Memorandum

TO:	Honorable Mayor and City Council	**FROM:**	Sharon W. Erickson Debra Figone
SUBJECT:	*PERFORMANCE MANAGEMENT AND REPORTING IN SAN JOSE: A PROPOSAL FOR IMPROVEMENT*	**DATE:**	September 24, 2009

Background

In 2008, the City Manager initiated the *Beyond Budget Cuts* improvement effort to transform the City of San José into a more productive, efficient, and effective organization. As part of Phase I of this initiative, Public Strategies Group (PSG) was asked to complete an organizational assessment of the City's strengths and challenges. That assessment resulted in the creation of a number of Action Teams to focus on various issues moving forward, from Employee Empowerment to Budget Process to Busting Bureaucracy. Among other findings, PSG determined that the City had established a comprehensive performance *measurement* system, but had not created an organization-wide performance *management* system.

In January 2009, with the backing of the City Manager, the City Auditor's Office issued its first annual *Service Efforts and Accomplishments Report* (SEA Report) for fiscal year 2007-08. The report built on existing performance management and reporting efforts in the City and contained data that was provided by individual departments and the Budget Office. Preparation of the report surfaced a number of issues with the City's performance management and reporting systems that echoed PSG's findings. The City Auditor's Office has prepared the attached report to provide recommended next steps to improve these systems. These recommendations support the City Manager's ongoing efforts to advance San José as a high performing organization.

Summary

Unprecedented budget deficits require that the City expand its efforts to find new ways to deliver services more effectively with fewer resources. To do that, management will need to use all of the analytic tools available. Managers and policy makers will need data to estimate the potential impact of proposed budget reductions and to make informed choices. They will need data to help identify and assess the impact of proposed changes to long-standing service delivery models.

Currently, the City gathers a tremendous amount of performance data that is meant to inform management decision making. However, that data is not consistently and systematically used by management throughout the organization. As a result, time-pressed staff expend significant effort to produce performance measures, some of which have low real value. While preparing the first annual SEA Report and through input from the Budget Office, the City Auditor's Office found numerous performance measures that were probably not meaningful or useful for decision making, as they were either not the right data that decision makers need or the data were unreliable.

Citizens and policy makers want to know how their tax dollars are spent and whether those dollars are spent well. The City already provides a vast array of performance information in the City's operating budget and other performance reports. However, the City can improve its reporting to become even more transparent and publicly accountable by (1) ensuring that it is communicating meaningful and useful performance data; (2) more clearly describing the services the City provides and how those services align with City-wide missions, goals, and objectives; and (3) providing clearer information about the net cost of its services to gauge whether performance is cost effective.

Strong performance management systems are critical components of high performing organizations in both the public and private sectors. Performance management systems can provide management and policy makers with information necessary to maximize resource allocations, improve service delivery, and increase accountability through better public reporting. The City of San José is now challenged, in times of historic budget deficits and staff reductions, to find the capacity to improve its current performance management and reporting systems. It is important to do so because a more effective performance management system will allow management, policy makers, and the public to better determine how the City's resources should be allocated.

The attached *Proposal for Improvement* is intended to build on each of our Office's strengths, work to date, and areas of shared vision around performance management. It provides a series of "next steps" to improve the City's performance management system and its public reporting. The time frames for implementation will vary based on organizational capacity or systems' capabilities. Specific departments or initiatives may be more prepared to start than others; we will consider each department's capacity and plan accordingly. The report also includes a discussion of organizational capacity and how the City Auditor's Office can assist the Administration in the ongoing implementation and improvement of these systems.

Some items can be initiated within the next year (denoted with an asterisk) to give the City the biggest wins and time savings; other items will take longer. IT infrastructure and investment of staff time and resources are key challenges. The complexity and cost of potential system improvements, the extensive staff involvement that went into the current structure and measures, and competing priorities have made these improvements a lower priority in the organization and will continue to be a challenge.

The report is organized into the following sections:

- Moving San José from Performance *Measurement* to Performance *Management*
- Ensuring that Performance Measures are Meaningful, Useful, and Sustainable
- Clarifying Core Services and How They Align with Organizational Missions, Goals, and Objectives
- Gauging Whether Performance is Cost Effective
- Moving Forward

Improving performance and public accountability is a continual process that requires a long-term collaborative effort among all departments in the City of San José. The following report dovetails with the City Manager's overall vision for San José and her support for performance management. The report identifies next steps to help transform the City into a more data-driven, high performing organization.

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Office of the City Auditor

Report to the City Council
City of San José

PERFORMANCE MANAGEMENT AND REPORTING IN SAN JOSÉ:

A Proposal For Improvement

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Introduction

In January 2009, the City Auditor's Office issued its first annual *Service Efforts and Accomplishments Report* (SEA Report) for the fiscal year 2007-08.[1] The report built on existing performance management and reporting efforts in the City and contained data that was provided by individual departments and the Budget Office. While preparing the SEA Report and with input from the Budget Office, a number of issues surfaced with the City's performance management and reporting systems. The purpose of this report is to provide a roadmap to improve those systems.

The City of San José is a complex organization with hundreds of services. It is important that City staff and policy makers have complete and reliable information to effectively and efficiently allocate the City's limited resources, especially with the City's ongoing budget concerns. Specifically, management and policy makers need information about the cost and delivery of specific services and programs to reach decisions about how to optimize resource allocations and fund services that address City-wide priorities and achieve City-wide goals.

An effective performance management system can help management with all of the above by identifying areas where the City is doing well and where it needs improvement. Robert Behn from Harvard's Kennedy School of Government suggests that as part of an overall management strategy, public managers can use performance measurement for multiple managerial purposes, including evaluation of the public agency, as shown in the table below.

Eight Purposes that Public Managers Have for Measuring Performance[2]

Managerial Purpose	Public Manager's question that performance measure can help answer	Type of Performance Measure(s) Needed
EVALUATE	How well is my public agency performing?	Outcomes, combined w/ inputs and effects of exogenous factors
CONTROL	How can I ensure that my subordinates are doing the right thing?	Inputs that can be regulated
BUDGET	On what programs, people, or projects should my agency spend the public's money?	Efficiency measures (specifically outcomes or outputs divided by inputs)
MOTIVATE	How can I motivate line staff, stakeholders, and citizens to do the things necessary to improve performance?	Almost-real-time outputs compared w/ production targets
PROMOTE	How can I convince political superiors, legislators, stakeholders, journalists, and citizens that my agency is doing a good job?	Easily understood aspects of performance about which citizens really care
CELEBRATE	What accomplishments are worthy of the important organizational ritual of celebrating success?	Periodic and significant performance targets that, when achieved, provide people w/ a real sense of accomplishment
LEARN	Why is ____ working or not working?	Disaggregated data that can reveal deviances from the expected
IMPROVE	What exactly should ____ do differently to improve performance?	Inside-the-black-box relationships that connect changes in operations to changes in outputs and outcomes

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[1] See http://www.sanjoseca.gov/auditor/SEA.asp

[2] See Behn, Robert. "Why Measure Performance? Different Purposes Require Different Measures" *Public Administration Review*, Sept/Oct 2003, Vol. 63, No. 5.

