STATE OF FLORIDA Report No. 95-21

Office of Program Policy Analysis And Government Accountability

James L. Carpenter
Interim Director

December 27, 1995

DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES PILOT PROJECT FOR PRODUCTIVITY

PURPOSE OF REVIEW

This review reports on an evaluation of a pilot project established by s. 110 of Ch. 92-142, Laws of Florida, which authorized increased budget and personnel flexibility for the Department of Health and Rehabilitative Services (DHRS). The pilot project enabled DHRS to:

- Transfer the greater of $250,000 or 5% of the amount appropriated for each category between appropriation categories and budget entities;
- Use 20% of its unobligated appropriations for granting non-recurring salary bonuses, purchasing productivity enhancing technology, or supporting community service initiatives; and
- Establish a salary rate pool for the district service entities.

The law established the pilot project from July 1, 1992, to June 30, 1995. It required the Department to evaluate the project and to provide monitoring reports. The law also gave the Office of the Auditor General responsibility for cooperating in the design of the evaluation and providing monitoring reports to the legislature. After the creation of the Office of Program Policy Analysis and Government Accountability (OPPAGA) in 1994, this responsibility was transferred to OPPAGA.

BACKGROUND

The Department delegated budget flexibility to districts on July 1, 1993. It designed an evaluation to test whether the pilot project reduced the time needed to make transfers, enhanced district accountability, and did not negatively affect clients. It contracted with Price Waterhouse of Washington, D.C., to conduct the required evaluation. [1] The evaluation measured the effects of the pilot by:

- Comparing the calendar time needed to process budget transactions initiated under the project with baseline information;
- Examining the extent to which districts stayed within their budgets as indicated by surpluses or deficits listed on DHRS's end-of-year salary rate and budget reversion reports; and
- Tracking how districts transferred budgeted amounts between programs and budget sub-entities and the reasons for such transfers.

At the end of the first year of the project, the Department changed the pilot project. It authorized District Administrators to transfer up to 10% of their district budgets between budget entities and required them to exhaust the 10% authority before using the 5% authority granted by the pilot project. The 10% transfers are authorized by s. 20.19(10), F.S., but the Department historically had not exercised this authority. The Price Waterhouse evaluation tracked district use of the 10% authority in 8 of the Department's 15 service districts.

On June 30, 1995, the pilot project ended. Although districts will no longer be able to use the budget flexibilities granted under the project, they continue to be able to use the 10% authority granted under Ch. 20, F.S.

[1] Initially the evaluation included an assessment of the effects of DHRS's delegation of personnel flexibility to the districts and Price Waterhouse tracked both personnel and budget transactions in all 15 districts. However, these personnel flexibilities resulted from an internal delegation and were not part of the pilot project. Furthermore, they were superseded by Career Service Reform, which became effective at the end of the first year of the project. Therefore, during the second year of the project, the evaluation focused on budget flexibilities.

PRICE WATERHOUSE FINDINGS

Price Waterhouse concluded that the budget flexibilities increased productivity and allowed districts to make changes to meet the specific needs of their clients. It also concluded that districts did not use the flexibilities to circumvent legislative intent. It based these conclusions on its findings that:

- The budget flexibilities enabled budget actions to be completed more quickly;
- The flexibilities did not result in districts overspending their budgets or incurring salary rate deficits and helped districts to better manage their budgets by reducing salary rate surpluses; and
- The districts used the flexibilities mostly to resolve budget deficits.

Price Waterhouse recommended that the pilot project be implemented on a permanent basis. It also made several recommendations to streamline the budget process and increase district flexibility.

OPPAGA COMMENTS

The evidence supporting Price Waterhouse's conclusions is limited by the low number of transactions and, to some extent, the use of data that was not best suited to meeting the evaluation's objectives. Therefore, we gathered data on all 10% budget transfers districts made in fiscal year 1994-95 and examined year-end financial reports. We concluded that giving districts limited budget flexibility reduces the time needed to process budget transfers and does not adversely affect clients or programs. In addition, budget flexibility is consistent with the principles of performance-based program budgeting and may provide districts with the incentive and ability to:

- Better control their budgets; and
- Better match services to client needs.

Productivity

According to the data collected by Price Waterhouse, budget transfers made using the 10% authority generally took less calendar time to process than other budget actions. This processing time could have been decreased even more if budget actions had not gone through two layers of review: one by the DHRS Central Office and one by the Governor's Office. If these reviews had been conducted simultaneously or one layer eliminated, processing time for 10% budget actions could have been reduced by one-third to one-half.

