Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decisions?

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 03-09
June 2003

THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.

9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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OVERVIEW

Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decisions?

Report No. 03-09, June 2003

Summary

The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which directs the Office of the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments and its political subdivisions. This is our seventh fiscal accountability report of the Department of Education. It reviews the department's measures of effectiveness included in *The Multi-year Program and Financial Plan and Executive Budget* (PFP). This audit was prompted by concerns about the validity of the measures presented by the department.

We found that the Department of Education has neglected to embrace the principles of planning, programming, and budgeting (PPB) and has only minimally complied with statutory requirements. Instead of becoming a catalyst for better management and fiscal decision-making, PPB has been relegated to becoming "just another reporting requirement." The disregard for PPB is demonstrated by the department's failure to develop components that are essential for the system to succeed. Specifically, the department has not oriented its program managers' focus from reporting requirements to program objectives as intended by PPB. Program managers also lack adequate training and the department has yet to develop a comprehensive program analysis and evaluation system.

In addition, we found that the department's measures of effectiveness in the executive budget are irrelevant, inaccurate, and ambiguous. Measures are unrelated to program objectives and are based on assumptions, estimates, and unverified data. As a result, legislators are denied potentially valuable information and some may be basing their fiscal decisions on flawed data. The Department of Budget and Finance has contributed to this problem because it has not fulfilled its responsibility of providing systematic analysis and assisting departments.

We also found that the Department of Education has implemented a patchwork of ad hoc projects to address accountability and evaluate its programs' resources. However, these efforts are not linked to the State's PPB system and some of these efforts perform functions similar to those that should be part of PPB. Such duplication results in wasted effort and resources. For example, the department's strategic plan is not based on PPB long-term plans and objectives and its program review does not evaluate achievement of PPB objectives. In addition, new objectives and key performance indicators do not follow the existing budget program structure. Inconsistencies in the presentation with statewide guidelines make it more difficult for stakeholders to evaluate and interpret the department's performance information.

Our findings confirm the conclusions of a 1998 performance budgeting committee that PPB did not provide satisfactory information, existed in form only, and required substantial improvements to render it useful and meaningful. Although PPB requires substantive changes, the committee found that the system should not be replaced. Instead, PPB could be modified within the current framework to function as a performance-based budgeting system. Positive results in other states with similar systems demonstrate the value of performance budgeting. To clarify the utility and realize the potential of Hawaii's PPB system, studying best practices in performance budgeting and legislative and executive involvement and leadership will be needed.

Recommendations and Response

We made a number of recommendations to the Board of Education, the superintendent of education, and the Legislature that revolve around updating the PPB system in order to adopt best practices in performance budgeting.

In its response, the department agreed that the State's PPB system should be updated and acknowledged the need to develop clear, appropriate, objective, and quantifiable performance measures. However, the department disagreed that it failed to comply with the requirements of the State's PPB system even though it has compiled and reported invalid measures of effectiveness over many years. The department reports that it has been or is endeavoring to address the areas covered in the report's recommendations.

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A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 03-09
June 2003

Foreword

This report is our seventh in a series of fiscal accountability audits of the Department of Education. The audit examined the measures of effectiveness compiled and reported by the department for inclusion in *The Multi-year Program and Financial Plan and Executive Budget* submitted to the Legislature. These measures are one component of the State's planning, programming, and budgeting system. Our review included an assessment of the measures' relevance, accuracy, and clarity and their impact on funding decisions. We also considered the implications of the department's use of measures of effectiveness on the State's PBB system as a whole.

We wish to acknowledge the cooperation extended to us by the officials and staff of the Department of Education.

Marion M. Higa
State Auditor

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Chapter 1
Introduction

This audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which directs the Office of the Auditor to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. In addition, Section 37-66, HRS, specifically provides for post-audits of the state budget's implementation, program management, execution, and performance. This is our seventh fiscal accountability report of the Department of Education. It reviews the department's measures of effectiveness included in the *Multi-Year Program and Financial Plan and Executive Budget* (PFP). This audit was prompted by concerns about the validity of the measures presented by the department.

Background

Over 30 years ago, the planning, programming, and budgeting (PPB) approach revolutionized budgeting and government management by integrating previously unrelated components. Planning, programming, budgeting, and managerial control became interrelated elements in a coordinated system. The original intent of PPB was to manage and assign public resources by applying rational analysis and choice to government operations. The U.S. Department of Defense was the first government agency to adopt PPB in 1961. In 1968, Hawaii became one of the first states to adopt the concept of PPB.

However, early PPB systems had mixed success records. Systems that lacked adequate record-keeping or staff expertise were prone to failure. In addition, the program effectiveness measures used, such as outputs and workload, tended to be difficult to understand and were considered inaccurate.

History of planning, programming, and budgeting

Recent public disenchantment and demand for accountability has encouraged public officials to be more supportive of "performance budgeting" (a term often used interchangeably with PPB). In addition, improvements to the early PPB systems such as enhanced systematic analysis and computerized data systems have increased the chance of successful performance budgeting. Recent reform efforts have also focused PPB systems' performance measures on program outcomes, rather than outputs.

New systems utilizing the elements of systematic analysis, accurate data collection, and program outcomes have helped agencies increase their program effectiveness and improve communication with legislators. Performance budgeting has also been credited with reducing duplication, lowering costs, and facilitating budget deliberations.

Performance budgeting in Hawaii

In 1970, the Hawaii State Legislature established a comprehensive program and financial management system based on the principles of planning, programming, and budgeting. The system's objectives were to provide legislators with a tool to measure programs' progress toward achieving their objectives, focus managers on attaining program objectives, and use systematic analysis to improve management.

Sections 37-63 and 37-64, HRS, establish the State's comprehensive system for program and financial management and outline the system's governing principles. These principles include:

- Long-range planning;
- Stated objectives for every level of the state program structure;
- Programmatic assessment of the effectiveness in attaining objectives; and
- Systematic analysis of problems, objectives, alternatives, costs, effectiveness, benefits, risks, and uncertainties.

In creating the system, the Legislature required procedures for:

- Developing, coordinating, and reviewing long-term program and financial plans that implement established objectives;
- Establishing, continuously reviewing, and periodically revising program objectives; and
- Regularly appraising program performance.

"Measures of effectiveness" were specified as the means to evaluate alternatives and to track progress toward attaining established program objectives.

Roles and responsibilities

The governor, Legislature, Department of Budget and Finance, and executive departments have statutory responsibility for various aspects and components of the State's PPB system. The governor is responsible for issuing *The Multi-Year Program and Financial Plan and Executive*

Budget (PFP). The PFP provides information on the current biennial budget period and the State's approved program plans for the four years following the current biennial budget period. The PFP also includes objectives and measures of effectiveness for each program established in the PPB system. All PPB programs report on their measures of effectiveness, the extent to which their programs' objectives have been achieved, and their projected performance in the subsequent six years.

The Department of Budget and Finance assists the governor in preparing the PFP and state budget. In addition, the budget department is responsible for assisting other state agencies with their performance reporting requirements. Each agency is required to develop program plans, financial plans, and performance reports and to submit them to the Department of Budget and Finance for review. Finally, the Legislature is responsible for considering the PFP and the budget proposed by the governor.

In 1998, the Legislature reaffirmed its intent that Hawaii's PPB system encompass performance-based budgeting. Act 230, Session Laws of Hawaii (SLH) 1998, created a special committee to develop and oversee the implementation of a performance-based budgeting system. The system's desired characteristics included:

- Describing the links between state resources and actions to implement the State's strategies and operating level objectives;
- Focusing on output measurements and their relationship to outcomes;
- Providing decision-makers with clear and easily understandable information about resource allocation choices; and
- Providing a means of establishing resource allocation priorities based on desired outcomes and related outputs.

The committee faulted the State's existing PPB system for being focused on measures that describe program outputs rather than program outcomes. The committee concluded that substantial improvements were needed for PPB to be useful and meaningful, but recommended that the PPB framework be retained. However, the special committee's recommendations were never implemented.

The Department of Education's measures of effectiveness

The Department of Education, a pilot agency during the introduction of planning, programming, and budgeting in Hawaii, has undergone three major changes to its program budget structure since 1970. Objectives and measures of effectiveness were originally developed for each

program down to the individual school level. Currently, measures of effectiveness are maintained only for the lower education program in its entirety and for each of the following six programs:

1. EDN100 – School-Based Budgeting
2. EDN150 – Comprehensive Student Support Services
3. EDN200 – Instructional Support
4. EDN300 – State and District Administration
5. EDN400 – School Support
6. EDN500 – School Community Services

Appendix A reflects the department's program objectives and measures of effectiveness as included in the FB2001-03 PFP.