A performance management system can be designed to assist management with setting priorities for service delivery. An effective performance management system can also help management better understand the impact changes in resource allocations will have on service delivery by linking the cost of City services to performance and results. Furthermore, an effective performance management system can focus policy makers' attention on the City's biggest problems or opportunities and provide policy makers the data they need to design policies to improve service in the most efficient manner.

Citizens increasingly want to know how their tax dollars are spent and what benefits they receive from public services. Public reporting of performance can increase accountability and transparency by communicating to citizens the City's progress toward achieving its goals and how effectively and efficiently it provides specific services.

The recommendations, or "next steps", in this report are meant to reduce staff time compiling data while ensuring City staff and policy makers have the best information available for decision making and increasing accountability and transparency in the City's public reporting. The next steps are broken down into those we believe can be initiated within the next year (denoted with an asterisk) and others with potentially longer time frames. Also included is a discussion of organizational capacity, as well as the City Auditor's potential role in improving this system.

The City Auditor's Office prepared this report in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the Objectives, Scope, and Methodology section of this report.

The Office of the City Auditor thanks the management and staff of the many individual departments that contributed to this report and the SEA Report that preceded it.

Background

The City's current performance reporting system is extensive, with over 1,000 performance measures reported in its annual Operating Budget[3] and roughly 250 measures reported in Quarterly Performance reports to the City Council's Standing Committees (Council Committees). Some individual departments also produce reports containing additional performance information or compile data for other purposes. In addition, the City's Operating Budget contains information

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[3] The Operating Budget includes performance measures at both the CSA and core service level. The core service level measures are broken down into Performance Summary measures and Activity & Workload Highlight measures.

on the City's revenues and expenditures for over 70 different funds as well as its goals and objectives. Hundreds of hours of staff time are invested into compiling and reporting all of this information.

City of San José Performance Management Timeline

The City has an extensive history in performance reporting.

1996-1999: Program and Performance-Based Budgeting Team

In 1996, the City created a Program and Performance-Based Budgeting Team to develop a performance measure pilot project. This project included 20 programs across different City departments. In the City's 1998-99 Operating Budget, the pilot programs' performance measures were included in departments' sections in a new performance-based presentation.

1999-2006: Investing in Results and the QUEST Partnership

In 1999, the City adopted the Investing in Results (IiR) framework to link policy setting, resource allocation, and management of service delivery with results. The QUEST Partnership, a cross-departmental team of employees working out of the Office of the City Manager, was responsible for leading the implementation of the IiR framework.[4]

Through the IiR process, staff defined services, revised mission statements, and developed performance measures for City Service Areas (CSAs) and individual core services. Measures were based on staff analyses along with customer feedback and comments from Council. Performance measures were meant to indicate progress toward goals and identify opportunities for improvement (i.e. investment levels, processes, or service delivery).

In its 2000-01 Operating Budget, the City presented the performance measures identified during the IiR process for all core services. In its 2001-02 Budget, the City added CSA Business Plans which included CSA strategic goals and investment strategies, current and planned performance, and recommended investments to achieve CSA outcomes. This presentation continued through the City's 2008-09 Operating Budget.[5]

As part of the IiR initiative, in 2004 the City Manager released a *City Service Area Performance Report* for fiscal year 2003-04 containing performance results for each CSA. It was followed by a 2004-05 mid-year report in 2005. This report was meant to be released biannually; however during the 2005-06 fiscal year the QUEST Partnership was dissolved and the IiR performance

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[4] Sharon Erickson, currently the San José City Auditor, was at the time, a Supervising Auditor and a member of the QUEST Partnership on loan from the City Auditor's Office. Debra Figone, currently the San José City Manager, was at the time, Assistant City Manager and a champion of that effort.

[5] For the 2009-10 Operating Budget, the CSA Business Plans were renamed CSA Overviews. Individual sections within the former Business Plans were combined, eliminated, or renamed in an effort to eliminate redundancies and provide a tighter focus to the CSA Overview discussion.

reports were discontinued. Subsequently, Budget Office staff assumed the responsibility for coordinating and compiling performance measures for budget proposal evaluation and documentation purposes.

2007: Performance Measures added to Council Committee Workplans

In a memorandum to City Council in January 2007, Mayor Chuck Reed recommended that the Council Committees regularly review performance measures for departments and CSAs. Management Partners was hired to recommend, through meetings with City Council and staff, the performance measures to report. Management Partners' stated goal was to help committee members identify key performance indicators that would best serve their needs in providing informed oversight. In June 2007, Management Partners presented the final agreed upon list of measures to the Council Committees. Quarterly reviews of these measures were also added to committee workplans.

2007: Management Partners' "CitiStat Systems in Large Local Governments"

In May 2007, Management Partners prepared a report for the City which analyzed the characteristics of CitiStat programs found in other cities and their potential applicability in San José. A key finding from this report was that in San José performance measurement data were not consistently used to manage the organization. Management Partners noted that San José had most of the elements that comprise the substance of a CitiStat program, although their integration and linkage through regular reporting, policy-making, and management accountability was limited.

2008: The Public Strategies Group

In 2008, the Public Strategies Group (PSG) conducted an assessment of the City to identify opportunities to increase organizational effectiveness, efficiency, adaptability, and capacity to innovate. One of PSG's findings was that for the most part, the City's past performance initiatives stopped with measurement. PSG noted that the City had not created an organization-wide system of performance management, which would go beyond measuring to ensure that performance data was used for decision making.

Based on results from a survey of City employees, PSG wrote that most employees felt that even when performance data was collected, it was rarely used to change their work or improve results. Regarding the Council Committee quarterly reports, one council member told PSG "*We (the Council) get performance data once each quarter. People on the council are not that engaged in that conversation. I assume the City Manager is more engaged; we usually only spend five minutes on that. I don't think council members feel that invested. We're not in the business of managing the City.*"

2009: Service Efforts and Accomplishments Report 2007-08

In 2009 the City Auditor's Office, in cooperation with City departments and offices and with the backing of the City Manager, published San José's first SEA Report. The Government Accounting Standards Board (GASB) has been researching and advocating SEA reporting for the last 20 years. GASB advocates that state and local governments prepare SEA reports that provide

government officials and the public with information to supplement what is reported in annual financial statements. San José's SEA Report was intended to be informational. It provided cost, workload, and performance data for City services. It included five-year historical trends, comparisons to targets and other cities where appropriate, and resident survey data where available. The report's purpose was to improve government transparency and accountability, provide consolidated performance information to the public, and allow informed decision making by City officials, staff, and the public. The City Auditor intends to prepare the report annually.

