

Office of Inspector General

City of New Orleans

Review of 2009 Budget Process for City of New Orleans

OIG-I&E-09002

**E. R. Quatrevaux
Inspector General**

Final Copy

November 24, 2009



Office of Inspector General
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November 24, 2009

Rev. Kevin Wm. Wildes, S.J., Ph.D. Chair
Ethics Review Board
6363 St. Charles Ave.
New Orleans, LA 70118

Re: Review of Budget Process for City of New Orleans: OIG-I&E-09002

Dear Rev. Wildes:

I am today releasing an evaluation titled *Review of 2009 Budget Process for City of New Orleans* conducted by the Office of Inspector General. In accordance with the procedures set forth in the Code of Ordinances for the City of New Orleans, this Office provided an Internal Review Copy to the entities who were the subject of the report on October 2, 2009. The Office received responses from both Council District A and the Chief Administrative Office and has included these responses as part of the final report. The Office also received a document from the New Orleans Police Department that was not included in the City's official response and has included this document as Appendix I to this report.

My Office looks forward to continuing to work with the City in the spirit of cooperation to better serve the citizens of the City of New Orleans.

Sincerely,

A handwritten signature in black ink, appearing to read "F.R. Quatrevaux".

F.R. Quatrevaux
Inspector General

cc: Dr. Brenda Hallfield, Chief Administrative Officer
Jacquelyn Brechtel Clarkson, Council Vice President
Shelley Midura, Councilmember District A
Stacy S. Head, Councilmember District B
James Carter, Councilmember District C
Cynthia Hedge-Morrill, Councilmember District D
Cynthia Willard-Lewis, Councilmember District E
Gary Grant, Assistant CAO, Budget Office
Barbara T. Avalos, Council Fiscal Office

Calvin J. Aguilard, Council Fiscal Office
Honorable C. Ray Nagin, Mayor
Annie Fickow, Council President
Rev. Cornelius Hilton, Ethics Review Board
Elizabeth S. Nalty, Ethics Review Board
Leah Chase, Ethics Review Board
Dr. Beverly C. Favre, Ethics Review Board
Kathryn M. Lono, Ethics Review Board

Review of 2009 Budget Process for City of New Orleans

OIG-I&E-09002

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted an evaluation of:

1. The process undertaken by the City of New Orleans to enact an annual Operating Budget for the fiscal year that began on January 1, 2009;
2. The City's 2009 Operating Budget as a description of the City's priorities, programs, and services;
3. The City's implementation of Budgeting for Outcomes, including establishing and tracking performance goals and measures for City programs; and
4. The effectiveness of the Operating Budget as an instrument of financial management.

The OIG also gathered extensive data on expenditures for municipal services in nine other cities of similar size as part of a benchmarking project. This data was compared with the City of New Orleans' expenditures to identify significant differences that may warrant closer examination of the City's use of resources.

This evaluation includes findings and recommendations relating to the budget adoption process, the final budget document, and budget-related financial management issues. These findings and recommendations are based on legal requirements and on best practices adopted by professional organizations and other municipal governments for improving inclusiveness, transparency, effectiveness, efficiency, and fiscal control.

The OIG found that the City could greatly improve the inclusiveness of its budget adoption process by following best practices for involving citizens, community leaders, and the City Council in setting spending priorities for the City. By including the Council and the citizens of New Orleans in the earliest stages of budget development, the administration would engage the community to work together to resolve issues and help ensure that spending decisions are based on the citizens' priorities.

The OIG also found that the goal of transparency could be advanced by some very simple steps. The budget document should be improved to include clear descriptions of all programs to allow citizens to determine exactly what services are provided at what cost. In addition, the budget should provide more information about non-personnel expenditures. Fully one half of the expenditures in the 2009 budget, including all of the City's contracted services, were described only as "other expenditures." Finally, the City could improve transparency by producing a separate detailed budget for the unprecedented flow of federal grant funds for the City's recovery. More than \$300 million in federal recovery funds were included in the 2009 Operating Budget as line items with no program descriptions and almost no information about how the funds will be used. Because these funds were appropriated through non-descriptive language in the Operating Budget, critical decisions about which recovery projects will be funded have been shielded from public scrutiny.

The results of the benchmarking analysis showed that New Orleans spends more per person on basic city services than any of the nine other cities to which it was compared. The OIG found that reducing per person expenditures on overall city services to the benchmark average would save the City of New Orleans \$115 million per year. The OIG acknowledges that New Orleans is defined by unique circumstances that may have an impact on the cost of providing certain services to its citizens. The comparisons presented in this evaluation should therefore not be interpreted as an argument that higher than average spending on a city service is tantamount to wasting money. Rather, these comparisons serve to identify major differences in spending that should be examined to determine whether higher costs are justified by circumstances or are indicators of inefficiency.

Beginning in 2007, the City contracted with a consultant to implement a system of performance measurement to assess and improve the effectiveness of City programs. The OIG found that many City programs had not yet adopted meaningful performance measures to be incorporated into the 2009 Operating Budget and that the City lacked an effective system for tracking performance data. This evaluation shows that more work remains to implement a system for assessing the efficiency and effectiveness of City programs at producing the outcomes that matter to citizens.

This evaluation noted deficiencies in the City's financial management system that prevent the City from being able to produce reliable financial data. This critical issue affects multiple areas, including budgeting, financial planning, and financial reporting. The weaknesses in the financial reporting system are an impediment to the efficient operation of the City's regular business activities and pose serious control risks. The City acknowledges these deficiencies and has undertaken preliminary steps to address them by undertaking a needs assessment.

The evaluation includes the following major findings:

- The five-year Capital Program fails to fulfill Charter requirements
- Descriptions of some programs funded in the 2009 budget were so vague that their purpose is impossible to determine
- The 2009 operating budget appropriated more than \$309 million in recovery funds with virtually no description of the intended uses
- The operating budget provided no information on contract expenditures
- New Orleans budgeted more per person for city services in 2009 than any of the comparable cities
- The City did not follow recommended practices, or its own guidelines, regarding inclusiveness in the budgeting process

- Many city programs have not adopted meaningful performance measures
- The city did not have an effective system for tracking and reporting performance measures
- The City lacked a financial reporting system capable of producing accurate and timely reports on revenues and expenditures

Based on these findings, the OIG made the following recommendations to the City of New Orleans in order to improve its budget process:

Recommendation 1. *The City should create a more transparent annual operating budget.*

The OIG recommends that the City make future operating budgets more accessible to both the City Council and the public by including:

- A concise summary of the budget that focuses on the critical issues.
- Meaningful descriptions of all programs funded.
- Organizational charts showing the plan of operations, staffing, and reporting relationships for all departments and functional entities.
- An itemization of expenditures currently classified only as “Other Operating” to disclose expenditures for contracted services.

Recommendation 2. *The City should develop a meaningful process to align spending decisions with citizen priorities.*

The OIG recommends that the City implement the following changes to bring its budgeting process into compliance with the Budgeting for Outcomes model:

- Establish permanent, continuous channels for citizen participation in setting budget priorities.
- Reallocate funds according to the priorities that matter most to citizens.

Recommendation 3. *The City should implement an effective system of performance measurement for all City programs.*

The OIG recommends that the City continue to develop and improve its system of performance measurement. The City should:

- Develop performance measures for all City programs that measure progress toward achieving the program’s key mission.
- Implement an efficient system for collecting and reporting data on performance measures.

- Regularly review and analyze performance data.
- Identify a set of major strategic measures that align the City's highest priorities.

Recommendation 4. *The City should develop a comprehensive five-year Capital Program.*

To comply with the Charter and with best practices, the OIG recommends that the City develop a comprehensive five-year Capital Program annually that includes:

- A descriptive summary of each project, including a general scope, expected benefits, and priority ranking;
- A cost estimate for each project, based on recent and accurate sources of information;
- A schedule for completion of each project, including specific phases and planned timing for acquisition, design, and construction activities;
- Identified funding sources for all aspects of each project, specifying the sources of funding for each of the five years and referencing any financing requirements.

In addition to the elements listed above for all capital projects, the OIG recommends that the City incorporate the following additional information in the Capital Program for non-routine projects, such as a new city hall or other major public facility:

- A cost/benefit analysis and other analytical information deemed helpful for setting capital spending priorities;
- The projected impact of the project on the current and future operating budgets.

Recommendation 5. *The City should develop and adopt a separate budget for the use of long term community recovery funds.*

The citizens of New Orleans have a critical stake in spending decisions for recovery funds. To ensure that these decisions are subjected to meaningful scrutiny in the budget process and that limited resources are not allocated to projects that are not feasible, the City should develop a separate budget to appropriate LTRC funds that includes:

- A detailed description for every project or program to be funded, including the expected public benefits;
- Cost estimates for all capital improvements, including all sources of funding in addition to the City's recovery grant funds;
- Feasibility analyses for economic development projects, assessing the need for and economic viability of each project.

Recommendation 6. *The City should require all offices, boards, and departments to comply with the charter requirement to file annual reports.*

The OIG found that annual reports have not been filed in recent years. These annual reports are required by the Charter and also provide a means of making City government more accountable. The City should:

- Update guidance to departments to specify that annual reports should include current data on all performance measures in addition to other information about departmental organization and activities.
- Ensure that all offices, boards, and departments submit annual reports by the March 1 deadline required by the Charter.
- Publish all annual reports on the City website.

Recommendation 7. *The City should expedite the procurement and implementation of a fully integrated financial management system.*

The City should regard the implementation of a functional, modern financial management system as one of its highest priorities and proceed expeditiously with acquiring the needed technology.



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October 2, 2009

Honorable C. Ray Nagin, Mayor
City Hall, Room 2E04
1300 Perdido Street
New Orleans, LA 70112

Annie Fielkow, Council President
City Hall, Room 2W40
1300 Perdido Street
New Orleans, LA 70112

Re: Review of Budget Process for City of New Orleans: OIG-I&E-09002

Dear Mayor Nagin and Councilmember Fielkow:

Attached is the Internal Review Copy of the completed evaluation of the City's budget process conducted by the Office of Inspector General. The OIG appreciates the assistance provided by the CAO's Office, the City Council and other City personnel throughout the course of this evaluation. The OIG received full cooperation from the CAO's budget staff, City department heads, councilmembers, council fiscal staff, and other City personnel, who without exception responded promptly and courteously to our many requests for interviews and documents.