Objectives of the Audit

1. Determine whether the Department of Education's measures of effectiveness are relevant, accurate, and clear.

2. Assess the impact that the department's measures of effectiveness have on strategic planning and fiscal decisions.

3. Make recommendations as appropriate.

Scope and Methodology

This audit examined the Department of Education's efforts in adopting performance budgeting as indicated by its measures of effectiveness shown in *The Multi-Year Program and Financial Plan and Executive Budget.* We limited the examination to a sample of the department's measures of effectiveness. Although the programming, planning, and budgeting concept was enacted by the Legislature in 1970, our audit work primarily focused on the most recent FB2001-03 budget period.

Audit procedures included interviews with department employees, site visits, and observations. We also examined reports, records, and other relevant documents relating to the Department of Education's management and evaluation of its measures of effectiveness. We interviewed pertinent individuals from the Department of Budget and Finance and consulted individuals and organizations outside state government. We conducted a survey of legislators who served on the Senate Ways and Means, House Finance, and Education committees during the 2002 legislative session. Finally, we researched relevant legislative history and other supporting documents to determine the intended and perceived benefits from measures of effectiveness.

Our audit was conducted from November 2002 to February 2003 in accordance with generally accepted government auditing standards.

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Chapter 2

The Department of Education's Disregard of the State's Planning, Programming, and Budgeting System Reveals a Need To Make Improvements to the Existing System

The Department of Education has lost an opportunity to improve its fiscal and program management and accountability due to its failure to implement the State's performance budgeting system created over 30 years ago. Complying only minimally with the State's planning, programming, and budgeting (PPB) system, the department has not fostered the results-oriented management that the system intended. As a result, the department's ability to account for program results is impaired, and the substantial investment the State made in establishing the PPB system is wasted. The department's recent efforts to move towards performance budgeting duplicate components that are, or should be, already a part of PPB, and expose the need for substantial changes to the existing state government budgeting system.

Summary of Findings

1. The planning, programming, and budgeting system in the Department of Education is not working as intended.

2. The department's current accountability efforts duplicate components of the PPB system and point to the need for system improvements and clarification.

The Planning, Programming, and Budgeting System in the Department of Education Is Not Working As Intended

The Department of Education has neglected to embrace the principles of PPB and has only minimally complied with statutory requirements. Instead of becoming a catalyst for better management and fiscal decision-making, PPB has been relegated to becoming "just another reporting requirement," according to department and legislative sources. The disregard for PPB is demonstrated by the department's failure to develop components that are essential for the system to succeed. In addition, the department collects meaningless and inaccurate measures and reports this misinformation to the Legislature. The Department of Budget and Finance has contributed to this problem because it has not fulfilled its responsibility of providing systematic analysis and assisting departments.

The department has not maintained critical system components

Elements critical to the success of a performance budgeting system like PPB are non-existent or inadequate within the Department of Education. The department has not oriented program managers' focus from reporting requirements to program objectives as intended by PPB. Program managers also lack adequate training, and the department has yet to develop a comprehensive program analysis and evaluation system. These shortcomings contribute to the department's inability to adequately account for its programs' effectiveness to stakeholders, including the Legislature.

Section 37-63, HRS, clearly defines the purpose of PPB as "a comprehensive system for state program and financial management which furthers the capacity of the governor and the legislature to plan, program, and finance the programs of the State."

The system's governing principles as outlined in Section 37-64, HRS, include:

- Planning, programming, budgeting, evaluation, appraisal, and reporting by programs;
- Stated objectives for every level of the State's program structure; and
- Assessment of program effectiveness in attaining objectives.

Finally, the section concludes that "systematic analysis of problems, objectives, alternatives, costs, effectiveness, benefits, risks, and uncertainties shall be the core of program planning."

The State's PPB guidelines developed by the Department of Budget and Finance emphasize the importance of these statutory requirements to ensure the system's success. The guidelines also specifically point to analysis as the direct cause of better decisions. In addition, the budget department's guidelines describe good measures of effectiveness as possibly the most important part of the entire program structuring process. Finally, the guidelines portray training and assistance for government officers and employees as essential to ensure improved management and analysis.

Department managers focus on compliance with requirements rather than program objectives

We found that the department's program managers primarily focus on meeting requirements rather than working on achieving desired program objectives. Department officials freely admitted that they do not actively practice performance budgeting. In addition, the measures of

effectiveness included in our review are not used as management tools or used to assess achievement at the program level. In fact, the program managers characterized several measures as "useless" for program-level decision-making. Inaccuracies in reported measures also indicate that they are subject to little, if any, analytical scrutiny.

Furthermore, the department does not have measures of effectiveness for programs at levels lower than those reported in the executive budget. For example, we asked for the measures of effectiveness for several major new programs including school-based behavioral health, occupational and physical therapy services, and services for children with autism, but found that none had been developed. Without such measures, it is unclear how the department will assess the effectiveness and success of these new programs.

Department personnel lack training and guidance in performance budgeting

Adequate training of government officials and employees is a major component necessary for PPB's success. A lack of such training and guidance has contributed to PPB's poor state within the department. Employees whom we interviewed confirmed that they have not received training or guidance on PPB or measures of effectiveness. As a result, program managers were uncertain about the exact meaning of some measures relating to their programs. The only written guide the department could provide on measures of effectiveness was an excerpt from *An Introduction to the State of Hawaii's Executive Budget System,* a general description of the PPB system published in 1976.

Systematic evaluation of program effectiveness is currently non-existent

Systematic analysis and evaluation of effectiveness for existing programs has been non-existent. According to PPB guidelines, "without sound, empirical assessments of program effectiveness, resource decision-making lapses back into old-fashioned, purely fiscal budget-making." In neglecting to develop a systematic analytic, and evaluative capability for PPB, the department has validated this prediction. The lack of departmental scrutiny is illustrated by the meaningless and inaccurate measures of effectiveness reported in the State's *Multi-Year Program and Financial Plan and Executive Budget* (PFP) and variance reports.

Section 37-68, HRS, requires agencies to submit program performance reports at the direction of the director of finance. The Department of Education informed us that these performance reports have been discontinued. Instead, agencies submit a budget and finance form that justifies workload increases for existing programs, but does not include

any program measures of effectiveness and requires little analytical justification. In addition, the Department of Budget and Finance used to require departments to conduct analyses of existing programs based on objectives and measures of effectiveness. According to the Department of Budget and Finance, however, budget cuts have resulted in the demise of these analyses and the associated scrutiny of programs.

The Department of Education, recognizing its neglect of systematic program evaluation, developed a program review project in 2001. However, this effort is not directly related to the systematic analysis and evaluation required under PPB. Furthermore, the department's recently implemented program review performs a similar function to PPB's systematic evaluation. This similarity raises concerns about duplication.

The department's measures of effectiveness in the executive budget are irrelevant, inaccurate, and ambiguous

The department has not maintained valid measures of effectiveness and has submitted irrelevant, inaccurate, and/or ambiguous information for publication in the executive budget and variance reports. All 11 measures we reviewed failed to meet one or more of the characteristics we applied to test their validity. Instead of serving to improve program management and fiscal decision-making, the department's minimal compliance with PPB has reduced these measures to being just another reporting requirement.

Measures of effectiveness are one of the most important components for a successful PPB system and are intended to provide decision-makers with critical information on a program's success in achieving its objectives. Guidelines for PPB and a concepts statement issued by the Government Accounting Standards Board indicate that for measures of effectiveness to be useful, they must, at a minimum, be relevant, accurate, and clear. We used the following criteria to assess the usefulness of the department's measures:

- Relevance. The measure depicts an activity that is clearly related to the program's objective and supporting data is conducive to understanding the accomplishment of the program objective.

- Accuracy. The reported measure is supported by verified, verifiable, and unbiased data.

- Clarity. The measure is readily understandable and free of ambiguity to a reasonably informed party.

Several department managers indicated that measures of effectiveness have been selected because the data is easy to collect rather than for their ability to measure program objectives. Others stated that the measures

reported in the executive budget are not meaningful to program operations and that data are collected only to comply with PPB reporting requirements.

Measures are unrelated to program objectives

Measures of effectiveness should be clearly related to the objectives they would be used to evaluate. It is also important that measures of effectiveness represent essential performance aspects for an objective. However, we found that nine of the 11 measures of effectiveness we reviewed were irrelevant or unrelated to the program objectives they intended to measure.

