California Conservation Corps:

Further Revisions Would Improve Its Performance-Based Budgeting Plan

October 1996
95124

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CALIFORNIA STATE AUDITOR

October 3, 1996 95124

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the preliminary performance-based budgeting plan of the California Conservation Corps. This report concludes that the California Conservation Corps has made progress on establishing a performance-based budgeting plan, but it can continue to improve the plan. In particular, it should fully develop procedures to measure whether ex-corpsmembers have better employment records than nonparticipants. It should also improve controls to ensure the accuracy of data reported for performance-based budgeting purposes.

Respectfully submitted,

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Summary

Audit Highlights . . .

The California Conservation Corps can take further steps to ensure the effectiveness of its performance-based budgeting plan. In particular, it should:

- ☑ ***Better determine its success for the continuing education and employment of corpsmembers;***
- ☑ ***Use only objective sources of information for gauging corpsmembers' improvement and training;***
- ☑ ***Fully develop and use standardized customer satisfaction surveys; and***
- ☑ ***Improve the reliability and accuracy of data collected and reported for plan purposes.***

Results in Brief

This report presents the results of the Bureau of State Audits' review of the preliminary performance-based budgeting plan (plan) for the California Conservation Corps (CCC), one of four departments participating in the State's performance-based budgeting pilot project (pilot project). The CCC requested the audit to review its plan. The CCC provides employment, training, and educational opportunities to young men and women through work designed to further the development and maintenance of the natural resources and environment of the State. Our review revealed that the CCC has followed procedures and prepared appropriate documents, including a strategic plan for future operations, recommended in literature on performance-based budgeting, and has improved its original proposal for the pilot project based on comments from our audit and its own staff. However, the CCC could further improve its plan.

During our review, we made the following observations:

- The CCC's plan includes performance measures to determine how well it meets desired outcomes, but these measures do not consistently gauge the appropriate results. For example, the CCC proposes quantifying the number of corpsmembers who complete leadership training courses as a measure of corpsmembers' employability. However, the CCC has not fully developed procedures to measure whether corpsmembers who completed the leadership training have better employment records than comparable youths who have not received CCC training. Therefore, the CCC has not yet established that the courses actually affect the corpsmembers' employability.

- The CCC has based other performance measures it intends to use on potentially biased sources when better sources are available. For example, as a measure of work competencies, the CCC plans to determine the number of corpsmembers who report that they work well with others. The CCC also plans to use staff observations of corpsmembers, which would provide a more objective source of information.

- The CCC has not fully developed the surveys of its customers, such as the local governments for which it provides services, to determine how effectively it is meeting customer needs and training corpsmembers.

- Because the CCC does not have good controls over the data it uses to report to the Legislature on its compliance with performance goals, some of the data is unreliable and inaccurate. For example, we found instances in which the CCC's own records did not substantiate information reported on the number of corpsmembers who received general educational development (GED) certificates.

Recommendations

To ensure that its plan focuses on useful measures of desired results, the CCC should take the following steps:

- To assess its effectiveness in increasing the employability of corpsmembers, the CCC should continue to work with the Employment Development Department to track the employment status of all former corpsmembers. It should also continue to work with the Chancellor's Office of the California Community Colleges to determine the number of former corpsmembers who are continuing their education in the community college system. The CCC should compare the results of these tracking systems to the corpsmembers' experiences at the CCC to determine which, if any, of the CCC experiences show a positive correlation to employment status and continuing education.

- To determine the level of improvement in the corpsmembers' training, the CCC should continue to develop and administer standardized tests that gauge corpsmembers' knowledge when they enter and leave the CCC's program.

- To gauge the extent to which it is meeting customer needs, the CCC should develop and administer standardized surveys of customers for whom the CCC provides services.

To ensure that it reports accurate data and establishes appropriate benchmarks for performance measures, the CCC should set up a system of controls over the entry and summary of data reported for performance-based budgeting purposes.

Agency Comments

The CCC generally concurs with our suggestions for changes to its preliminary performance-based budgeting plan. However, it disagrees with our recommendation that it include all costs in its assessment of its operational efficiency, preferring instead to report on General Fund costs per corpsmember only. In addition, it disagrees with our observation that surveys of corpsmember opinions are potentially biased and should therefore not be used as a basis for budget allocations. Finally, the CCC notes progress it has made in establishing controls to ensure it accurately collects and reports performance-based budgeting data.

Introduction

The California Conservation Corps (CCC) is a youth service department within the Resources Agency and is dedicated to developing youths through work experience and education. Established in 1976, the CCC has a two-fold mission: (1) to provide employment, training, and educational opportunities to the State's young men and women, and (2) to further the development and maintenance of the natural resources and environment of the State. The CCC's total budget for fiscal year 1995-96 was $56.7 million, an amount that supported the CCC's headquarters and 14 district offices. The CCC receives much of its funding from the State's General Fund, but it also receives reimbursements from the agencies and organizations for which it completes projects as well as from the federal government.

The CCC's corpsmembers are California youths primarily between the ages of 18 and 23 who are generally not on probation or parole. California youths can sign up for the CCC's one-year program at any time during the year, and they may request the CCC district in which they want to work. According to the CCC, statewide, the average corpsmember stays in the CCC for about six months, and only between 15 and 20 percent of corpsmembers graduate from the program. The primary reasons for corpsmembers leaving before the expiration of the full one-year program are their violation of rules regarding absence without leave and their accepting other employment.

The corpsmembers perform over three million hours of conservation work each year, ranging from emergency response to fires, floods, and earthquakes, to habitat restoration and trail construction. The CCC contracts with local, state, and federal agencies to perform these projects. According to the CCC's assistant director, the CCC provides a work experience program rather than a job placement or vocational education program. The CCC tries to promote the employability of corpsmembers by instilling in them a strong work ethic. To help improve their future employability, corpsmembers participate in various educational and training courses. Some of the courses help corpsmembers obtain their general educational development (GED) certificate or high school diploma, or

develop participants' resume writing and interviewing skills. Besides emphasizing employability, the CCC hopes to instill in the corpsmembers a sense of civic and personal responsibility.

Performance-Based Budgeting

The CCC is one of four departments currently participating in the State's performance-based budgeting pilot project (pilot project). The governor introduced this pilot project in January 1993 to explore possible changes in the State's budgeting process. Performance-based budgeting is the allocation of state funds to an agency or program based on the performance of the program as measured by specific, meaningful terms called "outcomes." This method differs from the traditional approaches to budgeting that base their allocation of funds on resources needed, or "inputs." For example, under a traditional approach, the budget supports a specific number of staff representing input factors that help determine the amount of money the CCC will receive from the State. Under performance-based budgeting, the results of corpsmembers' performance in disaster relief work would be one of several outcome measures that the State would use to evaluate a budget request.

The expressed purpose of the State's pilot project is to determine whether departments participating in performance-based budgeting can achieve substantial savings, improved performance, enhanced citizen satisfaction, and greater accountability in the delivery of state services. The legislation establishing the pilot project includes the following essential elements:

- Annual budgetary contracts between legislative budget writers and the participating departments' administrations to authorize a specified level of funding in return for a specified level of performance;

- Operational flexibility, which could include relief from regulatory requirements;

- Incentives for performance and efficiency, including the ability to reinvest a percentage of any savings into discretionary activities;

- An emphasis on long-term strategic planning;

- Development of performance measures;

- Benchmarks for measuring operational efficiency;
- A commitment to quality improvement;
- Legislative involvement appropriately focused on strategic planning and performance outcomes; and
- Rewards for innovation.