The OIG welcomes the City's comments on this evaluation. If the City wishes to make an official response, please do so by close of business on November 13, 2009. Any comments received by that time will be included in the final evaluation. The OIG looks forward to continuing to work with the City in the spirit of cooperation to better serve the citizens of the City of New Orleans.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Westerling".

Dr. David L. Westerling
Interim Inspector General

cc: Dr. Brenda Hatfield, Chief Administrative Officer
Jacquelyn Brechtel Clarkson, Council Vice President
Shelley Midara, Councilmember District A
Stacy S. Head, Councilmember District B
James Carter, Councilmember District C
Cynthia Hedge-Monell, Councilmember District D
Cynthia Willard Lewis, Councilmember District E
Cary Grant, Assistant CAO, Budget Office
Barbara T. Avales, Council Fiscal Office
Colvin J. Aguilard, Council Fiscal Office

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The Office of Inspector General for the City of New Orleans (OIG) conducted an evaluation of:

1. The process undertaken by the City of New Orleans to enact an annual Operating Budget for the fiscal year that began on January 1, 2009;
2. The City's 2009 Operating Budget as a description of the City's priorities, programs, and services;
3. The City's implementation of performance goals and measures for City programs; and
4. The effectiveness of the Operating Budget as an instrument of financial management.

The objectives of this evaluation were to obtain information about procedures followed in the adoption of the Operating Budget and to analyze budget documents in order to assess compliance with the Louisiana Local Government Budget Act, the Home Rule Charter for the City of New Orleans, and best practices promulgated by professional organizations, including the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association.

The OIG gathered extensive data on expenditures for municipal services in nine other cities of similar size as part of a benchmarking project. This data was compared with the City of New Orleans' expenditures to identify significant differences that may warrant closer examination of the City's use of resources.

The OIG interviewed City officials in the Chief Administrative Office and Finance Department; representatives of the City's budget consultant, Public Financial Management, Inc. (PFM); each of the seven City Councilmembers; and City Council Fiscal Office staff. The OIG also interviewed either the department head or staff responsible for budget preparation for each of the City's thirteen Charter departments, collecting survey data from these individuals. The OIG also reviewed documents provided by the City and by PFM in response to requests for information issued pursuant to Sections 2-1120(18) and (20) of the Code of the City of New Orleans and state statute La. R.S. 33:9613. This evaluation was performed in accordance with Principles and Standards for Offices of Inspector General for Inspections, Evaluations, and Reviews.¹

The OIG's evaluation includes findings and recommendations relating to the budget adoption process, the final budget document, and budget-related financial management issues. These findings and recommendations are based on legal requirements and on best practices adopted by professional organizations and other municipal governments for improving transparency, accountability, effectiveness, efficiency, and fiscal control.

1. Quality Standards for Inspections, Evaluations and Reviews by Offices of Inspector General, *Principles and Standards for Offices of Inspector General* (Association of Inspectors General, 2004).

II. INTRODUCTION

The Office of Inspector General has completed an in-depth evaluation of the City of New Orleans' budgeting practices. The findings in this report relate to practices that either do not comply with legal requirements or do not meet standards for best practices. The purpose of this critical evaluation is to offer recommendations for improvement. This report also includes results that compare New Orleans' expenditures on typical municipal services with those of comparable cities. This comparison is intended to help City officials identify opportunities for improving efficiency.

Although the findings in this report identify areas in need of improvement, the OIG recognizes the efforts of City employees and elected officials who are striving to improve the quality and efficiency of City operations, including the budgeting process. The City has begun to develop a system of performance measurement for City services and has submitted its annual operating budget to the Government Finance Officers Association for review. These are positive first steps toward improving the City's budgeting practices.

The OIG commends City officials for seeking and receiving the "Distinguished Budget Presentation Award" from the Government Finance Officers Association (GFOA) for the 2009 operating budget. It is encouraging that two out of the three GFOA reviewers found that the City's budget satisfied the required criteria to qualify for the award. This award, which has been presented to 1,166 entities, signifies that the City's budget meets certain minimum standards. But the City can and should continue to strive to meet higher standards. The recommendations offered by the OIG in this evaluation are designed to help the City achieve excellence in its budgeting practices.

The OIG staff was greatly assisted in the preparation of this report by the full cooperation of City employees and officials.

A. THE ROLE OF THE MUNICIPAL BUDGET IN PUBLIC POLICY, ACCOUNTABILITY, AND FINANCIAL MANAGEMENT

The budget is the single most important municipal document affecting the lives of citizens. Through the budget, political leaders set the policy agenda for the year with regard to taxes, other revenue sources, and services to citizens. In addition to establishing priorities for the use of public resources, the budget is a powerful tool for planning, improving public services, and implementing reforms.

The annual budget plays a crucial role in holding local government accountable to its citizens. To serve this function, the budget must provide a coherent picture of how all public money is used, with a detailed plan of operations. The services the government plans to provide and the

costs associated with each of its activities should be clearly described. Complete program descriptions and performance measures should enable citizens to evaluate how their taxes are being spent and hold elected officials accountable for spending decisions.

The budget is also an essential mechanism for financial management. The budget helps control expenditures to ensure that the local government is able to provide vital services and maintain a sound financial condition. Line item cost information should be delineated in sufficient detail to maintain budgetary control. In addition, an accurate and timely financial reporting system that provides managers with current data on revenues and expenditures throughout the year is critical to ensure that the budget serves this control function.

In sum, the municipal budget is a primary instrument of public policy that is central to planning, accountability, transparency, and sound financial management.

B. LEGAL REQUIREMENTS FOR THE CITY OF NEW ORLEANS OPERATING BUDGET

The legal requirements, both substantive and procedural, that govern the Operating Budget for the City of New Orleans are codified in state law in the Louisiana Local Government Budget Act² (Budget Act) and in the City's Home Rule Charter. These requirements are summarized below.

1. LOUISIANA LOCAL GOVERNMENT BUDGET ACT

The provisions of the Budget Act apply to all municipalities in Louisiana, including those, like New Orleans, that operate under a Home Rule Charter. The provisions are minimum standards; preparation of a budget in any manner contrary to its mandates is expressly prohibited. Cities in Louisiana are required to prepare an operating budget that presents their complete financial plan. The budget must be prepared by either the chief executive or the administrative officer. Every budget must include a detailed message signed by the budget preparer. The message must include a summary of the financial plan, policies, objectives, assumptions, budgetary basis, and a discussion of the budget's most important features.

According to the Budget Act, every budget must also include:

- (1) a statement for the general fund and for each special revenue fund showing the estimated fund balances at the beginning of the year;
- (2) estimates of all receipts and revenues to be received;
- (3) revenues itemized by source;
- (4) recommended expenditures itemized by agency, department, function, and character;
- (5) other financing sources and uses by source and use; and
- (6) the estimated fund balances at the end of the fiscal year.

2. La. R.S. 39:1301 et. seq.

The budget must be accompanied by a budget adoption instrument, such as an ordinance. This instrument defines the authority of the executive branch to make changes within various budget classifications without approval by the legislative body (e.g., a city council), as well as powers reserved solely to the legislative body. Finally, proposed spending may not exceed estimated funds available.

To ensure active and informed public participation, the city must publish, on delivery of the final proposed budget, a notice that the budget is available for public inspection by the public. The notice must also include the time and date of public budget hearings. Finally, the legislative body must adopt the following year's budget before the end of the current fiscal year.

2. NEW ORLEANS HOME RULE CHARTER

Under the New Orleans Home Rule Charter, the Mayor and City Council share responsibility for establishing the City's annual Operating Budget. Their Charter-mandated roles are described below.

MAYOR/ADMINISTRATION

The budget process begins in April, when the City holds the first of four Revenue Estimating Conferences to forecast revenues for the following year.³ Based on this information, the Chief Administrative Officer (CAO) provides financial data to every entity that receives City funds to enable them to prepare their budget proposals. After receiving departmental budget proposals, the CAO holds a private hearing with each entity seeking funds. Based on these hearings, the CAO prepares a preliminary budget for the Mayor's review. The Mayor approves a proposed budget, which must be submitted to the Council no later than November 1.

CITY COUNCIL

The Council holds public budget hearings with each department or other entity during the month of November, and may delete or change proposed expenditures. The Council may also add new items to the budget with the agreement of two-thirds of its members. The Council must adopt a final budget by December 1. The City's fiscal year is the same as the calendar year.⁴

3. The Revenue Estimating Conference includes the Mayor, the Chief Administrative Officer, the Director of Finance, a Councilmember, and a faculty member from a local university who is an expert in economic forecasting. Its purpose is to prepare the Official Forecast for the City to be presented to the Council by the Chief Economist. New Orleans Home Rule Charter, §6-101.

4. New Orleans Home Rule Charter, §6-106.

C. LEGAL REQUIREMENTS FOR THE CITY OF NEW ORLEANS CAPITAL BUDGET

In addition to requirements relating to the Operating Budget, the New Orleans Home Rule Charter requires that all City funds dedicated to permanent physical improvements be detailed in a separate five-year Capital Program.⁵ This requirement applies to infrastructure, such as streets and roads, construction or rehabilitation of buildings, and other improvements to land to be financed in whole or in part by funds that are or may become subject to control or appropriation by the City Council during the ensuing five years.

According to the Charter, the Capital Program is to be prepared by the City Planning Commission and the CAO's Office, in consultation with other City departments and entities seeking funds for capital projects. The Capital Program should consist of a prioritized list of all projects the City Planning Commission recommends for funding. The list must include the source or sources of funding for each project (i.e., bond issuance, grant, or other source) for each of the next five years. The Mayor submits a proposed capital budget ordinance to the Council no later than November 1, showing in detail the expenditures to be made for the first year of the Capital Program. The Council must approve the Capital Program and adopt a capital budget ordinance before acting on the annual Operating Budget.

