goals "should lead to increased efficiency" and "recognize preventative efforts that result in long-term cost-effectiveness." House Bill 11-1212 further illustrated the importance of cost savings and efficiency by amending the SMART Government Act to encourage departments to eliminate non-value-added processes and thereby increase the departments' efficiency and effectiveness. Although statute did not specify the exact manner in which departments should address cost savings and efficiency, lawmakers have clearly emphasized the importance of both.

We reviewed all 273 of the performance-based goals contained in the 24 departments' Fiscal Year 2013 strategic plans to determine if the goals indicated the intended purpose of the departments and would lead to cost savings or increased efficiency. We did not identify any significant issues with regard to the goals indicating the intended purposes of the departments. However, we found that four departments did not include at least one performance-based goal in their strategic plans that addressed cost savings or increased efficiency, as described below.

- **Cost Savings.** We considered a goal to address cost savings if the goal could potentially result in a clear and direct financial benefit to the State or savings for taxpayers. For example, one department's strategic plan included a goal to "reduce the annual workplace accident rate by 10 percent per year." We believed that such a goal, if achieved, could potentially result in a clear financial benefit to the State.

- **Increased Efficiency.** We considered a goal to be related to increased efficiency if it demonstrated that its achievement could potentially increase the efficiency or cost-effectiveness of a department's operations. For example, one department established a performance-based goal to "improve the efficiency and timeliness of processing requests...." We

concluded that this goal has the potential to increase the efficiency of the department's operations.

Because statute defines cost savings and efficiency as secondary purposes of performance-based goals, our results do not necessarily mean that these departments are out of compliance with the SMART Government Act. However, given the emphasis that the SMART Government Act and subsequent House Bill 11-1212 place on improving efficiency and realizing cost savings, OSPB and the departments should consider whether more of the departments' goals should reflect efforts to reduce costs and improve efficiency. As discussed earlier, statute grants OSPB the authority to further define strategic plan components. However, OSPB's guidance does not address whether departments should include goals related to efficiency or cost savings in their strategic plans or, if they choose to do so, how to include these goals in their plans. Consequently, we believe that OSPB should modify its strategic plan guidance to incorporate the concepts of cost savings and efficiency. This guidance could include providing examples of goals that increase cost savings or efficiency, offering strategies that describe how to select the cost savings or efficiency goals, describing techniques of incorporating "lean" principles into strategic plans, or requiring departments under its oversight to include at least one goal related to cost savings or efficiency in their strategic plans.

Recommendations addressing this issue will be presented at the end of the report.

Performance Measures

Preceding sections of this report have documented our results regarding how well departments have complied with statutory requirements for the basic elements of a strategic plan and standards for performance-based goals, including whether the plan's performance measures correspond to the plan's goals. In this section, we discuss our results regarding how well the departments' strategic plans met other relevant criteria for performance measures. As noted previously, Section 2-7-202(11), C.R.S., defines performance measures as "quantitative or qualitative indicator[s] used to assess a department's progress toward [achieving] performance-based goals using benchmarks within the department." We reviewed literature on performance measures and found five main types of performance measures:

- **Input** - Measures the funds, staff, time, or other resources expended
- **Output** - Measures the amount of services provided, units produced, or product created
- **Outcome** - Measures the progress toward the intended result or agency mission

- **Efficiency** - Measures the cost, time, or other resources expended to achieve each unit of output or outcome
- **Compliance** - Measures whether the agency complied with a required standard or achieved a required level of performance

Both statute and OSPB guidance set standards for ensuring that performance measures are effective. We reviewed all performance measures submitted by departments to determine the extent to which the performance measures met these standards.

Statutory Requirements for Performance Measures. In its definition of performance measures, Section 2-7-202(11), C.R.S., identifies four key concepts that performance measures should embody. Specifically, statute states that performance measures (1) shall be indexed to a baseline, (2) shall specify the period over which successful performance shall be measured, (3) should be reasonably understandable to the public, and (4) should be developed with the input of employees and any certified employee organizations. We discuss these statutory standards in the bullets below.

- **Indexed to a Baseline.** To test this standard, we assessed whether the strategic plans contained past years' data, or some other rationale used by the departments, to demonstrate how the performance measure benchmarks were established. Having performance measures indexed to a baseline is necessary for ensuring that departments are striving for performance that is realistic and relevant to their past performance.

- **Time Frame for Successful Performance.** To test this standard, we assessed whether performance measures set targets for future achievement in Fiscal Year 2013 or beyond. Having performance measures that set time frames for future achievements is important for being able to determine if departments are making progress in meeting their goals.

- **Understandable to the Public.** To test this standard, we assessed whether performance measures were free from jargon, technical language, or undefined terms that would make them difficult for a member of the general public to understand. Having understandable performance measures helps ensure the transparency of government by making it clear what departments are trying to accomplish.

- **Developed with Employee Input.** To test this standard, we asked department staff whether lower-level staff members other than senior management were involved in developing performance measures and whether the department had contacted any certified employee organizations for input in developing performance measures. Certified

employee organizations are certified by the Department of Labor and Employment as the exclusive representative of employees as selected by a majority of the employees voting in a secret ballot election. At the time of our audit, the State's two certified employee organizations are Colorado Workers for Innovations and New Solutions and the Association of Colorado State Patrol Professionals. Obtaining input from employees in the development of performance measures helps ensure that the insight of those closest to the customer or end user of the state government product or service has been reflected in the department's strategic plan.

We reviewed all 521 performance measures that were included in the 24 departments' Fiscal Year 2013 strategic plans to determine whether the performance measures complied with these four statutory requirements. We found that only one department, the Office of the Alternate Defense Counsel, met all of these required elements for performance measures, as summarized in the table below.