AWARDS AND RECOGNITION

Association of Government Accountants (AGA) Award:
In April 2009, the Association of Government Accountants (AGA) awarded the City of San José the Gold Certificate of Achievement in Service Efforts and Accomplishments Reporting for its first SEA Report. The Gold Certificate of Achievement is AGA's highest level of award and reflects the City of San José's success in fulfilling the Government Accounting Standards Board's (GASB) suggested criteria for reporting performance information.

International City/County Management Association (ICMA) Award:
In July 2009, the International City/County Management Association (ICMA) awarded the City of San José the Center for Performance Measurement Certificate of Excellence to the City for its efforts in measuring local government performance, use of surveys, and public reporting of performance data, including in the City's SEA Report. The City of San Jose was one of 14 agencies that was awarded the ICMA Performance Measurement Certificate of Excellence. From 2003-2004 through 2007-2008, the City of San Jose had received the ICMA Center for Performance Measurement Certificate of Distinction.

Government Finance Officers Association's Awards:
The City is consistently recognized for its budgeting practices. For the past 19 years the City of San José has won the Government Finance Officers Association's (GFOA's) Distinguished Budget Presentation Award. In addition, the City received Special Recognition for Performance Measures from GFOA in 2003-2004. The GFOA looks for, among other things: an organization's policies, plans, and goals; key issues that affect budget decisions; a financial plan for delivery of services; and the organizational structure in place to deliver services. The California Society of Municipal Finance Officers (CSMFO) has also awarded the City of San José the Excellence in Operating Budgeting for the last nine years and the Excellence in Capital Budgeting for the past 6 years.

Objective, Scope, and Methodology

Nonetheless, during preparation of the first annual SEA Report (issued January 2009), the City Auditor's Office noted significant areas where the City's performance measurement system can be improved. We found data

discrepancies and learned that some performance measures were not meaningful or useful. We saw hundreds of hours of valuable staff time spent compiling data that might never be used. Our objective in preparing this report is to build upon the City's existing performance management efforts to improve performance reporting and performance management in the City.

As part of this review and during the preparation of the SEA Report, the City Auditor's Office reviewed the City's annual Operating Budgets (from 2005-06 through 2008-09), departmental performance data, internal department documents, reports to Council Committees, and internal CMO documents. We also held meetings with Deputy City Managers as well as the Budget Office, followed by meetings with department staff. In addition, we evaluated best practices in performance management, including an extensive literature review. We also interviewed key City staff to assess the current performance reporting system, the reasons behind the City's budgeting practices, and to determine the capabilities of the City's current financial management system.

Section I   Moving San José from Performance Measurement to Performance Management

There is no fixed model for performance management initiatives like PerformanceStat or Managing for Results. Performance management literature emphasizes that certain core concepts of these systems must be adapted to reflect a chief executive's own leadership strategy, the operational capacities of its departments or agencies, and any other problems or opportunities in the local context.

Robert Behn from Harvard's Kennedy School of Government describes the core concepts of a *performance management* strategy as follows—a performance strategy requires (1) holding an ongoing series of *regular, periodic* meetings which (2) includes *executive management* plus the individual department directors (and other managers) who (3) *use data* to analyze the department's past performance, establish its next performance objectives, and examine overall performance strategies.

In contrast, performance management literature describes *performance measurement* as occurring in two ways: (1) choosing measures and reporting against them for compliance and accountability purposes; and (2) presenting performance information in budgets, annual reports, or other official documents as an end in itself.

While the City of San José has many of the elements that would comprise the substance of a performance management system, their integration and linkage through regular reporting, policy-making, and management accountability are limited. We concluded that the City of San José is currently operating a performance *measurement* system and has not yet created an organization-wide performance *management* system. Specifically, we found:

- The City currently reports performance measures, but these are not consistently used as a tool to improve performance;
- Performance management is occurring in isolated programs or departments but not in a broad, City-wide manner;
- Executive management is not routinely involved in discussions about performance measures.

The City Currently Reports Performance Measures, but these Measures are Not Consistently Used as a Tool to Improve Performance

During preparation of the 2007-08 SEA Report, we interviewed staff from each department about their individual department's performance measures. Many felt that the time and effort to compile measures (annually for Budget, quarterly for Council Committees, and monthly or as needed for departments) was unwarranted, especially because the measures were seldom viewed by management until reporting time. A City staffer surveyed by the Public Strategies

Group in their assessment of San José's organizational strengths and challenges commented about the City's performance measurement system:

> *"We do an awful lot of work on performance measures and other things, and we don't do a thing with them. We need to start using data to help us understand our jobs and what's working and not working. It seems like the objective is getting the data; whew, I got it, I'm done. We don't use it."*

These descriptions of compiling, reporting, and presenting performance data match the findings of leading performance management authors regarding other governments' use of performance measurement today—either by *"choosing measures and reporting against them"* for compliance and accountability purposes, or by presenting performance information in budgets, annual reports, or other official documents as an end in itself.

In Jim Collins' <u>Good to Great and the Social Sectors</u>, he suggests that great organizations are those that rigorously assemble evidence—quantitative or qualitative—to track their progress. He stresses that organizations should focus on determining a consistent and intelligent method of assessing their output results and tracking their trajectory, even if those outputs sometimes defy traditional measurement methods. For example, departments providing services that are more qualitative in nature, such as policy and strategy development and coordination, should still have a way to talk about progress and success over time. Furthermore, other performance management literature suggests that successful performance measures also reflect and support an organization's values and priorities, whether they are qualitative or quantitative in nature.

Because San Jose's performance measures are not consistently used by management, opportunities to improve performance that would only be identified by analyzing performance data could be missed. Also, gathering data for performance measures is an inefficient use of staff time if the benefits from gathering that data are not achieved.

Performance Management is Occurring in Isolated Programs or Departments but Not in a Broad, City-wide Manner

Various meetings with department staff during the preparation of the SEA Report also revealed that the level of performance measurement is not equal throughout the organization. Over the last decade, the IiR initiative resulted in all departments redefining their core services and performance measures, despite eventually losing momentum and the subsequent dissolution of the QUEST team. While all departments and offices continue to report performance measures by core service in the Operating Budget as required, it is our observation that only a few programs and departments are using reported performance measures in regular and frequent meetings to help analyze performance.