5. New Orleans Home Rule Charter, §3-117(2)(a).

III. NEW ORLEANS 2009 OPERATING BUDGET

New Orleans' annual Operating Budget is based on projections of revenues the City expects to receive (developed by the Revenue Estimating Conference), and on expenditures the City plans to make during the upcoming fiscal year. Operating expenditures are the day-to-day costs of city services, including salaries, pension contributions and other employee benefits; purchases of services, materials, and short-life equipment; and repair and maintenance expenses. Operating funds are also allocated to pay debt service on short-term and certain other kinds of debt and to establish reserves for contingencies.

The Operating Budget segregates funds into separate fund accounts according to their intended purposes. The General Fund consists mostly of self-generated City revenues, including property tax, sales tax, other taxes, fees for licenses and permits, and fines. General Fund revenues can be used without restriction for basic government services such as police and fire protection, recreation, and code enforcement. Other fund accounts are established to receive and account for revenues from federal and state grants and other sources that can only be used for specified purposes. These other fund accounts will be referred to collectively as "Special Revenue Funds" in this report.

A. CHANGES IN THE CITY'S GENERAL FUND BUDGET FOLLOWING HURRICANE KATRINA

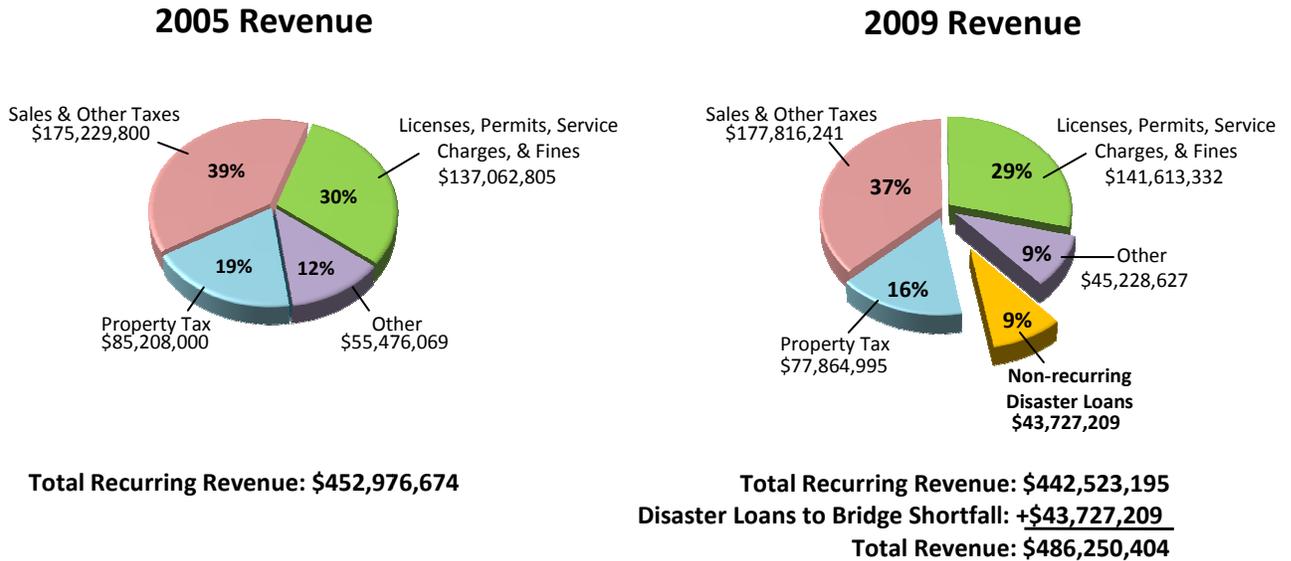
As a rule of prudent financial management, operating expenses should be funded through recurring revenues such as taxes, fees, and other revenues the City reasonably expects to receive every year. To put it simply, the City should live within its means. The reduction of City revenues in the aftermath of Hurricane Katrina in 2005, however, forced the City of New Orleans to rely on federal disaster loans for operating expenses in recent years. By the 2010 budget cycle, the City will have exhausted this disaster relief funding and will need to return to paying operating expenses through taxes and other regular revenue.

The City's General Fund revenue base for 2009 is somewhat lower than it was immediately prior to Katrina. In inflation-adjusted dollars, the City experienced a 14% decrease in recurring revenues from pre-storm 2005 figures to 2009.⁶ Most of the decrease is attributable to a drop in property tax revenues, which fell by 20% in inflation-adjusted dollars from 2005 to 2009. Figure A compares the City's projected revenues for the two years:⁷

6. The OIG used the Consumer Price Index from the Bureau of Labor Statistics of the U.S. Department of Commerce to adjust 2005 dollar amounts to 2009 values for purposes of comparison. The value of the 2005 budget, adjusted for inflation into 2009 dollars, is \$516,289,224.

7. The focus of Figure A is a comparison of revenue sources from 2005 and 2009, and revenues are stated in actual dollar amounts without inflation adjustment.

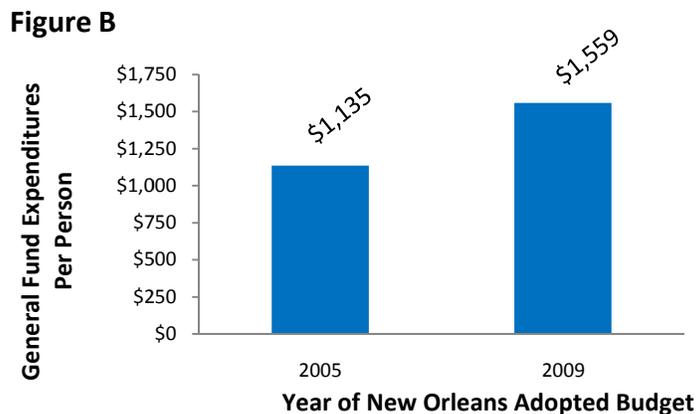
Figure A: Distribution of Projected General Fund Revenues Before and After Katrina



As shown in Figure A, the City closed a 2009 budget gap of more than \$43 million through the use of disaster relief loans. In future years, this safety net will no longer be available, and the City will have to make up this deficit by either cutting expenditures or increasing its own revenue sources.

While projected General Fund revenues have dropped somewhat since the storm, the City's population has decreased far more. Based on the U.S. Census Bureau's estimate, the City's population as of July 2008 was 311,853, about 69% of the pre-storm population of 454,863. Despite a 31% reduction in population, the City's 2009 General Fund budget was only about 6% lower (in inflation-adjusted dollars) than its 2005 budget. In short, the City has not reduced its spending in proportion with its population loss. As a result, the amount the City spent per citizen increased by about 37% from 2005 to 2009, as shown below in Figure B.

Figure B: Pre- and Post-Katrina General Fund Expenditures Per Person



The City incurs fixed costs that are not population dependent in connection with some services and it is therefore not surprising that the City's spending did not decrease as much as its population. Nonetheless, this large per capita cost increase presents a challenge for maintaining a balanced budget.

The OIG found that only a small portion of the increase in expenditures per person can be attributed to the City's recovery-related costs. The OIG analyzed budgets of departments that are shouldering part of the recovery burden, including the Department of Public Works, the Capital Projects Division, the Department of Safety and Permits, and the Office of Recovery and Development Administration. The OIG found that the combined cost increases for all of these departments account for less than 5% of the increase in expenditures from 2005 to 2009.

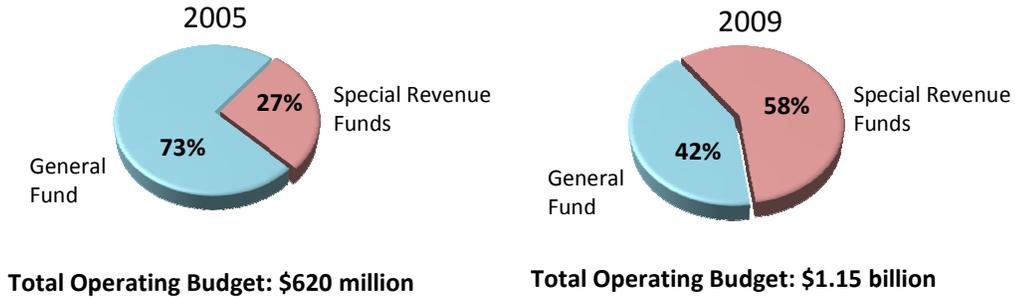
Departments with the largest cost increases include the Police Department and the Sanitation Department, which together account for 32% of the per person increase from 2005 to 2009, even though these departments do not have significant recovery-related functions in 2009. In sum, most of the City's increased costs per person are for regular city services that have little or nothing to do with hurricane recovery.

In addition to the increased per person cost of city services, benchmarking data comparing New Orleans with other cities suggests that the City is not making the most efficient use of its resources. Section IV of this report presents the results of the OIG Benchmarking Project, which shows that New Orleans spends more per person on city services than any of the comparable cities selected. These findings indicate that New Orleans should examine the efficiency of its operations to determine why non-recovery related spending has increased in a disproportionate manner and whether services are scaled appropriately for the City's current population.

B. SPECIAL REVENUE FUNDS IN THE CITY'S OPERATING BUDGET FOR 2009

While General Fund recurring revenues are down by approximately 14% from pre-storm levels, Special Revenue Funds have swelled dramatically during the years following Katrina from the influx of grants earmarked for the City's recovery. The Special Revenue Funds consist primarily of state and federal grants, as well as other dedicated revenues that must be used for specified purposes. Major sources of revenues include federal block grants targeted at promoting activities such as affordable housing and economic development. In the 2005 Operating Budget (adopted pre-Katrina in December 2004), Special Revenue Funds totaled approximately \$167 million, about 27% of the City's Operating Budget. Special Revenue Funds in 2009, including federal funds targeted at aiding the City's recovery, amounted to more than \$668 million and made up about 58% of the Operating Budget, as shown in Figure C below:

Figure C: General Fund and Special Revenue Funds in the 2005 and 2009 Operating Budgets



The largest source of the increased funding to New Orleans in 2009 comes from \$309 million in federal disaster grants known as Long Term Community Recovery (LTCR) funds, administered by the Louisiana Recovery Authority. Although the LTCR funds, like other Special Revenue Funds, cannot be used for the City’s regular operational expenses, the City chose to include these revenues in the 2009 Operating Budget, thereby creating a distorted picture of the City’s operating position. The Operating Budget of \$1.15 billion gives the misleading impression, due to the inclusion of Special Revenue Funds, that the City’s operating expenditures nearly doubled from 2005 to 2009, as illustrated in Figure D.