Implementation of the SMART Government Act
Department Compliance With Performance Measure Requirements
Fiscal Year 2013 Budget Cycle

Department	Total Number of Performance Measures	Indexed to a Baseline[1]	Specified Period for Successful Performance[1]	Reasonably Understandable to the Public[1]	Developed with Input of Employees	Developed with Input of Certified Employee Organizations
Agriculture	21	✓	✓	✓	☒	☒
Corrections	24	✓	☒	✓	☒	✓
Education	22	✓	✓	✓	✓	☒
Health Care Policy and Financing	29	✓	✓	✓	✓	☒
Higher Education	4	✓	☒	✓	✓	☒
Human Services	15	✓	✓	✓	✓	☒
Independent Ethics Commission	0	☒	☒	☒	☒	N/A[2]
Judicial Department	30	✓	☒	✓	✓	N/A[2]
Labor and Employment	35	☒	✓	✓	✓	✓
Law	7	✓	✓	☒	✓	☒
Local Affairs	41	✓	✓	✓	✓	☒
Military and Veterans Affairs	13	✓	☒	☒	✓	☒
Natural Resources	45	✓	✓	✓	☒	☒
Office of the Alternate Defense Counsel	6	✓	✓	✓	✓	N/A[2]
Office of the Child's Representative	22	✓	☒	✓	✓	N/A[2]
Office of the Colorado State Public Defender	34	✓	✓	✓	☒	N/A[2]
Personnel & Administration	29	☒	✓	✓	☒	☒
Public Health and Environment	32	✓	✓	✓	✓	☒
Public Safety	23	✓	✓	✓	✓	☒
Regulatory Agencies	51	✓	✓	✓	✓	☒
Revenue	23	✓	✓	✓	☒	☒
State	5	✓	✓	✓	✓	☒
Transportation	10	✓	✓	✓	☒	☒
Treasury	0	☒	☒	☒	☒	☒
TOTAL	**521**	-	-	-	-	-

Source: Office of the State Auditor's analysis of departments' Fiscal Year 2013 SMART Government Act strategic plans.

✓ = Met the requirement.

☒ = Did not meet the requirement.

[1] Departments received a check mark if at least 50 percent of the performance measures in the strategic plan met the criterion.

[2] At the time of this audit, there was no certified employee organization open to Judicial Branch employees.

As indicated in the table above, we found that nearly all departments had some area where improvement is needed. Below, we discuss more specific results of our testing of the 521 performance measures developed by the 24 departments:

- 104 (20 percent) measures were not indexed to a baseline. In some cases the performance measures were new, and it was not clear on what basis the departments established the performance measure benchmarks. In other cases, departments simply did not include historical data in their strategic plans, so it was unclear from the plans how a measure was indexed to a baseline.

- 119 (23 percent) measures did not specify the period over which successful performance shall be measured. For example, some departments showed only past data and did not set any future benchmarks for Fiscal Year 2013 or beyond. In other cases, departments indicated a general goal (e.g., achieve a 67 percent success rate) but did not state when this expected result would be achieved.

- 128 (25 percent) measures were not understandable to the general public based on audit staff's judgment. In discussing these results, departments disagreed with our assessment in 14 (11 percent) of these 128 cases.

- 9 (38 percent) out of 24 departments did not solicit input from their employees when they developed their performance measures. Instead, we found that in most of these cases, a small group of senior managers created the strategic plan. In addition, 17 (71 percent) out of 24 departments did not solicit input from any certified employee organizations when they developed their performance measures.

Because performance measures promote transparency and accountability by showing the results of departments' efforts, it is important that departments address the problem areas we have identified. Performance measures that are not indexed to a baseline, have no expected time frame for successful completion, are not understandable, or do not take into account the perspective of the department's employees are less likely to help the department reach its goals and, therefore, to show the public the value of the department's work.

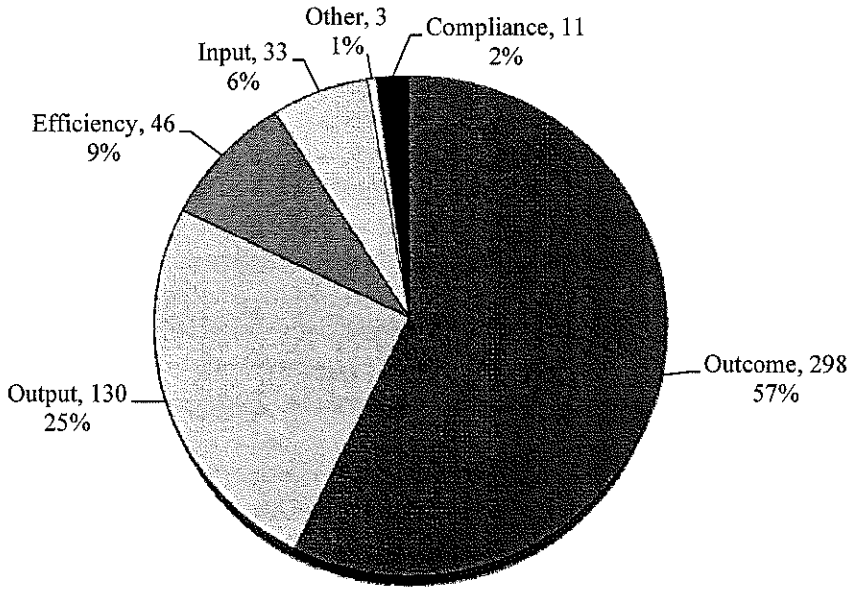
OSPB's Guidance for Making Performance Measures Meaningful. In addition to requirements set forth in statute, OSPB has laid out in its guidance best practices for meaningful performance measures, such as ensuring that performance measures (1) are realistic, (2) evaluate areas that the department can impact or control, and (3) cover key programs or functions of a department. We assessed each of the 521 performance measures contained in Fiscal Year 2013

strategic plans to determine how well they aligned with OSPB guidance. We outline our findings in the bullets below.

- **Realistically Attainable Measures.** We assessed whether performance measures were reasonably attainable and did not underestimate the potential performance of the department. We found that 233 (45 percent) performance measures did not appear to be realistic. In these cases, benchmarks were either clearly easy for the department to achieve (e.g., the department may have already had a history of exceeding the benchmark) or clearly too difficult for the department to achieve given recent performance, or there was not enough information for us to tell whether the benchmark was realistic. For example, one department's strategic plan included an annual customer satisfaction performance measure with the benchmark set at 77 percent, well below the past 2 years' performance of more than 90 percent. In this case, the performance measure was underestimating the potential of the department and therefore was not realistic. If measures are not realistic, it is difficult to properly assess a department's progress toward achieving its goals.

