

## **The Era of Integration**

### *Linking Budget, Finance and Performance Management*

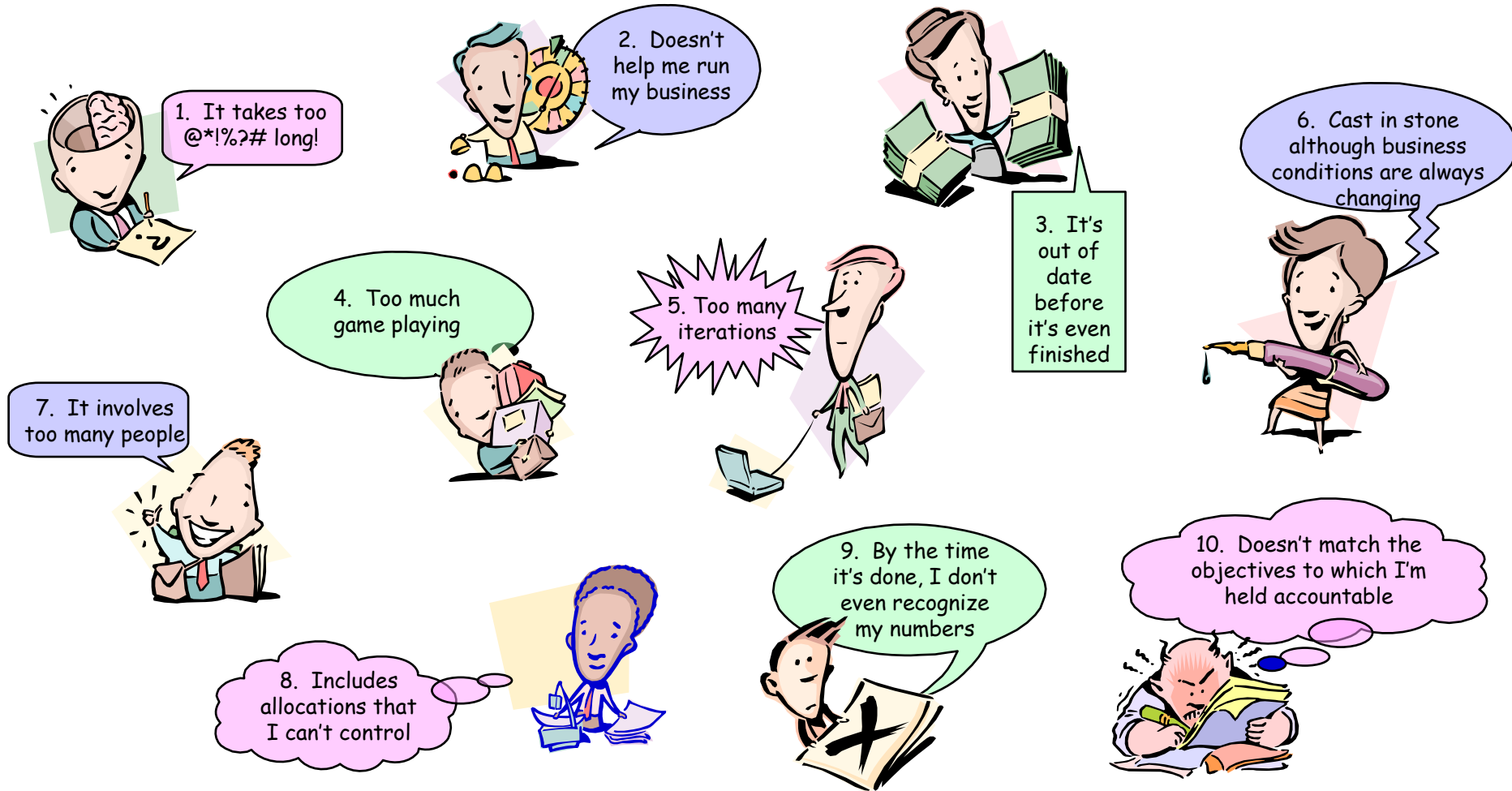
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# Agenda

- Focusing on results
- Changing the business of government
- Integrating budget, cost and performance management
- Meeting the integration challenge
- Integration in action: the Fish and Wildlife Story

# Managers Don't Like Business as Usual



# Typical Budgeting Processes Lack Predictive Capability

## Issues:

- Use “last year’s number +/- 5%
- Treating all functions equally
- Sandbagging
- Budget negotiations
- 20% Across the board cuts
- Iterations and updates
- Market dynamics
- Contingencies
- Lack linkage between Customers and Functional Resources

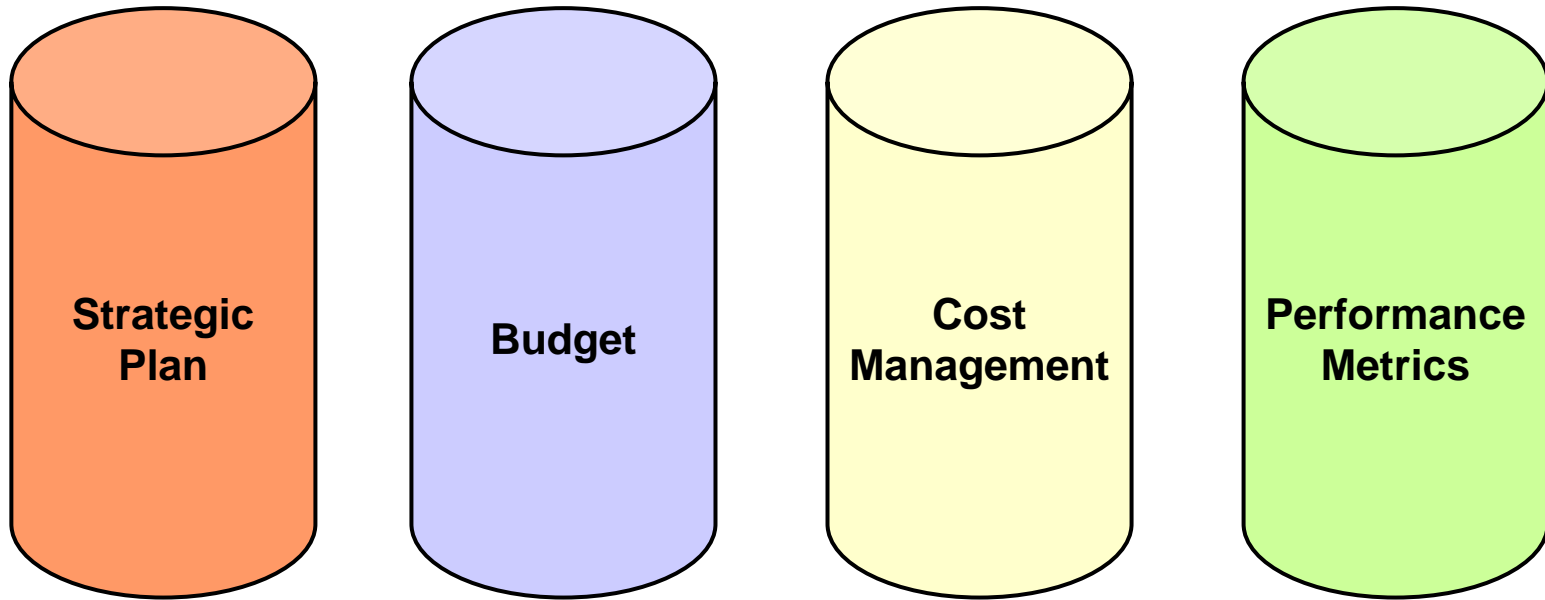
## How does your budget :