For example, one measure used for EDN300 (State and District Administration), "unexcused absences as percent of average daily attendance," is not related to the program. Unexcused absences are the responsibility of schools, not of state or district administration.

Another irrelevant measure is "number of schools in implementation stage of school renewal." This measure purports to gauge the achievement of EDN200 (Instructional Support Program), yet reports 100 percent participation in a mandatory program. If participation is obligatory, 100 percent participation is not a valid portrayal of the program's effectiveness. In addition, we were informed that schools experience various levels of success in their efforts toward compliance, but this is not reflected in the measure.

We also found that one measure used to show achievement of EDN100 (School-Based Budgeting) is actually related to the special education program. The measure, "special education students progressing satisfactorily per IEP (individualized education program)," is a responsibility of EDN150 (Comprehensive School Support Services) and is not relevant for EDN100.

Measures are inaccurate and based on assumptions, estimates, and unverified data

The department also reports measures of effectiveness that are based on assumptions, guesses, or data that is inaccurate or unverifiable. Six of the 11 measures we reviewed are not accurate.

For example, "percentage goal for computers per student" measures the degree to which the department's objective of a 1 to 5 ratio of computers to students has been achieved. The department currently reports a 40 percent achievement rate, which represents a ratio of one computer for every 12.5 students. However, this measure was compiled using a computer inventory conducted in the early 1990s. This inventory has

been augmented by the total amount allocated for new computers since the inventory was conducted divided by $2,500 (estimated cost of an average computer). Our analysis confirmed that this methodology results in a grossly inaccurate estimate. A 1 to 12.5 computer to student ratio translates to approximately 14,600 computers; yet the department reports that the number of computers available to students may be closer to 40,000. This is 25,000 more computers than is indicated in the PFP.

Similarly, the measure "special education students progressing satisfactorily per IEP" is used to show the degree of progress students experience under their individualized education programs (IEP). The department reports satisfactory progress at 100 percent. However, we were informed that this measure is not based on verifiable data. IEPs are modified if a student is not benefiting from the services provided; therefore, all students are presumed to be progressing satisfactorily per their IEPs.

In addition, our Report No. 01-16, *Follow-up and Management Audit of the Felix Consent Decree,* concluded that IEPs lack measurable objective goals and short-term objectives, and that the department's ability to determine educational progress is impaired as a result. Consequently, the department lacks the capability to objectively determine the percentage of students progressing satisfactorily through their IEPs. Service testing reports issued by the *Felix* Monitoring Project in 2002 similarly concluded that up to 25 percent of students were not receiving essential services. Although the *Felix* Monitoring Project uses different criteria to determine progress, those testing reports add significant doubt to the validity of the department's claim that 100 percent of its special education students are making satisfactory progress according to their IEPs.

Finally, "percentage of students not involved in serious incidents" is a measure used for both EDN100 (School-Based Budgeting) and EDN200 (Instructional Support). The department readily admitted that the numbers for this measure are not accurate. The data is biased because each school defines "serious incidents" differently. In addition, accuracy is impaired because schools' computer databases that track serious incidents are not up-to-date.

Measures are unclear

A measure of effectiveness should be communicated in a readily understandable manner and present a clear frame of reference for assessing performance. However, eight of the 11 measures of effectiveness we reviewed do not meet these criteria. In some cases, measures lacked a frame of reference, which leaves users without information to determine whether the measure reflects an acceptable

level of achievement or not. Even the department could not tell us whether some of the reported information was "good" or "bad."

For example, "percentage of adults enrolled in Adult Education classes over the last three years" is a measure used for EDN500 (School Community Services). However, the department could not provide a clear interpretation of this measure's meaning. The measure also lacks any reference to benchmarks, such as national averages, that could be used to judge whether reported percentages reflect a high or low level of achievement.

For EDN100 (School-Based Budgeting), two related measures are reported together: "seniors who plan to attend post secondary school" and "seniors who plan to work after graduation." The reported scores, shown in Exhibit 2.1, come from annual surveys administered to high school seniors. Changes in this survey's format explain some of the large fluctuations, particularly for the "seniors who plan to work after graduation" measure. For example, students were asked in one year's survey to indicate their choice between college, military, and work and to "fill in all that apply." In other years, the surveys did not have any such directions. In addition, readers lack any additional information to interpret the overlap between the two measures. The percentage of seniors planning to continue their education and seniors planning to work are both reported at 84 percent, placing the total at 168 percent.

Exhibit 2.1
School-Based Budgeting (EDN100): Measures of Effectiveness
FY1995-96 to FY2006-07

Budget Period	Measure of effectiveness	FY 95-96	FY 96-97	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
'97-'99	Seniors who plan to attend post secondary school	79%	80%	81%	81%	82%	82%	83%	83%				
'99-'01				78%	79%	79%	80%	80%	81%	81%	81%		
'01-'03						84%	84%	84%	84%	84%	84%	84%	84%
'97-'99	Seniors who plan to work after graduation	14%	14%	14%	14%	15%	15%	15%	15%				
'99-'01				42%	42%	42%	42%	42%	42%	42%	42%		
'01-'03						84%	84%	84%	84%	84%	84%	84%	84%

Source: *Multi-Year Program and Financial Plan and Executive Budget*, FB1997-1999 to FB2001-2003

Finally, the measure "unexcused absences as a percentage of average daily attendance" provides no gauge to determine whether the reported 7 percent reflects a high or low performance. Comparative measures, such as national averages, are not available. Even the department was unable to explain the meaning of this measure. In addition, this measure has been reported and projected at 7 percent for nearly 12 years. When performance remains stagnant over a long period of time, this typically points to managerial complacency and a lack of effort to improve. At least five other measures show a similar pattern of unchanging performance over the 12-year period we reviewed.

Problems extend to variance reports

Variance reports, which are issued annually by the Department of Budget and Finance, report variances between planned and actual results and provide explanations for significant variances. Exhibit 2.2 shows an example of a variance report for EDN500 (School Community Services). The variance report's purpose is to supplement information in the PFP by identifying and explaining significant departures from planned levels of expenditures, performance, and workload.

Although variance reports are critical elements of the PPB system, we found that they also contain inaccurate and misleading information. For example, variances reported for "percentage of adults enrolled in adult education classes over last three years," a measure of achievement for EDN500 (School Community Services), is based on erroneous data. In FY1999-2000, a decrease in the measure—from 70 percent budgeted to 18 percent actual—was explained as an error in the program's counting method.

Similar references to erroneous counting methods that the department claims have been corrected also appeared in at least two prior variance reports. However, our October 2002 *Audit of the Department of Education's Adult Education Program* found that students were still being double counted, and inappropriate student classification continued to inflate enrollment counts. An adequate PPB evaluation process might have discovered the program's flawed counting methodology.

The Department of Budget and Finance has not assisted the department in implementing and maintaining its PPB system

Section 37-67, HRS, requires the Department of Budget and Finance to develop procedures, rules, and regulations for PPB and to assist state agencies with formulating objectives, program plans, and performance reporting. The Department of Budget and Finance asserts that "systematic evaluations and analyses are conducted to ascertain the attainment of program objectives." However, we found no evidence that such systematic evaluations or analyses are conducted, or that the Department of Education receives adequate assistance from the

Exhibit 2.2
Sample Page-Variance Report

Program TITLE: SCHOOL COMMUNITY SERVICES PROGRAM – ID: EDN500 PROGRAM STRUCTURE NO: 07010150					VARIANCE REPORT						REPORT V61 11/25/00	
	FISCAL YEAR 1999-00				THREE MONTHS ENDING 9/30/00				NINE MONTHS ENDING 6/30/01			
	BUDGETED	ACTUAL	CHANGE	%	BUDGETED	ACTUAL	CHANGE	%	BUDGETED	ESTIMATED	CHANGE	%
PART I: EXPENDITURES & POSITIONS												
RESEARCH & DEVELOPMENT COSTS												
POSITIONS												
EXPENDITURES												
OPERATING COSTS												
POSITIONS	36.5	36.5			36.5		- 36.5	100	36.5	36.5		
EXPENDITURES	19449	18217	- 1232	6					20777	20910	133	1
TOTAL COSTS												
POSITIONS	36.5	36.5			36.5		- 36.5	100	36.5	36.5		
EXPENDITURES	19449	18217	- 1232	6					20777	20910	133	1