- **Department Control Over Measures.** We assessed how meaningful performance measures were by looking at the types of measures and degree of control a department had over the measures. We found that departments had direct control over 228 (44 percent) measures, partial control over 269 (52 percent) measures, and limited or no control over 24 (4 percent) measures. We also found a particular problem with the amount of control departments have over the most common type of performance measure. Specifically, as shown in the chart below, more than half of all performance measures were outcome measures.

Categorization of Performance Measures
Fiscal Year 2013 Budget Cycle



Source: Office of the State Auditor's analysis of departments' Fiscal Year 2013 SMART Government Act strategic plans.

As outlined earlier, outcome measures measure the progress toward a department's intended result or mission. However, it appears that departments have less control over these measures. Our analysis indicated that, although the majority of performance measures were outcome-based—which is consistent with the strong preference for outcome measures indicated in OSPB's guidance and in literature on performance-based budgeting—departments tended to have less control over these outcome measures than they did over other types of performance measures. For example, we found that departments had direct or primary control over only 27 percent of outcome measures, whereas they had direct or primary control over 89 percent of efficiency measures. For the majority of outcome measures, departments appeared to have partial control over the measure (i.e., the department may be able to influence an aspect of the performance measure but cannot completely control the outcome). For example, departments had outcome measures related to

societal issues, such as reducing obesity or tobacco use, over which no one department, or state government in general, has complete control to affect. Further, the strategic plans were often not explicit about what aspects of the outcome measure the department could actually influence. This disparity between the outcome measure and the department's ability to have an effect on it reduces transparency, accountability, and, ultimately, the meaningfulness of the performance measure.

- **Alignment with the Department's Budget and/or Programs.** We assessed the degree to which performance measures represent a department's key functions. OSPB's written guidance states that performance measures should "encompass a variety of programmatic functions," but neither statute nor OSPB guidance contains any specific requirement that a department develop performance measures to cover all or a portion of its budget line items or programs. However, determining the percentage of a department's budget and key programs that are covered by performance measures may indicate how thoroughly a department's performance measures cover its major functions.

  To determine the percentage of the budget covered by performance measures, we compared each department's Fiscal Year 2013 budget request with the performance measures found in its strategic plans. We counted a budget line item as being covered by a performance measure if one or more of the functions or programs outlined in the budget line item's description was related to a performance measure in the strategic plan. In addition, we assumed that key administrative functions, such as line items for an Executive Director's office, were covered by performance measures even if the strategic plan did not make this connection clear.

  To determine the percentage of the key programs covered, we compared the list of key programs provided to our office by OSPB with the performance measures found in each department's strategic plan. We counted a key program as being covered by a performance measure if a performance measure specifically addressed the program.

  As shown in the table below, we found that 89 percent of the overall Fiscal Year 2013 budgets requested by departments subject to the SMART Government Act and 71 percent of their key programs were covered by performance measures.

Performance Measure Coverage of Budget Line Items and Key Programs
Fiscal Year 2013 Budget Cycle

Department	Budget Line Items		Key Programs[2]	
	Budget Request Total[1] (In Thousands)	% Covered	Number of Key Programs	% Covered
Agriculture	$ 39,200	100%	35	100%
Corrections	745,600	61	13	46
Education	4,246,600	99	21	90
Health Care Policy and Financing	5,444,400	89	5	60
Higher Education	2,805,000	99	44	75
Human Services	2,079,800	86	28	71
Independent Ethics Commission	200	0	1	0
Judicial Department	391,300	94	3	67
Labor and Employment	160,400	91	18	78
Law	56,800	84	4	75
Local Affairs	362,300	85	4	100
Military and Veterans Affairs	222,000	99	4	100
Natural Resources	227,000	96	10	100
Office of the Alternate Defense Counsel	23,100	100	1	100
Office of the Child's Representative	19,600	97	1	100
Office of the Colorado State Public Defender	63,900	100	1	100
Personnel & Administration	159,400	57	22	73
Public Health and Environment	474,400	62	46	43
Public Safety	274,800	96	34	68
Regulatory Agencies	77,800	92	11	100
Revenue	297,700	93	21	52
State	18,400	83	8	88
Transportation	1,119,500	100	19	84
Treasury	476,200	0	13	0
TOTAL	**$19,785,400**	**89%**	**367**	**71%**

Source: Office of the State Auditor's analysis of Fiscal Year 2013 budget request line items, departments' key programs as provided by OSPB, and performance measures found in departments' Fiscal Year 2013 SMART Government Act strategic plans.

[1] The total requested includes total general funds, cash funds, reappropriated funds, and federal funds included in departments' Fiscal Year 2013 budget requests submitted to the Joint Budget Committee.

[2] Key programs provided by OSPB.

As shown in the table, the percentage of budgets and programs covered by performance measures both ranged from 0 percent to 100 percent. These results show that a substantial portion of the departments' line items and

key programs are covered by performance measures, but there are significant department functions that were not represented by Fiscal Year 2013 performance measures. For example, we identified 87 budget line items of more than $1 million each that departments requested in their Fiscal Year 2013 budget that were not covered by performance measures in the department's Fiscal Year 2013 strategic plan. (See Appendix A for a list of these budget line items.) OSPB's written guidance does not specifically address whether performance measures should cover all budget line items or key programs. However, ensuring that budget line items and key programs are covered by performance measures is important for transparency and accountability so that major functions and programs are properly overseen and monitored.

Improved guidance by OSPB and strengthened policies and procedures at OSPB and at departments would help address the problems we found with performance measures not aligning with standards in statutory requirements or OSPB's guidance. We discuss these recommendations in more detail in the next section of the report.

Recommendations for Improvements

As noted, all departments subject to the SMART Government Act created strategic plans for Fiscal Year 2013 and participated in Colorado's new performance-based budgeting process by presenting their strategic plans to their assigned committees of reference. However, as outlined in the previous three sections, we found that strategic plans, performance-based goals, and performance measures could be improved for the next budget cycle. In this section, we outline recommendations to OSPB and to the departments that are not subject to OSPB's oversight about ways to improve the departments' strategic plans required by the SMART Government Act. The recommendations to OSPB focus on (1) improving the guidance it provides to all departments on creating strategic plans in accordance with the SMART Government Act and with best practices and (2) increasing the level of its review of strategic plans for those departments subject to its oversight. Because OSPB oversees the budgeting process for most Executive Branch departments and can therefore help ensure that these departments comply with the SMART Government Act, we have not made recommendations to departments subject to OSPB's oversight. Rather, we have addressed all recommendations directly to OSPB. We are making recommendations directly to departments not subject to OSPB's oversight (i.e., Judicial Branch departments and the Departments of Law, State, and Treasury). The recommendations to these departments focus on ensuring that their strategic plans comply with the SMART Government Act and reflect best practices for creating these plans.