According to the legislative analyst, some pilot project departments, including the CCC, have had difficulty in establishing a budget format that ties requested budget allocations to specific performance areas and outcomes. This tie usually depends upon other organizational activities, such as strategic and operational planning.

The CCC's Strategic Plan

The CCC's strategic plan defines its mission and establishes its general performance goals and objectives. The CCC designed its strategic plan to encompass two phases. The first phase established intended goals and outcomes. During 1994, the CCC's senior management and staff used the following resources to develop this phase of the strategic plan:

- Eighteen "focus teams" made up of 146 staff meeting 41 times for a total of 30,000 hours;
- An independent consultant to evaluate the strengths and weaknesses of the CCC by surveying CCC employees;
- Three days spent by 14 CCC employees and an independent accounting firm synthesizing the findings and recommendations of focus teams; and
- Eight staff meeting 11 times as a group to write the strategic plan.

According to the CCC's assistant director, all but the consultant costs associated with the development of the strategic plan were redirected costs, such as expenditures for personnel, rather than costs the CCC would not otherwise incur.

The second phase of the strategic plan converted the CCC's goals into an operational program that measures the CCC's ability to reach the goals. To develop and write the operational program, the CCC needed 11 staff working

part-time over a 60-day period. These procedures covered methods for translating the strategic plan, the department's enabling legislation, the governor's executive order, and field and headquarters recommendations into a single document that outlines the CCC's major performance concerns.

As part of its effort to implement performance-based budgeting, the CCC established a planning and quality assurance unit to ensure that departmental decisions remain consistent with the operational program. This unit is also responsible for evaluating program performance and facilitating more effective departmental policy. The CCC estimates that the total cost of developing the strategic plan, reengineering business processes, and working on performance-based budgeting through fiscal year 1995-96 was $1.4 million.

The CCC's Report to the Legislature

As a participant in the pilot project, the CCC entered into a Memorandum of Understanding with the Legislature to report annually on the CCC's progress toward meeting the performance goals described in its strategic plan. The CCC's first report was due January 10, 1996, and was to include data available through September 1995. Instead, the CCC submitted to the Legislature in March 1996 a report covering the period through December 1995 and including descriptions of the status of its performance-based budgeting plan, use of operational flexibilities, and progress on reengineering its business processes. In the report, the CCC identified eight desired outcomes for its operations and established 46 performance measures of these outcomes. However, for many of the performance measures, the CCC had not yet established thorough methods for collecting data and, therefore, had not yet set benchmarks for future comparisons. During fiscal year 1996-97, the CCC's plans include finalizing performance-based budgeting outcomes and measures, developing the methodology to determine the achievement of outcomes, and linking its budget to performance level. By fiscal year 1997-98, the CCC expects to be able to report on its level of achievement of outcomes. Appendix A depicts the CCC's performance-based budgeting plan as described in the report to the Legislature. In Appendix B, we discuss the CCC's savings reported for operational flexibilities and reengineering.

Scope and Methodology

The CCC requested and the Joint Legislative Audit Committee authorized the Bureau of State Audits to review the CCC's performance-based budgeting plan.

We examined the enabling state statutes for the pilot project and the legislative analyst's analysis of the budget bill. We reviewed reports written by the Legislative Analyst's Office, the Department of Finance, and the Little Hoover Commission regarding the pilot project. We also reviewed relevant literature, available on the Internet and through training seminars, concerning performance-based budgeting.

We reviewed and assessed the CCC's strategic planning efforts and the reasonableness of its performance measures. To gain an understanding of the methodology the CCC used to establish the strategic plan and performance measures, we interviewed the CCC's assistant director. We also observed two of the district office visits in which headquarters personnel solicited comments concerning the usefulness of selected performance measures. Further, we assessed selected performance measures and baseline data to determine their validity, effectiveness, and reasonableness.

To test the accuracy and reliability of the systems designed to capture and report performance results, we reviewed selected documents supporting the reported performance results. We also interviewed the information systems staff to determine what systems are in place to assess the accuracy of data.

To determine whether performance data included in the CCC's report to the Legislature are accurate and fairly presented, we compared a sample of performance measures listed in the report to supporting documentation. Finally, we examined supporting documentation to assess the reasonableness of reported savings due to operational flexibilities and reengineering of business processes.

Chapter 1

The CCC's Revised Performance-Based Budgeting Plan Needs Further Changes

Chapter Summary

As a result of observations and questions we raised early in this audit and of data obtained through its comprehensive internal feedback process, at the end of July 1996, the California Conservation Corps (CCC) revised its original March 1996 performance-based budgeting plan (plan). The revised plan includes many elements recommended in professional literature on the subject, including seven desired results, or "outcomes," the CCC has identified for its program. However, in its proposals for measuring the extent to which it meets the outcomes, the CCC has not consistently developed end performance measures of its effectiveness.

The Revised Plan Includes Changes Suggested by Our Audit and the CCC's Own Staff

At the end of July 1996, the CCC revised its original March 1996 plan. Some of the CCC's revisions addressed observations we made and questions we raised during our work early in this audit. Other changes were a direct result of the CCC's process of soliciting comments and recommendations from its staff. The effects of the changes are to refine the plan so that it is more useful not only to the Legislature, but to the CCC as well. The following three revisions improve the plan significantly:

- A focus on specific areas over which the CCC has influence. For example, the CCC recast its original goal to "build capable and skilled youth"; the CCC now states that it aims to "assist corpsmembers in becoming more employable and environmentally aware."

- Deletion of some outcomes that did not relate directly to plan goals. For example, the CCC initially planned to report on the competence of its staff, but eliminated this outcome after we noted that it did not relate directly to the goal.

- Addition and revision of some outcomes related to plan goals. For example, using staff recommendations, the CCC added an outcome, "healthy corpsmembers with life skills and a strong sense of personal responsibility."

Additions and deletions have significantly improved the plan.