- Enhance visibility to business processes
- Enhance resource visibility
- Enable critical choices
- Feedback to strategy
- Enable agile decisions

# Increasing focus on results

- Citizens and stakeholders expect **results** from their government
- US Government Officers report results using the following:
  - President's Management Agenda (PMA)
  - Program Assessment and Rating Tool (PART)
- 50 states have requirements for performance budgeting
- Local governments lead the way in responding to citizens' needs for services
- Environment of limited resources and competing priorities forces agencies to make hard program funding choices
- Increasing pressure to achieve the greatest quantifiable result at the lowest cost

# What do we today...

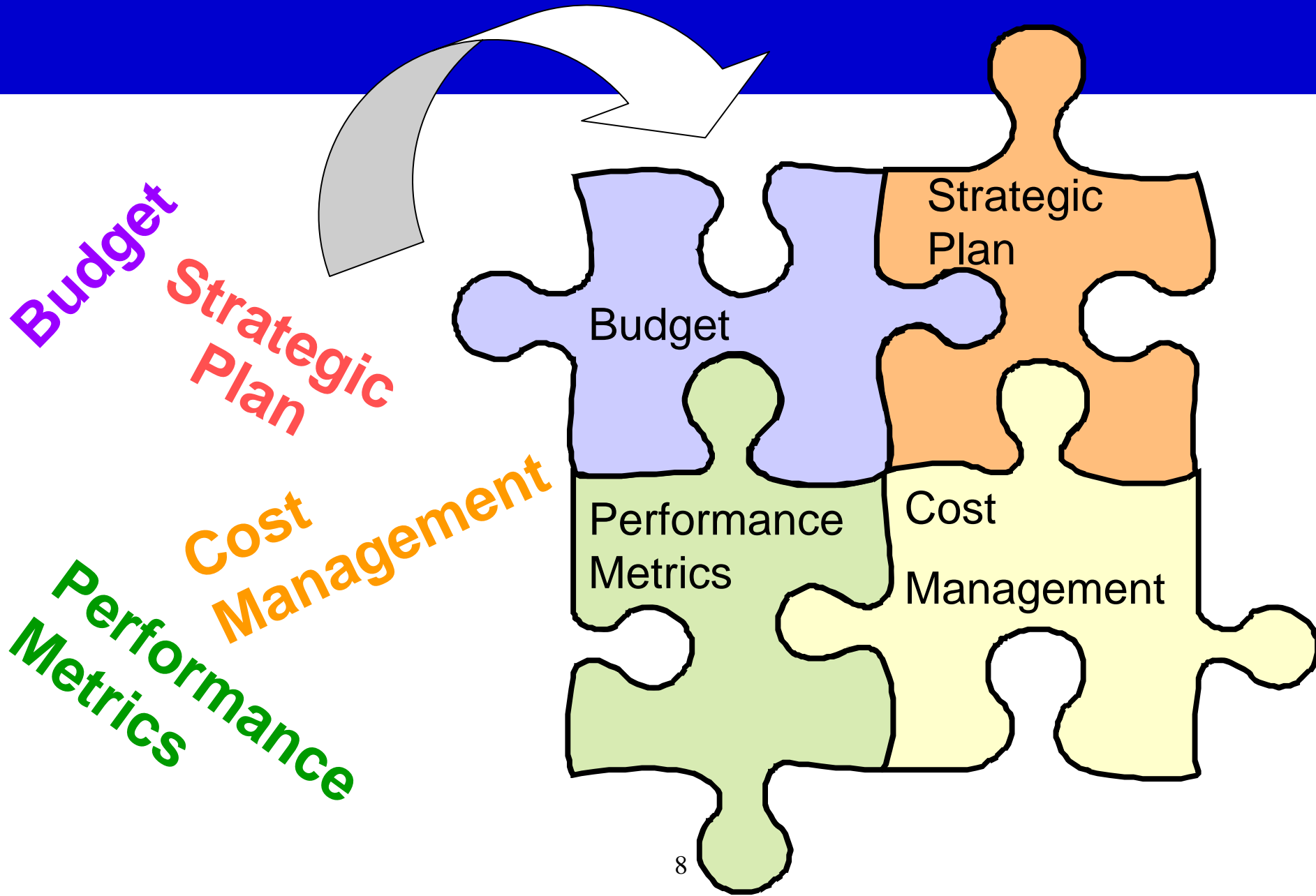


**Budget, Performance and Financial organizations operate in "Silos" with no alignment or integration**

# Results focus propels change

- Environment of limited resources and competing priorities forces agencies to make hard choices regarding program funding
- Increasing pressure to achieve the greatest quantifiable result at the lowest cost
- New method for success:
  - ✓ **Integrate cost and performance information** into the budget formulation process
  - ✓ **Link resources** requested to expected strategic and programmatic **outcomes**
  - ✓ Transition from an inputs/outputs focus to **outcomes focus**

# Integration is the need of the hour





# What does an integrated approach require?

<b>Structure</b>  ➔ Alignment of budget, performance, planning and cost	<b>Data</b>  ➔ Timely, accurate and relevant cost and performance data
<b>People</b>  ➔ Leaders with focus and vision of results management  ➔ Managers who support and foster the use of financial and performance information to make decisions  ➔ Good working relationship across Performance, Accounting, Policy, Program and Budget offices	

# Strategic Planning: Aligning program outputs and outcomes to agency mission



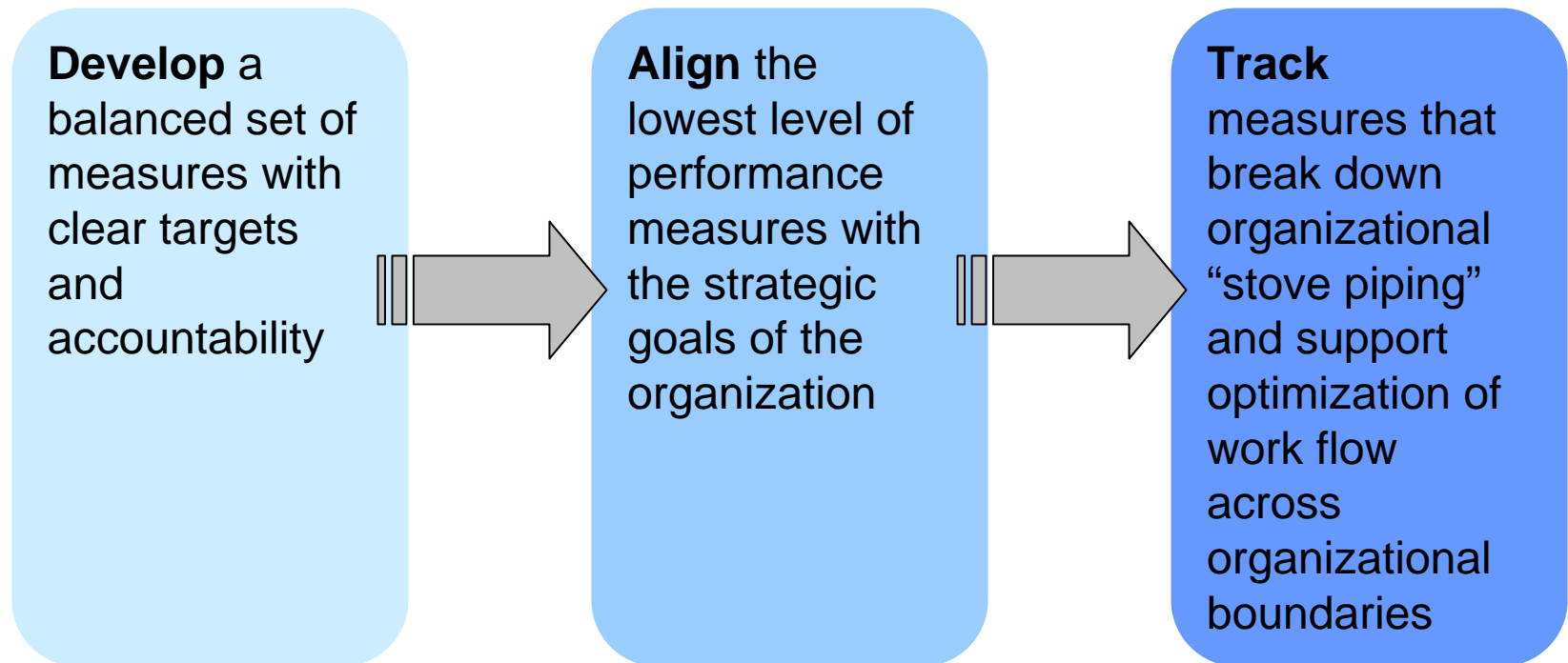
# Budgeting: Moving beyond the traditional line item budget for improved integration