	FISCAL YEAR 1999-00				FISCAL YEAR 2000-01			
PART II: MEASURES OF EFFECTIVENESS	PLANNED	ACTUAL	CHANGE	%	PLANNED	ESTIMATED	CHANGE	%
1. % OF ENROLLEES COMPLETING THEIR COURSES	80	70	- 10	13	80	70	- 10	13
2. % HIGH SCHL DIPLOMA CANDIDATES RECEIVING DIPLOMAS	80	73	- 70	9	80	73	- 7	9
3. PERCENT OF LATCHKEY CHILDREN SERVED	81	NA			81	NA		
4. % ADULTS ENR IN ADLT ED COURSES OVER LAST 3 YRS	70	18	- 52	74	70	19	- 51	73
PART III: PROGRAM TARGET GROUP								
1. PERSONS AGE 16 AND UP	943066	929268	- 13798	1	956865	932181	- 24684	3
2. ELIGIBLE LATCHKEY CHILDREN IN PUB SCH GRADES K-6	33260	NA						
PART IV: PROGRAM ACTIVITIES								
1. NUMBER ENROLLED IN ADULT EDUCATION	56052	60406	+ 4354	8	58971	60526	+ 1555	3
2. NUMBER ENROLLED IN AFTER-SCHOOL PLUS PROGRAMS	27049	22757	- 4292	16	27094	22800	- 4294	16

Variance Report Narrative FY 2000 and FY2001 — 07 01 01 50

PROGRAM TITLE: School Community Services — EDN500

PART I – EXPENDITURES AND POSITIONS

Item 2. Operating. For FY2000, the variance is due to the following:

General Funds:	Pay Raises & Increments	68,653
	Transfers	-193,000
	Balance	-5,006
	Sub-Total	-$129,353
Federal Funds:	Additional	1,369,680
	Balance	-1,976,527
	Sub-Total	-$606,847
Special Funds:	Balance	-495,288
	Sub-Total	-495,288
Variance		-$1,231,488

For FY 2001, the variance is due to the following:

General Funds:	Pay Raises & Increments	133,256
Variance		$133,256

PART II – MEASURES OF EFFECTIVENESS

Items 1&2. The projected figures were based upon prior counting methods that were incorrect but have since been corrected.

Item 3. The number of latchkey children is not known. A survey completed several years ago to provide an estimate is outdated and is no longer used.

Item 4. The projected figures were based upon prior counting methods that were incorrect but have since been corrected.

PART III – PROGRAM TARGET GROUP

Item 2. The number of latchkey children is not known. A survey completed several years ago to provide an estimate is outdated and is no longer used.

PART IV – PROGRAM ACTIVITIES

Item 2. The projections do not reflect the drop in enrollment that occurred when A+ fees were raised in April 1996.

Source: State of Hawaii December 2000 Variance Report

Department of Budget and Finance. In fact, the Department of Budget and Finance acknowledged that its analysis and evaluation of other departments' measures of effectiveness are only cursory. Instead of providing assistance, the Department of Budget and Finance refers other departments to a 1976 publication describing the State's PPB system. According to the budget and finance department, budget cuts have curtailed its ability to fulfill its PPB responsibilities.

The Department of Budget and Finance indicated that it is each department's responsibility to ensure its measures of effectiveness are relevant and accurate.

Legislators are denied potentially valuable information

In January 1968, the then Senate president expressed his expectations of PPB:

> It will provide us with something that we have been lacking, and that is a yardstick whereby we can measure progress towards desired goals. After all, it's a rather frustrating thing for legislators or administrators [to] not really be able to evaluate the programs which they have initiated.

We found that PPB, at least as it pertains to the Department of Education, has not produced the results the then Senate president was hoping for 35 years ago. Producing useless information wastes taxpayer money. In addition, a potential exists that some legislators' decisions may be based on flawed data. We surveyed 33 current legislators who were members of the Senate Ways and Means, House Finance, and Education committees during the 2002 legislative session. A copy of the survey we used is shown in Appendix B. Responses indicate that most legislators have little use for the education-related information presented in the PFP.

Most legislators have no use for measures of effectiveness

Over half of the legislators responding to our survey reported that they do not find the department's measures of effectiveness useful when making fiscal decisions or assessing alternative options and funding requests. One legislator commented, "[I] have not used this information." In addition, more than half disagreed with the notion that the department's measures are clear, unambiguous, and reflect relevant achievements. One respondent remarked, "This has been frustrating, given the level of ambiguity in the [Department of Education's] budget and all other departments, actually." Almost half of the respondents disagreed with the statement that the department's objectives are valid and valuable indicators of what it plans to achieve and how achievement will be measured. As noted by one legislator, "Benchmarks used are merely those which can easily be quantified."

Similarly, almost half of the respondents indicated that they do not often use variance reports for assessing the department's achievements, while nearly a third find that variance reports are useless when making fiscal decisions. According to one legislator, the "current system has proven to fail."

Hawaii's legislators' evaluation of PPB is in stark contrast to a survey of the Texas legislature regarding the performance budgeting system of that state. That 1998 survey showed an overwhelming number of legislators felt that introducing performance budgeting had improved the information available for decision-making and that the system had met expectations. The Texas performance budgeting effort is considered one of the best the nation.

Some legislators may base fiscal decisions on flawed information

A minority of respondents reported that they actually use measures of effectiveness when assessing funding requests and deciding fiscal issues. Nearly a third find the measures of effectiveness useful, and 15 percent use the measures in their assessments. Variance reports are thought of as a valuable tool by 23 percent of the respondents who say that they often use these reports as an information source for assessment and decision-making on the department's funding requests. However, the department's disregard for providing relevant, accurate, and clear information creates the potential for some legislators to base their fiscal decisions and assessments on flawed information.

The Department's Accountability Efforts Duplicate PPB and Raise Questions About the System's Utility As It Currently Exists

The Department of Education has undertaken a number of initiatives to address accountability and evaluate its programs' resources. However, these efforts are focused exclusively on the department's operational needs and not linked to the State's PPB system. Some of these efforts perform similar functions as those that should be part of PPB. Such duplication, combined with the department's practice of reporting meaningless information, results in wasted effort and resources. In addition, any inconsistencies in terminology or presentation with statewide guidelines makes it more difficult for stakeholders outside the department, including legislators and the public, to evaluate and interpret the department's performance information.

The department has implemented a patchwork of ad hoc projects duplicating key PPB components

The department has developed a strategic plan and implemented a program review project similar to PPB's elements of long-term planning and program evaluation. However, these projects have been initiated in response to new demands and were not developed as part of the

systematic planning, programming, analysis, and evaluation components of the State's PPB system. As a result, instead of creating a comprehensive system designed to improve management, the department has created a patchwork of projects that duplicate key PPB functions.

The strategic plan is not based on PPB long-term plans and objectives

The department provided us with its September 1999 "Strategic Plan for Standards Based Reform" in response to our request for the department's strategic plan. This plan was exclusively tailored to meet implementation needs of the Hawaii Contents and Performance Standards and is unrelated to the PPB system. In addition, the plan does not include measurable objectives and shows no connection to the program structure under PPB.

The department's program review does not evaluate achievement of PPB objectives

In 2001, the department recognized that it had neglected to institute a systematic evaluation process for continuous improvement of the programs funded in its budget. Although such a process is intended to be part of PPB, the department proceeded to create its program review project as an internal effort, separate from PPB, and chose to focus on the "congruence of program activity with the central goal of the Hawaii Content and Performance Standards." This effort duplicates the evaluation and analytical effort that should exist under PPB. There is no link to PPB's objectives, measures of effectiveness, and systematic analysis and evaluation.

The accountability framework duplicates PPB objectives and measures of effectiveness

In response to the Legislature's mandate for accountability and the federal government's requirement for performance measures, the department is in the process of developing an accountability framework. This framework is intended to transform school management to focus on results and transfer responsibility for budgets, resources, and outcomes to the schools.

While an evaluation of the department's accountability framework was outside the scope of our audit, we found that its components include measurable objectives, performance measures reflecting outcomes, and baseline measures and benchmarks—elements of a coordinated strategic planning process. These elements are consistent with those of a modern performance-based budgeting system. However, this system is department-specific and not a part of the State's performance budgeting

system. The department contends that the existing PPB system does not meet its needs as they relate to performance budgeting. In addition, the department feels that it does not have "ownership" over the PPB process. While the department's adoption of performance budgeting is a step in the right direction, its efforts will result in a duplicate set of performance budgeting systems.