OSPB Oversight of the SMART Government Act Processes. To make the SMART Government Act processes more valuable to both the General Assembly and the public, OSPB should take steps in four major areas, as outlined in the bullets below, to address the problems identified throughout this report.

- **Enhance Written Guidance.** As noted, the SMART Government Act grants OSPB the authority to use its guidance to further define what should be contained in strategic plans. We reviewed OSPB's written guidance for the Fiscal Year 2013 budget cycle and found that departments would have generally met the requirements of the SMART Government Act if they had closely followed this guidance. However, as outlined throughout this report, OSPB can improve its guidance in six areas: (1) developing and incorporating into strategic plans performance-based goals that can achieve cost savings and increased efficiency; (2) indexing performance measures to a baseline, including clarifying that departments should outline the rationale they used for establishing benchmarks for new performance measures; (3) specifying the period over which successful performance shall be measured, which at a minimum should include the next fiscal year; (4) seeking the input of employees and certified employee organizations; (5) ensuring that departments choose performance measures over which they have substantial influence or control; and (6) creating measures that adequately cover a department's key functions (i.e., budget line items and/or programs).

- **Establish Clear Deadlines.** OSPB has not established definitive timetables and deadlines for key SMART Government Act processes. The lack of deadlines caused confusion among departments and may have contributed to some of the problems identified throughout this report. For example, OSPB did not establish a specific date by which it would provide departments with its strategic planning guidance. Consequently, OSPB did not distribute its written guidance to departments until October 2011, which was problematic because departments reported that they had already prepared their strategic plans by the time they received the guidance. Additionally, OSPB did not specify when departments should submit their final strategic plans to OSPB or assigned committees of *reference. Further, OSPB did not set a date by which strategic plans should be posted on either OSPB's website or on departments' own websites. OSPB should therefore amend its written guidance to include a clear timetable that specifies the dates of key SMART Government Act processes, such as the distribution of OSPB's guidance, the submission of strategic plans to committees of reference, and the submission of all strategic plans to OSPB for posting on its website. After OSPB amends its guidance to include a clear timetable, OSPB should establish procedures to ensure that both it and the departments adhere to the deadlines.

- **Standardize Review Process.** In addition to its role in further defining requirements for SMART Government Act strategic plans and providing guidance to departments, OSPB has the statutory authority to oversee the budgeting process and, therefore, the development of SMART Government Act strategic plans for departments subject to its oversight. OSPB staff indicated that they worked closely with at least five (31 percent) of the 16 departments subject to its oversight to improve their strategic plans before departments submitted the plans to their assigned committees of reference. However, OSPB acknowledged that this review of plans was not designed to ensure that strategic plans consistently and uniformly followed statutory requirements and OSPB's own guidance. Therefore, OSPB should establish a standardized review process to help ensure that the strategic plans prepared by departments subject to its oversight comply with statutory requirements and its own written guidance.

- **Distribute Guidance Uniformly to Departments.** Departments not subject to OSPB's oversight reported receiving varying degrees of information from OSPB about the SMART Government Act process. Some departments received OSPB's written guidance or had other interaction with OSPB staff, whereas other departments had no interaction with OSPB. For example, we found that five of the eight departments not subject to OSPB's oversight were not included on the distribution list when OSPB sent out its written guidance. Although these departments are not subject to OSPB's oversight, they exhibited similar weaknesses in their strategic plans as other departments. Therefore, they could benefit from increased coordination with OSPB and could use OSPB guidelines to inform their strategic planning processes. OSPB should ensure that all departments, including those not subject to its oversight, receive its written guidance to use in preparing SMART Government Act strategic plans.

Strategic Plan Improvements for Departments Not Subject to OSPB. Because not all departments are subject to OSPB's oversight, we are also issuing recommendations directly to departments subject to the SMART Government Act but not subject to OSPB's oversight. In this report we identified strategic plan problems at seven (88 percent) of the eight departments that are not subject to OSPB's oversight. In the recommendations below, we outline the specific areas in which these departments need to bring their strategic plans into compliance with statutory standards. Additionally, even though these departments act independently of OSPB, it would be helpful for them to follow OSPB's written guidance as a best practice when revising their strategic plans in future years. Therefore, we also recommend that these departments either follow OSPB's written guidance or develop their own internal policies and procedures for creating their SMART Government Act strategic plans and making them available on their websites and on OSPB's website.

Recommendation No. 1:

The Office of State Planning and Budgeting (OSPB) should improve its guidance related to performance-based budgeting and strategic plans required by the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act by:

a. Further defining in its written guidance what it means to have performance-based goals that realize cost savings and lead to increased efficiency, and providing guidance to departments on how to incorporate such goals into their strategic plans.

b. Further defining in its written guidance how performance measures should be indexed to a baseline, including specifying that departments should outline the rationale they used for establishing the benchmark for new performance measures.

c. Clarifying in its written guidance how performance measures can best specify the period over which successful performance shall be measured, such as indicating a time frame for how far in the future departments should outline their expected performance. At a minimum, this new guidance should require departments to indicate the level of performance they expect during the fiscal year for which the strategic plan is written.

d. Providing written guidance on how departments should obtain input from employees and certified employee organizations and incorporate this input into the departments' strategic plans.

e. Providing written guidance on the importance of choosing performance measures that the departments can reasonably control or impact, and including directions for departments to explicitly state in their strategic plans the level of control they have over each performance measure in their plans.

f. Providing written guidance on developing performance measures that consider all of a department's major functions. This guidance may include specifying that departments include performance measures for all major budget line items or key programs and helping the departments define what major budget line items and key programs are.

g. Establishing and documenting in its written guidance a timetable with clear deadlines for when and how departments should (1) submit strategic plans to OSPB for review, if applicable, and for posting on OSPB's

website; (2) submit strategic plans to assigned committees of reference; and (3) post strategic plans on their respective websites.

h. Establishing and documenting in its written guidance the time frame for when OSPB's annual written guidance will be provided to departments, and providing the written guidance according to that time frame to all departments that are subject to the SMART Government Act.