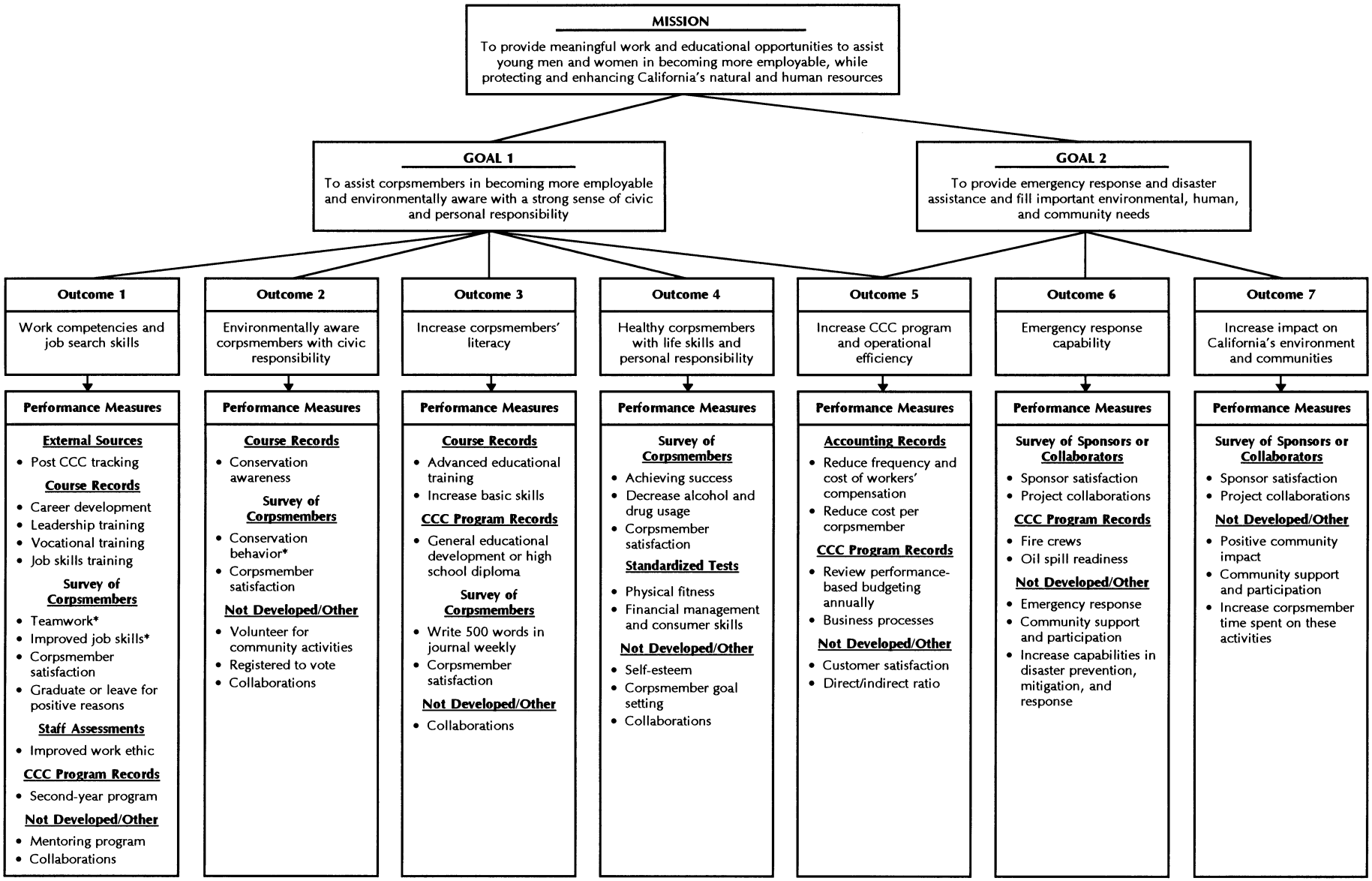
These changes have enhanced the plan by helping the CCC to focus more clearly on important performance measures. The remainder of this chapter discusses the CCC's revised plan and the changes the CCC can make to improve it further.

The Revised Plan Includes Many Elements Recommended in Professional Literature

To organize its plan, the CCC used a hierarchical approach recommended in the Governmental Accounting Standards Board's concept statement on service efforts and accomplishments and performance-based budgeting literature. The plan, depicted in Figure 1 on page 9, includes the CCC's mission statement, which is divided into two separate goals. One goal relates to the development of corpsmembers and the other to meeting emergency, environmental, human, and community needs. Next, to help measure progress toward achieving these two goals, the CCC identified seven desired results, or outcomes. Finally, to measure the achievement of the outcomes, the CCC set up specific performance measures.

Figure 1

The CCC's Revised Model for Performance-Based Budgeting



*The CCC also intends to use staff evaluations for these performance measures.

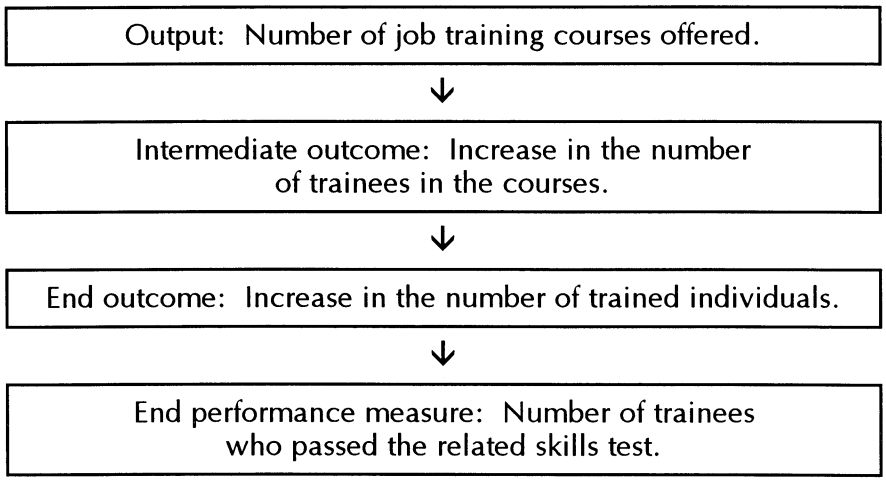
The performance-based budgeting literature recognizes several types of commonly used measures, with varying degrees of usefulness. The following are definitions of types of measures generally used in performance-based reports and training materials:

- **Output** refers to the volume of work produced. Outputs are expected to lead to desired outcomes, but do not reflect the outcomes or quality of work. Examples of outputs include the number of training programs implemented or hours of service delivered. The usefulness of this information is limited because the quality and effectiveness of the results are not known.

- **Outcome** denotes an assessment of the quality or effectiveness of what is produced. Outcomes include events, occurrences, or conditions that indicate progress toward achievement of the entity's goals and mission. They do not measure the amount of effort invested in the program, but instead gauge the extent to which an entity achieves desired consequences. Although terminology may vary, training material on performance-based budgeting recognizes that outcomes can be separated into two types: *"intermediate outcomes,"* which are expected to lead to the ends desired but are not ends in themselves, and *"end outcomes,"* which are the desired results of the program.

We have similarly separated performance measures into intermediate and end measures of the desired outcomes.

The following provides an example of how these terms would relate to a job training program:



End performance measures are particularly useful for comparing current- and prior-year results according to generally accepted norms and standards for each critical performance measure. This process of comparison is called "benchmarking," and in Chapter 2, we discuss the status and reliability of the CCC's benchmarks for its performance measures.

One of the principal references on performance-based budgeting, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* by David Osborne and Ted Gaebler, explains certain tendencies of government entities trying to implement a performance-based plan. The book states that most government reporting focuses on inputs and very seldom focuses on outcomes or results. This inclination is true in part because measuring results is so difficult. Normally, it takes several years to develop adequate measures, and an agency's first attempt often falls short by measuring only inputs or outputs and not outcomes.