New objectives and key performance indicators do not follow the existing budget program structure

The department recently drafted a new strategic plan based on core needs, standards based reform, and the federal No Child Left Behind Act. This plan is broader than its predecessor but provides for measurable objectives and performance measures. However, the objectives do not correspond with the department's PPB objectives; performance measures do not follow the existing program structure under PPB; and the plan is essentially creating a duplicate program structure.

The State's programming, planning, and budgeting system requires substantial improvements to ensure its success

The PPB system as it has been implemented by the Department of Education has not met its original objectives. Some of the problems we identified may also exist in other departments. While Hawaii was one of the first states in the nation to embrace a program and performance oriented budgeting system, other states have been more successful in pursuing best practices in performance budgeting for better management and decision-making. Legislative and executive involvement and leadership will be needed to clarify the utility and improve the operation of Hawaii's PPB system to ensure it will realize its potential.

The need for system improvements was recognized in 1998

The State Legislature recognized the need to transform the existing budgeting system as recently as 1998. Act 230, SLH 1998, established a performance budgeting committee to develop and oversee the implementation of a performance-based budgeting system. In December 2000, the committee acknowledged that the State already had a performance-based system in place. The committee concluded, however, that PPB did not provide satisfactory information, existed in form only, and required substantial improvements to render it useful and meaningful.

Although it requires substantive changes, the committee found that the PPB system should not be replaced. Instead, PPB could be modified within the current framework to perform as a performance-based budgeting system. The committee undertook a pilot project to prove that performance-based budgeting is a useful tool for improved management,

fiscal decision-making, and performance monitoring. The committee's final recommendations were for the legislative and executive branches to work together to:

- Review, clarify, and revise agency missions and goals;
- Shift organizational and program focus to end results;
- Simplify and modernize budget and program information; and
- Ensure support from top management and active buy-in from program staff.

The committee also noted that no single model would work for all programs and organizations. As such, agencies should be allowed to pursue improvements according to their own culture and resources within a broad framework.

Positive results in other states with similar systems demonstrate the value of performance budgeting

Legislators and staff involved in implementing performance-based budgets advise states to: 1) study other states' budgeting processes and budget reforms, 2) determine the effects of those reforms, and 3) ask other states about their mistakes and lessons learned. Texas and Florida are generally recognized as the leaders in the use of performance measurements. These states, which have performance-based budgeting systems conceptually similar to Hawaii's, have successfully implemented and verified the benefits of utilizing such a system.

A 1998 survey of Texas legislators found that most House and Senate budget committee members were satisfied with the state's performance-based budgeting system. Committee members generally believed that performance measures are useful in allocating resources and improving accountability of the use of those resources. They also saw the system as a means of prioritizing needs within individual agencies. Florida's legislative Office of Program Policy Analysis and Government Accountability reported in 2000 that its performance-based program budgeting system resulted in improved program accountability, better public services, and cost savings. Hawaii should study Texas and Florida's performance-based budgeting systems as best practice models and consider selectively applying characteristics of these successful systems.

Texas advocates a six-step process for developing, maintaining, and using performance measurement information. The process is as follows:

1. Determine the key processes and activities that need to be measured and identify indicators that best reflect performance. For example, a program with the primary goal of reducing air pollution might focus an outcome measure on only those areas not currently meeting federal air quality standards. In addition, the measure might include only 15 of the 20 pollutant types significant to the state.

2. Develop performance measure definitions and calculation methodologies during the strategic planning process. Exhibit 2.3 provides an example of a Texas performance measure and definition.

3. Implement effective control systems to ensure the integrity and accuracy of information. Agencies should implement procedures for reviewing all reported performance data.

4. Establish achievable performance projections for measures. Projections can be developed using trend analysis, assessing internal and external influences, reviewing national or industry averages, or benchmarking against best practices of other states.

5. Report actual performance in a timely and accurate manner and retain adequate documentation to support reported performance.

6. Evaluate how the agency uses the measure to help it achieve results expected by the Legislature.

Furthermore, Texas reports that meaningful communication by and between agency management, operational and budget staff, legislative staff, and agency customers throughout the process significantly enhances the quality of performance measures.

Similar to this audit's findings as they relate to the Department of Education, Florida recognized in 2000 that not all state agencies were effectively using performance-based program budgeting to improve their efficiency. For example, some agencies created numerous performance measures that overloaded the appropriations act, thereby hindering policymakers' ability to sort out the relative importance of those measures. In addition, the Florida legislature did not have a systematic way of linking agency strategic plans and performance measures to agency budget requests for additional resources. Without this link, agency plans and performance measures had limited value in the legislative budgetary process.

As a result, Florida's legislature and governor enacted several changes to the budgeting system to strengthen its impact on government efficiency. For example, although Florida agencies still develop comprehensive performance measures, not all of those measures are included in the

Exhibit 2.3
Example of a Texas Performance Measure Definition

AGENCY: Commission for the Blind

GOAL: Assist Texans who are blind or visually impaired to live independently

OBJECTIVE: Increase the number of consumers achieving independent living goals

OUTCOME MEASURE: Percent of consumers whose dependent living risk was diminished

MEASURE DEFINITION:

Explanation/Importance
This measure addresses the extent to which services provided by the strategy enable individuals to minimize their dependency on others due to blindness or severe vision loss. Services provided depend on individual need and might include training in how to move about safely in the home, neighborhood, and community; counseling to help adjust to vision loss; and provision of adaptive devices and training in preparing meals, handling finances, and maintaining and recording information without vision.

Source of Data
Service personnel in field offices enter all data for the consumers they serve into the agency's database. A record of each consumer is begun at the point an application for services is taken or a referral is received.

After assessing the consumer's situation, service personnel note in the consumer's database record whether the individual is at risk of increased dependency on others. At the time the consumer's case is closed, staff enter a code noting whether or not the consumer's risk for dependent living is diminished as a result of services provided. Consumer coding is presented in a quarterly custom report that extracts this database information.

Calculation
A percentage is obtained by dividing the number of consumers coded as having a diminished dependent living risk at closure by the number of consumers coded as being at risk during the eligibility phase of their rehabilitation process.

Data Limitation
The determination of risk of dependence at application and the degree of dependence at closure is based on the judgment of professional staff. A small degree of subjectivity is inherent but the measure offers reliable information on program results.

CALCULATION METHOD: Non-cumulative
NEW MEASURE: No
KEY MEASURE: Yes

Source: Texas State Auditor, Guide to Performance Measure Management, 2000

budget. In addition, a new law requires agencies to annually develop long-range program plans. These plans provide the framework and context for agency budget requests. Agencies must report on performance indicators for their services and activities and thoroughly examine and justify their functions and expenditures.

Although Texas and Florida are the widely recognized leaders in performance management, several other states are also considered to be at the forefront of performance budgeting and results-based management. Characteristics shared by these states should also be considered in the event Hawaii's Legislature initiates changes to the PPB system.

In February 2002, the Oregon Progress Board conducted a survey of Florida, Texas, Missouri, Iowa, Washington, and Virginia. The survey found that these states exhibited common characteristics that may contribute to successful implementation of results-based management by each state. These include: 1) incorporating performance measurement into a larger strategic planning process, 2) linking budgets to performance, and 3) having leaders that demonstrate commitment to the performance measurement process.

In linking performance measures to budgeting, Texas uses performance data to assess financial awards and penalties. Florida's policy is also to reward or sanction agencies based on performance. In Missouri, outcome measures play an important role in allocating resources towards priorities that most efficiently and effectively achieve an agency's outcome. These states have also learned that gubernatorial support is helpful in motivating agencies to develop and make good use of performance measures.

A 2000 Urban Institute study's conclusions correspond with the Oregon Progress Board's survey results. The study found that states which successfully implemented performance budgeting share the following characteristics:

- Statewide strategic planning that includes agency and sub-state governments' plans,
- Clear and easily defined and communicated goals and strategies,
- Assistance by functional experts (e.g., engineers, mental health counselors, etc.) in linking cause and effect between spending and outcomes,
- Clear accountability,

- Human resource systems designed to reward achievement of performance objectives,
- The use of fewer, rather than more, indicators,
- Enthusiasm by agency management about the process,
- A belief that governing for results is superior to traditional methods,
- Personnel training, and
- Data validation.

Conclusion

The Department of Education's compliance with PPB has been cursory. Its failure to embrace performance budgeting has limited its ability to account for program effectiveness and has deprived the Legislature of needed information for fiscal decision-making. The department's planning and program evaluations are not coordinated within the PPB system although the system was designed to include these functions. Taxpayer money is wasted on producing PPB reports with useless and invalid information, while the department is creating a duplicative performance budgeting system. Such efforts can and should be coordinated within a statewide performance budgeting framework.