Figure D: Five-Year Expenditure History for the City of New Orleans

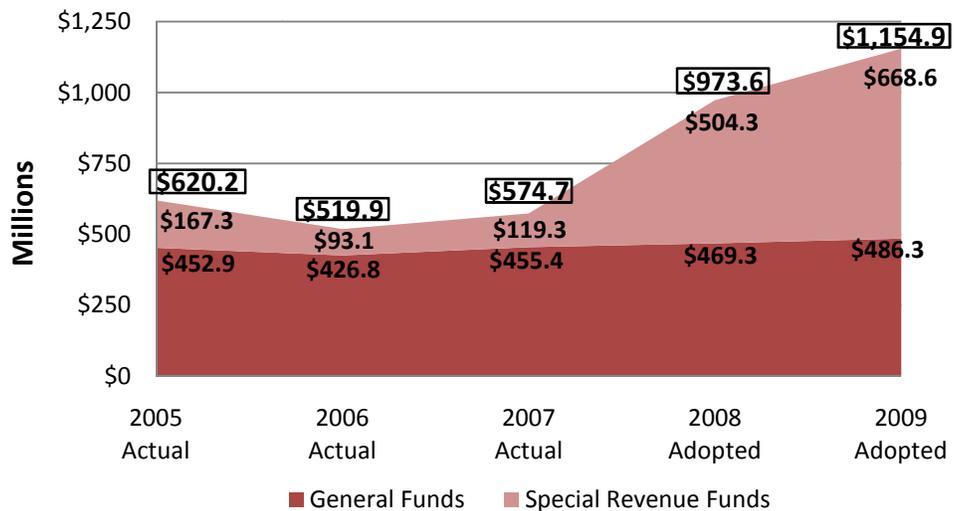


Figure D illustrates the abrupt infusion of Special Revenue Fund grants for hurricane recovery into the City’s budget. They represent an unprecedented opportunity to not only recover from storm damage, but also address blight and decaying infrastructure, problems the City has long neglected.⁸

8. For background on blight and infrastructure issues, see *Mending the Urban Fabric: Blight in New Orleans*, Bureau of Governmental Research, April 14, 2008, and *Street Smarts: Maintaining and Managing New Orleans’ Road Network*, Bureau of Governmental Research, October 1, 2008.

C. THE 2009 OPERATING BUDGET: FINDINGS

FINDING 1. THE MAYOR'S 2009 BUDGET MESSAGE FAILS TO SUMMARIZE BUDGET ASSUMPTIONS OR DISCUSS THE BUDGET'S MOST IMPORTANT FEATURES AS REQUIRED BY STATE LAW AND BEST PRACTICES.

The Louisiana Local Government Budget Act (Budget Act) requires a budget message signed by the budget preparer that includes a summary description of the budget's financial plan, policies, objectives, assumptions, and budgetary basis, and a discussion of the budget's most important features.⁹

Not only is the budget message required by the Budget Act, it is also an essential part of a transparent budget. Budgets are by their nature large, unwieldy documents. Part of the job of the budget preparer is to make the document as accessible as possible. A key part of accessibility is pointing out the major issues and decisions that went into the budget preparation. The budget message should describe how the budget has changed from the prior year, such as noting new programs, or changes in revenue streams. Highlighting changes in this way makes it possible for citizens to develop their own opinions about the budgetary decisions, and to decide whether they agree that those decisions further the city's goals. To do otherwise makes it very difficult for anyone, from an experienced councilmember to the interested citizen, to review it in any meaningful way.

Other Louisiana cities appear to have satisfied the legal requirements of the Budget Act by submitting budgets with informative letters addressed to city councils and citizens. The messages point out and explain the significant changes in the budgets, discuss economic factors affecting the budgets, explain the uses of fund balances, and promote transparency.¹⁰ According to the National Advisory Council of State and Local Budgeting, the budget summary should focus on issues likely to be important to the public, including key decisions such as changes in tax rates.¹¹

The Budget Message signed by the Mayor at the beginning of the 2009 Operating Budget for New Orleans, however, does not discuss crucial decisions that went into developing the budget. For example:

- The proposed budget for 2009 includes an increase of nearly 7% of General Fund expenditures over the prior year, and the Special Revenue Funds reflect an increase of

9. La. R.S. 39:1305(C)(1).

10. See Budget Messages for Shreveport, LA (<http://www.ci.shreveport.la.us/dept/mayor/budget2009.pdf>); Baton Rouge, LA (<http://brgov.com/dept/finance/pdf/2009%20Budget/09Bud-BudgetMessage.pdf>); and Lafayette, LA (<http://www.lafayettela.gov/pdf/Finance/Budget/proposed/2009-2010ProposedBudget.pdf>).

11. Government Finance Officers Association (GFOA), *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 10.1b.

31%. There is no mention of these changes in the Budget Message, nor are they discussed anywhere else in the budget.

- The proposed budget was based on an assumption that property taxes would be increased, yet the Budget Message makes no mention of this proposed tax increase. This increase would have provided an additional \$24 million in funding for the City, and the Mayor used that entire \$24 million to cover expenditures in his proposed budget. However, in order to discover this critical assumption, one must carefully scour the budget details.

According to state law and the National Advisory Council on State and Local Budgeting (NACSLB), the budget message is supposed to be a guide to the budget. The 2009 Budget Message does not focus on the Operating Budget for New Orleans, but instead promotes aspects of the recovery in general. The first page is primarily concerned with discussing capital projects, which have nothing to do with the operating budget being presented. The Budget Message primarily discusses past accomplishments and future hopes. In failing to present the critical assumptions and highlight important changes to the budget, the message does not meet the requirements of state law or the minimum standards of the NACSLB. Where it does discuss specific budget items, there are considerable inaccuracies (see Finding 2).

FINDING 2. THE BUDGET MESSAGE IN THE 2009 OPERATING BUDGET CONTAINS SIGNIFICANT INACCURACIES.

The 2009 Budget Message not only lacks essential information, it makes representations that are inaccurate. The first inaccuracy stems from the statement that the Office of Recovery Management (ORM) will be dissolved and its functions incorporated elsewhere in city government. In fact, ORM no longer existed when the Budget Message was written, having been merged into the Office of Recovery Development Administration (ORDA) nearly a year earlier.¹² The Budget Message might have meant to say that ORDA was being dissolved, but that interpretation does not alleviate the confusion, because the budget allocates over \$100 million to ORDA programs for the year 2009. If this office was being dissolved, the budget described no plan for its dissolution.

The Budget Message also discusses committing an additional \$1,000,000 for new programs at the New Orleans Recreation Department (NORD) and a dedicated maintenance crew to bring athletic fields up to industry standards. This statement is misleading because the actual increase to NORD funding is far less. The budget adds \$1,063,070 to one of the NORD programs, but slashes funding by \$841,569 to four other major programs, including *Athletic*

12. According to the City's Recovery website, the Office of Recovery Management was merged in November 2007. <http://neworleans.iprojweb.com/faq.aspx> (accessed August 28, 2009). The Budget Message is dated October 28, 2008.

Programs, NORD Centers, Maintenance Division, and Aquatics Program, so that the net gain is less than a quarter of the \$1,000,000 the Budget Message claims NORD will receive.¹³

Another inaccuracy in the Budget Message is the assertion that the 2009 Proposed Operating Budget provides for 1,700 police officers to bring the City above the pre-Katrina total of 1,648 officers. In reality, the Police Department submitted a \$4.5 million budget request for 100 additional police recruits,¹⁴ but this request was not submitted by the administration for funding in the 2009 Proposed Operating Budget.

The Budget Message also claims that the Proposed Budget provides funding of \$360,000 for new Mobile Video Units for police vehicles, but actually the administration did not approve the Police Department's request for this new technology. *Mobile Video In-Car Cameras* is listed under "Unfunded Priority Programs."¹⁵

Finally, there is nothing in the budget that supports the assertion in the Budget Message that the budget includes \$1,000,000 to increase the frequency of grass cutting at public properties. Parks and Parkways received an increase to its relevant program of only slightly more than \$200,000, and the Mayor's Office did not approve the department's request for an additional \$500,000 for grass cutting.¹⁶

FINDING 3. THE FIVE-YEAR CAPITAL PROGRAM FAILS TO FULFILL CHARTER REQUIREMENTS.

As required by the New Orleans Home Rule Charter, the Mayor submitted a five-year Capital Program as part of the 2009 budget process. According to the Charter, the program must be a prioritized list of all capital projects to be funded by the City, including all sources of funding by project, during each of the next five years. The Capital Program included a letter signed by the Mayor saying that City recovery projects valued at \$613 million were currently in design or under construction. However, the projects detailed in the Capital Program show funding for only the first two of the five years, and funding from all sources for all projects totals only about \$233 million, not \$613 million. The Mayor's letter also states that the City has begun \$363 million in street repairs, but the Capital Program identifies only about \$90 million in funding for street repairs over the five-year period.

The discrepancies between the Mayor's statement and the Capital Program, along with the lack of any information about sources of funds after the first two years, raise concern about whether concrete funding plans are in place for the planned projects. For example, the Capital Program includes five new libraries to be built under a fast-track, design-build process. According to the City's recovery website, the project cost estimate for the five new libraries is

13. 2009 Proposed Operating Budget, pp. 254-255. (On December 1, 2008, after receiving the proposed budget, the City Council added \$200,000 to NORD. This increase was then removed by an administrative line-item veto.)

14. According to the Police Department, there were a total of 1,501 commissioned officers as of May 2009.

15. 2009 Proposed Operating Budget, p. 163.

16. 2009 Proposed Operating Budget, p. 265.

\$32,900,400.¹⁷ But the Capital Program identifies only \$7,063,407 in capital funding, about 21% of the cost estimate, for these libraries.