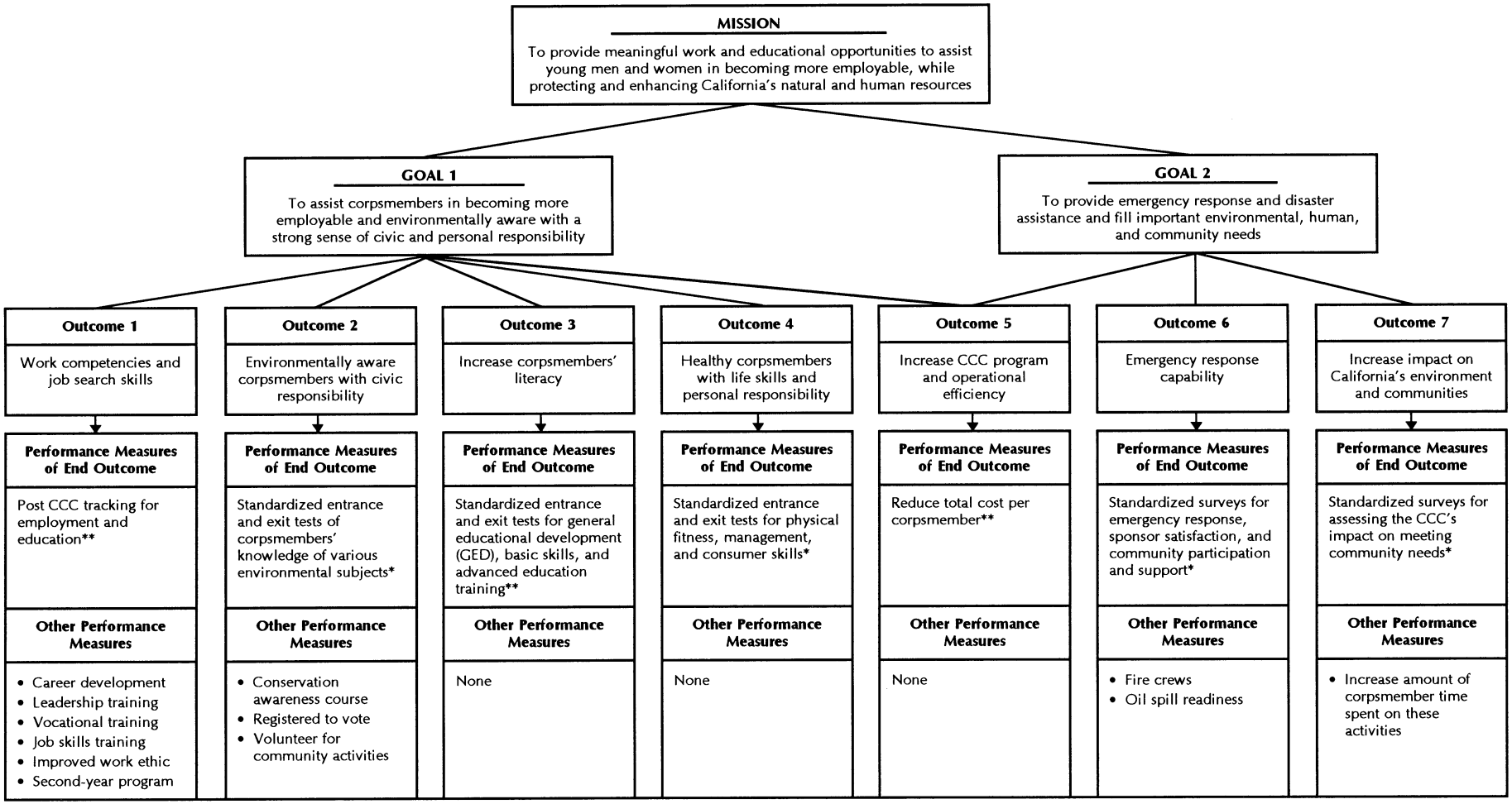
The CCC's plan does not focus enough on measuring end outcomes.

The CCC has made good progress in setting up its performance-based budgeting plan by revising its initial proposal and establishing appropriate outcomes. It has also proposed several changes in measuring performance that should improve the quality of the performance information it receives. Nevertheless, in our opinion, the CCC's plan focuses too much on outputs or intermediate performance measures and not enough on end performance measures. For example, the CCC plans to report how many corpsmembers complete the leadership training course. However, the CCC is unable to demonstrate that corpsmembers who have completed the leadership training course are actually becoming more employable or that they are affected in any other way.

Figure 2 depicts our assessment of which of the CCC's performance measures are end performance measures, and it eliminates those performance measures the CCC plans to use that we do not consider useful or appropriate for performance-based budgeting purposes. In the following sections, we evaluate each of the plan's seven outcomes and discuss what type of information the CCC should be using as end performance measures. We discuss problems with additional performance measures we do not consider appropriate in Chapter 2.

Figure 2

Summary of the CCC's Proposed Performance Measures That the Bureau of State Audits Considers Useful



*The CCC has independently developed plans to implement this procedure.
**The CCC has independently developed plans to implement this procedure. In this report, we recommend modifications to the planned procedure.

Additional Information Is Needed To Measure Improvement in Corpsmembers' Workplace Competencies

To determine whether it is meeting its first plan outcome—to improve corpsmembers' workplace competencies and job search skills—the CCC must develop additional end performance measures. The CCC offers corpsmembers several training courses in these two areas and has established 13 performance measures related to these courses. The CCC is currently focusing its data collection efforts on the intermediate performance measures that report on the different classes or training that corpsmembers complete. These classes include career development, leadership training, vocational training, and job skills training. While these classes may be aids in increasing workplace competencies and job search skills, their effectiveness can only be assumed until the CCC develops a way to determine if they directly affect the employability of corpsmembers.

The true end performance measure of the CCC's training courses is how many corpsmembers are employed or continuing their education for an extended period of time after they leave the CCC's program. Without a comparison of this information with successful corpsmembers' experiences while participating in its programs, the CCC cannot demonstrate the ultimate value of the courses. For example, the CCC needs answers to such questions as whether employment statistics demonstrate a correlation between employment and the completion of specific CCC courses. If not, the courses have no demonstrated value in meeting the CCC's goal.

Current training performance measures focus on intermediate outcomes. However, the CCC is taking steps to gather data demonstrating the ultimate value of the training provided.

The CCC has started to develop procedures to track the ex-corpsmembers who are continuing their education or who are employed during a two-year period. For example, the CCC plans to work with the Employment Development Department to track ex-corpsmembers and determine how many are employed, unemployed, or on disability during a period of two years after leaving the CCC. The CCC can then determine these corpsmembers' experiences and length of time in the CCC.

Using this information, the CCC should evaluate the relationship between the percentage of all ex-corpsmembers who are employed and their experiences and length of time in the CCC's program. For example, one way to assess this relationship is to determine the percentage of corpsmembers who leave within 1 to 3 months, 4 to 6 months, 7 to 9 months, and 10 to 12 months. This information would help determine a

cause-and-effect relationship between the length of time corpsmembers stay in the program and the status of their employment. The CCC and the Legislature could then ascertain what effect, if any, the CCC's program has on the number of corpsmembers who are successfully employed. The CCC's current plan for measuring performance is to report changes in employment statistics only for ex-corpsmembers who spent six months or more in the CCC. However, by reporting comparative data about employment of other corpsmembers or the general population, the CCC would be able to demonstrate whether it has had any discernible effect on the corpsmembers' future employability.

The CCC is also working on a plan with the Chancellor's Office of the California Community Colleges to track ex-corpsmembers who continue their education at the community colleges. However, again the CCC plans to report only on corpsmembers who spent six months or more in the CCC's program. As we explained above, we believe the CCC should report comparative data on continuing education of others.

With information from an expanded sample that includes all former corpsmembers and, ideally, the non-CCC population with similar demographic characteristics, the CCC would be able to compare the results with other CCC performance measures. For example, for the corpsmembers who are employed and have kept a job for 18 months, what was their length of time in the CCC? Did they pass the CCC's career development course? Did they attend the leadership training courses? What other types of classes or training did they have while in the CCC? With these questions answered, the CCC could then compare the results to data about other youths in the State who have similar demographic characteristics. The CCC could use comparative statistics from the Labor Bureau to determine whether the former corpsmembers are faring any better than youths who did not participate in CCC programs.