One prominent example of performance management in the City is the monthly Development Services report to the Mayor's Office. The Mayor engages the Development Services partners (Planning, Building & Code Enforcement; Public Works; and the Fire Department) in a monthly performance-related meeting to discuss high volume services, communication with customers and other staff, quality of the development services processes, timeliness, and updates on overall strategies. The report is also presented separately to the Business Roundtable and the Chamber of Commerce. The report has allowed Development Services Partners to identify weak areas in cycle time and take the necessary steps to fix those problems.

This report has sparked the Development Services partners to meet every other week as a Development Process Team to go over data. In these meetings, the partners discuss performance measures, as well as customer service data, budget, or other outstanding issues. Staff often generates a list of "to do's" in these meetings that require some additional work or follow-up. Because of these meetings, the Development Services partners were able to identify weak areas in development cycle time (i.e. permitting and inspections) and take steps to improve performance. Specifically, Public Works undertook a review of its processes and staffing to address an identified systemic issue in the plan check process.

In addition, the Planning, Building & Code Enforcement division managers also conduct monthly meetings during which division managers present and discuss performance "dashboards" for their respective divisions. The measures in these dashboards are more detailed than the core service performance measures reported out to the Budget and Council Committees. Similar to above, staff may receive a list of "to do's" or follow-up items.

Thus, while some departments are engaged in performance management, these efforts are not consistent across the organization. As stated earlier, the majority of CSAs and departments do not frequently or regularly meet to discuss performance in a similar fashion as the Development Services partners.

The Importance of Regular, Periodic Discussions about Performance Measures with Executive Management

Although the City has been publicly reporting performance measures for a number of years – most consistently in the City's Operating Budget – publishing the data has not automatically led to data-driven decision making or the consistent use of data to improve performance. Other jurisdictions have found that regular discussions about performance are the best tool to bring performance measures to life and use data to improve performance. The involvement of the chief executive or other high-level executives[6] in these

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[6] In some cities this would be the Mayor; in other cities this would be the City Manager. A Management Partners review of performance management initiatives provided examples of city managers in Long Beach (CA), Austin (TX), and Phoenix (AZ) as the high-level executive at the forefront of such initiatives.

discussions is critical in establishing the value of performance measurement throughout the organization and encourages agency or department-level leaders to also engage in data-driven discussions with their own staff.

For PerformanceStat initiatives in particular (i.e. CompStat, CitiStat), a critical component to the initiative's success is a regular and frequent schedule of meetings regarding the organization's performance. Under these types of initiatives, meetings are held regularly depending on how often new data can become available; this can be biweekly, monthly, or even quarterly. At the executive level, the Mayor or City Manager (depending on the form of government of the jurisdiction) has regular and frequent meetings with department heads, which in turn encourages department heads to have similar meetings with their own managers and staff.

These meetings examine specific performance deficits, strategies or opportunities for improvement, and specific commitments for actions to be completed by a certain time. Finally, these meetings generally cover a few new issues, but the majority of the discussion is relentless follow-up on what has happened since the previous meetings. The New York City Police Department's CompStat system exemplifies this type of follow-up. Baltimore and Somerville (MA) are two other examples of this type of CitiStat system that produce follow-up documents—a memo and a task list, respectively—to help guide subsequent meetings. What is clear from these initiatives is that it is the content of the discussions at these meetings that are of most importance (i.e. staff are not just "reporting measures up" but discussing what they are doing and how they intend to improve performance).

In San José, the City Manager's Budget Office is charged with collecting and compiling performance measures for the Operating Budget and reviewing the quarterly performance reports to Council Committees. The Office is empowered to question the performance measures (e.g. to determine the reason for variances) and use the information to inform budget recommendations, but is not responsible for using this data to manage departments. We understand that the CMO reviews the quarterly performance reports, but does not have a systematic way of regularly using this data to make or recommend management decisions. Implementing this type of review process has been difficult due to the breadth and scope of other issues that currently face the organization.

A review of Council Committee agendas, transcripts, and meeting videos found that the quarterly reviews of performance reports are not occurring on a consistent basis. For example, performance reports may be deferred to the following committee meeting or meetings, to the point where some CSAs do not actually present four quarterly performance reports in a one-year span. When the reviews do occur, the reports are often approved by Committees with minimal discussion. Follow-up tasks are generally not assigned during these committee meetings, and as a result no follow-up is discussed in the next meeting.

Furthermore, unless otherwise motivated, there is no formal expectation that departments track their own performance measures until reporting time. Moreover, the CMO does not generally review performance information until

these reports are made available. The lack of regular and frequent discussions about performance between the CMO and all departments prevents any persistent follow-up on past performance deficits, commitments to fix specific problems, and future expectations of performance – key ingredients to a successful performance management system.

Without more executive management involvement and City Council policy interest, the City does not fully benefit from using its performance measures as a tool to improve performance.

It should be noted that in other jurisdictions that have a city-wide PerformanceStat-type initiative, implementation is dependent on the chief executive's own leadership strategy, the organization's operational and technical capacities, the quality of available data (see Section II), and any other opportunities or problems in the local context.

Next Steps   (*) *denotes step that can be initiated within the next year*

* ***Develop a performance management system.*** The City Manager's Office should work with City departments to develop a performance management system with the following characteristics:
  1. Ongoing, periodic meetings to discuss performance measures, which
  2. Include management (or an appointed designate with authority), and where
  3. Performance data are used to analyze department's past performance, establish next performance objectives, and examine overall performance strategies.

An incremental approach may be warranted. Specific departments or initiatives may be more prepared to start or experiment with than others; a City-wide performance management strategy should consider each department's capacity and plan accordingly. Although easy wins are desirable, the performance management system should not just focus on the same departments who have participated in past efforts.

Promoting data-driven decision making. A City-wide implementation plan should be established that sets minimum expectations for performance management at the department level. Once accountability mechanisms are established, efforts should be made to spread participation throughout the organization. The City Manager's Beyond Budget Cuts organizational improvement initiative includes several pilot high-performing work teams. This effort will require a performance management approach and system to be in place.

The City Auditor's Office has included two related projects on its Proposed FY 2009-10 Audit Workplan: (1) providing ongoing assistance to the City Manager's Office in the development of a performance management system, and (2) assisting a high-performing work team by verifying performance measures and costs.