The failure to include a complete funding plan in the Capital Program for the five new libraries indicates that the City's planning process for these projects was seriously deficient. This lack of planning became apparent in 2009 after the City directed its project management consultant, MWH Americas, Inc. (MWH), to proceed with a request for proposals to award a design-build contract for the libraries. The City selected Gibbs Construction, LLC, for a \$26.3 million contract for the projects. MWH prepared a project funding worksheet dated August 12, 2009, identifying approximately \$27.3 million in funding. However, that worksheet shows that the City was relying on more than \$10.7 million in FEMA funds, but that FEMA had committed only about \$7.4 million, leaving a shortfall of more than \$3.3 million. The worksheet also indicates that the funding plan did not include all of the project costs, such as construction contingency, fixtures, furnishings, and equipment, and pre-design costs incurred for MWH's services. In short, the City proceeded with these projects without having ensured the availability of adequate funding to complete them.

The Charter provision requiring a five-year Capital Program is not a mere formality; this vital safeguard helps promote a rational planning process and can prevent wasteful mismanagement of capital funds. For this reason, the Government Finance Officers Association recommends preparing a capital budget with detailed project information regarding schedule, funding sources, and costs prior to appropriating funds.¹⁸ The Mayor and the City Council passed a capital budget ordinance for 2009 appropriating funding for projects without having prepared a Capital Program showing that the City will have funds available to complete the projects. This imprudent action contravenes the Charter requirement and fails to protect the public's interest in sound financial management and successful capital projects.

FINDING 4. DESCRIPTIONS OF SOME PROGRAMS FUNDED IN THE 2009 BUDGET ARE SO VAGUE THAT THEIR PURPOSE IS IMPOSSIBLE TO DETERMINE.

The format for the Operating Budget calls for each department to summarize its various programs by providing a description of each program's activities, along with the funding amount, number of employees, and key indicators to measure the program's performance. In practice, the amount of information provided in these program descriptions varies widely. Some departments provide clear descriptions of activities carried out by their programs, while others use language so vague that it is impossible to know what purpose they serve.

Examples of programs without clear functions include the *Mayor's Office of Technology*, which receives \$359,539 from the General Fund budget. The program description states only that it "[p]rovides leadership staffing for the Mayor's Office of Technology," but contains no

17. <http://neworleans.iprojweb.com/default.aspx> (accessed September 29, 2009).

18. Government Finance Officers Association (GFOA), *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 9.6.

explanation of what the program does, nor any performance measures to assess it.¹⁹ Another cryptic program, located within the CAO's Office, is titled *Departmental Needs and Initiatives*. According to the budget description, this program "[p]rovides support for initiatives and processes implemented by various City departments." No further explanation is given for the program, which has a budget of \$479,935, an undetermined number of employees, and no performance measures.²⁰

In some cases, the functions performed by different programs appear to be duplicative. For example, the Office of the Mayor includes a program titled *Office of Policy*, funded with a \$181,307 appropriation to perform the following function:

These positions enhance Executive decision making by providing policy analysis and research on the Mayor's strategic initiatives, and ensure implementation of the Mayor's policy priorities by providing staff continuity and coordination across a range of high priority issues.²¹

Another program, mysteriously titled *Public Transit Passthrough*, is located within the Finance Department and receives \$1,850,000 to perform a similar function:

The positions provide enhanced policy analysis and research on the Mayor's strategic initiatives, along with staff continuity across a range of high priority issues.²²

Other programs that appear to have duplicative functions include *ORDA Business Retention and Expansion*, *ORDA City Business Center*, and *ORDA Economic and Business Development*, which share the common objective of promoting business and economic development in the City. Two other ORDA programs titled *Recovery Development and Administration Executive Office* and *Economic Development Executive Office* share an identical program description and identical performance measures, with no explanation as to why the City would fund two different programs to perform the same activities.²³

Many program descriptions fail to include basic information about staffing. For example, of the thirty programs listed in the CAO's Office, sixteen describe the number of full-time employees as "TBD" (To Be Determined).

These vague and duplicative program descriptions make it difficult to understand the nature of the expenditures. To serve its role as a communications device, the budget must provide adequate information about the activities and objectives of each program and relate them to the resources allocated. For this reason, the National Advisory Council on State and Local

19. 2009 Adopted Operating Budget, p. 99.

20. *Ibid.*, p. 132.

21. *Ibid.*, p. 97.

22. *Ibid.*, p. 245.

23. *Ibid.*, p. 104-106.

Budgeting guidelines call for clear and informative program descriptions that let citizens know what services are provided and at what cost.²⁴

FINDING 5. CITY OFFICES, DEPARTMENTS, AND BOARDS ARE NOT COMPLYING WITH THE CHARTER REQUIREMENT TO PREPARE AND FILE ANNUAL REPORTS OF THEIR ACTIVITIES.

Each City office, department, and board is required to provide an annual written report of its activities.²⁵ The Home Rule Charter states that the annual report shall be submitted to the Chief Administrative Officer (CAO) no later than sixty days after the close of the fiscal year. The Charter also requires that the annual reports of each office, department and board be filed in the City Archives.²⁶

The current CAO Policy Memorandum spells out the procedure for creating and distributing these reports and specifies that each report should include a:

- a. departmental organization chart with employee names;
- b. summary of major accomplishments of the year; and
- c. brief listing of projects planned or in progress and estimated completion dates.²⁷

The OIG found that this reporting requirement has apparently not been followed in recent years. According to the Head of City Archives, the most recent reports on file are from 2004 (Fire, Police, and Civil Service). The ten other Charter departments have no annual reports on file from as long ago as 1989.²⁸ There are no annual reports on file for the CAO's Office. The Mayor's Office last filed an annual report in 2004.

As discussed in Finding 4, descriptions of some programs funded in the Operating Budget are so vague as to be meaningless. The Operating Budget does not include organizational charts or provide a clear picture of how departments are staffed or operated. The lack of clarity and transparency in the Operating Budget is compounded by the City's failure to file annual reports of departmental activities.

For many governments, annual reports provide a crucial snapshot of how each department is operating. This reporting requirement is intended to make government more transparent and accountable by informing citizens what each office, board, or department has done in the past

24. Government Finance Officers Association (GFOA), *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 6.3.

25. New Orleans Home Rule Charter, §9-304.

26. The City Archives are the official repository of the records of New Orleans' municipal government, housed in The Louisiana Division of the Main Library.

27. CAO Policy Memorandum No. 30 (R), March 27, 1987.

28. The Ethics Review Board and the Office of Inspector General transmitted their joint Annual Report to the CAO in March 2009. The Police Department makes its annual report available on the City's website; it is unclear whether the report is also filed with the CAO.

year. Reports also provide a foundation for beginning the budget process, as boards and departments can be evaluated based on their accomplishments when allocations for the following year are determined. By abandoning the practice of filing annual reports, the City has violated a Charter requirement and deprived citizens of a useful tool for assessing and improving government.

FINDING 6. THE 2009 OPERATING BUDGET APPROPRIATES MORE THAN \$309 MILLION IN RECOVERY FUNDS WITH VIRTUALLY NO DESCRIPTION OF THE INTENDED USES.

The 2009 Operating Budget includes more than \$668 million in Special Revenue Funds. Most of this money is earmarked for recovery projects and cannot be used for operational expenses, hence incorporating the funds into the Operating Budget creates a confusing picture of the City’s operating position. Worse, most of the recovery funds are appropriated simply as line items with no program descriptions and almost no information about how the funds will be used.

Of greatest concern are the \$309 million in Long Term Community Recovery (LTCR) funds, which the City has discretion to use for a wide variety of recovery-related purposes. The LTCR funds are simply listed by category under the expenditure summary for the Office of the Mayor, as shown below:

Recovery Funds in Operating Budget²⁹

Program Delivery/Adminis	\$9,429,304
Housing Construction Financing	\$31,000,000
Bus. Youth/Technical Assist	\$4,000,000
Public Infrastructure Planning	\$14,300,000
Economic Development	\$187,000,000
Blight Reduction	\$19,750,000
Acquisitions	\$30,523,472
Healthy Communities	\$13,000,000
Total	\$309,002,776

The budget contains no further explanation for the use of these funds, except showing that approximately \$6 million will be spent on personnel and the remaining \$303 million on “other operating” expenses. It is not even possible to determine what personnel expenditures are being funded because the only positions associated with the appropriation are 17 “urban policy specialists,” which could not account for the entire \$6 million.

²⁹ 2009 Adopted Operating Budget, pp. 111-112.

The absence of meaningful information about the how these funds will be spent runs counter to the intent of the Louisiana Local Government Budget Act, which requires expenditures to be described according to their function,³⁰ and to the vital public policy of budget transparency. According to standards developed by the National Advisory Council of State and Local Budgeting and the Government Finance Officers Association, the budget should provide the interested citizen with enough information to hold public officials accountable for policy and program decisions.³¹

A listing of grants by category with no meaningful description of the activities to be funded falls short of meeting an acceptable standard for transparency and accountability.

FINDING 7. INCORPORATING RECOVERY FUNDS INTO THE 2009 OPERATING BUDGET UNDERMINED THE TRANSPARENCY OF THE CITY'S RECOVERY PLAN.

Unlike other disaster relief funds the City has received, such as FEMA payments, the LTRC funds are not restricted to reimbursement of storm-related expenses. Instead, they may be applied to a wide variety of recovery initiatives, which may include public infrastructure improvements, real property acquisitions, blight reduction, and assistance to neighborhood-based organizations. In order to qualify for these funds, the City was required to present a recovery plan to the Louisiana Recovery Authority (LRA) that demonstrated broad-based community support.

The recovery plan, known as the Unified New Orleans Plan (UNOP), was developed through a public process that involved thousands of citizens over a five-month period in 2006. The LRA approved the UNOP in June 2007. Later, the City's Office for Recovery Development and Administration (ORDA) was charged with developing projects to use approximately \$411 million in LTRC funds allocated to New Orleans for its recovery. The \$309 million appropriated through the 2009 Operating Budget represents the lion's share of that funding.