Ex-corpsmembers' employment rates should be compared to those of nonparticipants to determine the program's effect on employability.

The following example helps to illustrate the type of information that, in our opinion, is needed for useful performance reporting.

> An 18-year-old from an economically depressed area joins the CCC. He stays in the program for six months only, but during that period, he receives leadership and career development training. After he leaves the CCC, EDD records show that he is working for more than minimum wage in a field in which he received training while he was a corpsmember. He has held the job for more than one year.

With this information, the CCC would be able to compare the corpsmember's progress to statistics for all corpsmembers and to statistics from the Labor Bureau for youths with similar demographic characteristics. The CCC could then determine whether the CCC experience and, specifically, leadership and career development training, are having an effect on the corpsmembers' competencies and job search skills. For example, if the results of the comparison show that youths with the same demographic characteristics are either unemployed or in the criminal justice system, the CCC might conclude that its program is making progress toward meeting its established outcomes. On the other hand, if the comparison shows that youths with the same demographic profile are doing just as well or better than CCC graduates, the results would give the CCC useful information for adjusting or improving its program to make a positive impact.

The Proposed Performance Measures Will Determine the Program's Effect on Corpsmembers' Environmental Awareness and Civic Responsibility

The CCC has generally proposed reasonable performance measures for determining whether corpsmembers develop environmental awareness and a sense of civic responsibility. The plan proposes to measure these attributes primarily through standardized testing of corpsmembers' competencies about selected conservation topics. Other proposed measures include outputs, such as the number of corpsmembers participating in community volunteer activities and registering to vote.

The CCC currently has no plan to track any of these attributes after the corpsmembers leave the program. Because measuring many of these attributes, such as the extent of corpsmembers' conservation behavior and community volunteer activities, would be difficult and costly to track accurately after corpsmembers leave, we consider the standardized tests to be adequate performance measures for this outcome. While we also recognize that not all corpsmembers leave under circumstances that would allow them to complete the tests, we think that the CCC should administer as many tests as possible.

Planned Testing of Corpsmembers' Literacy Should be Extended

The CCC has proposed end performance measures of the increase in corpsmembers' literacy before they leave the program. Specifically, the CCC is planning to use a standardized test for corpsmembers when they enter the CCC to determine their grade-level competencies. According to its assistant director, the CCC currently relies on the corpsmembers' self-assessment of their grade-level competencies. Based on results of standardized tests, corpsmembers will be placed in one of the three programs that will help them attain one of the following goals: (1) an increase in their basic grade levels, (2) the achievement of a general educational development (GED) certificate or high school diploma, or (3) participation in advanced educational training. When they leave the program, the corpsmembers' competencies will be evaluated again by a standardized test to measure their improvement. This testing will help supply useful data for evaluating the effectiveness of the CCC's literacy program.

The results of standardized entrance and exit tests of literacy should be reported for all corpsmembers.

However, the CCC plans to report on the progress only of corpsmembers who are in its program at least six months. We believe that, to compare the overall effectiveness of the program, the CCC should include in its assessment those corpsmembers who leave after spending less than six months in the program. These data will help the CCC to determine the point in the program at which the classes are most effective.

Standardized Tests Will Be Used To Measure Corpsmembers' Health and Life Skills

One of the revisions to the CCC's original plan was the addition of an outcome and related performance measures dealing with corpsmembers' health, life skills, and sense of personal responsibility. This change was implemented in response to the comments and recommendations of the CCC's staff. According to the CCC's assistant director, this outcome was added to help measure some of the life improvement skills that the CCC plans to teach through courses in personal finance, consumer skills, and in other areas in which many corpsmembers do not have prior experience. The CCC appropriately plans to use standardized entrance and exit tests that assess corpsmembers' physical fitness and understanding of certain elements of personal financial management.

Some of the Plan's Measures Are More Appropriate for Internal Management Purposes

The CCC has appropriately established an outcome to increase its program and operational efficiency. However, we consider its current plans for measuring this outcome to be either too limited or to include measures of information that are more appropriate for internal management purposes only.

Specifically, the CCC plans to measure annual reductions in its costs per corpsmember. We consider this a generally appropriate definition and measure of increased program and operational efficiency; however, we do not consider the CCC's plan to report only the State's General Fund costs to be appropriate. Although tracking the State's share of costs is important for internal budgeting and management purposes, the CCC should also report total costs per corpsmember, including those costs that are reimbursed by sponsors, communities, and other agencies. These data would provide more accurate and complete information about all costs that are essential to the Legislature and the Executive Branch, as well as to the CCC, for budgeting purposes.

Measurement of operational efficiency should include all costs incurred, not just General Fund costs as currently planned.

In addition, other performance measures the CCC has proposed for this outcome are more appropriately tracked for internal management purposes only and are not appropriate measures for determining its future budgets. These proposed measures include reducing the frequency and costs of workers' compensation claims and reviewing the performance-based budgeting plan annually.

Standardized Customer Surveys Can Provide a Good Measure of the CCC's Emergency Response Capability

Another desired outcome the CCC has established in its plan is the maintenance of an effective emergency response capability. However, the CCC does not yet have a thorough and effective measure of this outcome. Currently, the CCC measures its ability to respond to emergencies according to the number of trained crews it maintains for specific purposes and by the crews' ability to provide a timely and prepared response. The CCC is required by a governor's executive order to maintain six firefighting crews and 200 corpsmembers trained in oil spill recovery practices. The CCC does not currently have a good measure for the timeliness and preparedness of the response.

Instead, the CCC considers a response to an emergency within 24 hours to be timely and prepared. We believe that the CCC could derive a better measure of its emergency response capability from the results of a standardized survey sent to each of its customers after each job is completed. The CCC agrees with our position and currently is developing customer surveys.

The CCC Plans To Measure Its Impact on California's Environment and Communities

The CCC currently has not fully established a method to track its impact on the environment and on communities receiving its services. To solicit input on its effectiveness in these areas, the CCC is developing surveys of the communities and organizations it serves. We consider such surveys, if properly designed and administered, to be effective tools providing reasonable and efficient measures of the CCC's impact.

In addition, the CCC plans to track the number of corpsmember project hours that are dedicated to public service, environmental work, emergency response, and human service work. When compared to the survey results, these figures will help the CCC determine the areas in which it has been most successful in accomplishing the outcome of filling environmental and community needs. Moreover, when it determines the areas in which it is the most useful, the CCC will be able to dedicate more corpsmembers to related projects. Alternatively, after examining the results of the surveys, the CCC can improve the quality of the services it delivers.

Conclusion

Responding to our comments and questions and to recommendations from its own staff, the CCC recently revised the plan it submitted to the Legislature in March 1996. Its revised plan includes elements recommended in literature on the subject. In particular, the CCC has established appropriate outcomes to meet its goals. It has proposed end performance measures for some outcomes, but it has not fully developed effective measures for other desired outcomes.

Recommendations

To ensure that its plan focuses on reporting useful measures of outcomes, the CCC should take the following steps:

- Continue to work with the EDD to track the employment status and wage levels of all former corpsmembers.

- Continue to work with the Chancellor's Office of the California Community Colleges to determine the number of former corpsmembers who are continuing their education in the community college system.

- Compare the results of both of these tracking systems to the corpsmembers' experiences at the CCC to determine which, if any, of the CCC experiences show a positive correlation to employment status and continuing education.

- Continue to develop standardized entrance and exit tests of all corpsmembers' literacy.