Operating Within Budget

The budget flexibilities may have improved districts' incentive and ability to operate within their budgets. According to Department administrators, some districts have historically incurred operating deficits and relied on Department-wide budget adjustments to remedy the situation. With the implementation of the pilot project, the Department decided to make districts more accountable for operating within their budgets. Historically, the Department had not penalized districts incurring operating deficits. However, districts that incurred operating deficits in fiscal year 1994-95 had to pay for the deficits out of their budgets for fiscal year 1995-96.

The 10% flexibility gave districts the ability to better manage their budgets by allowing them to transfer funds to areas in which they were experiencing operating deficits. As shown in Exhibit 1, districts primarily used their 10% authority to transfer funds into areas with operating deficits. Overall this improved their ability to manage their budgets. However, most districts still incurred operating deficits. These deficits are not apparent in the data Price Waterhouse used to measure district accountability; however, internal Department accounting reports show that, at the end of fiscal year 1994-95, 12 of the Department's 15 districts incurred operating deficits. Eleven of these deficits were extremely minor, representing less than one percent of the districts' approved budgets, and the twelfth represented approximately 1.2% of the district's approved budget. Comparable data for prior fiscal years is not available. However, according to Department managers, in prior years, some districts incurred far larger deficits. Thus these managers believe that the 10% flexibility has improved districts' ability to manage their budgets.

Exhibit 1: Reasons District Gave for 10% Transfers

Reason	Number of Transfers Made	Amount Transferred
Reduce Deficits	176	$19,641,045
Acquire Office Automation Equipment	34	1,657,483
Improve Programs /Operations	24	1,362,693
Served More than One Purpose	27	3,804,181
Total	261	$26,465,402

Source: Office of Program Policy Analysis and Government Accountability review of Department of Health and Rehabilitative Services budget documents.

In addition, the flexibilities generally did not result in district salary rate deficits. At the end of the first year of the pilot project, five districts had salary rate deficits ranging from less than 0.1% to 4.0% of their total approved rate. However, three of these five districts were newly created, and the newly created districts were only given enough rate to enable them to hire entry level staff. Since these districts needed some experienced staff, they incurred rate deficits. In the second year of the pilot project, districts' ability to remain within their approved salary rate improved. Three districts had salary rate deficits ranging from 0.01% to 0.33% of their approved rate. According to the Price Waterhouse report, administrators in five of the eight districts it visited noted that their ability to manage rate had improved as a result of the salary rate flexibility granted by the pilot project.

Effect on Clients

Although the effect of the district budget flexibility on clients is difficult to measure, the 10% budget transfers appear to have had little negative impact on clients for three reasons:

- The total amount transferred was small;
- Most of the transfers occurred within the Department's major program areas; and
- The amount districts transferred between program areas was small in relation to the amount appropriated for each program area.

During fiscal year 1994-95, districts used their 10% authority to transfer a total of $26.5 million, less than 1% of the funds originally appropriated for district programs. As shown in Exhibit 2, more than three-fourths of the transfers involved amounts of $100,000 or less.

As shown in Exhibit 2, $24 million of the $26.5 million was transferred within major program areas. As mentioned previously, most transfers were made to alleviate deficits. These deficits were often caused when the number of clients in need of a particular type of service exceeded expectations. This suggests that districts used the budget flexibility to adjust services to better meet the needs of clients. Such flexibility is consistent with the premises underlying performance-based program budgeting.

The use of budget flexibility to transfer funds between major programs or client groups is not consistent with the premises underlying performance-based program budgeting. However, the total amount districts transferred between major programs areas was very small, approximately 0.06% of the total amount appropriated to the districts. Most of these inter-program transfers were used to move resources from programs that had budget surpluses to those with budget deficits. Furthermore, as shown in Exhibit 3 on page 4, no program area lost more than 1% of its total budget for district services. Since the amount transferred from any one program area was very small, it is unlikely that these transfers would have adversely affected the clients served in the program area.

Exhibit 2: Magnitude of District Transfers

Transfer Amount	TRANSFERS: Within A Program Area — No.	Amount	Between Program Areas — No.	Amount	Total No. [1]
0 - $50,000	110	$2,483,819	58	$1,282,701	168 (64%)
$50,001 - $100,000	30	2,254,069	11	718,339	41 (16%)
$100,001 - $200,000	23	3,435,618	2	310,000	25 (10%)
$200,001 - $500,000	15	5,008,122	0		15 (6%)
Above $500,000	12	10,972,734	0		12 (5%)
Total	190	$24,154,362	71	$2,311,040	261

[1] Percentages do not total 100% due to rounding.

Source: Office of Program Policy Analysis and Government Accountability review of Department of Health and Rehabilitative Services budget documents.