Office of State Planning and Budgeting Response:

a. Agree. Implementation date: August 2013.

Beginning in the summer and fall of 2012, OSPB and the Governor's Office will kick off a new *strategic operational planning* methodology for the Executive Branch centered around the concept of *Customer-Focused Performance Management.* This methodology will ultimately be supported by continuous efforts to improve business processes throughout Colorado government through the use of Lean process improvement tools. We believe this represents a dramatic departure from the statewide planning methodologies employed in Colorado government for many years, and as such will require a multi-year phased approach for implementation.

For the Fiscal Year 2013-2014 budget cycle, OSPB will direct departments to modify *strategic operational planning* activities to focus on the specific identification of major programs, the business processes that drive those programs, and *output-oriented* performance measures to demonstrate the effectiveness of those programs. Our goal is to establish a common vocabulary, baseline measurements, and multi-year performance goals for processes that support major programs in every State agency.

For the Fiscal Year 2014-2015 budget cycle, OSPB intends to tie these *output-oriented* measures to the *outcome-oriented* goals envisioned in the SMART Government Act, including (but not limited to) goals aimed at increased efficiency and cost savings. These goals will be reached by applying process improvement tools to areas in State government that fall short of performance goals. We expect that specific guidance surrounding these sorts of *outcome-oriented* goals will be published in instructions for the Fiscal Year 2014-2015 budget cycle.

b. Agree. Implementation date: October 2012.

While OSPB believes its existing guidance is largely sufficient with regard to the establishment of a baseline for performance measures, such measures can only be useful to program managers, executive managers, legislators, and citizens if they are explained with proper context. OSPB concurs that this reporting element should be improved across all departments. In future guidance related to *strategic operational planning,* OSPB will require additional narrative description of departments' rationale for choosing to identify specific processes, performance measures, and benchmarks.

c. Agree. Implementation date: October 2012.

OSPB believes that its prior guidance has offered departments ample flexibility to craft plans that match their operational needs, while demonstrating reasonable expectations for the scope and general content of performance measures. OSPB also concurs with the State Auditor, however, that performance measures can be most useful to departments, the General Assembly, and the general public when the scope and purpose of the measures is absolutely clear.

Because the SMART Government Act is not specific as to the preferred length of performance measurement, we agree that more specific guidance in this area is appropriate. OSPB does believe that the establishment of hard-and-fast rules for the timing of all performance measures may remove the flexibility necessary for departments to craft *strategic operational plans* that can be used in the day-to-day management of their activities. Nevertheless, OSPB's future guidance regarding *strategic operational planning* will establish greater specificity surrounding the length of the performance planning period.

d. Agree. Implementation date: October 2012.

This requirement is clearly established in the SMART Government Act, and employee involvement is of critical importance in the development of any *strategic* or *operational* plan. OSPB agrees that this element has been lacking in its planning guidance for several years, and it will be included in instructions given to departments for the Fiscal Year 2013-2014 budget cycle.

e. Agree. Implementation date: October 2012.

As noted in the response to part 1(a) above, OSPB's plans for *strategic operational planning* involve an expectation that departments will focus their planning efforts on identifying critical processes, and improving the customer-focused outputs of those processes. We envision a planning paradigm in which departments devote energy exclusively to activities they can control, and monitor the impacts of those activities as they relate to larger policy goals.

This focus will constitute a shift in emphasis from the *strategic planning* guidance given to departments by OSPB in recent years, and will be included in guidance provided to departments for the Fiscal Year 2013-2014 budget cycle.

f. Agree. Implementation date: October 2012.

This recommendation is exactly in line with OSPB's preferred shift toward *strategic operational planning.* Each department will be requested to identify its major program areas, identify key processes that support those major programs, and establish measures for the outputs of those processes that can be tracked at regular intervals. Our purpose is to provide regular data to program managers to help them focus efforts on improving processes to better serve customers, and to help executive managers identify operational areas that may need additional support in the form of new appropriations or greater management oversight.

g. Agree. Implementation date: October 2012.

Through written and verbal guidance, OSPB's believes that it did, in fact, identify deadlines and time tables for the submission of strategic plan documents to OSPB. We recognize, however, that as OSPB begins the process of implementing a new *strategic operational planning* structure, departments will benefit by having clear deadlines and expectations for meeting the challenges of this endeavor. Future guidance will involve a very specific set of deadlines and deliverables for submission of strategic plans for OSPB's review, posting of the plans on required websites, and submission of the plans to the General Assembly.

h. Agree. Implementation date: August 2012.

As noted in part 1(g) above, the implementation of a new *strategic operational planning* methodology will present a set of challenges for

OSPB and department staff that will require clear guidance on expectations for incremental deliverables. By August 2012, OSPB will have provided to executive departments, non-executive departments, and OSPB's own staff a written set of instructions containing 13 specific deadlines for incremental deliverables between August 2012 and January 2013. All future guidance concerning the SMART Government Act and *strategic operational planning* will continue to include a specific discussion of upcoming deadlines and expectations.

Recommendation No. 2:

The Office of State Planning and Budgeting (OSPB) should help ensure that strategic plans created by Executive Branch departments subject to its oversight meet statutory requirements in the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and its own written guidance by establishing policies and procedures for reviewing strategic plans and working with departments to remedy areas of noncompliance.

Office of State Planning and Budgeting Response:

Agree. Implementation date: August 2012.

OSPB recognizes the importance of producing strategic plans that are satisfactory to external customers, and we do not take the responsibility lightly. However, OSPB should *not* maintain specific and individual accountability for the content of departments' strategic plan documents. The SMART Government Act clearly identifies the creation and production of the plans as a responsibility of the individual departments.

It is noteworthy that when the SMART Government Act (House Bill 10-1119) passed in the 2010 session, OSPB received no additional appropriation to manage the implementation of the new law. Furthermore, although the fiscal note for the bill mentions that OSPB's expenditures will increase by $25,000 associated with the publication of the required annual report, *OSPB has received **no new appropriations** for the implementation of the SMART Government Act.*

However, OSPB's general charge to provide oversight and guidance in the planning and operations of state departments indicates that OSPB should affirmatively engage departments in improving their ongoing operations, and in communicating effectively with the General Assembly and Colorado's citizens. As mentioned throughout the responses to these recommendations, it is with this idea in mind that OSPB is directing its

staff to work with departments on a new *strategic operational planning* framework.