- In measuring reductions in cost per corpsmember, consider all costs per corpsmember, including those costs that are reimbursed by sponsors, communities, and other agencies.

- Continue to develop standardized surveys and administer the surveys to sponsors, communities, and other agencies to help assess the effectiveness of the CCC's emergency responses and its impact on the environment and the communities it serves. Further, the CCC should compare the survey results to the time spent by corpsmembers in various activities and, based on the results of the surveys, direct corpsmembers' activities into the most useful projects or improve the quality of the services it delivers.

Chapter 2

The CCC Should Use More Reliable and Accurate Sources of Information for Reporting on Performance-Based Budgeting

Chapter Summary

Our review of the original performance-based budgeting plan (plan) submitted by the California Conservation Corps (CCC) to the Legislature in March 1996 (see Appendix A) disclosed problems with reported data for benchmark and current performance measures that continue to exist in the revised plan. First, the CCC is using data sources that can be unreliable and biased. Second, the CCC does not have sufficient internal controls in place to verify the accuracy or reliability of the information that is included in its annual progress report on the plan. As a result, the annual progress report to the Legislature contains performance data that are inaccurate and unreliable.

Background

In performance-based budgeting, the amount of money allocated for a department's use is based on the department's ability to meet its performance goals. Failure to meet these goals may result in budget reductions for the department. Therefore, there is a risk that departments would overstate their achievements to avoid budget cuts. As a result, the reliability and accuracy of measures of performance are important, and departments should use only the most reliable data sources when reporting on accomplishments. In general, reliable data sources for reporting are verifiable agency records, customer surveys, and trained observer ratings. To avoid or minimize the risk that it will report erroneous or misstated information, each department must also establish internal controls to assure the accuracy and reliability of the data collection system.

More Objective Benchmark and Performance Information Is Needed

Some of the CCC's sources of information for benchmark and performance measures included in the March 1996 report to the Legislature are not the most reliable and do not adequately protect against potential biases. For example, when determining the ability of a corpsmember to work well with others, the CCC uses his or her self-assessment as a data source. This method can be potentially biased because a corpsmember who does not work well with other corpsmembers might perceive others as the cause of the conflicts.

Corpsmember self-assessments do not provide an objective source of information and should not be used as a basis for budget allocations.

The CCC plans to use corpsmember self-assessments and surveys as a data source for the following performance measures:

- Increase in corpsmembers' perception of their ability to work with people;
- Increase in corpsmembers' perception that the CCC develops job skills;
- Increase in corpsmembers' conservation behavior;
- Decrease in corpsmembers' alcohol and other drug usage;
- Increase in corpsmembers who write 500 words a week in their journal;
- Increase in corpsmembers' perception that success is achievable while in the CCC; and
- Improvement in corpsmembers' satisfaction with various aspects of the CCC experience.

The CCC has proposed a more objective method to obtain the same information for some of the measures. According to the CCC's assistant director, in addition to the corpsmember surveys, the CCC plans to use staff observation and evaluations to measure corpsmembers' progress.

For example, the CCC could use evaluations by the CCC's staff of corpsmembers' abilities to work with other people, their development of job skills, their improved conservation behavior, and their decreased use of alcohol and other drugs to measure results.

Because the CCC's staff observe and work with corpsmembers daily, they could be reliable sources for evaluating these measures. Although we recognize the risk that the CCC's staff evaluations could also be biased, we consider this information more objective and reliable than corpsmember self-assessments. The corpsmember surveys can be a helpful internal monitoring resource, but due to the potential for bias should not be used to report externally as a basis for budget allocations.

Other CCC performance measures also involve too much subjectivity. For example, one of the performance measures for the CCC's desired outcome of improving corpsmembers' literacy is the writing of 500 words a week in personal journals. However, this exercise does not measure improved literacy; instead, it measures simple output, or the amount of writing, good or bad, that corpsmembers produce. A more appropriate measure of improved literacy would be staff members' or education instructors' critiques of the corpsmembers' writing.

The CCC Should Verify the Accuracy of Benchmark and Performance Information

We found many inaccuracies in data reported to the Legislature.

The CCC also does not have appropriate methods to verify the accuracy of other data it presented to the Legislature in its progress report on its plan. In addition, we found many inaccuracies when we tried to verify the data reported to the Legislature.

The CCC's progress report to the Legislature included benchmarks for 15 of the original 46 performance measures, generally based on fiscal year 1994-95 operations. At the time, the CCC did not have benchmarks for the remaining 31 performance measures. The benchmarks are selected starting points for comparing and evaluating future periods. Once the CCC establishes its benchmark data, it uses the information to establish future performance targets.

To collect some of the benchmark data, the department used a combined manual and automated data collection system. Each of the CCC's 14 district offices sent monthly reports to headquarters, providing data on 4 of the 15 performance measures for which comparative information was reported to

the Legislature and that are included in the revised plan. The reports contained information on corpsmembers' achievements, such as completing a conservation awareness course, completing career development training, and earning a general educational development (GED) certificate. Headquarters staff then manually entered the data reported from district offices into a database system. Using the information in the database, the staff then prepared the report to the Legislature. Because of the multiple stages of data entry required, the process was cumbersome and subject to error.

Our evaluation of the data indicated that the database system excluded some items that should have been included, and it included data that did not belong in the database. Further, the CCC does not have controls in place to identify or minimize these types of errors.

Errors occurred because of a cumbersome process, multiple stages of data entry, and a lack of independent verification of information.

However, the department is in the process of replacing the manual data collection system by implementing an on-line reporting system, called the CCC Automated Data Collection and Reporting System (CADCARS), at its 14 districts. According to the CCC's assistant director, as of May 1996, CADCARS was operational in 10 of the 14 districts. With CADCARS, each district will be able to enter directly into the system information concerning corpsmembers' achievements. The system is intended to link the districts directly to the computer at headquarters, enabling the districts' data to be downloaded directly and eliminating the need for multiple stages of data entry. This automated system, if implemented properly, should help minimize data entry errors and inconsistencies.

Furthermore, in fiscal year 1995-96, for the districts not on CADCARS, the department changed its manually generated monthly report. In place of the old forms, department headquarters generated a monthly summary report by district from information already in the CADCARS database. The information in this report was divided into districts and contained the names of all the corpsmembers within the districts and the types of training they had completed. These reports were then sent to each district so that staff could make any additions for the current month or prior period corrections. The reports were sent back to headquarters and used to update CADCARS.

Nevertheless, the department currently does not have sufficient internal controls, such as independent verification of data through site visits, to establish the accuracy of the information reported by either the manual or automated process at district offices. At two of the district offices, we reviewed selected sources of data from corpsmembers' files for the fiscal year

1994-95 benchmark period and for the first six months of 1995-96, the current performance period reported to the Legislature. We selected items for which the source would be easily identifiable, such as completion of the career development course, and compared the source information to the data reported in CADCARS for accuracy. Despite the straightforward nature of the source documentation, we found errors in data reported at both of the districts. For example, at one of the districts, we found that of 25 corpsmembers who had completed a career development class, 6 were not recorded on the CADCARS summary report. At the other district, we found 2 corpsmembers recorded in CADCARS whose files did not include supporting documentation that they had completed the course.

Although recent automation efforts should improve data management, the CCC lacks internal controls to ensure the accuracy of this information.