Evolving meeting content and format should be expected. In the PerformanceStat models, a standard format is usually mandated by executive management and a management presence is always required, but the specific agenda items and meeting format are dynamic in nature. In other words, while the focus is always on using data to analyze, examine, and plan out department performance, this may have a different look and feel from time to time.

Periodic assessments of the performance management system. The type of performance management system described here requires continuous feedback and adjustment in order to ensure a successful and sustainable implementation. Such assessments could be conducted by staff and/or with the assistance of the City Auditor's Office.

Section II   Ensuring that Performance Measures are Meaningful, Useful, and Sustainable

Performance measurement is an essential part of performance management. The City excels at reporting a vast array of measures annually in the City's Operating Budget, quarterly in Council Committee reports, and occasionally monthly or more for other reports which are not issued publicly. The City's performance measures inform users on many facets of City performance including quality, cost, cycle time, customer satisfaction, and workload.

During preparation of the SEA Report, we noted that the volume of reported measures is overwhelming, especially for users unfamiliar with particular programs. We also noticed measures that do not seem to meet the City's guidelines for selecting performance measures – meaningful, useful, and sustainable. If the data isn't accurate or useful, who can blame management and policy makers for not using it? And if employees know that the information isn't being used, who can blame them for not taking the time to ensure the information is accurate and useful? Without intervention, these problems will continue to occur in a perpetual cycle.

Criteria for Selection of Performance Measures

During the IiR process, the City developed criteria to determine what to measure and how best to choose reported performance measures. The recommended criteria were that performance measures should be meaningful, useful, and sustainable. The guidelines for staff defined these terms in the form of questions to ask when considering performance measures:

- *Is the performance measure meaningful? Does the measure actually describe information in a way that helps to understand the service performance to internal or external stakeholders?*
- *Is the performance measure useful? Does the measure actually describe information in a way that facilitates decision making about managing the service?*
- *Is the measure sustainable? Is the data for this measure difficult to collect? Does the value of this data meet or exceed the effort to collect the data?*

Our review indicates that many performance measures do not meet the meaningful, useful, and sustainable criteria. The Budget Office has a process in place where departments can request modifying, removing, or adding performance measures. However, according to Budget Office staff, this process often leads to departments requesting to add almost as many measures as those requested to be deleted or modified in a given year.

The City could improve the budget documents and City Council Committee reports by revisiting performance measures to ensure they all are meaningful, useful, and sustainable. The examples that follow are meant to highlight general problems and are not the only problematic measures reported.

Is the performance measure meaningful?

In our review of best practices for developing performance measures, we noted a few key concepts that define how a measure would be meaningful:

- A measure must be understandable to internal and external stakeholders.
- A measure must be based on goals or objectives related to an organization's mission or purpose.
- A measure must be focused on a controllable facet of performance.

The examples below highlight a few measures that do not appear to be meaningful, because they are not understandable, based on goals or objectives related to an organization's mission or purpose, or focused on a controllable facet of performance.

Numerous published performance measures do not appear to convey meaningful information on how efficiently or effectively activities are performed. For example, PBCE's Community Code Enforcement performance measure: *percent of violations resolved within estimated processing standards, based on type and complexity of violations.* This measure is not readily understandable to an outside reader. Although this is a measure of efficiency and effectiveness, it does not specify the type of violations, the various complexities that may arise, or how long estimated processing standards are or should be.

Some information included in published reports may be useful to internal staff, such as *number of customer surveys returned*, but does not convey meaningful information on activities performed or on organizational goals and objectives.

Still other performance measures are not focused on controllable facets of a department's performance, such as the Office of Emergency Services measure: *number of near-miss emergencies averted* (i.e. severe weather events, earthquake).

These are just some examples of performance measures that do not appear to be meaningful based on the above criteria and should either be revised or potentially be removed from the City's Operating Budget and/or Council Committee reports.

Is the performance measure useful?

In our review of best practices for developing performance measures, we noted a few key concepts that define how a measure would be useful for data-driven decision making:

- A measure must be based on reliable data.
- A measure must accurately assess performance.
- A measure must be comparable to other periods or targets.
- A measure must be reported at the appropriate level and to the appropriate audience (i.e. high-level measures should be included in high-level reports, certain measures may be important for management decision making and others for public accountability purposes, and so on).

Numerous performance measures do not appear to be useful or reliable based on the criteria above. For example, in several instances the annual performance data reported to the Public Safety, Finance, and Strategic Support Committee were different from annual performance data reported in the Operating Budget. For example, an *annual cost per call for service* was reported as $131.78 in one document and $145.44 in another. The *percent of fires contained in structure of origin* was reported as 68 percent in one document and 80 percent in another. In other instances, backup support for performance measures was not available and/or reported numbers were estimates rather than actual year-end performance data.

These are just a few of the examples of performance measures that may not be useful for data-driven decision making, and should either be revised or potentially be removed from the City's Operating Budget and/or Council Committee reports.

Is the performance measure sustainable?

The IiR guidelines urged departments to determine the value of data collection. Specifically, the guidelines directed staff to ask the following question when developing performance measures, "*Does the value of this data meet or exceed the effort to collect the data?*" This determination is difficult, especially for individual performance measures, but if one takes the data collection exercise for an entire core service or department together, it becomes clear that the measures as a whole are not sustainable. There are too many measures reported, which make it easy to get bogged down in details and not see the big picture.

In our literature review we found that a common pitfall of performance management systems was the inclusion of too many performance measures, making it difficult for management to know what is most important. Robert Behn wrote that too many performance measures can lead to *"more confusion or 'noise' than useful data."*

There is no correct number of performance measures. However, we did find instances where departments report a very high number of measures for individual core services, including redundancies and unnecessary detail in some documents. Based on discussions with City staff, we learned that hundreds of hours of staff work and effort go into gathering and reporting these performance measures. Based on our earlier conclusion that many measures are not used by management or staff at different levels of the organization (and their full benefit are not being realized), this is an inefficient use of staff resources.

Although the City reports a vast array of performance measures, there still are some important services and programs that are not included. Examples include the City's grants administration programs – in 2007-08 the Housing Department managed over $46 million in grants from a number of different sources, but only reported performance on one grant program in the Operating Budget.

Next Steps

(*****) *denotes step that can be initiated within the next year*

* ***Review and reduce the number of performance measures.*** The City Manager's Office should distribute guidelines and streamline the process for eliminating those measures that are not meaningful and useful, based on the following criteria:

- A measure must be understandable to internal and external stakeholders.
- A measure must be based on goals or objectives related to an organization's mission or purpose.
- A measure must be focused on a controllable facet of performance.
- A measure must be based on reliable data.
- A measure must accurately assess performance.
- A measure must be comparable to other periods or targets.