OSPB agrees that such a framework can succeed most when applied consistently across the entire enterprise of Colorado government. To the extent possible within existing appropriations and with its existing staff, OSPB has established this exercise as a high priority. However, any focus on *strategic operational planning* will necessarily occur only after OSPB fulfills its primary missions of reviewing and submitting annual budget requests and preparing quarterly economic and revenue forecasts. We will work to emphasize the importance of *strategic operational planning* to the Departments and improve our review of the quality of the plans.

Recommendation No. 3:

The Independent Ethics Commission (Commission) should ensure that it complies with the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and improves its strategic plan by:

a. Including in its strategic plan performance measures that correspond to performance-based goals, are indexed to a baseline, specify the period over which successful performance will be measured, are reasonably understandable to the public, and are developed with the input of employees.

b. Including in its strategic plan a performance evaluation.

c. Either following the Office of State Planning and Budgeting's (OSPB) written guidance or developing its own policies and procedures when preparing its strategic plan and making the strategic plan available on its website and OSPB's website.

Independent Ethics Commission Response:

a. Agree. Implementation date: January 2013.

The Commission will update its strategic plan and include performance measures which are understandable. The Commission has only one employee who will be involved in developing the plan. There are no employee organizations representing Commission staff.

b. Agree. Implementation date: January 2013.

As noted above, the Commission will develop a new strategic plan which will include a performance measured evaluation.

c. Partially Agree. Implementation date: January 2013.

OSPB guidance is currently unavailable. The Commission will review the OSPB guidance and will decide at that time whether to use the guidance as best practices or whether to develop its own procedures. The plan will be posted on the Commission's website.

Auditor's Addendum:

Although the Independent Ethics Commission has partially agreed to this recommendation, the narrative of its response indicates that it intends to fully implement the recommendation.

Recommendation No. 4:

The Judicial Department should ensure that it complies with the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and improves its strategic plan by:

a. Including in its strategic plan a performance evaluation.

b. Ensuring that the performance measures in its strategic plan specify the period over which successful performance will be measured.

c. Either following the Office of State Planning and Budgeting's (OSPB) written guidance or developing its own policies and procedures when preparing its strategic plan and making the strategic plan available on its website and OSPB's website.

Judicial Department Response:

a. Agree. Implementation date: August 2012.

The Judicial Department has included a performance evaluation component to its strategic plan report. The evaluation will include an assessment of progress towards the desired outcomes set forth in the Department's performance-based goals and measures.

The evaluation will also include an analysis of key internal factors that influence the success of the Department in achieving its mission and goals. The two components of this evaluation are:

- *Situation Inventory* - An assessment of the Department's position, performance, problems, and potential; in other words, its strengths and weaknesses.

- *Environmental Scan.* An analysis of key external elements or forces, including the stakeholder analysis that affects the environment in which the Department functions; in other words, the opportunities of and threats to the Department.

b. Agree. Implementation date: August 2012.

The Judicial Department has added tables to its strategic plan report for each performance measure as appropriate indicating the measure, the outcome (both actual and benchmark) with appropriate anticipated completion or partial completion dates.

c. Agree. Implementation date: August 2012.

The Judicial Department agrees that it is important to follow explicit guidance, policies and procedures when preparing a strategic plan. The Department also agrees that it is important to have that plan and accompanying reports available on its website and OSPB's website.

At this time the Department plans to follow OSPB's guidance on the structure and required components of the Department's strategic plan. The Department will review any changes or updates for appropriateness of applicability to the Judicial Branch in the future.

Recommendation No. 5:

The Department of Law should ensure that it complies with the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and improves its strategic plan by:

a. Outlining strategies to meet the performance-based goals in its strategic plan.

b. Including in its strategic plan a performance evaluation.

c. Ensuring that performance measures in its strategic plan are reasonably understandable to the public.

d. Obtaining the input of any certified employee organizations when developing performance measures included in its strategic plan.

e. Either following the Office of State Planning and Budgeting's (OSPB) written guidance or developing its own policies and procedures when preparing its strategic plan and making the strategic plan available on its website and OSPB's website.

Department of Law Response:

a. Agree. Implementation date: November 2012.

The Department of Law will articulate strategies designed to achieve all performance goals in the annual strategic plan. The Department met this requirement on some of the outlined performance goals in our strategic plan and will accommodate this recommendation on all articulated performance goals moving forward.

b. Agree. Implementation date: November 2012.

The Department of Law will include a performance measure evaluation examining and explaining the department's performance against identified benchmarks.

c. Agree. Implementation date: November 2012.

The Department of Law will annually review and modify the annual strategic plan to ensure performance measure language is free from jargon and technical language to better ensure transparency with the public.

d. Disagree. Implementation date: N/A.

At the present time, Colorado Workers for Innovations and New Solutions (WINS) represents 10 department employees in three occupational groups, or 2.4 percent of the workforce. The Department does not consider it beneficial to involve Colorado WINS in strategic plan development given its lack of presence and interaction with our employees. However, the Department will continue to provide equal access of all employees to management to provide input in establishing

performance measures, regardless of whether they belong to an employee organization.

Auditor's Addendum:

The SMART Government Act [Section 2-7-202(11), C.R.S.] states that performance measures "should be reasonably understandable to the public and developed with the input of department employees and any certified employee organizations."

e. Agree. Implementation date: November 2012.

The Department of Law will review the annual OSPB budget instructions to ensure compliance with SMART Government Act/strategic plan deliverables. Additionally, the department will continue to post the strategic plan on the Attorney General's website and will continue to send it to OSPB for inclusion on the Governor's website.

Recommendation No. 6:

The Office of the Colorado State Public Defender should ensure that it complies with the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and improves its strategic plan by:

a. Including in its strategic plan a performance evaluation.

b. Obtaining the input of employees when developing performance measures included in its strategic plan.

c. Either following the Office of State Planning and Budgeting's (OSPB) written guidance or developing its own policies and procedures when preparing its strategic plan and making the strategic plan available on its website and OSPB's website.