Similarly, we determined the accuracy with which CCC headquarters collated information from four different district offices that had information in CADCARS. None of the career development training or GED information in the monthly district reports for fiscal year 1994-95 reconciled to the information in the CADCARS database. For each of the four districts, the number of corpsmembers receiving career development training and GEDs reported in the CADCARS database was significantly higher than the amounts reported on the monthly district reports. For example, in one district, CADCARS reported 24 more corpsmembers who had received their career development training than the monthly district reports supported. Because the information in CADCARS is the source of what is reported to the Legislature, the numbers in the report to the Legislature were inaccurate.

Conclusion

Our review of the reliability of the performance-based budgeting data that the CCC reported to the Legislature disclosed problems that affect both current performance data and benchmark data. The CCC has not ensured the reliability and objectivity of some of the data sources used in its plan. Also, the CCC has not implemented adequate internal controls over the data used to report on performance measures. Because of discrepancies between the information in CADCARS and source documents, the CCC cannot rely on the accuracy of the numbers in CADCARS, and the Legislature cannot rely on the accuracy of the CCC's report.

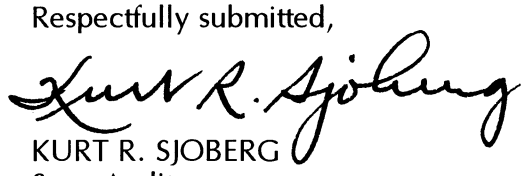
Recommendations

To ensure that it is reporting reliable and accurate data to the Legislature, the CCC should take the following actions:

- Use more reliable data sources for performance measures;
- Develop an internal audit system to periodically sample source data at district offices for accuracy and reliability; and
- Establish controls over the entry of information into CADCARS to ensure that information cannot be randomly changed or added by unauthorized persons.

We conducted this review under the authority vested in the state auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope of this report.

Respectfully submitted,



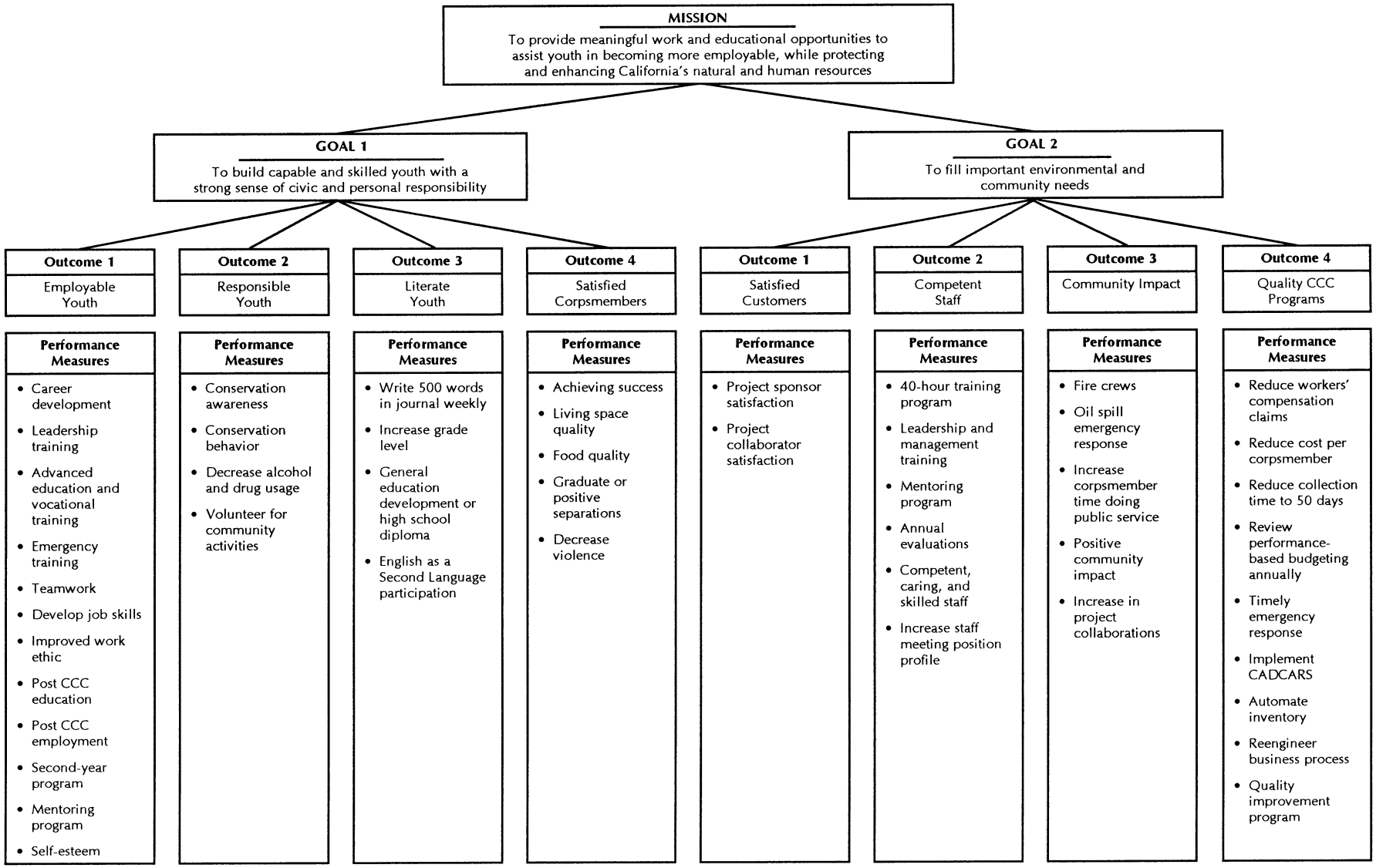
KURT R. SJOBERG
State Auditor

Date: October 3, 1996

Staff: Lois Benson, CPA, Acting Audit Principal
Brian K. Lewis, CPA

Appendix A

The CCC's Original Performance-Based Budgeting Plan As Reported to the California State Legislature



Appendix B

Savings the CCC Reported to the Legislature

The March 1996 report on its performance-based budgeting plan that the CCC submitted to the Legislature not only described the status of the CCC's 46 original performance measures, but the report also included examples of savings related to operational flexibilities, which are negotiated exemptions from certain requirements of the State's control agencies. The legislation that established the performance-based budgeting pilot project (pilot project) permitted participating departments to negotiate for these operational flexibilities. The CCC's report discusses its operational flexibilities, including those related to purchasing goods from the most competitive vendor or its exemption from the requirement to work with the Office of State Printing. The report also included information about the reengineering of four business processes, including procurement and reimbursement contracts processes.

The CCC reported on the results of its use of ten operational flexibilities it negotiated as part of the pilot project. The CCC identified these ten flexibilities as controls and regulations that were barriers to its ability to achieve success or operate efficiently. The Department of Finance is requiring the agencies participating in the pilot project to track the savings associated with operational flexibilities granted. In addition, the May 1995 Memorandum of Understanding between the Legislature and the CCC requires the CCC to provide the Legislature with an assessment of the impact of the increased flexibilities. However, the CCC currently does not have a formal tracking system in place to determine all the savings associated with the operational flexibilities. Furthermore, according to the CCC's assistant director, the CCC does not want to create another bureaucratic process requiring additional resources that could be redirected to higher-value functions. Instead, the CCC plans to report the savings anecdotally.