As discussed in Finding 6, the Operating Budget offers almost no information about projects funded by this appropriation. However, a list of projects prepared by ORDA gives some indication of planned uses for these recovery funds.³² According to this list, the single line item of \$187 million³³ identified simply as "Economic Development" includes planned expenditures of:

- ⇒ **\$20 million for Commercial Rehabilitation/Façade Improvements**
- ⇒ **\$13 million for renewal of the Saenger Theatre**
- ⇒ **\$30 million for developing Downriver Park**
- ⇒ **\$75 million for the VA Medical Center project**
- ⇒ **\$40 million for the Methodist Hospital**

30. La. R.S. 39:1305(2)(a).

31. Government Finance Officers Association (GFOA), *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 10.1(a).

32. For a list of projects, see Appendix E to this report.

33. 2009 Adopted Operating Budget, p. 111.

Other initiatives planned for the LTCR funds in the Operating Budget include \$27 million for a soft second mortgage loan program (included in category called “Housing Construction Financing”).

The lack of transparency in the budget is exacerbated by the City’s failure to include any information about the planned uses for these recovery funds on its website. The website created by the City to inform the public about the recovery plan proclaims that “[t]he City of New Orleans is undertaking an unprecedented level of capital improvement, street and landscape enhancement projects to rebuild New Orleans.”³⁴ The site allows citizens to search for recovery-related work by either public works projects (such as bridges, roadways, or streetscapes) or by public facilities projects (such as libraries, parks, or cemeteries).³⁵

Not one of the projects to be funded from the more than \$309 million in LTCR funds appropriated in the 2009 Operating Budget is listed on the website.

The City’s recovery information website creates the impression that the City’s recovery plan is devoted entirely to rebuilding civic infrastructure, like streets, parks, and public buildings. This impression is inaccurate and misleading given that most of the \$309 million in LTCR funds will be committed to economic development, such as the initiatives listed above. The lack of transparency with respect to the use of these funds is not consistent with the intent behind the civic engagement process undertaken shortly after Katrina to establish the citizens’ priorities for recovery.

The City’s long-awaited recovery plan has been touted as the culmination of a broad-based citizen participation process. In reality, the choice of projects to be funded has largely been developed out of public view and final decisions about how a major portion of recovery resources will be allocated have not been subjected to meaningful scrutiny in the budget process. The citizens of New Orleans have been short changed by the decision to appropriate funds for a major portion of the City’s recovery plan through non-descriptive language buried in the 2009 Operating Budget.

FINDING 8. THE OPERATING BUDGET PROVIDES NO INFORMATION ON CONTRACT EXPENDITURES.

As discussed earlier in this report, the Operating Budget has brief program descriptions for functions carried out within each department. In addition to the program descriptions, departmental budgets include a listing of personnel and a breakdown of total departmental expenditures into three categories: personal services (i.e. personnel expenditures), other operating, and debt service. The budget contains no further detail for the expenditures categorized as “other operating,” even though this single category accounts for most of the

34. <http://neworleans.iprojweb.com/basedefault.aspx> (accessed on August 7, 2009).

35. The projects listed on the site are all civic infrastructure projects funded through several sources, including bond proceeds, FEMA reimbursements, and about \$57.6 million in LTCR grant funds.

budget. Out of the 2009 Operating Budget, “other operating” expenses total about \$678 million compared with about \$278 million for personnel costs.

Expenditure information in a municipal budget can be presented in different formats, ranging from a detailed itemization of expenses to programmatic descriptions with a total cost for a service or function rather than detailed line-item breakdowns. The Government Finance Officers Association recommends using an approach known as “Budgeting for Outcomes,” which is described in more detail in Section V of this report. Budgeting for Outcomes recommends using performance measures to gauge efficiency and effectiveness rather than scrutinizing line items in an attempt to identify wasteful expenditures. But even when effective performance measures are implemented in the budgeting process, the budget should include basic information about major expenditures as a matter of transparency and accountability. In particular, large contract expenditures should be subjected to scrutiny in the budget process. The City’s practice of lumping all contracts and other expenses into a category identified only as “other operating” deprives citizens and the City Council of information needed to assess whether the City’s major service contracts represent prudent expenditures.

The 2009 budget for the CAO’s Office, for example, includes only about \$5.4 million for personnel compared with \$52 million for “other operating” expenses. The program descriptions do not provide any insight into what contracts are funded under the “other operating” category. The OIG has determined that the program entitled *Budget Operations and Management Division*³⁶ (for which no performance measures are specified) allocated a substantial portion of its approximately \$3.1 million budget to a contract with Public Financial Management, Inc. (PFM). The City entered into this contract to help implement new practices for budgeting and performance measurement. Neither the public nor the Council can evaluate the merits of this expenditure without knowing the amount or purpose of the contract.

The budget for the CAO’s Office also includes contracts for information technology services, some of which have been subjects of an earlier OIG report³⁷ as well as a federal investigation. In 2008, the City hired PFM to conduct an assessment of its information technology department; PFM’s report determined that the City spent more than \$44 million on vendors and contractors for information technology between January 2006 and July 2008.³⁸ Despite these expenditures, the City’s information technology systems are plagued with serious deficiencies, as described in Section VI of this report. These questionable expenditures highlight the need for increased budget transparency for major service contracts.

According to the National Advisory Council on State and Local Budgeting, the municipal budget should provide the reader with a comprehensive guide to government programs and services. Such a guide includes management approach and means of providing major services whether

36. 2009 Adopted Operating Budget, p. 128. An assessment of the City’s implementation of these practices, known collectively as “Budgeting for Outcomes,” is provided in Section V of this report.

37. OIG report, *Installation of Crime Surveillance Cameras, 2003-2008*, OIG-I&E 09001.

38. *Preliminary Assessment and Review of the Mayor’s Office of Technology*, Public Financial Management, July 9, 2008.

by using municipal employees or by contract. The NACSLB notes that such information “is necessary in order to make reasoned decisions about the use of resources and to make clear the direction of the government’s programs.”³⁹ The budget should include information on the categories of services to be provided by contractors and on contract costs to enable the City Council and the citizens to scrutinize these expenditures in a meaningful way.

39. Government Finance Officers Association (GFOA), *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 10.1(d).

IV. NEW ORLEANS' SPENDING COMPARED WITH BENCHMARK CITIES

Benchmarking compares the performance of an entity to that of a peer group to demonstrate an expected standard of performance and identify any variances. Understanding one's position relative to peers may offer insight into improving performance. The process is not competitive; rather, benchmarking serves as a guidepost for discovering potentially better practices.

Municipal benchmarking refers to the comparison of cities across any number of areas, which may be useful to government officials by exposing them to new ways of providing public services.⁴⁰ As part of the budget evaluation, the OIG conducted a comprehensive municipal benchmarking project comparing New Orleans' 2009 budgeted expenditures on basic municipal services to those of nine similar cities. The following nine municipalities were selected for benchmarking comparisons: Buffalo, NY; Corpus Christi, TX; Toledo, OH; Cincinnati, OH; Tampa, FL; St. Louis, MO; Wichita, KS; Baton Rouge, LA; and Atlanta, GA. For a more detailed description of the methodology used for the benchmarking project, refer to Appendix A.

Although great care was taken to select cities and service areas to maximize comparability, a municipal benchmark will never be perfect. Cities are defined by unique geography, culture, and circumstances, making city-to-city comparisons inherently limited. New Orleans differs from other cities in significant ways. The City extends across 180 square miles of land, making it much larger geographically than the nine other benchmark cities. New Orleans has seen a steady decrease in population since 1960, when it reached a clear peak of 660,000, until 2005, with a pre-Katrina population count of 454,863. Hurricane Katrina hastened the population decline and destroyed much of the City's infrastructure. These and other factors have contributed to the City's large number of abandoned residences, an estimated 59,000 of which are considered blighted. At the same time, New Orleans is still one of the top tourist destinations in the country and regularly hosts a large number of visitors.

These and other factors that contribute to the uniqueness of New Orleans may well have an impact on the cost of providing certain municipal services to its citizens. The comparisons presented in this section should therefore not be interpreted as an argument that higher than average spending on a city service is tantamount to wasting money. The appropriate level of spending on a municipal service may vary from one city to another. Nonetheless, it is important to identify major differences in spending and to question whether those differences are justified by circumstances or are indicators of inefficiency.

40. David H. Folz and P. Edward French, *Managing America's Small Communities: People, Politics, and Performance* (Maryland: Rowman & Littlefield Publishers, Inc., 2005).

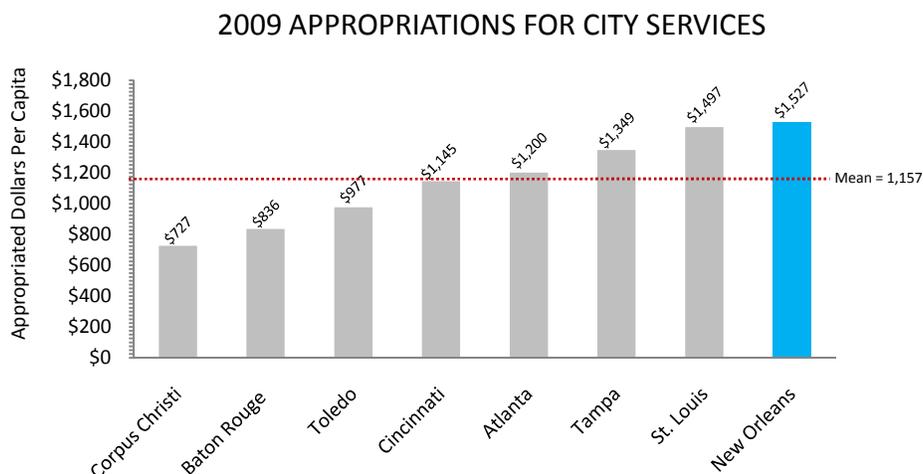
RESULTS OF THE BENCHMARKING PROJECT

Overall, the findings of the benchmarking project show that New Orleans is spending considerably more per person to provide municipal services than any of the comparable cities. The OIG determined that most of the City's higher level of operating expenses is not attributable to its recovery activities. The OIG closely reviewed each department's budget to determine the nature and purpose of each expenditure item and identified only about \$5.3 million, or slightly more than 1%, of the City's \$486 million General Fund budget for 2009 that was spent for recovery-related functions. Even if the budget were reduced by the \$5.3 million spent on recovery, New Orleans' per person General Fund expenditures would be higher than any of the other cities. As discussed in Section III of this report, the vast majority of New Orleans' recovery-related activities are funded through Special Revenue Funds rather than the General Fund.

