

# STATE OF COLORADO

**OFFICE OF STATE PLANNING AND BUDGETING**

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July 31, 2013

**John W. Hickenlooper**  
Governor  
**Henry Sobanet**  
Director

Dianne E. Ray, CPA  
State Auditor  
Colorado Office of the State Auditor  
200 East 14<sup>th</sup> Avenue, 2<sup>nd</sup> Floor  
Denver, CO 80203

Dear Ms. Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the 2012 SMART Government Act Audit. The attached report provides a brief explanation of the actions taken by the Office of State Planning and Budgeting to implement each recommendation.

As noted in these responses, House Bill 13-1299 repealed and reenacted the SMART Act. Many of the recommendations from the 2012 SMART Act Audit were based on provisions of the law that have now been substantially changed. The attached responses make note of these changes, but also identify the steps taken by OSPB to incorporate the spirit of the Audit's recommendations into its guidance published pursuant to the new law.

If you have any questions, please do not hesitate to contact me at 303-866-3024 or by email at [erick.Scheminske@state.co.us](mailto:erick.Scheminske@state.co.us)

Sincerely,

A handwritten signature in cursive script, appearing to read "Erick Scheminske".

Erick Scheminske  
Deputy Director  
Office of State Planning and Budgeting

## AUDIT RECOMMENDATION STATUS REPORT

**AUDIT NAME:** SMART Government Act Audit

**AUDIT NUMBER:** 2168

**DEPARTMENT/AGENCY/ENTITY:** Office of State Planning and Budgeting

**DATE:** July 31, 2013

### SUMMARY INFORMATION

<b>Recommendation Number</b>	<b>Agency's Response</b> <i>(i.e., agree, partially agree, disagree)</i>	<b>Original Implementation Date</b> <i>(as listed in the audit report)</i>	<b>Implementation Status</b> <i>(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)</i>	<b>Revised Implementation Date</b>
1a	Agree	August 2013	Implemented and Ongoing	
1b	Agree	October 2012	Implemented and Ongoing	
1c	Agree	October 2012	Implemented and Ongoing	
1d	Agree	October 2012	Implemented and Ongoing	
1e	Agree	October 2012	Implemented and Ongoing	
1f	Agree	October 2012	Implemented and Ongoing	
1g	Agree	October 2012	Partially Implemented	May 2014
1h	Agree	August 2012	Implemented and Ongoing	
2	Agree	August 2012	Implemented and Ongoing	

## **DETAIL OF IMPLEMENTATION STATUS**

### **Recommendation #: 1**

#### **Agency Addressed: Office of State Planning and Budgeting**

#### **Recommendation Text in Audit Report:**

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.

**Agency's Response: Agree.**

**Agency's Written Response in Audit Report:**

- 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.

**Current Implementation Status of Recommendation:**

- a. Implemented and ongoing
- b. Implemented and ongoing
- c. Implemented and ongoing
- d. Implemented and ongoing
- e. Implemented and ongoing
- f. Implemented and ongoing
- g. Partially implemented
- h. Implemented and ongoing

### **Agency's Current Comments on Implementation Status of Recommendation:**

On June 5, 2013, Governor Hickenlooper signed House Bill 13-1299, which repealed and reenacted the SMART Act. OSPB worked with the General Assembly on this new law, which made significant changes to many of the items highlighted in the SMART Government Act Audit. In many cases, the new law entirely removed requirements around which the State Auditor made recommendations. The responses below reflect these changes to the SMART act, but also make note of how the Auditor's recommendations will be incorporated into OSPB's compliance with the performance planning requirements contained in H.B. 13-1299.

- a. The revised SMART Act has eliminated the specific requirement for performance-based goals that realize cost savings and increased efficiency, and replaced it with a broader requirement that all departments must adopt performance management plans that contain strategies for enhancing productivity, improving efficiency, reducing costs, and eliminating waste in the operations that deliver goods and services to customers and taxpayers.