To ensure the sustainability of the performance management system, the guidelines and process should account for the costs of data collection and allow for departments to reduce the number of reported performance measures for individual core services. However, major City programs/services should have performance measures that are included in the City's Operating Budget.

This is a long-term and on-going project. The City Manager will be establishing teams this fall to prepare and recommend a reduced, improved set of performance measures in at least two departments. The City Auditor's Office will be assisting the Budget Office in training these teams to design performance measures that are meaningful, useful, and sustainable.

* ***Methodology sheets.*** A problem which limits a measure's usefulness is that data collection methodology can change from year to year. To ensure that data is accurate and consistent, City staff has prepared some methodology sheets, which explain the performance measure's meaning, its data source, and how it is calculated. The QUEST Partnership collected methodology sheets for roughly 25 percent of all of the performance measures in the City's Budget. Once the number of performance measures has been reduced, the City Manager's Office should work with departments to compile methodology sheets for all remaining reported performance measures. The City Auditor's Office welcomes the opportunity to assist in these efforts.

* ***Performance measure clearinghouse.*** During our interviews with City staff during the preparation of the SEA Report, many staff members stated that reporting the same performance measures for different reasons and at different times to our office and the Budget Office was time consuming. In addition, there is no standard template or system for data collection; departments are

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responsible for maintaining their own data through a combination of specialized databases, spreadsheets, or other manual systems. As a result, data compiled at different times for different reports may be inconsistent. For example, the previously mentioned *annual cost per call for service* was presented differently in Council Committee and Budget documents, possibly due to data requests coming at different times and/or availability of accurate data.

The City Manager's Office and the City Auditor should coordinate efforts to ensure that departments only submit year-end data at one time and in one place (for use in the annual Budget, Council Committee reports, and the SEA report) to ensure consistency and reduce staff time spent compiling data.

* ***Council Committee reports.*** The above steps will change the performance measurement data currently reported in the City's budget and quarterly Council Committee reports. Furthermore, once an internal performance management system is in place and performance measures are clarified and improved, the purpose and content of the Committee reports may change. The City Auditor's Office would welcome the opportunity to be involved in a future assessment of the format and content of Council Committee reports.

* ***Validating performance measures.*** The City Auditor's Office will continue to perform some data validation during preparation of the annual SEA Report. The City Auditor's Office will also be incorporating audit steps in our regular performance audits to test whether performance measures for the programs that we audit are meaningful, useful, and sustainable.

    Incorporating project management reporting into the performance measurement and management system. Some local jurisdictions are experimenting with incorporating project-based information into their performance measurement reporting systems. One small city (Hillsborough, NC[7]) aligns major projects with overall department goals and incorporates those projects into their performance measurement scorecard, including target dates for completion and a status/results column with some qualitative descriptions of performance. Although this example is from a small city with only a handful of projects, the concept may be something that San José would want to experiment with (i.e. incorporating qualitative information side-by-side with performance measures), particularly where progress is difficult to show through performance measures alone.

    Information systems. In many cases Excel spreadsheets or other standard in-house technology can and should be utilized to collect performance data. However, for some departments or services, a longer-term issue is the probable need for a software solution to help track and report performance information. Our observation is that performance data are stored in many databases and formats across the City that are geared towards producing paper reports. To the extent that the City requires more frequent or on-line reporting, automated solutions may become cost effective.

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[7] See http://www.ci.hillsborough.nc.us/documents/BalancedScorecardReport-FY08Yr-endReport.pdf

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Section III Clarifying Core Services and How They Align with Organizational Missions, Goals, and Objectives

Effective performance management systems clearly align an organization's missions, goals, and objectives to core services and performance measures. During the preparation of the SEA Report, we found that:

- Titles of core services do not consistently describe what service is provided.
- Multiple levels of missions, goals, and objectives make it difficult to distinguish what the most critical priorities for the City are and who is accountable for achieving stated goals and objectives.

Titles of Core Services do not Consistently Describe What Service is Provided

The City's Core services were defined through the IiR process. The guidelines on naming core services explained that core services should be clear to insiders as well as outsiders. The guidelines suggested imagining core service names being listed in the phone book or a building directory. As a result, some core service names clearly described the service provided, such as *Street Landscape Maintenance* (Transportation Department).

In other cases, however, the result was an unclear name that was not descriptive or lacked specificity about what service was actually provided. These unclear names persist today.   Examples include:

- *Promote Lifelong Learning and Provide Educational Support* and
- *Neighborhood Livability Services*.

One wouldn't necessarily know it from the titles, but these are core services of the Library Department and the Department of Parks, Recreation & Neighborhood Services, respectively. There are numerous ways to promote lifelong learning, many of which are not activities provided by the Library Department (e.g. adult evening courses and recreational clubs). There are also many activities which could improve neighborhood livability (including street sweeping and traffic calming, neither of which are activities included in this core service). We believe that users of the Operating Budget could more easily locate information on the above core services if they had more intuitive, activity-based names like *Library Programs* and *Parks and Civic Grounds Maintenance*.

We found that some core service names were clear enough, but still should be modified because they began with a verb. Common and problematic verbs include *manage* and *provide*. This is a problem because core services are listed alphabetically in public documents such as the Operating Budget. For example, recycled water services are listed in the Operating Budget under "M" for manage (the formal core service name is *Manage Recycled Water*), not under "R" for recycled water (the way the service is listed on the department's webpage).

Each City department operates a *Strategic Support* function. In the Operating Budget, Strategic Support is generally defined as the services provided within departments that support and guide the provision of the other core services. In some cases this function is strictly administrative support; in other cases it includes distinct services like training, systems management, grants administration, public outreach, real estate administration, and/or equality assurance. As such, there is a lack of consistency from department to department regarding the function of strategic support.

The result of each of the above is that in public documents such as the Operating Budget, users may find it difficult to locate information they want regarding specific City services.

The City Presents Multiple Layers of Missions, Goals, and Objectives

During the preparation of the SEA Report, we referred extensively to the City's Operating Budget and Council Committee reports for information on organizational goals and related performance measures. We found that the City has multiple layers of missions, goals, and objectives, making it difficult to know how specific services and performance measures are aligned with the City's main priorities or goals.

Performance management literature is clear about the importance of this alignment. According to Ammons' *Basics of Performance Measurement*, organizations that are serious about strategic planning and performance management should have short-term objectives and performance measures that are clearly and specifically aligned to the organization's long-range mission and goals. Objectives help determine what needs to be done for an organization to accomplish its goals and fulfill its mission, and performance measures help to gauge progress towards such objectives.