However, the existing PPB system requires some changes to ensure the success of such a framework. Positive experiences with performance budgeting in other states should be used to identify best practices that will enhance Hawaii's budgeting process. Integrated state and agency strategic planning, proper oversight and validation of performance data, and adequate training are needed. Better information for decision makers and improved accountability for program results also depend on committed agency, executive, and legislative leadership.

Recommendations

1. The Board of Education should ensure that the superintendent of education:

    a. Develops an effective system to assess the success of programs in attaining objectives. At a minimum, this should include the components of measurable objectives, related measures of effectiveness, methodical analysis and evaluation, and the budgeting process as parts of a coordinated system.

b. Promotes program management, which is oriented towards achieving measurable objectives, and provides adequate training to ensure appropriate performance measures are developed, used, and accurately reported.

c. Develops relevant, accurate, and clear measures of effectiveness serving the needs of the department as well as legislators.

d. Develops systems to ensure that accurate information is collected and disseminated.

e. Develops a coordinated system, adequately linked to the objectives of the State's budgeting system, ensuring that planning and budgeting are strengthened by systematic analysis and evaluations assessing program success and effectiveness.

2. The Legislature should, in cooperation with the executive branch, identify appropriate changes needed to update the PPB system in order to adopt best practices in performance budgeting. Components of successful performance budgeting systems in other states that should be considered include:

a. Statewide and agency goals and benchmarks,

b. Strategic planning,

c. Benchmarking,

d. Performance measures based on outcomes,

e. Oversight and validation of performance measurement systems,

f. Performance-based rewards and negative incentives in appropriations and allocations, and

g. An adequate knowledge base on performance budgeting at all levels of the executive and legislative branches.

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Appendix A
Department of Education Program Objectives and Measures of Effectiveness
Fiscal Biennium 2001-03

Program	Objective	Measures of Effectiveness
Lower Education	To assure that all children in prescribed school age groups learn fundamental facts, concepts, and reasoning processes; develop appropriate physical, social, aesthetic, and basic occupational skills; and acquire attitudes and values necessary for successful functioning in society by providing guidance, instruction, training, exposure to learning experiences and opportunities to mature; to enhance the welfare of the community by offering instruction and other services to benefit the general public.	• Percent of students with reading scores of average and above at grade 8 • Percent of students with math scores of average and above at grade 10 • Percent of June seniors graduating • Percent of seniors planning to attend post-secondary school • Percent of seniors planning to work after graduation • Diploma candidates receiving diploma through adult education • Percent of week library services available
EDN 100 School-Based Budgeting	To assure that all students receive instruction consistent with the Hawaii Content and Performance Standards so that they may achieve those standards and develop to their fullest potential. The standards specify what students should know, be able to do, and care about.	• Percent of students exiting English language assistance program • Percent of special education students progressing satisfactorily per IEP • Percent of students not involved in serious disciplinary incidents • Percent of seniors planning to attend post-secondary school • Percent of seniors planning to work after graduation
EDN 150 Comprehensive School Support Services	To provide required student support and instructional activities to enable students to meet the Hawaii Content and Performance Standards while achieving and maintaining compliance with Section 504 of the Rehabilitation Act (IDEA), and the provision of the *Felix v. Cayetano* consent decree.	No measures of effectiveness are listed for this program.
EDN 200 Instructional Support	To support the instructional program by providing assistance to schools and complexes in a responsive and expedient manner in planning, developing, testing, training, monitoring, and evaluating new and existing curricula and instructional strategies and by providing psychological, social work, speech/language and/or diagnostic-prescriptive services, as well as other related services to address identified student needs.	• Percent of staff time spent in serving school/complex • Number of schools in implementation stage of school renewal • Average days between referral date to intake date • Average days between intake date and eligibility date • Number of students not involved in serious disciplinary incidents

Program	Objective	Measures of Effectiveness
EDN300 State and School District Administration	To facilitate the operations of the department by providing management, planning, fiscal, logistical, technological, personnel, and other supporting services.	• Percent of difference between actual vs. projected student enrollment • Average time lag between rel of CIP and completion of design • Average response time on requisition for storeroom supplies • Percent of certified personnel assigned to special work assignments on 6/10 • Percent of June seniors graduating • Unexcused absences as percent of average daily attendance • Percent of goal for computers per student • Percent of marginal teachers
EDN400 School Support	To facilitate the operations of the department by providing school food services and supplies relating to the operation and maintenance of grounds and facilities.	• Percent of students in daily attendance participating in lunch program • Percent of students in daily attendance participating in breakfast program • Actual per meal cost as percent of planned meal cost • Actual number of meals served as percent of budget base planned meals • Percent of schools with buildings and yards cleaned and restrooms sanitized
EDN500 School Community Services	To provide lifelong learning opportunities for adults and to meet other community needs of the general public.	• Percent of enrollees completing their courses • Percent of high school diploma candidates receiving diplomas • Percent of adults enrolled in adult education courses over last 3 years

Source: State of Hawaii FB2001-03 Multi-Year Program and Financial Plan and Executive Budget

Appendix B
Questionnaire

For your responses, please mark the number corresponding most closely with the degree of your agreement or disagreement with the following statements.

Strongly Agree 1	Agree 2	Neutral 3	Disagree 4	Strongly Disagree 5

1. When making decisions on fiscal issues pertaining to the Department of Education, I find the measures of effectiveness in *The Multi-Year Program and Financial Plan and Executive Budget* (PFP) (see Attachment A) useful. _____

2. I often refer to and use these measures of effectiveness when assessing alternative options and making decisions on Department of Education funding requests. _____

3. The measures of effectiveness in the PFP are good indicators of the Department of Education's progress in achieving program objectives. _____

4. The Department of Education's measures of effectiveness are clear, unambiguous, and reflect relevant achievements. _____

5. The program objectives contained in the PFP provide me with valuable and valid indicators of what the Department of Education plans to achieve and how this achievement will be measured. _____

6. The Variance Report (see Attachment B) is a helpful tool in fiscal decision-making relating to the Department of Education. _____

7. I often use The Variance Report as an information source to assess the Department of Education's progress in attaining objectives and to make decisions on funding requests. _____

If you use information sources other than the PFP and variance report that you find particularly helpful when making fiscal decisions related to the Department of Education, please describe.

_____

_____

_____

Other comments: _____

_____

_____

_____

_____

Please return completed questionnaire by January 3, 2003 to
Office of the Auditor, 465 South King Street Suite 500

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Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Board of Education and the Department of Education on May 27, 2003. A copy of the transmittal letter to the Board of Education is included as Attachment 1. The Department of Education's response is included as Attachment 2. The Board of Education did not provide a written response.

In its response, the department agreed that the State's planning, programming, and budgeting (PPB) system should be updated and acknowledged the need to develop clear, appropriate, objective, and quantifiable performance measures. However, the department disagreed with some of our findings.

The department contends that it has not failed to comply with the State's PPS system. But we believe that our report clearly shows that the department has not used the opportunities that PPB had intended to bring to state government. The department has not fostered a results-oriented management culture, adequately trained its program managers on performance budgeting, or systematically analyzed and evaluated its operations. This has resulted in the department compiling and reporting invalid measures of effectiveness over many years to represent its achievements.

The department also offered alternative interpretations to some of our specific findings. For example, it sees contradiction between our findings that (1) the department has neglected to embrace the principles of PPB and (2) the department's current accountability efforts duplicate components of PPB. The department is missing the point of our findings. To reiterate, the department has not taken PPB seriously, resulting in weak measures of effectiveness. Furthermore, rather than simply attempt to improve its current PPB system, it has opted to create yet another evaluation system. Given that the use of PPB is mandated, it would be more efficient for the department to fix what it has rather than "reinvent the wheel."

The department takes exception to our finding that its strategic and accountability planning are divorced from PPB, noting that these efforts serve to support the department. However, a system of planning, programming, and budgeting requires that its component parts be interrelated and connected. For example, under the State's PPB system, objectives and performance measures should show the degree of progress made towards achieving program objectives. However, the department's

efforts in strategic and accountability planning had no connection to PPB objectives and performance measures and, in fact, the strategic plan did not include any performance measures.