Specifically, the SMART Act now requires a simpler, easier-to-understand hierarchy for performance planning in the State's operations. Beginning in 2014, the Governor must publish instructions for a *Performance Management System* by August 1 of each year, aimed at improving the efficiency of State operations. Departments must produce *Department Performance Plans* by July 1 of each year, each of which must contain the following:

- A statement of the department's mission and vision;
- A description of the major functions of the department;
- Performance measures for these major functions that demonstrate a departments' efficiency in delivering goods or services to its customers;
- Targets for these performance measures that extend at least three years into the future; and
- A narrative description of the strategies necessary to meet these targets.

For this reason, OSPB's guidance for performance planning does not contain any reference to performance-based goals. However, guidance published in July 2013 gives specific instruction on how departments must meet the requirements of the revised SMART Act. In addition, beginning in September 2013, OSPB will host a *Performance Planning Academy* for all departments under the purview of the Governor. This academy will continue for six months with the goal of further instructing departments in how to create and maintain effective performance plans.

- b. As with the recommendation (a) above, the requirement for indexing performance measures to a baseline is no longer part of the SMART Act. The revised law requires departments to focus primarily on measuring operational outputs, which greatly simplifies the process of benchmarking. Along with OSPB's July 2013 written guidance, the *Performance Planning Academy* will provide departments with additional guidance for successfully measuring their operations.

- c. The revised SMART Act is very specific in requiring departments to establish goals for performance measures that extend three years into the future. OSPB's July 2013 guidance reinforces this new requirement.
- d. Originally, the SMART Act required departments to include employees and certified employee organizations in creating strategic plans. The revised SMART Act requires that performance measures be developed with the input of employees and certified employee organizations *when reasonable and appropriate*. In its *Performance Planning Academy*, OSPB will instruct department representatives on how best to establish performance measures, including the process of gathering input from affected employees.
- e. As noted in the response to (a) above, the revised SMART Act specifies that departments must identify performance measures for processes which are in their direct control. OSPB's July 2013 guidance and forthcoming *Performance Planning Academy* will reinforce this requirement of the law.
- f. As noted in the response to (a) above, the revised SMART Act specifies that departments must identify its major functions and establish performance measures for those major functions. OSPB's July 2013 guidance and forthcoming *Performance Planning Academy* will reinforce this requirement of the law.
- g. In its July 2013 guidance, OSPB has established a series of deadlines for certain components of departments' performance plan submissions. However, OSPB is also in the process of developing a new performance management database tool as part of the statewide Colorado Financial Reporting System (COFRS) replacement. This new database will simplify publication of performance plan data in the future, but is not yet in place. Therefore, OSPB has informed executive branch departments that deadlines for entry of information into this system will be communicated at a later date. Barring any unforeseen challenges in the implementation of the new budgeting performance management database, this guidance will be complete by May 2014.

It should be noted, however, that the revised SMART Act does not require publication of any department performance plan documents until July 2014. This leaves OSPB ample time to establish firm deadlines for the entry of data into this new system in advance of any statutory requirements. (It is also OSPB's intent to provide the General Assembly with abbreviated department performance plans in November 2013, even though these plans are not required by the law.)

- h. The revised SMART Act requires that OSPB issue performance planning instructions for the upcoming year by August 1 of each year. These instructions were published in July 2013, and OSPB will meet this statutory deadline in future years.

**Recommendation #: 2**

**Agency Addressed: Office of State Planning and Budgeting**

**Original Recommendation in Audit Report:**

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.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

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.

**Current Implementation Status of Recommendation:** Implemented and Ongoing.

**Agency's Comments on Implementation Status of Recommendation:**

In the past year, OSPB has taken an active role in working with departments to ensure that departments' performance planning activities comport with the requirements of the revised SMART Act. We intend to maintain this as a core component of our operations through the duration of the Hickenlooper Administration.