RECOMMENDATIONS

Giving districts limited budget flexibility to transfer dollars between entities reduces the time taken to process budget transfers and has enhanced the Department's ability to hold districts accountable for operating within their approved budgets. It also appears to have little negative effect on clients and may improve districts' ability to provide the services needed by clients. We therefore recommend that the Legislature continue to authorize districts to transfer up to 10% of their budgets between budget entities. To further expedite the processing of these budget transfers, we recommend that the Department work with the Governor's office to either eliminate one layer of review for district 10% transfers or conduct simultaneous reviews.

Exhibit 3: Transfers Within and Between Program Areas

	Total Appropriated to Districts for Program Area	Amount Transferred Between Budget Entities Within Program Area	Percentage of Amount Appropriated	Net Amount of Transfers To or From Other Program Area	Percentage of Amount Appropriated
Program	***Appropriation***	***Internal Transferred***	***Percent***	***Net External***	***Percent***
District Administration	$ 58,881,855	$ 793,696	1.35%	$ 675,763	1.15%
Aging & Adult Services	54,301,197	343,683	0.63%	478,280	0.88%
Alcohol Drug Abuse & Mental Health	366,335,665	2,788,216	0.76%	54,889	0.01%
Children & Families	605,472,313	6,023,677	1.00%	(53,877)	(0.01%)
Developmental Services	329,514,675	777,852	0.24%	(310,758)	(0.09%)
Health Services	941,094,118	280,983	0.03%	(297,770)	(0.03%)
Children's Medical Services	118,766,305	1,051,934	0.89%	(640,297)	(0.54%)
Economic Services	1,118,766,052	5,786,292	0.52%	88,500	0.01%
Adult Payments Services	53,043,065	545,181	1.03%	5,270	0.01%
Mental Health Institution	248,915,305	5,550,472	2.23%	0	0.00%
Developmental Service Institution	125,966,686	185,000	0.15%	0	0.00%
Tuberculosis Hospital	8,541,886	27,376	0.32%	0	0.00%

Source: Office of Program Policy Analysis and Government Accountability review of Department of Health and Rehabilitative Services budget documents.

If districts retain the 10% authority, they probably will not need to retain most of the remaining flexibilities authorized by the pilot project. For example, districts can use the 10% authority to transfer surplus budget to purchase productivity enhancing technology or support community service initiatives and do not need to retain unobligated appropriations for these purposes. However, to give districts the flexibility to better manage their salary rates and maximize their use of limited salary resources, we recommend that the legislature consider reinstating district authority to pool salary rate for district programs.

Agency Response

The Secretary of the Department of Health and Rehabilitative Services agreed that districts should retain the district 10% transfer capability. He strongly urged continuation of the 20% unobligated pilot program until such time as the Department's systems are more fully automated and streamlined.

THE DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES

December 18, 1995

Mr. James L. Carpenter
Interim Director
Office of Program Policy Analysis
and Government Accountability
111 West Madison Street, Room 312
Tallahassee, Florida 32302

Dear Mr. Carpenter:

Thank you for your letter of November 17 transmitting the preliminary and tentative findings for the review of the Pilot Project for Productivity. We appreciate your concurrence with the Price Waterhouse report and concur with your recommendations that the Legislature continue to authorize districts to transfer up to 10% of their budgets between budget entities and that the department work with the Governor’s office to either eliminate one layer of review for district 10% transfers or conduct simultaneous reviews. We also concur with your recommendation to-the Legislature to consider reinstating district authority to pool salary rate for district programs.

We are concerned with your recommendation that if the department were to retain the 10% transfer authority, we "will not need to retain most of the remaining flexibilities authorized." The 10% transfer authority applies only to the districts. The pilot project to retain 20% of our unobligated appropriations is departmentwide. It has been extremely successful and should continue. In their report, Price Waterhouse stated, "the districts were enthusiastic about the productivity funds because they believe that they are chronically underfunded in the capital equipment category." They also reported that the "districts have made large strides in their ability to track ... and analyze data due to the productivity enhancement funds." Price Waterhouse recommended that the flexibilities be implemented on a permanent basis.

Given our budget complexities of having to manage budgets with over 250 different funds and 15 separate districts, it is often difficult to predict if any surpluses will occur to make adjustments before the end of the fiscal year. This pilot allows us to conduct year-end close out activities to determine our budget status, so that we can plan and spend more wisely. Some of the many benefits this pilot has brought to the agency include: electronically connecting all district and Central Office staff, developing an automated travel voucher reimbursement system, automating forms to replace paper processes, developing an easy-to-use financial management information warehouse, and developing a consolidated contract information system,

Perhaps in the future when our systems are more fully automated and streamlined, the 10% budget transfer authority will be sufficient. Until then, we strongly urge you to support the 20% unobligated pilot program. Thank you for your consideration.

Sincerely,

Edward A. Feaver
Secretary