Similarly, the Government Finance Officers Association (GFOA) recommends that an organization's goals, strategies, programs, and activities should logically flow down from an organization's mission statement. In addition, successful performance management initiatives in state and local governments have identified community values and government priorities in developing the organization's mission statement.

A major focus of the IiR process was incorporating those concepts into the City's Operating Budget. However, the Public Strategies Group's 2008 assessment of the City's organizational effectiveness found that as IiR initiatives were undertaken (e.g. the development of five-year business plans, identification of core services) each was layered on top of the former traditional cost-based budget without any subtraction, resulting in the inclusion of multiple layers of missions, goals, and objectives. This is important as budgets are generally a key component of a City's performance management system as they are practical guides that establish the direction of government and report on resources expended on goals and objectives.

For fiscal year 2009-10, the Budget Office simplified and shortened the Proposed Operating Budget, tightened the focus of the CSA sections, and consolidated information within CSAs by department. This made for a more readable and understandable document; however, these efforts did not fully overcome the problem of multiple layers of missions, goals, and objectives.

For example, in the Operating Budget, each CSA has a mission and a set of outcomes; and each outcome has a set of strategic goals with associated CSA-level performance measures. Each CSA also has a set of priorities/key activities that may or may not align directly with the strategic goals or associated performance measures. Each core service within the CSA has a purpose statement and associated performance measures; however the linkages to specific outcomes are not always clear.

In a separate section of the Budget, each department has its own mission. Department budget information is located in this section, however performance measures are not. This separation is difficult because budget decisions and service delivery responsibility generally rests at the department level.

In addition, the City Council Committees (which are structured along the lines of CSAs) have their own mission statements. The quarterly Council Committee performance reports contain performance measures broken down by goals. These goals are derived from the Committee's mission, which partly overlap with CSA outcomes in the Operating Budget. Similarly, the performance measures reported in the Council Committee reports include some that do not appear in the Operating Budget.

The effect of having multiple layers of missions and goals is that it is difficult for an outsider to know what the most critical priorities for the City are, and who is accountable for achieving stated goals or outcomes.

Next Steps   (*****) *denotes step that can be initiated within the next year*

*   ***Clarifying core service names.*** City departments should reevaluate core service names and, where appropriate, develop more specific, operations-based names for the City's core services.   To address the lack of consistency in what is considered *Strategic Support*, City departments should reevaluate the functions that are included in *Strategic Support.*

   Clarifying the link between missions, goals, and objectives.   The Budget Office has begun a process to clarify and streamline the Operating Budget. A similar effort to align and refine missions, goals, and objectives on a City-wide level would help to clarify the City's priorities and progress. This would include periodically revisiting and clarifying the links between the City's core services, CSA outcomes and strategic goals, CSA priorities/key services, department missions, and CSA missions as part of frequent meetings with executive management to discuss performance (see Section 1). Clarifying these links can

also help future CSA meetings and City Council Committee meetings by providing a more consistent framework in which to discuss overall performance and priorities.

Section IV   Gauging Whether Performance is Cost Effective

In his book about performance measurement, Jonathan Walters tells the story of a big city maintenance operation's turnaround, and his subsequent realization that *"It's easy to be effective when you've got tons of money and staff to throw at a problem."*   Walters concludes that *"A well-designed and well-implemented performance measurement effort won't just tell you whether or not you're effective... It will also illuminate whether the resources (inputs) you're devoting to your... efforts are reasonable, given the task at hand..."*[8]

The ability to easily ascertain the full cost of services is a key element of a well-designed and well-implemented performance management effort. It will also be a key to the City's ability to engage in a strategic analysis of its service delivery models. The City keeps track of all of the expenses from the City's General Fund, enterprise funds, and special revenue funds. However, because of information systems issues and specific decisions to report certain items separately, not all of these expenses are *allocated* to departments or core services. Specifically:

- City-Wide expenses are not allocated to individual departments or core services.
- Not all program expenditures from the City's non-General Fund operating funds are allocated to individual departments.

It is also difficult to link revenues with core services. Without a clear linkage between core services and their associated revenues (e.g. reimbursements or fees), the calculation of the net cost of a service becomes a research project. The net cost of a service is, of course, a critical factor when estimating the impact of proposed budget reductions. Likewise, cost efficiencies and information about funds leveraged by a core service (e.g. grants) can be critical to decision making.

The effect of the above is that it is difficult to ascertain the full scope and cost of department services and who is responsible for certain expenditures. This reduces public accountability and transparency and complicates the ability to gauge whether performance is cost effective, an important element of an effective performance management system.

The Importance of Knowing Both the Full Cost and the Net Cost of Services

According to the GFOA, measuring the full cost of City services has a variety of purposes: performance measurement and benchmarking; setting user fees and charges; privatization; competition initiatives or "managed competition"; activity-based costing; and activity-based management. In addition, having this information available and communicating it to the public would increase the City's transparency and accountability.

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[8] *Measuring Up* (1998), page 112.

In addition to being clear about the full cost of services, it is essential that managers and policy makers also have information about the net cost of those services – specifically the full cost of the service less the amount of revenue and/or reimbursements associated with that service. The fact that City resources may be leveraged in the community by the addition of private or grant revenue is also a key data point for decision makers. Knowing the net cost of a service is also an important consideration when estimating the impact of alternative service delivery models or for benchmarking to other jurisdictions.

Information systems issues

In addition to the General Fund, the City's Operating Budget contains more than 70 enterprise and special revenue funds. Currently, the Budget Office's Automated Budget System (ABS) does not allocate all appropriations from all of these funds to departments or core services. Per Budget Office staff, allocating these appropriations would currently need to be done manually and be very time consuming.

In addition, the City's current accounting system is not set up to allocate City-Wide expenses (see below) or all program expenditures from the City's enterprise or special revenue funds beyond CSAs or departments to specific core services. Furthermore, not all program fees and charges are allocated to specific services. Per Finance Department staff, much work would be required to do this.

City-Wide expenses are not allocated to individual departments or core services in the City's Operating Budget

City-Wide expenses relate to more than one department or are not associated with on-going departmental operations. In 2007-08, there were about $94 million in City-Wide expenses. This was approximately nine percent of budgeted General Fund expenditures in the 2007-08 Operating Budget ($1.03 billion).

City-Wide expenses are allocated to CSAs but not to individual departments or core services. By not allocating City-Wide expenses to departments and reporting that in the Budget, the full scope and cost of department services are not clear.

In our analysis, many of the nearly 200 City-Wide expense items in 2007-08 could have been shown as allocated to departments. Examples include:

- Parks Maintenance Non-Personal/Equipment – $657,910,
- Parking Citations Processing – $488,901.