- Unit cost and workload data **informs budget requests**
- Agencies **leverage outcome-oriented performance results** to strengthen budget justifications
- Budget decisions **support performance plans** to increase efficiency and effectiveness of limited resources
- Resource distribution **aligns with agency priorities** outlined in the strategic plan
- Technology-enabled solutions **promote improved efficiency** in the budgeting process and provide one version of the truth

# Cost Management: Enhancing management decisions using cost information

- Cost management infrastructure provides an **organized framework** for capturing agency costs to enhance planning and cost control
- Use cost management to obtain **Reliable**, **Relevant** and **Regular** cost information to support management decision-making
- Build an infrastructure that **provides predictive capabilities** such as scenario planning and "what-if" analyses to enhance the accuracy and effectiveness of resource distribution

# Performance Metrics: Measuring what is relevant to achieving the agency mission

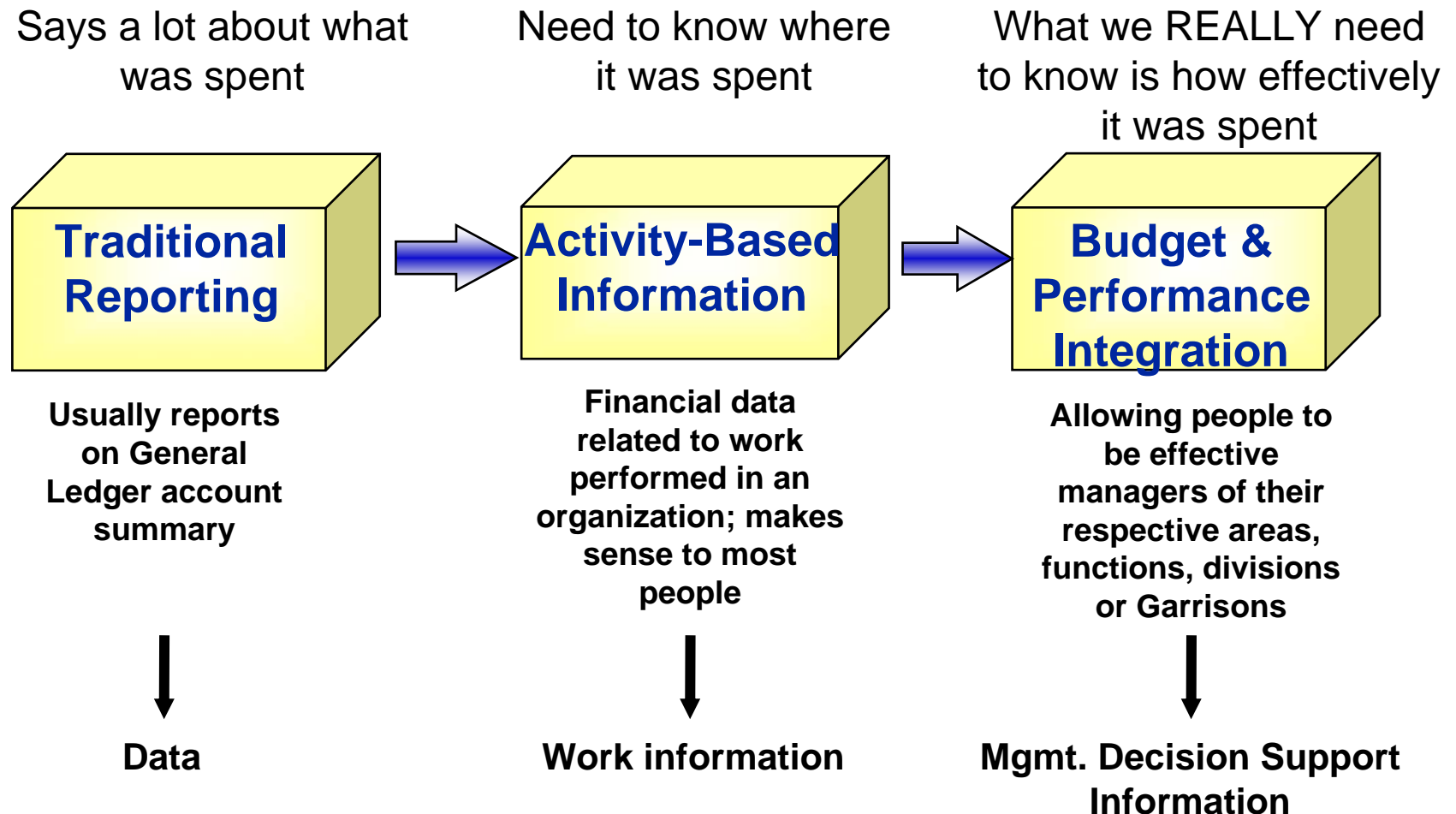


**Horizontal and vertical integration of measures to enable management for results**

# Budget, cost and performance integration ensures better management of limited resources

- The coming together of budget, finance and performance, people, processes and technology:
  - ✓ Enables managers to **better understand and manage** their "as-is" environment
  - ✓ **Propels efficiency** and resource allocation improvements
  - ✓ Allows **forecasting** of cost required to achieve strategic performance goals
  - ✓ Provides agency **performance rationale** to support budget requests
  - ✓ Helps agencies successfully **fulfill reporting requirements**