FINDING 9. NEW ORLEANS BUDGETED MORE PER PERSON FOR CITY SERVICES IN 2009 THAN ANY OF THE COMPARABLE CITIES.

To compare New Orleans' overall expenditures with those of other cities, the OIG reviewed the 2009 budgets for each of the ten cities for executive and legislative functions, legal, finance, police, fire, sanitation, code enforcement, fleet maintenance, public works, recreation, and other typical city services.⁴¹ New Orleans budgeted more per person than any of the other nine benchmark cities to provide these services, as shown in Figure E:⁴²

Figure E



41. For a list of the services included in this comparison, see Table 2 in Appendix A of this report.

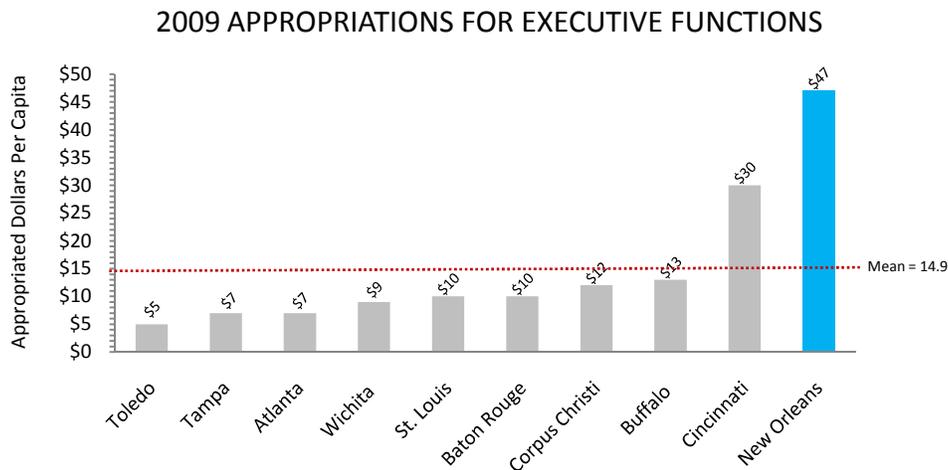
42. The value used in Figure E for New Orleans' 2009 budget does not include expenditures for the City's Health Department or utilities regulation function because the other benchmark cities do not fund comparable services.

The data on overall city spending presented in Figure E shows that New Orleans' per person expenditure of \$1,527 exceeds the ten-city average of \$1,157. To put this figure into perspective, reducing per person expenditures to the benchmark average would save the City approximately \$115 million per year.

FINDING 10. NEW ORLEANS BUDGETED MORE PER PERSON ON EXECUTIVE AND LEGISLATIVE FUNCTIONS IN 2009 THAN ANY OF THE COMPARABLE CITIES.

The OIG compared per person expenditures for executive functions, which consist mainly of work performed by the Mayor's and the CAO's Offices. These services include intergovernmental relations, communications, public information, elections, emergency preparedness, budget management, and other matters. New Orleans budgeted more per person for executive functions than any of the other cities, as shown in Figure F below:

Figure F



To ensure that data used was comparable to other cities, expenditures shown in Figure F for executive functions for the City of New Orleans do not include, for example:

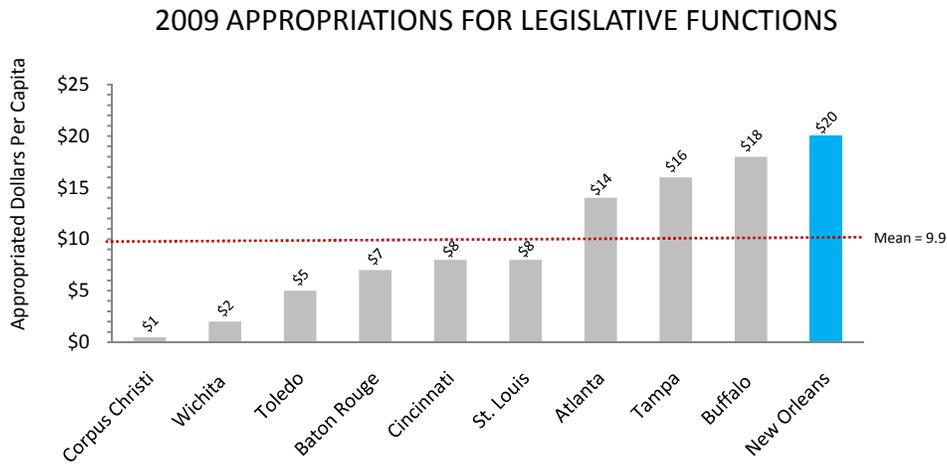
- \$1.7 million budgeted to the Mayor's Office for recovery management;
- \$9.2 million budgeted to the CAO'S Office for vehicle fleet maintenance and fuel; or
- \$11.3 million budgeted to the CAO'S Office for light and gas

The data in Figure F show that New Orleans appropriated \$47 per person for executive functions, which is \$32 more than the average across all ten benchmark cities. Reducing per person spending for executive functions in the Mayor's and the CAO's Offices to the benchmark average would save the City \$10 million annually.

The OIG also compared per person expenditures for legislative (e.g., City Council) functions related to staff support, record-keeping, research, fiscal review, advertising, and cable access.

New Orleans budgeted more per person for legislative functions than any of the other cities, as shown in Figure G below:

Figure G

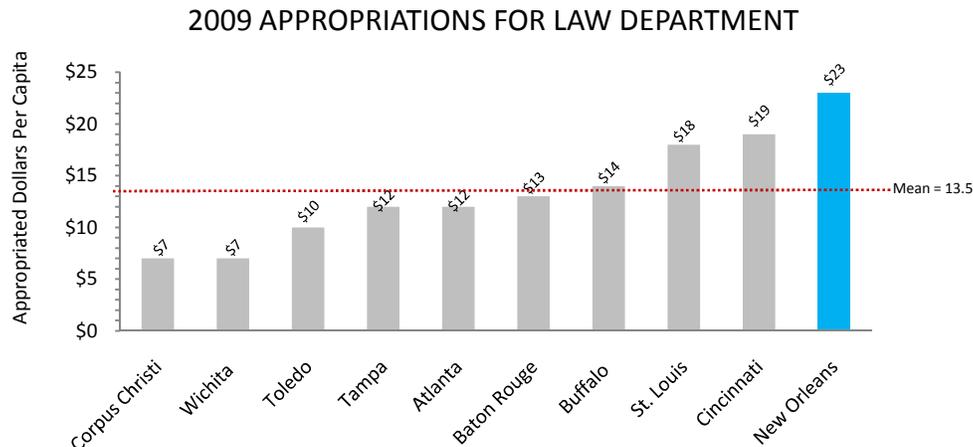


As with other service categories, the OIG made adjustments when necessary to ensure comparability of services when examining legislative functions across the ten cities. The costs incurred by the New Orleans City Council in its role as regulator of retail utilities, for example, were eliminated from the analysis because no other city council performs a similar function. The data in Figure G show that New Orleans appropriated \$20 per person for legislative functions, which is \$10 more than the ten-city average. Reducing per person spending to the benchmark average would save the City \$3 million annually.

FINDING 11. NEW ORLEANS BUDGETED MORE PER PERSON ON LAW DEPARTMENT FUNCTIONS IN 2009 THAN ANY OF THE COMPARABLE CITIES.

New Orleans also stands out as having the highest per person law department expenditures of any benchmark city, as shown in Figure H:

Figure H



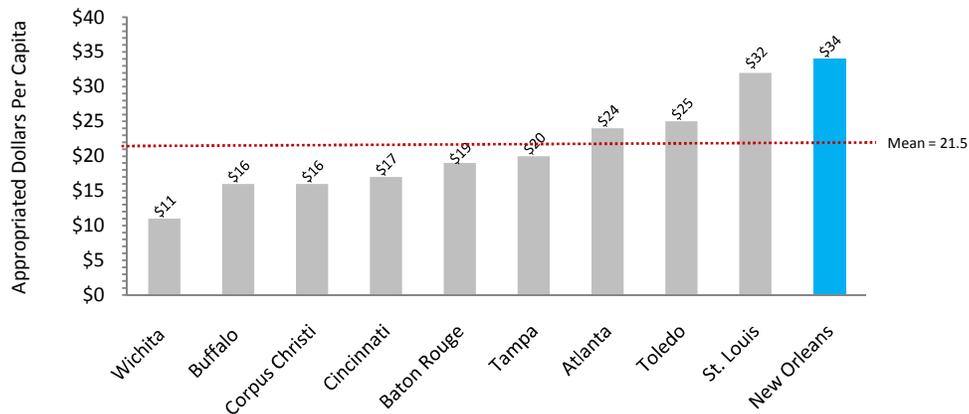
Adjustments made to ensure comparability included eliminating expenses incurred by New Orleans' law department for risk management services. Even with such adjustments, the OIG found that New Orleans appropriated \$23 per person for law department services compared with a ten-city average of \$13.50. Reducing per person law department spending to the benchmark average would save the City of New Orleans approximately \$3 million annually.

FINDING 12. NEW ORLEANS BUDGETED MORE PER PERSON ON FINANCE DEPARTMENT FUNCTIONS IN 2009 THAN ANY OF THE COMPARABLE CITIES.

New Orleans' per person expenditures on finance department services are also higher than those of other cities, as shown below in Figure I:

Figure I

2009 APPROPRIATIONS FOR FINANCE DEPARTMENT



New Orleans appropriated \$34 per person on services related to accounting, purchasing, revenue collection, and treasury compared with an average cost of approximately \$22. Reducing per person finance department services spending to the benchmark average would potentially reduce costs by approximately \$4 million annually.

FINDING 13. NEW ORLEANS BUDGETED FAR MORE PER PERSON ON SANITATION SERVICES IN 2009 THAN ANY OF THE COMPARABLE CITIES.