While acknowledging the need for work on developing better performance measures, the department pointed out that it had dropped several inappropriate measures and updated others for the FB2003-05 budget document. Our audit began before this document was available and it was not considered in our review of performance measures. The department also criticized our finding that performance measures that do not improve over long periods (up to 12 years) may indicate managerial complacency. However, the department did not provide a reason or justification why certain measures showed no improvement over time.

Finally, the department takes issue with our categorizing its strategic plan and accountability framework as a "patchwork of projects that duplicate key PPB functions," pointing out that these elements are vital components of the PPB system. We stand by our finding that the accountability framework, while conceptually similar to PPB, is a separate system capable of performing some of the same functions. We also found, and the department's response confirms, that the accountability system is focused on serving the needs of the department. However, PPB is still the State's official budgeting and management vehicle, and to the extent that it has overlapping functions, the department's accountability framework duplicates these functions. Our report acknowledges that the accountability framework appears to be a move in the right direction and points out a need for improving PPB to become a broad framework accommodating departmental performance systems.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

May 27, 2003

COPY

The Honorable Herbert S. Watanabe, Chair
Board of Education
Department of Education
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawaii 96813

Dear Mr. Watanabe:

Enclosed for your information are 14 copies, numbered 6 to 19, of our confidential draft report, *Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decisions?* We ask that you telephone us by Thursday, May 29, 2003, on whether or not you intend to comment on our recommendations. Please distribute the copies to the members of the board. If you wish your comments to be included in the report, please submit them no later than Friday, June 6, 2003.

The Department of Education, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

LINDA LINGLE
GOVERNOR

ATTACHMENT 2

PATRICIA HAMAMOTO
SUPERINTENDENT

STATE OF HAWAI'I
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAI'I 96804

OFFICE OF THE SUPERINTENDENT

RECEIVED
JUN 6 3 27 PM '03
OFC. OF THE AUDITOR
STATE OF HAWAII

June 6, 2003

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Thank you for the opportunity to comment on the confidential draft report, *Fiscal Accountability Audit of the Department of Education: Do Measures of Effectiveness Impact Funding Decisions?* Please know that we value your findings, comments, and recommendations, and appreciate the time spent by your staff in conducting the audit.

We agree with your recommendation that the state's planning, programming, and budgeting (PPB) system should be updated to include best practices in performance budgeting. The PPB system has remained in its original form since its adoption in 1970 and sorely needs enhancement to meet current needs. Linking performance information with the budget would improve the management of programs, better inform department and legislative decision making, and promote a focus on results, service quality, and public satisfaction. There are, however, certain observations with which we respectfully offer an alternate interpretation.

We do not agree that the department has failed to comply with the requirements of the state's PPB system. Our response to specific findings follow.

Summary of Findings

The audit report's two primary findings seem to be at odds with each other. On the one hand, the report finds that the "Department of Education has neglected to embrace the principles of PPB and has only minimally complied with statutory requirements." The report uses examples such as the following to support its finding:

AN AFFIRMATIVE ACTION AND EQUAL OPPORTUNITY EMPLOYER

> "Elements critical to the success of a performance budgeting system like PPB are non-existent or inadequate within the Department of Education."
>
> "Systematic analysis and evaluation of effectiveness for existing programs has been non-existent."

On the other hand, the report finds that the "department's current accountability efforts duplicate components of the PPB system and point to the need for system improvements and clarification." It does not seem logical for the department to duplicate parts of the PPB system if, as the report suggests, the department has "neglected to embrace the principles of PPB" and lacks the "elements critical to the success of a performance budgeting system like PPB." One cannot duplicate what does not exist.

Moreover, we take exception to the comment that our strategic and accountability planning and program review endeavors are divorced from the PPB system, for we believe that they serve to support it in a way that are meaningful and useful to the department. Ultimately, as explained in our response to specific findings of the report, we believe that our efforts will not only lead to improvement of the system and better resource allocation decision-making, but more importantly, will lead to higher achievement for *every* student.

The PPB System in the Department of Education is Not Working As Intended

The state's planning, programming, and budgeting system, created in 1970, is characterized by the following activities: developing long-range planning objectives, establishing measures of effectiveness, analyzing the costs and benefits of alternative programs that would meet these objectives, and conducting program evaluations of ongoing programs.

As stated earlier, contrary to the report's finding, the department *has not* "neglected to embrace the principles of PPB." We believe that our strategic planning, educational accountability, and fiscal accountability endeavors, linked together by common goals, objectives, and performance indicators support the principles of the state's planning, programming, and budgeting system.

We have modified and refined parts of the state's PPB system to accommodate existing budgetary limitations and state and federal requirements. This has better enabled the department to achieve its mission and to comply with state and federal laws regarding the establishment of a standards-based education and accountability system. The audit report itself acknowledges that the PPB system begs changes and recommends that the 30-year old budget system be updated. We speculate that if the Office of the Auditor conducted a fiscal accountability audit of the measures of effectiveness of other state agencies, the results would be similar.

The department's strategic goals and objectives are articulated in two documents: The *Strategic Plan for Standards-based Reform*, published in 1999, and the *Strategic Implementation Plan,* published in January 2003. The *Strategic Plan for Standards-based Reform* was the department's blueprint for creating a standards-based education system for Hawaii's students. The plan specified what needed to be done in order for the transformation to a standards-based system to occur, and detailed how and when major activities and tasks would be achieved. With a few exceptions, the timetable for completing the plan's major tasks ranged from November 1999 to September 2002.

The recently published *Strategic Implementation Plan* continues implementation of the *Strategic Plan* by directing the department's efforts to where they will make the most impact on student achievement, that is, at the level of the classroom and on students. The *Strategic Implementation Plan* currently serves as the department's roadmap to standards-based education in our classrooms by delineating clearly defined goals, objectives, actions, timelines, and outcomes. Almost 100 strategic actions provide the activities and substance to attain the plan's four goals:

- Provide a standards-based education for every child
- Sustain comprehensive support for all students
- Deliver coordinated, systemic support for staff and schools
- Achieve and sustain continuous improvement of student performance, and professional, school, and system quality

The *Strategic Implementation Plan* also reflects the mandates of the Legislature which, through Act 238, Session Laws of Hawaii, 2000, tasked the Department of Education to implement an educational accountability system for Hawaii's public schools. The plan also integrates requirements of the federal *No Child Left Behind Act of 2001*. *No Child Left Behind* mandates a school accountability system replete with its own required standards, measures, and consequences.

To avoid problems and duplication in the execution of state and federal accountability requirements, the department is working on developing an *Accountability Framework* to implement a system of accountability that conforms to the requirements of both Act 238 and of the federal *No Child Left Behind Act of 2001*. The purpose of the education accountability system is to assure effective schools and learning so that all students reach our challenging standards. Common goals, performance measures, and action strategies bridge the *Accountability Framework* with the *Strategic Implementation Plan*, thus ensuring that both plans are carried out in a coherent and symbiotic fashion.

In addition, we have been exploring ways of integrating educational accountability with fiscal accountability. The aim is to improve student achievement while concurrently improving the quality of resource allocation decision making. As a result, in June 2002, the department hired the services of a consultant firm, Grant Thorton LLP, to conduct a high-level assessment of fiscal accountability in the department and to identify a process by which the department could link fiscal expenditures with educational outcomes.

Following the recommendations of Grant Thornton's *Fiscal Accountability Study at the State of Hawaii Department of Education*, the department, having secured the Board of Education's approval in March 2003, is working on developing and implementing a performance-based budgeting system, which will capture or measure the relationship between fiscal spending and educational outcomes. Core educational outcomes and performance indicators will emerge from the goals, measures, objectives, and strategies identified in the *Strategic Implementation Plan* and *Accountability Framework*. Thus, our fiscal accountability system will be connected with our strategic planning and educational accountability efforts. The resulting financial management structure will better enable the department to improve student achievement by focusing resources on the school, classroom, and student support services and account for the expenditure of funds.

Systematic Evaluation of Program Effectiveness is Currently Non-Existent

The audit report states that the department's program review efforts are "not directly related to the systematic analysis and evaluation under PPB." It goes on to say that "the department's recently implemented program review performs a similar function to PPB's systematic review" and that "(t)his raises similar concerns about duplication." We find this very confusing and contradictory. Once again, how can you duplicate a function that does not exist? A description of our program review efforts follow.

Recognizing the need for instituting a quality assurance process for programs funded, the department initiated a program review process in Fall 1999 with two underlying goals: to improve student achievement of the Hawaii Content and Performance Standards, and to improve the targeting of resources.