# New Paradigm – Budget & Performance Integration

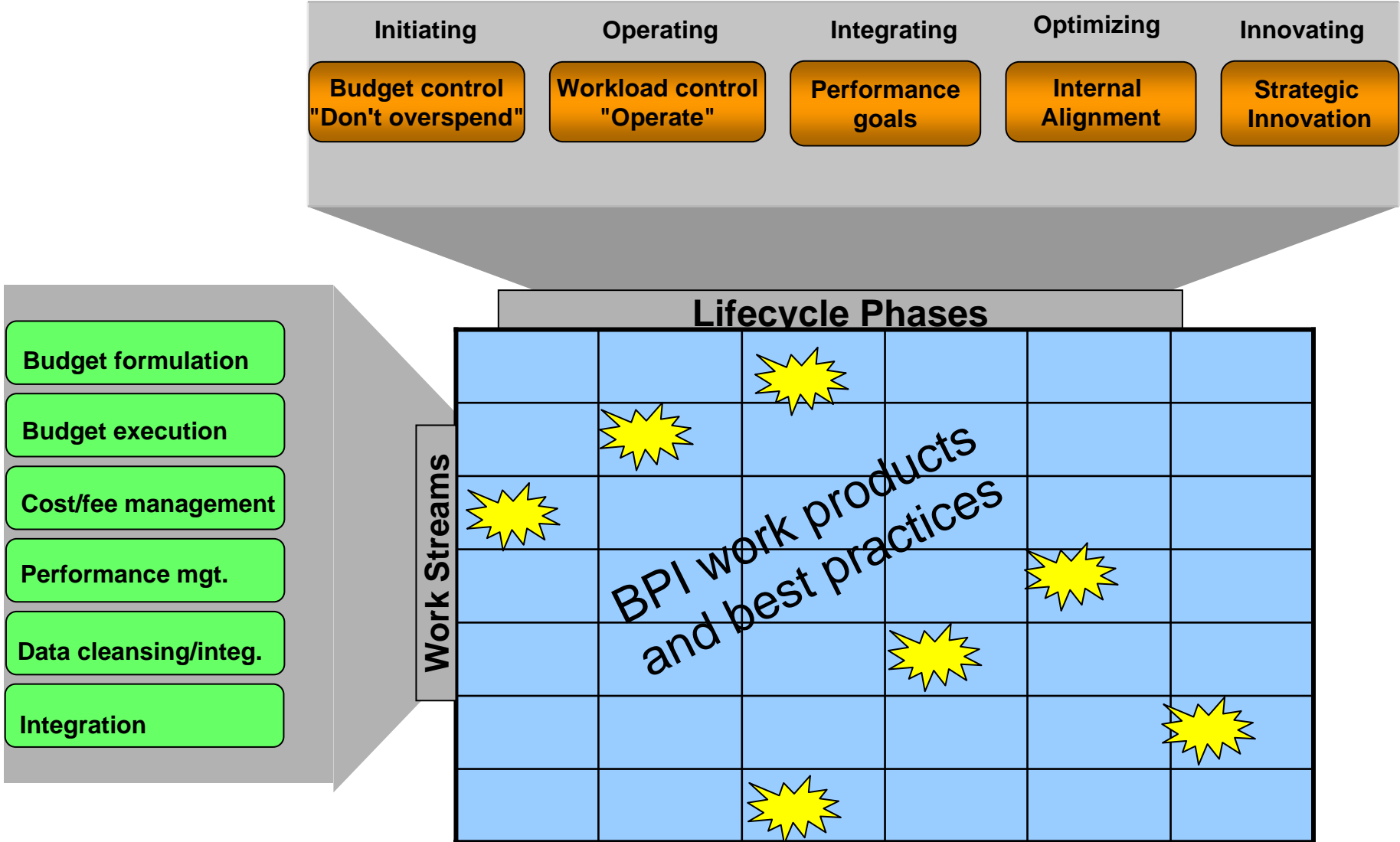


# Meeting the Integration Challenge

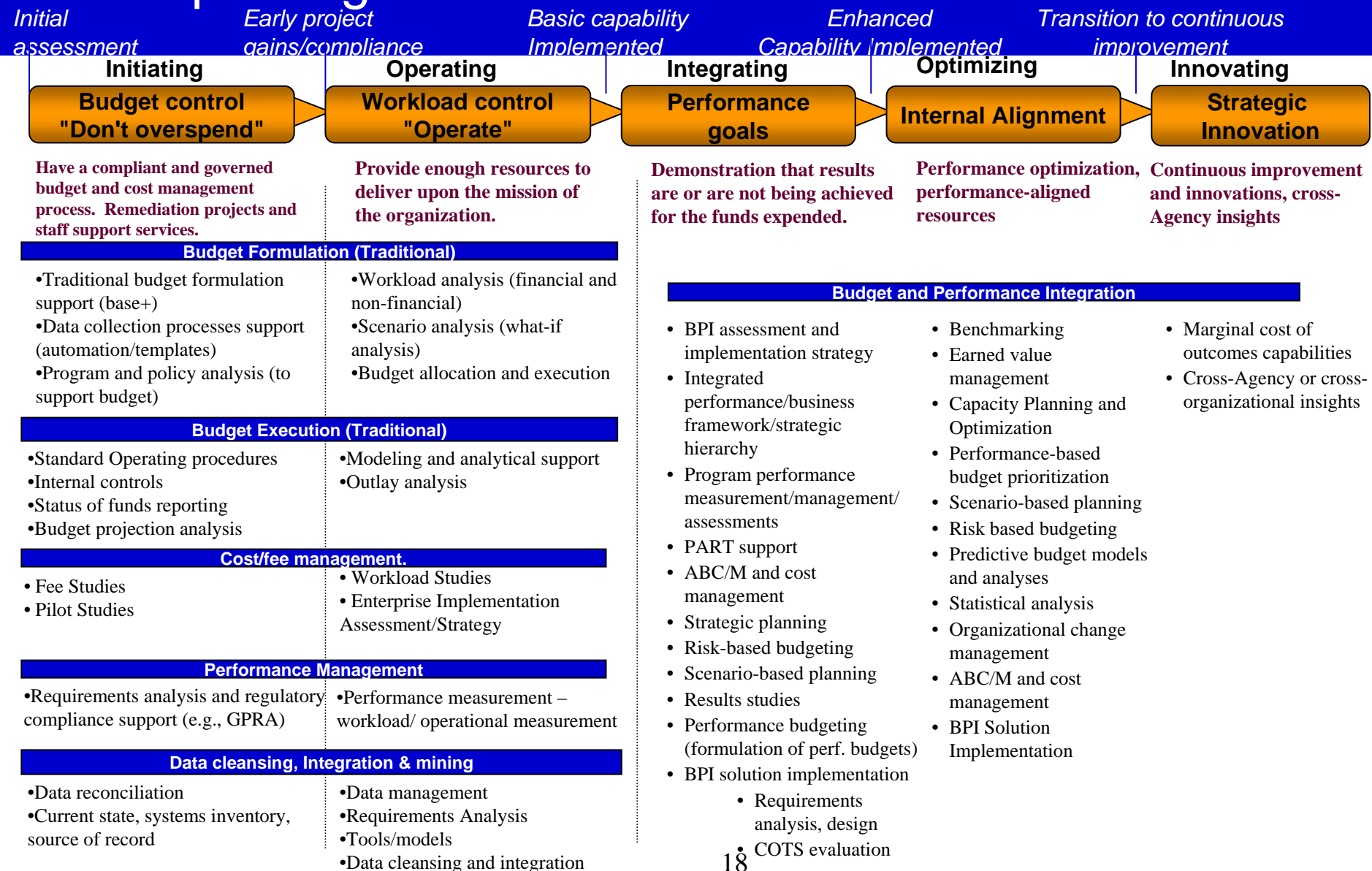




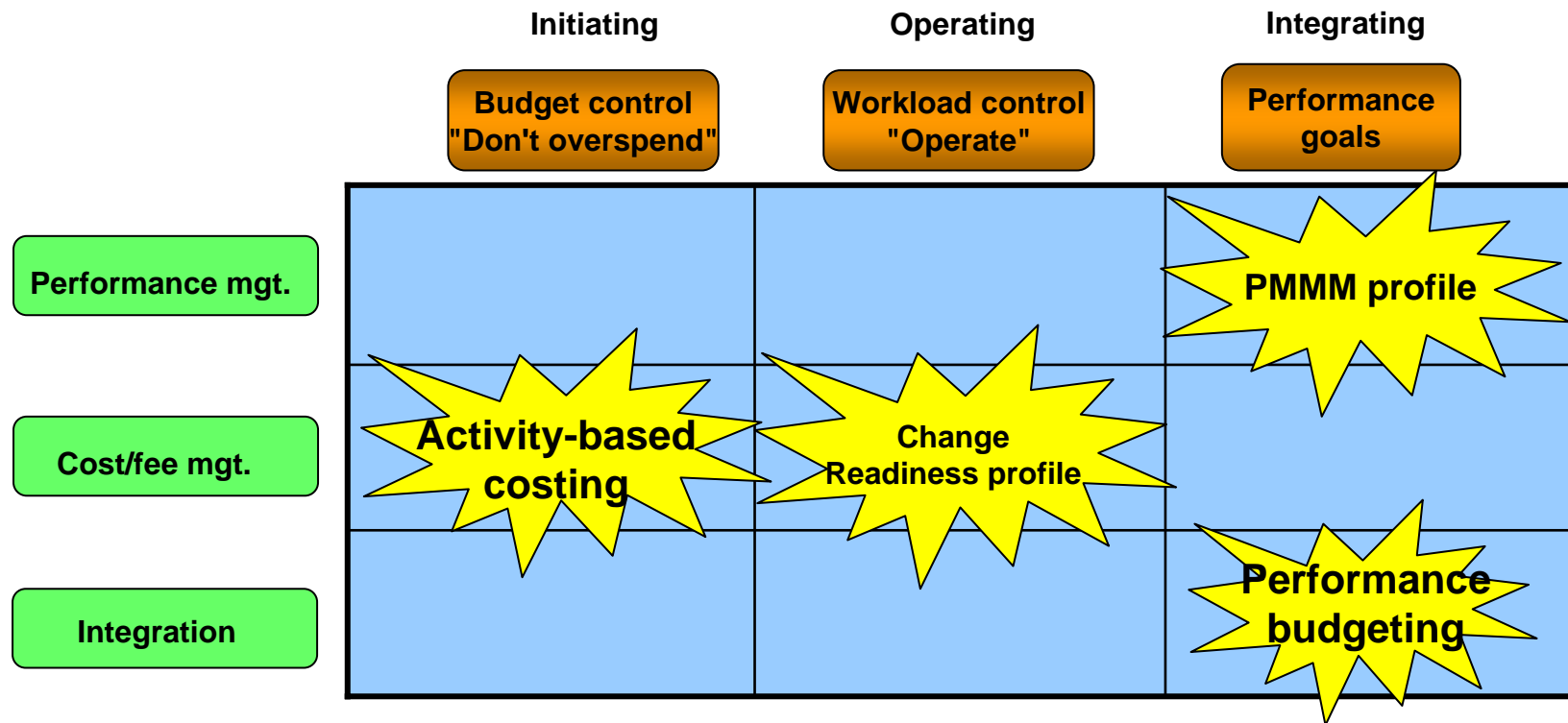
# BPI Maturity Model provides a roadmap for successful integration



# BPI Model can be complex; need value proposition to move up along the continuum



# Sample of best practices and techniques in budget and performance integration



# Activity Based Costing – Moving away from the traditional cost view

## General Ledger View

Salaries	\$300,000
Benefits	25,000
Travel	55,000
Communications	20,000
Contracts	90,000
Equipment	60,000
Supplies	40,000
<b>Total</b>	<b>\$590,000</b>

Reports **WHAT** is spent  
**Expense categories**

### ABC Drivers

- Hours
- % Time
- Square Ft.

## Activity-Based Costing View

Tag species	\$100,000
Harvest samples	35,000
Maintain tanks	75,000
Survey populations	10,000
Acquire water	290,000
Develop plans	160,000
Restore wetlands	20,000
<b>Total</b>	<b>\$590,000</b>

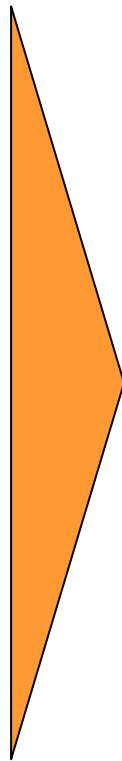