Not all program expenditures from the City's non-General Fund operating funds are allocated to individual departments

As noted previously, in addition to the General Fund, the City's Operating Budget contains information on more than 70 enterprise and special revenue funds. For 2008-09, estimated expenditures from these funds were budgeted to be roughly $608 million.[9] By comparison, total General Fund expenditures were budgeted to be just over $1 billion.

All expenditures listed as Personal or Non-Personal/Equipment in these enterprise and special revenue funds are allocated to departments or CSAs. Other program expenditures are not. Without consulting Budget or department staff, it is not possible to determine the scope of these other program expenditures or to what department or core service they relate.

Program fees, charges, revenues, and reimbursements are not completely grouped by departments and core services

The City's Operating Budget contains revenues to the General Fund and to the various operating and special revenue funds. In addition, the City publishes an annual Fees and Charges report which lists rates for fees and charges by department and shows estimated revenues and cost recovery calculations by specific categories. However, in each case revenues are not easily tied to core services.

The effect of each of the above is that it is difficult to determine the full scope and cost of City or department services. In addition, because the City's Operating Budget does not specify which department manages the special revenue and operating funds, it is not clear to an average reader which department is accountable for expenditures from them.

The following example highlights the difficulty. In the 2008-09 Operating Budget, the Convention Facilities Department's budget was $14.9 million. The average reader might assume this figure included all Convention Facilities-related expenditures. However, other Convention Facilities-related expenditures are found in the Convention and Cultural Affairs Fund, as are operating revenues related to Convention Facilities. This information was in the City's Operating Budget, but unless a reader knew where to locate each of these expenditures, she would not be able to get the full cost of this department or its offsetting revenues.

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[9] The information for this estimate was found in the Summary Information section of the 2008-09 Operating Budget, specifically the *Total City Source and Use of Funds* table and the *Summary of Fund Activity* table. We took the total use of funds for the Enterprise and Special Revenue Funds ($1.6 billion) and subtracted Transfers, Loans, and Contributions ($618 million) and ending fund balances ($374 million). $1.6 billion - $618 million - $374 million = $608 million.

Next Steps   (*****) *denotes step that can be initiated within the next year*

*   ***Getting to the net cost of services.*** As stated previously, there are significant information systems barriers to allocating all costs and revenues to individual core services. Eventually, those systems issues will need to be addressed. Meanwhile, information about the net costs of services is particularly important as the City decides how and which services to fund in a time of contraction. For this reason, the Budget Office should explore ways to include and/or cross-reference more information about revenues, reimbursements, City-Wide expenses, and program expenditures from enterprise and special revenue funds in individual department budget sections and CSA sections in the Operating Budget. This would allow staff and readers of the Budget to more easily ascertain the full cost of core services and increase transparency and enhance public accountability. For example, the Budget Office plans to review whether some expense items currently shown in the City-Wide section of the budget can be moved to the appropriate core service sections. In other cases, cross-referencing or summaries would help draw attention to costs shown in other funds, fee-subsidized programs, or other related information.

Strategic Support. As noted in Section III, each department operates a Strategic Support function that supports and guides the provision of other core services. As this function is integral to the delivery of services, to the extent possible these costs should be allocated to individual core services so that a true full cost can be determined.

Use of efficiency measures. Once a more accurate full or net cost of service is available, the City should incorporate this information into its data-driven decision making. While some core services utilize some limited efficiency measures (i.e. percent cost recovery of a service, revenue-to-cost ratios) as performance measures, this practice does not appear to be widespread among departments as a whole. Cost efficiency data would provide management with more information and insight prior to making key decisions.

Section V   Moving Forward

Among the benefits the IiR framework was meant to provide were (1) management would have better information to establish budgetary policy and identify opportunities for improvement in service delivery and (2) the community would know the services they were getting for their tax dollars and how well the services were provided. Although progress has been made in these areas, there is room for improvement.

The challenge for the City of San José is finding organizational capacity to refocus its performance management and reporting efforts now, in the face of unprecedented staff reductions and budget deficits. These deficits, however, are exactly the reason to refocus our efforts. An effective performance management system would provide data on where opportunities for efficiencies and improvements exist and inform management's decisions on where resources should be allocated. At the same time, an improved public reporting system would allow for more informed community feedback on what services the community values most.

Some items can be initiated within the next year to give the City the biggest wins and time savings; other items will take longer. For example, some capacity could be found in streamlining the number of performance measures and reporting, however the largest gain would be in increased efficiency of operations.

Analytical framework for service reductions, eliminations, and optimizations

Given that the City's structural budget deficit cannot be addressed solely through cost savings and revenue increases, it is expected that City services will need to be reduced or eliminated. The *General Fund Structural Deficit Elimination Plan* (November 2008) included an analytical framework for service reductions and eliminations. Key elements of that analysis include performance impacts and net cost – items previously discussed in this report along with recommendations that would make the proposed analytical framework analysis easier. As the organization becomes more experienced with those analyses, staff will be able to use that experience to improve the accounting mechanisms for tracking full cost and performance impacts.

Assistance from the Office of the City Auditor

Nationally, the role of auditors in performance measurement and management has been evolving. In addition to the traditional role of auditing or assessing performance, many auditors have taken on nontraditional roles such as assisting management implement or improve performance management systems. Our office has conducted performance audits for many years, and last year issued our first annual *Service Efforts and Accomplishments Report* including a wealth of performance data pulled from existing data sources.

In San José, the City Auditor could assist in the design or further development of the performance management system. Specifically, this could include providing background information and advising on the development of implementation guidelines, training staff, or advising staff in the selection of performance measures. After the performance management system is in place, the City Auditor could review the system's performance over time (i.e. management's use of performance data, follow-up by departments, and any measureable results) and recommend improvements. The City Auditor could also be called in to conduct performance audits in areas identified through the performance management system as areas of risk or where performance can be improved.

At the department level, the City Auditor could assist in the review of existing performance measures to ensure they are meaningful, useful, and sustainable and where appropriate suggest different measures. The City Auditor will continue to review performance measures to assure their accuracy and reliability during the preparation of the annual SEA Report. The City Auditor is prepared to build performance measure reviews into our regular performance audits, or in separate engagements where the performance management system identifies an area that requires review.

Next Steps   (*****) *denotes step that can be initiated within the next year*

*   ***Ongoing role of the City Auditor***. In addition to continuing to compile the annual *Service Efforts and Accomplishments Report*, the City Auditor has included two related projects on its Proposed FY 2009-10 Audit Workplan: (1) providing ongoing assistance to the City Manager's Office in the development of a performance management system, and (2) assisting a high-performing work team by verifying performance measures and costs.