Office of the Colorado State Public Defender Response:

a. Agree. Implementation date: January 2013.

Our office has established performance evaluation sections included as part of its annual budget submission as a companion piece to its Strategic Plan, also included in its annual budget submission. We will

ensure that this evaluation section is published on the OSPB website along with our strategic plan each year.

b. Agree. Implementation date: January 2013.

We will develop a representative group of agency employees to provide input into our performance measures.

c. Agree. Implementation date: January 2013.

As a small agency with lean administrative overhead, our office normally relies upon guidelines and procedures established and implemented by the Executive Branch (OSPB), the Legislative Branch (Legislative Council), and the Judicial Department. We will look forward to reviewing OSPB and Legislative Council guidelines and will incorporate them into our own strategic planning processes. As needed, we will develop our own policies and procedures for this performance planning process to address nuances specific to a non-Executive Branch, Judicial Branch agency and appropriate for the unique requirements of an indigent defense organization.

Recommendation No. 7:

The Office of the Child's Representative should ensure that it complies with the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and improves its strategic plan by:

a. Ensuring that the performance measures in its strategic plan specify the period over which successful performance will be measured.

b. Either following the Office of State Planning and Budgeting's (OSPB) written guidance or developing its own policies and procedures when preparing its strategic plan and making the strategic plan available on its website and OSPB's website.

Office of the Child's Representative Response:

a. Agree. Implementation date: July 2012.

The Office of the Child's Representative (OCR) believes its strategic plan established fiscal year target measures in the performance measure narratives that were understandable to the general public. The OCR has amended its strategic plan to specify numerical fiscal year targets for each of our performance measures.

b. Agree. Implementation date: October 2012.

The SMART Government Act does not require OCR to establish written policies and procedures. However, OCR will comply with the State Auditor's suggestion that we establish written policies and procedures. OCR is an independent agency within the Judicial Branch and, therefore, is not subject to OSPB's guidelines. At the State Auditor's suggestion, OCR will consider the OSPB's guidelines in developing its own policies and procedures, if OSPB's guidelines are available timely for the Fiscal Year 2014 budget cycle.

Recommendation No. 8:

The Department of State should ensure that it complies with the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and improves its strategic plan by:

a. Including in its strategic plan a performance evaluation.

b. Obtaining the input of any certified employee organizations when developing performance measures included in its strategic plan.

c. Either following the Office of State Planning and Budgeting's (OSPB) written guidance or developing its own policies and procedures when preparing its strategic plan and making the strategic plan available on its website and OSPB's website.

Department of State Response:

a. Agree. Implementation date: November 2012.

The Department has been working for the past six months plus on a revised strategic plan that incorporates a 5-year mission and vision statement. Included in this plan will be goals that correspond to the mission and vision and performance measures that correspond to the goals. This strategic plan will follow the SMART Government Act guidelines. This plan will also include a comprehensive performance evaluation component.

b. Disagree. Implementation date: N/A.

Colorado Workers for Innovations and New Solutions does not have a significant presence, less than 3 percent, in the Department and we believe no meaningful insight could be gained by involving it.

Auditor's Addendum:

The SMART Government Act [Section 2-7-202(11), C.R.S.] states that performance measures "should be reasonably understandable to the public and developed with the input of department employees and any certified employee organizations."

c. Agree. Implementation date: December 2012.

The Department will utilize the information published by OSPB when preparing its strategic plan.

The Department did not receive proper guidance from OSPB during the Fiscal Year 2012-2013 budget cycle, but has worked with the State Auditor to get the guidelines outlined by the SMART Government Act and has since been developing a more robust strategic plan that, once completed, will be posted on the Department's website and sent to OSPB to post on its website.

Recommendation No. 9:

The Department of the Treasury should ensure that it complies with the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act and improves its strategic plan by:

a. Including in its strategic plan a 5-year mission or vision statement.

b. Including in its strategic plan performance-based goals that correspond to the department's mission or vision and strategies to meet those goals.

c. Including in its strategic plan performance measures that correspond to performance-based goals, are indexed to a baseline, specify the period over which successful performance will be measured, are reasonably understandable to the public, and are developed with the input of employees and any certified employee organizations.

d. Including in its strategic plan a performance evaluation.

e. Either following the Office of State Planning and Budgeting's (OSPB) written guidance or developing its own policies and procedures when preparing its strategic plan and making the strategic plan available on its website and OSPB's website.

Department of the Treasury's Response:

a. Agree. Implementation date: November 2012.

The Department of Treasury plans to address the recommendation by including a mission or vision statement in our strategic plan in our Fiscal Year 2014 budget document.

b. Agree. Implementation date: November 2012.

The Department of Treasury plans to address the recommendation by including performance-based goals that correspond to the department's mission or vision and strategies to meet those goals in our strategic plan in our Fiscal Year 2014 budget document.

c. Agree. Implementation date: November 2012.

The Department of Treasury plans to address the recommendation by including performance measures that correspond to performance-based goals, are indexed to a baseline, specify the period over which successful performance will be measured, are reasonably understandable to the public, and are developed with the input of our employees and any certified employee organizations.

d. Agree. Implementation date: November 2012.

The Department of Treasury plans to address the recommendation by including a performance evaluation in our strategic plan in our Fiscal Year 2014 budget document.

e. Agree. Implementation date: November 2012.

The Department of Treasury plans to address the recommendation by creating our own policies and procedures for ensuring that we have a compliant plan and make our strategic plan available on our website and on OSPB's website. We will review OSPB's updated guidance, when available, and use where applicable.