Reports **HOW** it is spent  
**Processes**

ABC models can also assign activity costs to strategic goals, outputs and/or customers

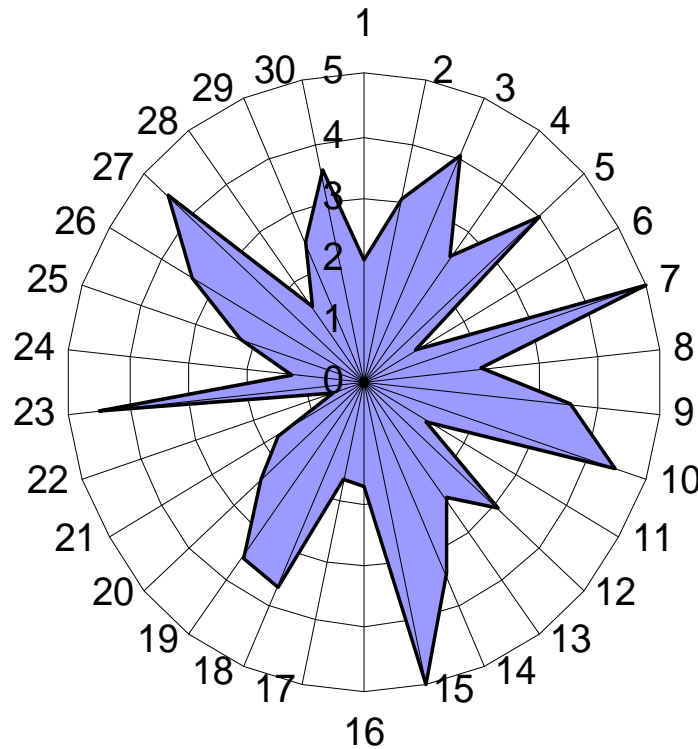
# Change Readiness Assessment

## Sample Hypothesis

- ✓ The organization is flat, less bureaucratic, and has a process-orientation
- ✓ The organizational structure is stable and has relatively low employee turnover
- ✓ Management effectively communicates the purpose and value of system changes and improvement initiatives to all levels of the organization
- ✓ Management solicits and responds to feedback on new initiatives



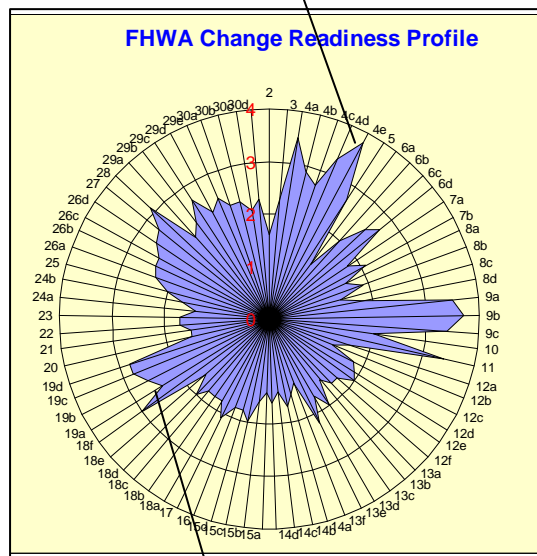
## Change Readiness Profile



The Change Readiness Assessment leverages work from the industry thought leader in cost and performance management, CAM-I. Each question on the Changes Readiness Assessment survey addresses one or more of 20 key hypothesis. The assessment determines which of these hold true for an organization and which do not. Those that are further from being true are the areas that represent the greatest risk to implementation.