The CCC reported anecdotal savings relating to five of the ten approved operational flexibilities. We evaluated some of these anecdotal savings reported to the Legislature and found that some of them appear accurate. For example, with the authority to purchase goods from the most competitive vendor, the CCC was able to save approximately $33,000 by negotiating with a telephone long-distance company to waive the set-up costs for a new system. We were not able to review the accuracy of other

reported savings related to operational flexibilities. For example, the CCC reported savings of $21,000 in surcharges from the Department of General Services relating to sub-purchase orders for which we were unable to review the accuracy of the calculation.

The time and money savings reported for reengineering four of the CCC's business processes were only estimates. We reviewed the methodologies used for calculating the savings for the reengineering efforts and determined that they were reasonable. However, we were unable to verify the accuracy of some of the information used in calculating the estimated savings in the report to the Legislature.

STATE OF CALIFORNIA — THE RESOURCES AGENCY PETE WILSON, *Governor*

CALIFORNIA CONSERVATION CORPS
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(916) 341-3177 FAX 324-3347

September 30, 1996

Kurt R. Sjoberg, State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for your bureau's review of the California Conservation Corps (CCC) Performance Based Budgeting (PBB) System and our March 1996 Progress Report to the California State Legislature. In its first Memorandum of Understanding with the Legislature (July 13, 1995), the CCC volunteered for a provision which provided for an independent evaluation by a third-party expert to assess the reasonableness of the Progress Report to the Legislature. Accordingly, the CCC sought and reached agreement with the Joint Legislative Audit Committee and the Bureau of State Audits to conduct a program review of the CCC's preliminary plan.

As with any new system, both the developer and the reviewer are encountering new concepts that make an objective analysis difficult. While we appreciate the tremendous amount of effort and time that went into your review, we want to recognize that a number of factors complicated the evaluation, including:

- ☐ the newness of PBB, the corresponding lack of established standards and procedures, and
- ☐ the preliminary, rapidly changing development of CCC's PBB system, as well as the 18-month transition from manual methods of data collection and reporting to a fully automated system and wide area network.

Many of the report's recommendations are valuable in validating the directions chosen by the CCC in its preliminary stages and for pointing the way for continuing development. While we are not in complete agreement with the analysis, assumptions and conclusions contained in the report, we generally concur with the recommendations. Our exceptions are discussed below.

CHAPTER 1

RECOMMENDATION:

In measuring reductions in cost per corpsmember, include all costs per corpsmember, including those costs that are reimbursed by sponsors, communities and other agencies.

RESPONSE:

In our opinion the Bureau's recommendation to replace the measurement of *state general fund dollars per corpsmember* with a measurement of *total cost per corpsmember* does not reflect the purpose of the original measure and the purpose of linking resources to outcomes. The CCC's plan included a measure of general funds per corpsmember in order to assess its progress in meeting the intent of AB 202. Amongst several provisions, AB 202 called for a more entrepreneurial CCC that would leverage state general funds against other funds for greater public benefit. (AB 202 also established the Collins-Dugan reimbursement fund and designated the CCC as a performance budget department.) Measuring total cost per corpsmember would not provide the CCC nor its stakeholders with the information needed to assess the CCC's progress in magnifying the state general fund investment as called for in AB 202. *(1)

RECOMMENDATION:

Continue to develop standardized surveys and administer the surveys to sponsors, communities, and other agencies to help assess the effectiveness of the CCC's emergency responses and its impact on the environment and the communities it serves. Further, the CCC should compare the survey results to the time spent by corpsmembers in various activities and, based on the results of the surveys, direct corpsmember's activities into the most useful projects or improve the quality of the services it delivers.

RESPONSE:

This recommendation does not include corpsmember surveys. We believe that information, if properly gathered from CCC corpsmembers, is valid and reliable. Corpsmembers have opinions that derive from valid and direct experiences with CCC programs and services. These experiences are an important source of information in determining whether the CCC has fulfilled its mission. Corpsmembers are a mandated and most important customer of CCC programs and services. (2)

*The California State Auditor's comments on this response begin on page 35.

CHAPTER 2

RECOMMENDATION:

Use more reliable data sources for performance measures.

RESPONSE:

CADCARS is a reliable database system; however, proper post audits and on-site review of records must be conducted by the CCC administration staff. This process is currently being developed. In addition, several "post-audit" reporting routines have been recently released to the CCC Administrative staff. These routines and new administrative review will ensure timely, accurate and reliable data source for future performance based budgeting reporting and tracking.

Displayed below is the time-line of CCC Automated Data Collection and Reporting System (CADCARS) project - per our department's FSR report update to Department of Information Technology (2/29/96):

|--1989--|--1990--|--1991--|--1992--|--1993--|--1994--|--1995--|--1996--|--1997--|
Analysis Design Develop Implement Operational (Nov. 1996)

Based on this "actual" time line, CADCARS will not begin its operational phase until November 1996. During the Performance Based audit phase, the CCC was implementing and testing CADCARS. In the implementation phase, each District was transferring their manual records into automated records. As a result, there were several retro-active changes that had to be made and compiled. This impacted several performance based budgeting reports that were generated during this implementation phase.

RECOMMENDATION:

Establish controls over the entry of information into CADCARS to be sure someone does not randomly change or add information.

RESPONSE:

Due to the timing of the Performance Based Budget audit, procedures and process were not firmly established to ensure that data cannot be randomly changed. However, the following master records have automated internal controls established in CADCARS.

Project Master Record (58's) - user name and date entered/modified
Personnel Master Record - user name and date entered/modified
Personnel History Record - user name and date entered/modified
Master Contract Record - user name and date entered/modified
User Usage Record (last login and sub-system used)

CADCARS system has a global user security access settings that are established for each user and sub-system. This prevents users from accessing sub-systems in which they have no administrative responsibilities.

CONCLUDING STATEMENT:

Again, the CCC appreciates the time and effort dedicated to this review by the staff of the Bureau of State Audits. We recognize the complexities of reviewing such an evolving system as the CCC Performance Based Budget plan. With the exception of those areas addressed above, we generally concur with the findings contained in the report. In most cases, we were already in the process of modifying our plan to correct those areas pointed out in the Auditor's report. The content of the report, especially that which points out some of the deficiencies of our data collections systems, provides the CCC with helpful information that would have been difficult and time-consuming to secure without the help of the Bureau.

Sincerely,

Edward O. Willis

for Al Aramburu
Director

Comments

California State Auditor's Comments on the Response From the California Conservation Corps

To provide clarity and perspective, we are commenting on the response from the California Conservation Corps (CCC) to our audit report. The numbers correspond to the numbers we have placed in the response.

(1) We note on page 17 of the report that tracking the State's share of costs per corpsmember is important for internal budgeting and management purposes. It can also help determine whether the CCC is becoming more entrepreneurial, with local governments and other entities served reimbursing the CCC for more of the costs of those services. However, when the CCC proposes to omit these reimbursed costs from the measurement of its overall operational efficiency, it sets up the potential that inefficiencies may go undetected or unreported. Limiting its calculation of operational efficiency to the General Fund only would not disclose whether a disproportionate share of costs had been shifted to the reimbursing entities.

(2) We note on page 23 of the report that surveys of corpsmember opinions can provide useful information about the CCC's program for internal monitoring purposes. However, we stand by our assertion that corpsmembers' opinions are potentially too subjective to provide a reasonable basis for budget allocations. Instead, the CCC's performance-based budget allocations should derive from its demonstrated effectiveness in meeting its goals, such as making corpsmembers more employable than their peers who have not participated in the program.

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps