STATE OF WEST VIRGINIA

PRELIMINARY PERFORMANCE REVIEW OF THE

GOVERNOR'S OFFICE OF FISCAL RISK ANALYSIS AND MANAGEMENT

Governor's Office of Fiscal Risk Analysis and Management Is Progressing Satisfactorily, But It Is Too Early to Determine Its Effectiveness

OFFICE OF LEGISLATIVE AUDITOR
Performance Evaluation and Research Division
Building 1, Room W-314
State Capitol Complex

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Executive Summary

The West Virginia Governor's Office of Fiscal Risk Analysis and Management was created by the 2001 Acts of the Legislature (West Virginia *Code* §5-1D-1). The agency is designed as a resource from which all state spending units shall seek advice and recommendations with regards to fiscal risk analysis and management.

Issue 1: The Governor's Office of Fiscal Risk Analysis and Management is Progressing Satisfactorily, But It Is Too Early to Determine Its Effectiveness.

Since its inception, The Governor's Office of Fiscal Risk Analysis and Management has made significant progress towards establishing an organized approach to fiscal risk analysis and management. Such an approach has involved addressing the everyday problems of state government, which the agency views as poorly designed, inefficient processes that exhaust the states limited resources before necessary services are adequately provided. Such issues have received national attention, and have been addressed in a similar manner by Congress as well as individual states. As a basis for achievement of ultimate goals, the agency has provided change-specific training to select state employees with the intent of extending quality training to all state employees. Under the advisement of the Legislature and the Governor, the agency has undertaken several projects, upon the completion of which, significant fiscal savings has been predicted. Incentives are being created to encourage quality improvement and performance excellence. All of the agency's projects are still ongoing, and so it is too early to determine its effectiveness.

Recommendations

1. *The Legislative Auditor recommends that the Governor's Office of Fiscal Risk Analysis and Management be continued in order for it to complete its research projects and initiatives.*

2. *The agency needs to develop a mechanism by which all state spending units are aware of their mandated responsibility to submit spending proposals for fiscal risk review.*

3. *The agency should begin charging a fee as is required by law for appropriate services rendered to state spending units.*

Review Objective, Scope and Methodology

This preliminary performance review of the West Virginia Governor's Office of Fiscal Risk Analysis and Management is required and authorized by the West Virginia Sunset Law, Chapter 4, Article 10 of the West Virginia *Code*, as amended. The agency is designed to advise and make recommendations to all state spending units on fiscal risk analysis and management functions and decisions. It intends to protect the financial resources of the state and its citizens by ensuring that tax dollars are used efficiently.

Objective

It is the objective of this audit to evaluate the progress of the agency since its inception, the effectiveness of its actions, and the need for its services. It is also the intent of the Legislative Auditor to determine whether the agency is unique and non-duplicative, while evaluating its progress towards compliance with statute.

Scope

The performance evaluation covers the period from the agency's inception on July 1, 2001 to the present. **It is not within the scope of this audit to determine the validity of the agency's projected savings upon completion of its projects, or the estimated time frames for such project completion.**

Methodology

Information compiled in this report has been acquired through interviews, conversations and correspondence with the Executive Director and the Senior Project Administrator of the Governor's Office of Fiscal Risk Analysis and Management. Documents obtained from the Office's staff include: 1) the agency's Draft Business Plan; 2) the Office's Strategic Plan Abstract; 3) Outlines of all projects and initiatives; 4) Weekly and bi-monthly status reports; 5) Meeting minutes from the Fleet Management Project Team Meetings and the Steering Committee Meetings; and 6) Executive budget information. Information acquired from other states included: 1) Ohio's Quality Services through Partnership report; 2) A synopsis of Virginia's Commission on Efficiency and Effectiveness; and 3) Background information on Maryland's Governor's Initiative Managing for Results. The review also involved examination of the Malcolm Baldrige National Quality Improvement Act of 1987. Every aspect of this review complied with Generally Accepted Government Auditing Standards (GAGAS).

Issue 1: The Governor's Office of Fiscal Risk Analysis and Management Is Progressing Satisfactorily, But It Is Too Early to Determine Its Effectiveness.

During the 2001 legislative session, the Legislature found and declared that fiscal risk analysis and management is essential to finding practical solutions to everyday problems in state government. Similar initiatives on a national level have been recognized and addressed by Congress. Other states have also recognized internal inefficiencies and have consequently created agencies to address such matters. Thus, the Governor's Office of Fiscal Risk Analysis and Management (FRAM) was created effective July 1, 2001. Since its inception, FRAM has developed and conducted training seminars for state employees on improving processes and reducing process risks. Four research projects identifying problems of state government have been designed with the intention of finding solutions and saving the state financial resources. In addition, the agency is developing statewide policies and procedures for prevention of process risk, and an award program for recognizing and rewarding outstanding quality achievement. The Legislative Auditor finds that the agency is progressing satisfactorily since its inception. However, **because FRAM is in its infancy and all its research projects have yet to be completed and other initiatives are in the planning stages, the Legislative Auditor cannot determine its effectiveness or any adverse effects if it were terminated.** Given that the agency has predicted significant cost savings when its projects are completed, the Legislative Auditor recommends that the agency be allow to complete its projects.

Problems with Inefficiency have Received Congressional Recognition.

Such problems with process inefficiencies received congressional recognition with the creation of the Malcolm Baldrige National Quality Improvement Act of 1987. In this act Congress found and declared that:

1) Our Nation's productivity growth has improved less than our competitors over the previous two decades (1970's and '80's);
2) Poor quality costs companies as much as 20 percent of sales revenues nationally;
3) Strategic planning for quality and quality improvement are becoming more and more essential to the well-being of our Nation's economy and our ability to compete effectively in the global marketplace;
4) Improved management understanding, worker involvement in quality, and greater emphasis on statistical process control can lead to dramatic improvements;
5) The concept of quality improvement is directly applicable to service industries as well as manufacturing, and to the public sector as well as private enterprise;
6) In order to be successful, quality improvement programs must be management-led and customer-oriented and this may require fundamental changes in the way companies and agencies do business.

As a result of these findings, Congress developed a criteria for performance excellence as well as methods of assessment and the Malcolm Baldrige Award for Excellence as an incentive for the private and public sectors. FRAM is designed to address similar issues of inefficiency and present solutions.

Similar Agencies Have Been Established in Other States

The Legislative Auditor found that a few surrounding states have created agencies similar to FRAM. **Virginia's** agency operates under the title of the Governor's Commission on Efficiency and Effectiveness. **Maryland** has the Governor's initiative Managing for Results. Both focus on better utilizing resources to meet the needs of the State's customers and stakeholders. The state of **Ohio** created the Office of Quality Services in 1993. It has a staff of seven employees and a budget under $600,000. According to its Quality Services through Partnership (QStP) 2000 report, the agency saved the state over $172 million since its inception, and has saved over $76 million in the past two years alone.

FRAM' s Efforts have been Extensive and Show Potential for State-Wide Benefit.

Examination of the core concepts of FRAM and the initial steps taken from its inception reveals that the agency has taken an approach similar to that of Ohio. For example, Ohio notes that in the early 1990s, at the start of state government's journey to high performance, they began by focusing on training and forming labor/management teams. Approximately 92% of Ohio state employees have received (QStP) training. FRAM has taken a similar approach. West Virginia provided *Customer Quality Change* (CQC) training in December 2001. This training incorporates encouraging dialogue between front-line workers and management to resolve inefficiency in agency processes. Through this training program it intends to increase state employee productivity, lower employee turnover, increase morale, and lead to a higher educated and higher achieving state workforce. The first "change/leadership" seminar was held for all senior leadership throughout state government on December 10, 2001. A second "change/leadership"seminar was held on April 17, 2002 for front-line union workers. Both seminars were well received as is evidenced in seminar evaluations completed by attendees. Staff from the Legislative Auditor's Office was present at the April 2002 session and noted the positive response from attendees.

The **Mentoring** Customer Quality Change Program (CQC) is a training initiative designed to prepare state employees for process improvement and to give them the tools to help implement the change. From those who received the training, mentors will be selected to lead teams combining management with laborers in an attempt to identify and address inefficient processes. The agency believes that this teaming is essential because the workers are the ones who are aware of the problems and by teaming them with management, the problems can be better addressed. It is a goal of the agency that all state employees receive this training.

Also, Ohio created an incentive program (Ohio Award for Excellence) to recognize improvement in productivity in the private and public sectors. West Virginia is planning the establishment of the *Governor's Award for Quality* which will recognize and reward outstanding quality achievement in state government.

In addition, FRAM has defined four research projects that identify problems in state government. These projects are defined below:

1. Governor's Fleet Management Project

By Executive Order 20-01, the initial analysis of the Governor's Fleet Management Project was implemented on June 14, 2001. The project intends to assure accountability for, reduce the size of, and refine the purchasing process for the state's fleet. It also seeks to ensure that all state owned vehicles are properly insured and that only approved employees are driving the vehicles. It intends to make certain that all federal motor fuel taxes are appropriately captured, as well as establish general guidelines for fleet management. Project Committees began formation on January 4th 2002. The kick-off meeting for the Steering Committee was held on February 13, 2002. Two months later the Project Team met for the first time on March 13, and two weeks later a second meeting was held. **According to the agency, the projected savings of the project is an estimated $4.3 million per year over the next four years.**

2. Governor's Grievance Process Project

The agency has outlined a process by which they will undertake the Governor's Grievance Process Project. The strategy follows its outlined set of fiscal risk analysis and management principles. A Steering Committee, for which a Chairman has been named, will be appointed to oversee the progress of the project team, to be appointed, and provide strategic and tactical guidance and direction for the project and Project Manager. The agency estimates that a reasonable time duration will range from four to six months from the creation of the project management committee until the completion of all determined project goals and objectives.