In January - February 2001, the department conducted a "desk audit" of all 260 or so general funded programs, using the following criteria:

1. Essential to standards based learning
2. Provides direct services to students and school support
3. Required to satisfy basic critical needs
4. Required to comply with legal mandates
5. Performance/effectiveness

In March 2001, a Review Panel, composed of representatives from the state and district offices and school principals, was convened to review the findings of the "desk audit" and to develop a consensus recommendation on each program based on how well it supported student achievement of the standards and its effectiveness in doing so.

In 2002, follow-up program reviews were conduced on 43 programs. Over the next four years, beginning in 2003, the department, with Board of Education approval, plans to continue conducting systematic cyclical program reviews of all department programs in order:

- to assess the quality, efficiency, and effectiveness of program operations, and
- to improve program operations by enhancing the congruence of the department's programmatic activity and resource use with the central goal of improving student achievement of the Hawaii Content and Performance Standards.

We fail to comprehend how a program review of all department programs with the objectives of improving student achievement and improving the allocation of resources can be found to be "duplicative" or "not related" to the requirement for systematic evaluation under PPB.

<u>The Department's Measures of Effectiveness in the Executive Budget Are Irrelevant, Inaccurate, and Ambiguous</u>

The department acknowledges that further work is needed on developing clear, appropriate, objective, and quantifiable performance measures. However, the audit work primarily focuses on the FB 2001-2003 budget document. As such, the report fails to recognize the many improvements that have been made in the FB 2003-2005 budget document.

Many of the measures of effectiveness used for the FB 2001-2003 budget document were changed. Specifically, inappropriate, irrelevant, or outdated measures were deleted, ambiguous measures clarified, and new measures added.

For example, two inappropriate measures in Program Level II, Lower Education, were dropped and another one revised, and four inappropriate measures in Program Level III, Department of Education, were deleted and another one revised. In addition, the measures of effectiveness contained in the FB 2003-2005 budget document have been updated to include performance measures related to standards-based student achievement and requirements of the federal *No Child Left Behind Act of 2001*. For example, the performance measures for EDN 100, School-Based Budgeting, now include: percentage of students scoring proficient or exceeds proficiency in reading - grade 5, percentage of students scoring proficient or exceeds proficiency in math - grade 5, and percentage of schools making adequate yearly progress.

The department is committed to continuing the process of improving its measures of effectiveness for the next biennium budget period (FB 2005-2007) by identifying performance measures which best capture program effectiveness and are consistent with our mission, goals, and objectives.

While neither perfect nor complete, the updated performance measures used for the FB 2003-2005 budget document are much improved over the measures used in the FB 2001-2003 budget document, the primary focus of the audit report. As such, the department believes that the current measures cannot be broadly characterized as "irrelevant, inaccurate, and ambiguous."

Measures Are Unclear

In finding that the department's measures are *unclear*, the report states that the measure, "unexcused absences as a percentage of average daily attendance," used for EDN 300, State and District Administration, has been "reported and projected at 7 percent for nearly 12 years." The report editorializes: "When performance remains stagnant over a long period of time, this typically points to managerial complacency and a lack of effort to improve."

To base a finding, particularly one which suggests that a manager is not doing his or her job, solely on the basis of a single measure seems contrary to the standards of good auditing practices. After reviewing some of the measures of effectiveness used by other departments, we found numerous instances where measures remained constant for long periods of time. This does not suggest complacency and a lack of effort on the part of those managers.

It should be added that the "unexcused absence" measure was deleted in the FB 2003-2005 budget document, not because of "managerial complacency and a lack of effort to improve," but for reasons of appropriateness. We found that this measure was not relevant to EDN 300, State and District Administration, and subsequently discarded it.

Problems Extend to Variance Report

The report uses problems found in variance report for the measure, "percentage of adults enrolled in adult education classes over the last three years"as a sweeping indictment of all variances reported in the budget document. If this is not an isolated case but represents a general pattern of reporting "inaccurate and misleading information," as the report indicates, we would appreciate the evidence to support the finding so corrective action can be taken.

Most Legislators Have No Use for Measures of Effectiveness

The report states that over half of the legislators responding to a survey assessing the department's measures of effectiveness, program objectives, and variance report generally give the department poor marks. The Office of the Auditor surveyed 33 legislators who were members of the Senate Ways and Means, House Finance, and Education committees during the 2002 legislative session. To place this in the proper perspective, it would be interesting to see how legislators would respond if asked to rate the measures, objectives, and variance reports of other state departments. It is conceivable that our favorable ratings may be better than those of other departments. The point here is that without comparative data, it is difficult to assess the true meaning of the results. We do not know whether this is a perception problem affecting only the Department of Education or a commonly realized one that extends to other departments as well. If this perception straddles across all or most state departments, as we suspect it does, it would point to a systemic problem rather than one localized to the Department of Education.

The Department's Accountability Efforts Duplicate PPB and Raise Questions About the System's Utility As It Currently Exists

The report describes the department's *Strategic Plan*, *Strategic Implementation Plan*, *Accountability Framework*, and program review as a "patchwork of projects that duplicate key PPB functions" that fails to create comprehensive system to improve management. We respectfully disagree.

As described in our response to the finding , "(t)he PPB System in the Department of Education is Not Working As Intended," the department's *Strategic Implementation Plan* continues the work of the *Strategic Plan* by providing a roadmap to standards-based education in our classrooms. The *Accountability Framework* implements a system of school accountability required by state and federal law. The *Strategic Implementation Plan* and the *Accountability Framework* are connected synergistically through common goals, outcome measures, and strategic actions. To link fiscal expenditures with educational outcomes, we are working towards implementing a fiscal accountability system using a performance-based budgeting system approach. Finally, to assess the quality, efficiency, and effectiveness of program operations, we plan to continue our program review of all general funded department programs.

The elements that the report identifies as being duplicative of the PPB system are rather vital components of the PPB system.

Report Recommendations

The report recommends that the Board of Education ensure that the superintendent of education:

- Develop an effective system to assess the success of programs in attaining objectives
- Promote program management and provide adequate training
- Develop relevant, accurate, and clear measures of effectiveness
- Develop systems to ensure that accurate information is collected and disseminated
- Develop a coordinated planning and budgeting system linked to the objectives of the state's budgeting system and supported by systematic analysis and evaluations

As described heretofore, we have been or are endeavoring to address the areas covered in the audit report's recommendations. To provide further evidence of our commitment to creating a meaningful planning, programming, and budgeting system, the department has taken steps not only to align its budget with the *Strategic Implementation Plan* and *Accountability Framework*, but has begun a process to redefine its program outcome measures for accountability. This has been reflected in the department's publication, *Department of Education Operating Budget Request Fiscal Biennium 2003-2005 January 2003*, presented to the Legislature this past January. Our biennium budget document detailed the department's operating budget for each level in the budget program structure. Individual program summaries contained program objectives and descriptions based either on the Hawaii Content and Performance Standards or the *Standards Implementation Design* criteria, performance outcomes measures, and a synopsis of the outcomes for the most recent year available.

One of our greatest challenges is to develop information systems which will provide meaningful access to analytical data for program and school administrators. With this in mind, the department is working towards developing analytical/applications which aim to:

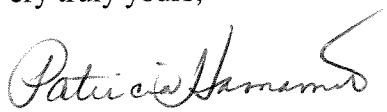
- Provide a mechanism to measure our success at providing a standards-based education for every child,
- Enable us to analyze student demographics to help sustain comprehensive support for all student,
- Provide a tool that helps decision makers deliver coordinated systemic support for all schools and students, and
- Provide a feedback mechanism to continuously improve and sustain student, professional, school, and system accountability.

Projects addressing this are currently being pilot tested using existing staff and resources.

Of course, what we are able to do in putting in place a viable performance-based budgeting system is governed, too, by the practical realities of the budget, and often we are compelled to settle for something that is much less than what is actually needed. The report mentions that, according to the Department of Budget and Finance, "budget cuts have curtailed its ability to fulfill its PPB responsibilities." Like the budget and finance department, our ability to develop a truly effective evaluation and monitoring system, provide all program managers the necessary analytical training required of implementing a PPB system, and develop systems to ensure that accurate information is collected and disseminated, has been severely curtailed by budget reductions.

Again, we appreciate the efforts of you and your staff and appreciate the opportunity to comment on your report.

Very truly yours,



Patricia Hamamoto
Superintendent

PH:lu

c: The Honorable Linda Lingle, Governor
The Honorable Herbert Watanabe, Board of Education
Assistant Superintendents
Branch Directors, Superintendent's Office
Planning and Evaluation Office