Appendix

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Appendix A

Budget Line Items of More Than $1 Million Not Covered by SMART Government Act Performance Measures Fiscal Year 2013 Budget Cycle (Dollars in Millions)		
Department	**Budget Line Item**	**Amount Not Covered**
Corrections	Management: Private Prison Monitoring Unit	$1.2
	Management: Payments to local jails at a rate of $50.44 per inmate per day	7.9
	Management: Payments to in-state private prisons at a rate of $54.93 per inmate per day	65.7
	Management: Payments to pre-release parole revocation facilities at a rate of $54.93 per inmate per day	12.7
	Management: Inspector General	4.1
	Institutions: Medical Services	78.5
	Institutions: Youthful Offender System	11.2
	Institutions: Mental Health	12.3
	Institutions: Inmate Pay	1.5
	Institutions: Legal Access	1.7
	Support Services: Transportation	5.0
	Inmate Programs: Labor	5.5
	Inmate Programs: Recreation	6.5
	Community Services: Community Supervision Youthful Offender System Aftercare	1.8
	Community Services: Community Re-entry	2.9
	Correctional Industries	56.5
	Canteen Operation	14.7
Education	Assistance to Public Schools: Transfer to the Department of Higher Education for Distribution of State Assistance for Career and Technical Education	24.1
Health Care Policy and Financing	Executive Director's Office: Information Technology Contracts and Projects	37.0
	Executive Director's Office: Professional Audit Contracts	2.5
	Other Medical Services: Old Age Pension State Medical Program	11.0
	Other Medical Services: Medicare Modernization Act State Contribution Payment	96.7
	DHS Medicaid-Funded Programs	440.9
Higher Education	Colorado Commission on Higher Education: Special Purpose Distribution to Higher Education Competitive Research Authority	3.4
	State Historical Society	29.6

Budget Line Items of More Than $1 Million Not Covered by SMART Government Act Performance Measures Fiscal Year 2013 Budget Cycle (Dollars in Millions)		
Department	**Budget Line Item**	**Amount Not Covered**
Human Services	Executive Director's Office: Colorado Commission for the Deaf and Hard of Hearing	$1.1
	Division of Child Care: School-readiness Quality Improvement Program	2.2
	Office of Self-Sufficiency: Domestic Abuse Program	1.8
	Office of Self-Sufficiency: Refugee Assistance	16.7
	Services for People with Disabilities: Family Support Services	2.2
	Services for People with Disabilities: Business Enterprise Program for People Who Are Blind	1.2
	Services for People with Disabilities: Traumatic Brain Injury Trust Fund	3.3
	Adult Assistance Programs	146.3
	Division of Youth Corrections	114.3
Judicial Department	Appellate Courts	19.4
	Courts Administration: Collections Investigators Program	5.2
Labor and Employment	Division of Workers' Compensation: Administrative Law Judge Services	2.7
	Division of Workers' Compensation: Major Medical Insurance and Subsequent Injury Funds	11.6
Law	Criminal Justice and Appellate: Peace Officers Standards and Training Board Support	2.7
	Water and Natural Resources	2.3
	Special Purpose	3.9
Local Affairs	Division of Local Government: Conservation Trust Fund Disbursements	50.0
	Division of Local Government: Volunteer Firefighter Retirement Plans	2.7
Military and Veterans Affairs	Executive Director and Army National Guard: Colorado National Guard Tuition Fund	1.0
	Division of Veterans Affairs: Colorado State Veterans Trust Fund Expenditures	1.0

Budget Line Items of More Than $1 Million Not Covered by SMART Government Act Performance Measures Fiscal Year 2013 Budget Cycle (Dollars in Millions)		
Department	**Budget Line Item**	**Amount Not Covered**
Natural Resources	Division of Parks and Wildlife: Snowmobile Program	$1.0
	Division of Parks and Wildlife: Off-Highway Vehicle Grants	4.0
	Division of Parks and Wildlife: Aquatic Nuisance Species	2.7
	Division of Parks and Wildlife: Game Damage Claims and Prevention	1.3
Personnel	Division of Human Resources: H.B. 07-1335 Supplemental State Contribution Fund	1.3
	Division of Human Resources: Liability Premiums	4.7
	Division of Human Resources: Property Premiums	8.7
	Division of Central Services: Fleet Management Program and Motor Pool Services	42.8
	Division of Central Services: Facilities Maintenance	9.5
Public Health and Environment	Administration and Support: Health Disparities Programs	3.3
	Administration and Support: Special Environment Programs	6.8
	Center for Health and Environmental Information	14.0
	Hazardous Materials and Waste Management Division: Hazardous Materials Control Program	4.0
	Hazardous Materials and Waste Management Division: Solid Waste Control Program	3.7
	Hazardous Materials and Waste Management Division: Radiation Management	2.2
	Disease Control and Environmental Epidemiology: Ryan White Act	17.6
	Disease Control and Environmental Epidemiology: Tuberculosis Control and Treatment	4.7
	Disease Control and Environmental Epidemiology: Federal Grants	8.6
	Prevention Services Division: Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease	11.3
	Prevention Services Division: Primary Care Office	1.2
	Prevention Services Division: Tony Grampsas Youth Services Program	3.6
	Prevention Services Division: Colorado Children's Trust Fund	1.0
	Prevention Services Division: Family and Community Health	29.0
	Health Facilities and Emergency Medical Services Division	26.3
	Emergency Preparedness and Response	38.3

Budget Line Items of More Than $1 Million Not Covered by SMART Government Act Performance Measures Fiscal Year 2013 Budget Cycle (Dollars in Millions)		
Department	**Budget Line Item**	**Amount Not Covered**
Public Safety	Executive Director's Office: Colorado Integrated Criminal Justice Information System	$1.3
	Colorado State Patrol: Executive and Capitol Complex Security Program	3.9
	Colorado State Patrol: Automobile Theft Prevention Authority	5.2
Regulatory Agencies	Public Utilities Commission: Disabled Telephone Users Fund Payments	2.4
	Public Utilities Commission: Low-Income Telephone Assistance	2.1
Revenue	Taxation Business Group: Tax Conferee	2.7
	Taxation Business Group: Old Age Heat and Fuel and Property Tax Assistance Grant	7.4
	Division of Motor Vehicles: Vehicle Emissions	1.3
	Division of Motor Vehicles: Titles	2.0
	Division of Motor Vehicles: Ignition Interlock Program	1.1
	Enforcement Business Group: Liquor Enforcement Division	1.7
	Enforcement Business Group: Division of Racing Events	2.5
	Enforcement Business Group: Motor Vehicle Dealer Licensing Board	1.9
State	Special Purpose: Local Election Reimbursement	1.7
Treasury	Administration	2.0
	Unclaimed Property Program	2.0
	Special Purpose	472.3

Source: Office of the State Auditor's analysis of departments' Fiscal Year 2013 SMART Government Act strategic plans and Fiscal Year 2013 budget requests.

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