The Steering Committee will attempt to identify and understand the needs of customers of the grievance procedure, recognizing front-line employees as the number one customer and management is a secondary customer. It intends to ensure continuous quality improvement and accountability for all project team goals while providing developmental reporting of all determined goals to executive leadership of the Governor's Executive Team and other key stakeholders and employees.

3. Governing of Alien Workers Project

It has been recognized that West Virginia has a problem with illegal alien workers being used by contractors in place of West Virginia citizens. Consequently, the state experiences a loss of jobs for West Virginians, and a loss of tax dollars for the state since illegal workers do not pay income taxes. As a result, the Legislature passed Senate Bill 560, the Reporting of Alien Workers, during the 2002 legislative session. It is the intent of FRAM to aid affected agencies in the enforcement of this law by constructing cooperative avenues between the Division of Labor, Worker's Compensation, Unemployment Insurance, Tax and Revenue, and law enforcement. The agency maintains that the time frame for completion, from the first meeting through final approval by the COO, will occur within 30 calendar days.

4. The House Purchasing Project.

At the request of House Leadership, FRAM has conducted an analysis of the House of Delegates' purchasing process. Results are currently being analyzed and feedback is being issued. The ultimate results of the project have yet to be determined.

There is No Significant Overlap with Other State Agencies.

The Legislative Auditor found no significant statutory overlap between the Governor's Office of Fiscal Risk Analysis and Management and other state agencies such as the Performance Evaluation and Research Division within the Legislative Auditor's Office, and the Board of Risk and Insurance Management. The agency is unique in that its efforts assume a facilitator function between several agencies to create avenues of cooperation in an attempt to eliminate inefficient processes. Furthermore, its projects can be dictated by the Governor or legislative leaders to deal with issues that no other agency is examining. FRAM has also identified the need to coordinate with the Board of Risk and Insurance Management and the Legislative Auditor's Office to avoid duplication.

Conclusions

The Legislative Auditor has found the Governor's Office of Fiscal Risk Analysis and Management to be progressing in a satisfactory manner. Projects are currently in progress which may result in cost savings to the state when completed. These projects have clearly defined objectives and methodologies. Training has thus far been provided to a limited audience of state employees to encourage process-improvement dialogue between front-line workers and management. It is FRAM's expectation to expand this training to all state employees. The Governor's Award For Quality is planned and would provide an incentive for process improvement. Also planned are statewide policies and procedures on process risk prevention.

It is the statutory requirement for FRAM to evaluate any fiscal risk associated with the purchases of goods and services by all state spending units with potential fiscal risk of at least one million dollars. The agency will need to develop a mechanism by which all state spending units are aware of their responsibility to submit spending proposals with fiscal risk. To date, only the Public

Employees Insurance Agency (PEIA) has submit a Request For Proposals to FRAM for its review.

The agency is required by law (§5-1D-4) to charge state spending units a fee for evaluations and technical assistance. FRAM has not provided a significant amount of evaluations or technical assistance, except for the review of an RFP submitted by PEIA. However, the agency has provided a significant amount of training to state agencies. It is not clear from the statute whether training seminars fall under the category of a reimbursed expense to be charged back to state agencies. FRAM operates with a staff of four and has a relatively small budget of $350,000, which was reduced to $250,000 for fiscal year 2003. Currently, FRAM has not charged state spending units any fees for its services. Given a relatively small budget and staff and extensive initiatives, the agency could experience difficulties or delays in achieving its objectives if it does not have adequate funding. Therefore, in the future, the agency may have to charge for its services as is mandated by law.

It is beyond the scope of this audit to confirm the estimated savings identified by FRAM for its projects. Nevertheless, **if this agency were abolished prior to completion of its projects and initiatives, potential net benefits to the state would be lost.** Therefore, the Legislative Auditor recommends the following:

Recommendations

1. *The Legislative Auditor recommends that the Governor's Office of Fiscal Risk Analysis and Management be continued in order for it to complete its research projects and iniatives.*

2. *The agency needs to develop a mechanism by which all state spending units are aware of their responsibility to submit spending proposals with fiscal risk.*

3. *The agency should begin charging a fee as is required by law for appropriate services rendered to state spending units.*