# Risk mitigation strategies are identified to address high-risk areas

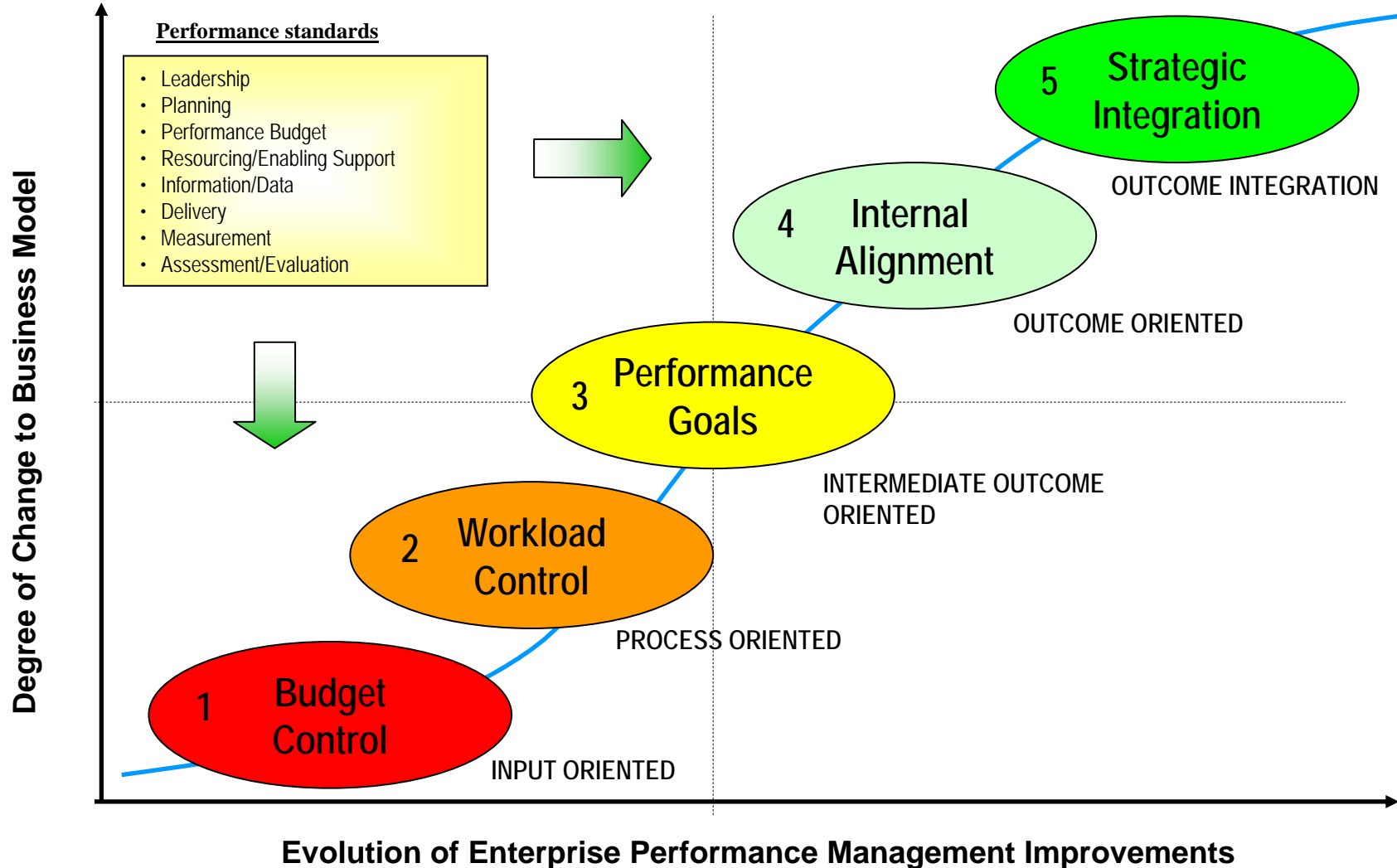
- Inadequate communication causes implementation of significant change initiatives to be problematic for the agency



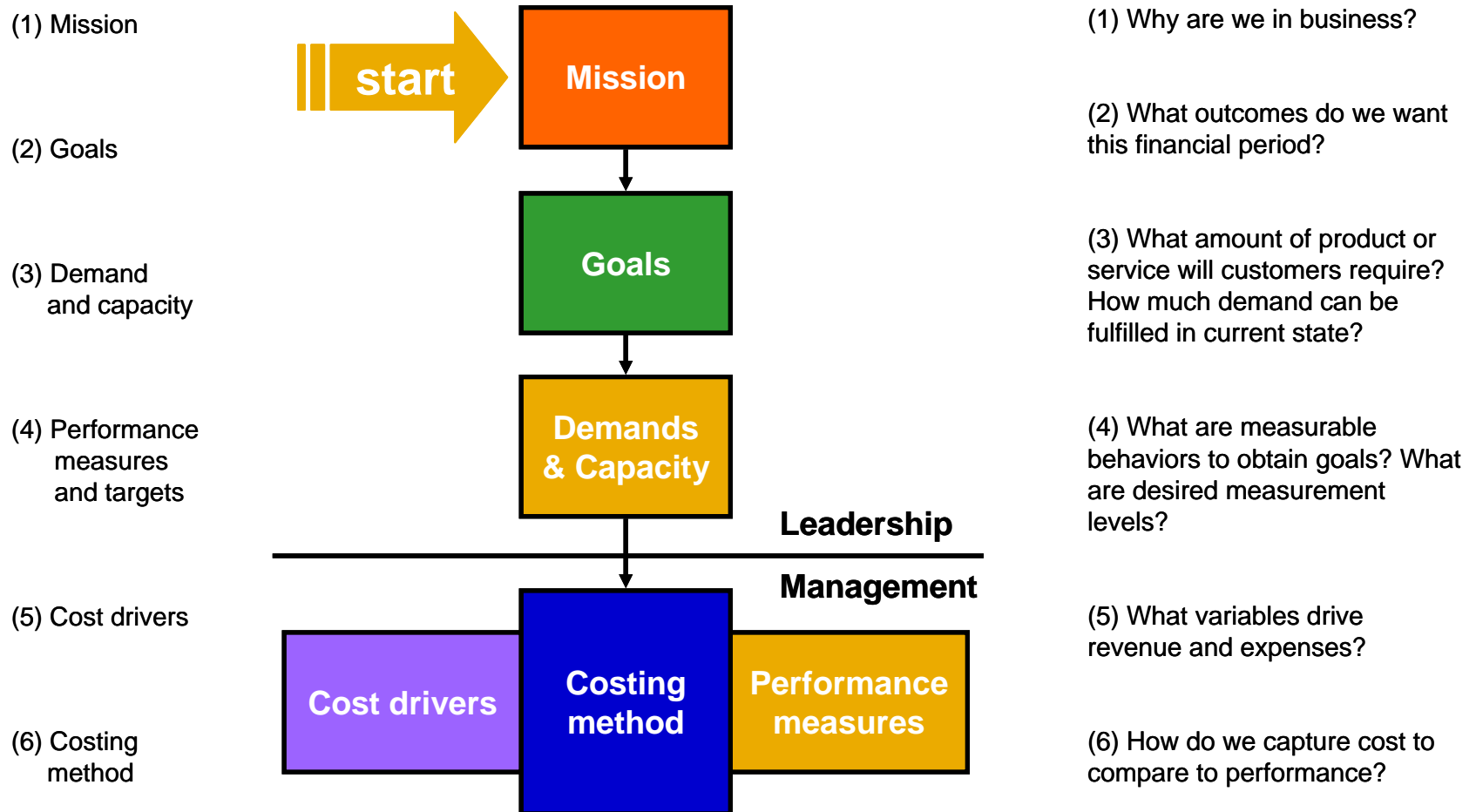
- The agency does not currently provide good linkages between cost and performance across or up/down the organization

High-Level Risks	Risk Mitigation Actions
Inadequate communication on objectives and expectations of MCA at all levels	<ul style="list-style-type: none"> <li>• Identify and charter Executive Steering Committee with oversight authority</li> <li>• Identify and charter cross-functional working group to assist with program-level communications and training</li> <li>• Develop and sustain website with information and updates</li> <li>• Develop and conduct executive, management, and senior analyst training sessions and/or “brown bags”</li> <li>• Develop and distribute quarterly newsletter</li> <li>• Communicate regularly with immediate updates on critical changes</li> </ul>
Inadequate linkages between cost and performance information	<ul style="list-style-type: none"> <li>• Create overarching integrated performance management methodology for FHWA, that provides link between cost and performance</li> <li>• Integrate strategic planning goals and metrics into the ABC model, as the first iteration of cost objects</li> <li>• Communicate the ABC as a solution to federal requirements for budget and performance integration (PMA) and performance budgets (A-11)</li> </ul>

# PMMM Profile: Allowing agencies to assess their current state against key performance standards



# An integrated framework for success





# The Fish and Wildlife (FWS) Story - Starting from a different perspective



# Guiding principles for integration at the Fish and Wildlife Service

- **Alignment**

- Identification of measurable agency and program outcomes
- Aligned from top-to-bottom

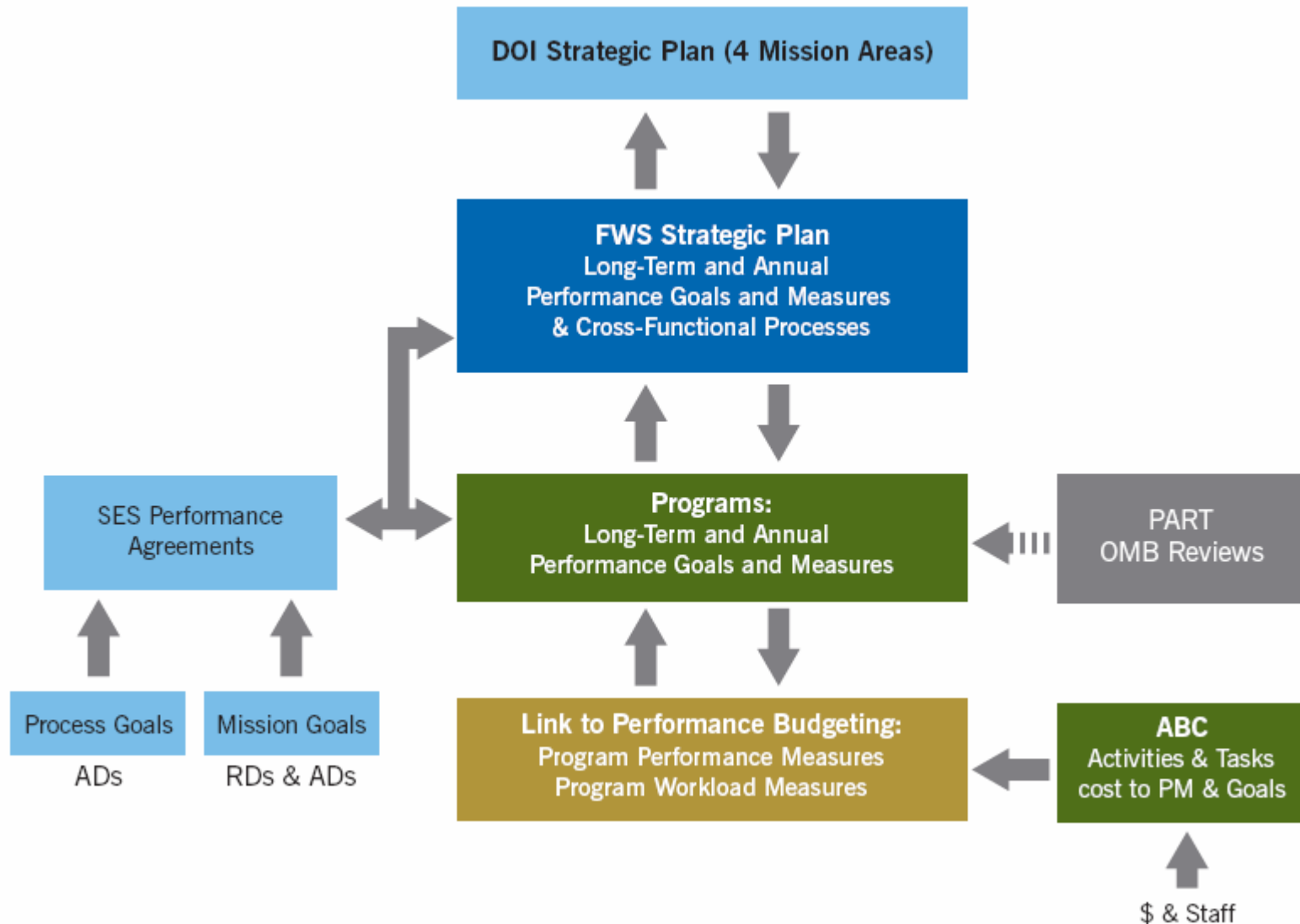
- **Linkage**

- Integration with financial systems
  - Historical cost data
- Integration with program management systems
  - Performance data

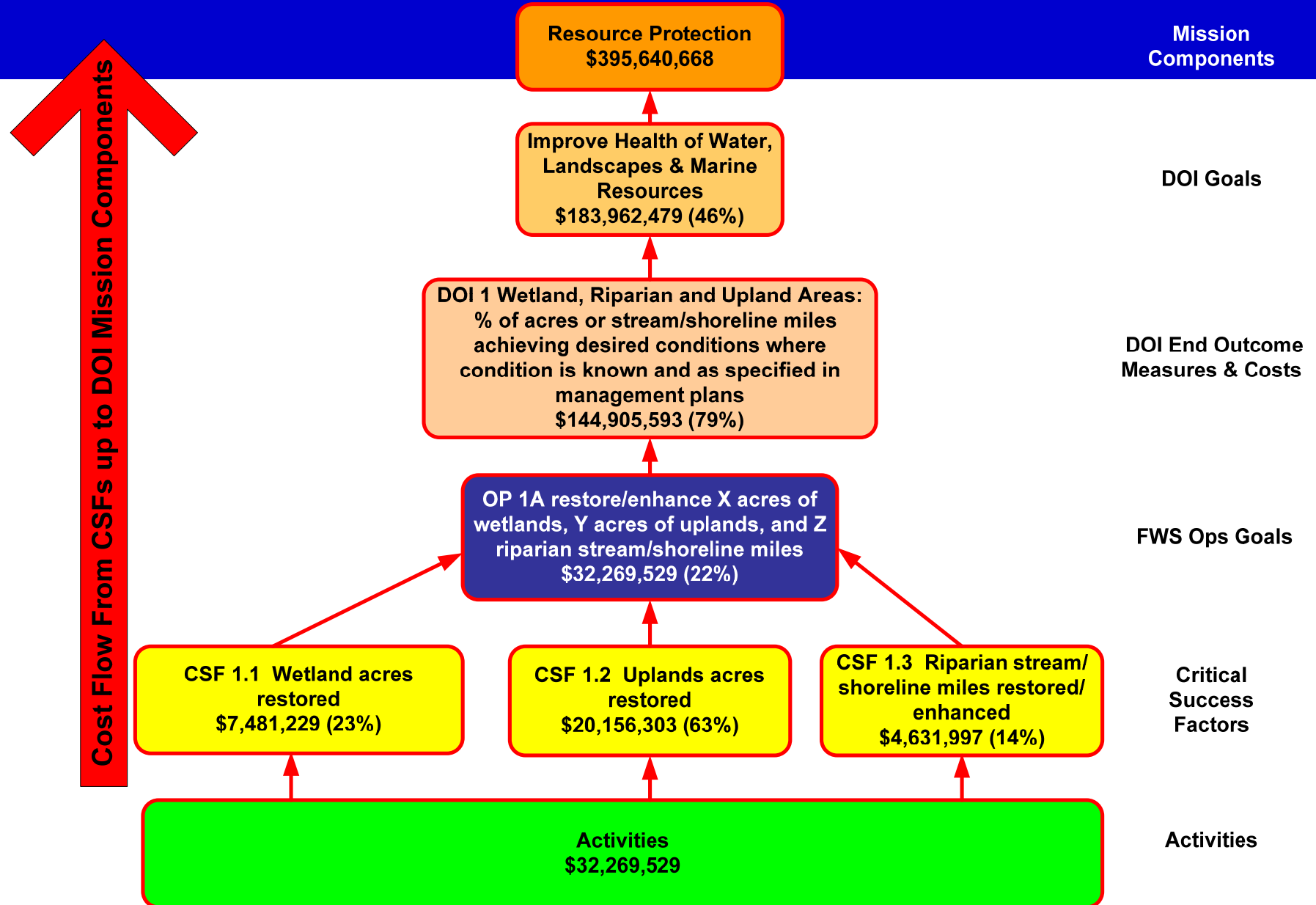
- **Integration in decision making**

- Budget formulation
- Resource allocation

# FWS integration framework



# ABC costs associated with performance hierarchy and goals





# Performance budgeting approach:

## Step 2 -- Determine Best Investment for Maximum Results

*Sample Data*

HABITAT		FY07 RM Costs	FY 08 Initial Performance	Dollar Adjustment	Adjusted Program \$	New FY08 Perf Target
OP 1 - Restore/enhance wetlands, uplands, and riparian stream/shoreline miles		\$52,506,947	645,698 acres	\$0		645,698 acres
\$107/acre	Endangered Species	\$3,395,000	n/a	-\$2,000,000	\$1,395,000	
	Management Assistance	\$5,635,765	n/a	-\$1,000,000	\$4,635,765	
	Refuges	\$20,011,000	359,871	-\$2,000,000		317,500
	All Other Contributing Programs	\$10,134,920	7,028		\$10,134,920	7,028
\$48/acre	Partners for Fish and Wildlife	\$13,330,262	278,799	\$5,000,000	\$13,330,262	378,800

Avg. 2 to 1 dollar match, **more performance** for the **same Federal Dollars**

# Performance budgeting approach:

## Step 3 -- View FY08 Results by Performance Goal

*Sample Data*

**60,000 acre increase**  
in Performance, **no**  
**change** in Federal  
dollars

FWS Ops Goal	FY07 Pres. Budget Performance Targets	Amount to Change	FY08 Decision	FY07 to FY08 Dollar Change	FY08 Perf Target based on Decision
OP 1A - Restore Wetlands, Uplands, and Riparian	645,698 acres	0%	\$52,506,947	\$0	705,698 acres
OP 1B - Manage and Protect Wetlands, Uplands, and Riparian	1,345,133 acres	-1%	\$185,888,695	(\$2,238,221)	1,331,682 acres
OP 2A - Restore X# marine/coastal acres	13,288 acres	0%	\$4,768,900	(\$16,531)	13,223 acres
OP 2B - Protect X# of marine/coastal acres	28,353 acres	-1%	\$21,496,511	(\$187,782)	18,809 acres



# Performance budgeting approach:

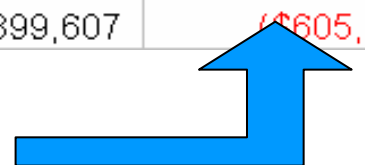
## Step 4 -- View Results by Budget Activity & Subactivity

*Sample Data*

Results by Program/Budget Subactivity

Subactivity Program	Subactivity	FY07 Pres Budget	\$ FY 08 Change
Coastal Programs - HC	1124 - COASTAL PROGRAMS	\$10,909,333	(\$183,376)
Endangered Species	1111 - LISTING	\$3,978,344	(\$108,263)
	1112 - CONSULTATION	\$46,698,064	(\$2,724,292)
	1113 - RECOVERY	\$69,178,464	(\$2,618,114)
	1115 - CANDIDATE CONSERVATION	\$8,239,161	(\$284,306)
	1117 - CRITICAL HABITAT	\$11,588,434	(\$234,642)
Environmental Contaminants	1130 - ENVIRONMENTAL CONTAMINANTS	\$12,802,120	(\$356,394)
Hatcheries - F	1311 - ANADROMOUS HATCHERY OPERATIONS	\$46,325,446	(\$2,280,932)
	1313 - HATCHERY MAINTENANCE & REHABILITATION	\$15,252,495	(\$796,334)
International Affairs	1671 - INTERNATIONAL WILDLIFE TRADE	\$4,570,260	(\$978,275)
	1672 - INTERNATIONAL CONSERVATION	\$2,899,607	(\$605,699)

Output of exercise by budget structure





# Key learning points from the FWS implementation

- **Align** individual program plans to overarching Bureau goals and measures
- Measure **key** performance metrics
  - Allow alignment/structure to **guide** what matters
  - Assess **usefulness** of current measures
  - Include **financial** component in measurements
- Don't just capture performance information, **use** it
  - **Link** to budgeting, individual performance plans
- Look below measures to gauge **effectiveness** of program delivery

# Top Ten Keys to Success

1. Communicate! Communicate! Communicate!
2. Think long-term, implement in phases, build on early successes
3. Integrate with other initiatives
4. Assess readiness and prepare for change
5. Create “Push-Pull” environment – burning platform!!
6. Hold responsible parties accountable
7. Involve operational, IT, budget, and financial personnel
8. Establish Executive-level champion
9. Do not lead with software  
(software should be the enabler – not the driver)
10. Clearly define the objective

Questions or comments?