New Orleans is remarkable for its high costs for sanitation services, as shown below in Figure J:

Figure J

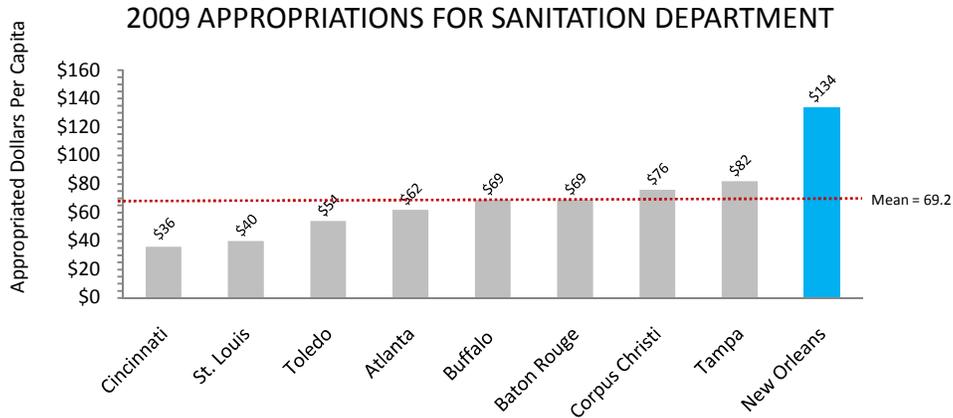
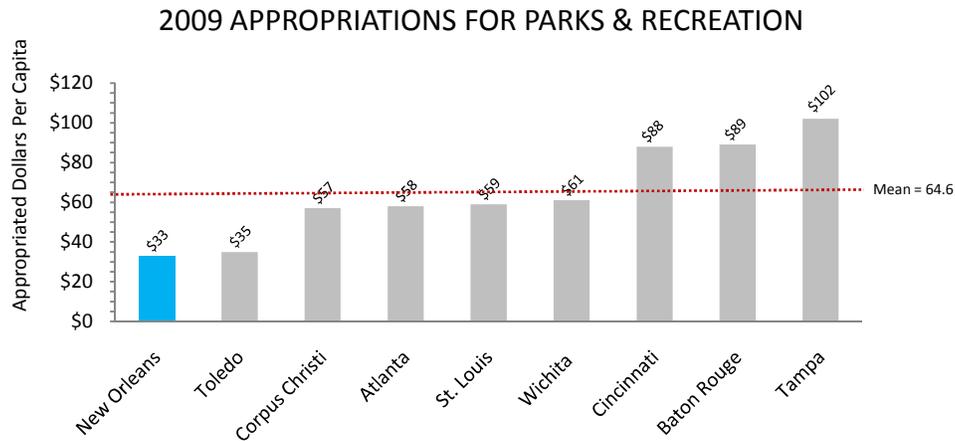


Figure J compares per person expenditures for residential solid waste collection, transfer and disposal, and street cleaning in New Orleans and eight other cities.⁴³ To ensure comparability, the OIG did not include New Orleans’ expenses for sidewalk washing in the French Quarter or for Mardi Gras cleanup because the other cities do not incur costs for these services. Even after costs for New Orleans’ unique services were removed, the City’s cost per person was \$134, compared with the average cost of \$69. Reducing per person sanitation department services spending to the benchmark average would save the City of New Orleans approximately \$20 million annually.

FINDING 14. NEW ORLEANS BUDGETED LESS PER PERSON ON PARKS AND RECREATION IN 2009 THAN ANY OF THE COMPARABLE CITIES.

New Orleans’ budget for parks and recreation programs is far lower than any of the other cities, as shown in Figure K:

Figure K



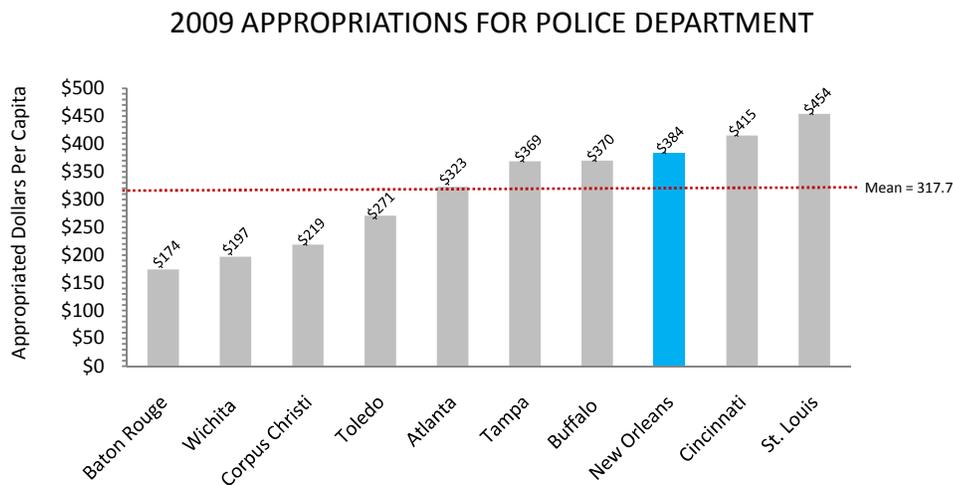
43. Wichita was not included in the analysis because that city does not provide residential solid waste services.

Figure K compares expenditures to maintain public grounds and to manage youth programs and other recreational activities in New Orleans and eight of the other cities.⁴⁴ New Orleans has separate departments for Recreation and Parks & Parkways, but the appropriations for both were combined for this comparison because many of the benchmark cities fund both through a single department. New Orleans appropriates \$33 per person for these services and programs compared with the nine-city average of approximately \$65. Increasing per person spending on parks and recreation to the benchmark average would cost the City of New Orleans about \$10 million annually.

FINDING 15. NEW ORLEANS BUDGETED MORE PER PERSON ON ITS POLICE DEPARTMENT IN 2009 THAN THE AVERAGE OF ALL THE BENCHMARK CITIES.

New Orleans appropriates more per person for its police department than the benchmark average, but less than Cincinnati or St. Louis, as shown below in Figure L:

Figure L

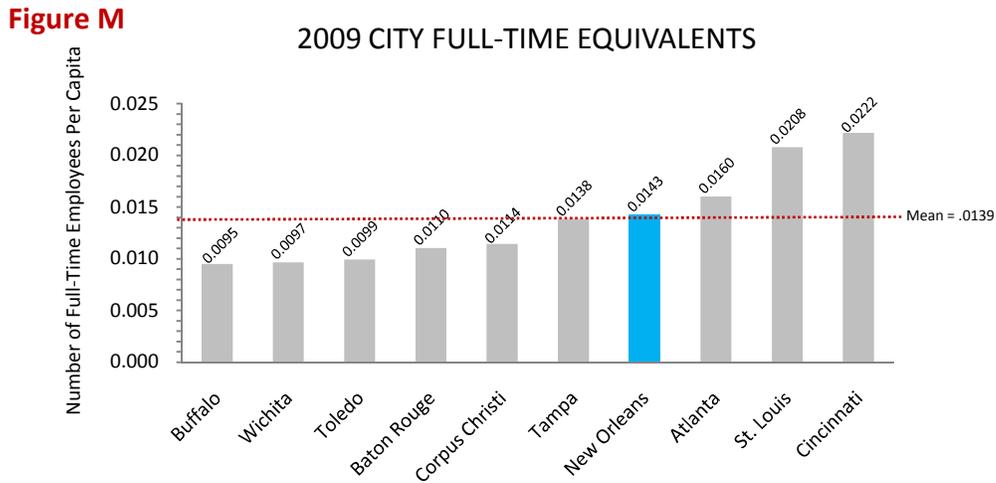


New Orleans budgets approximately \$384 per person for its police department compared with a benchmark average of approximately \$318. Reducing per person spending on the police department to the benchmark average would save the City of New Orleans approximately \$21 million annually.

44. The City of Buffalo was not included in this comparison because that city's expenditures could not be separated from those of Erie County.

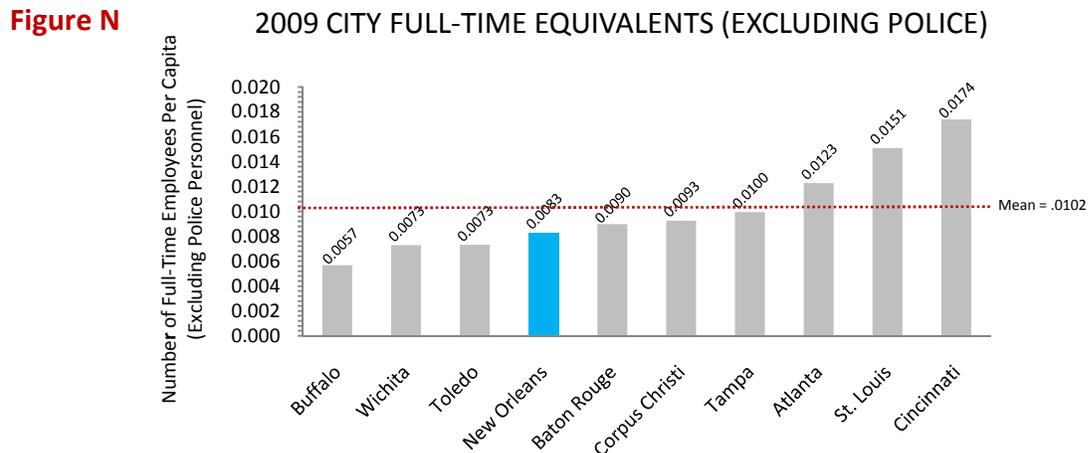
FINDING 16. THE OVERALL STAFFING LEVEL IN 2009 FOR THE CITY OF NEW ORLEANS IS ABOUT AVERAGE.

Comparing per capita numbers of full-time equivalents for the ten cities shows that New Orleans has approximately the average number of employees, as shown below in Figure M:



The City of New Orleans laid off a large number of employees in the immediate aftermath of Hurricane Katrina and currently has a total of approximately 4,446 full-time employees. Despite the post-Katrina reductions, the current overall staffing level for the City is about average by these benchmarking standards, as shown in Figure M.

A factor that should be considered when comparing staffing levels is that a large proportion of New Orleans' employees – approximately 1,859 – work for the Police Department. A comparison of the number of non-police department employees for the ten cities shows that New Orleans has a lower than average level of staffing. New Orleans has the third lowest number of non-police department employees per citizen, as shown below in Figure N:

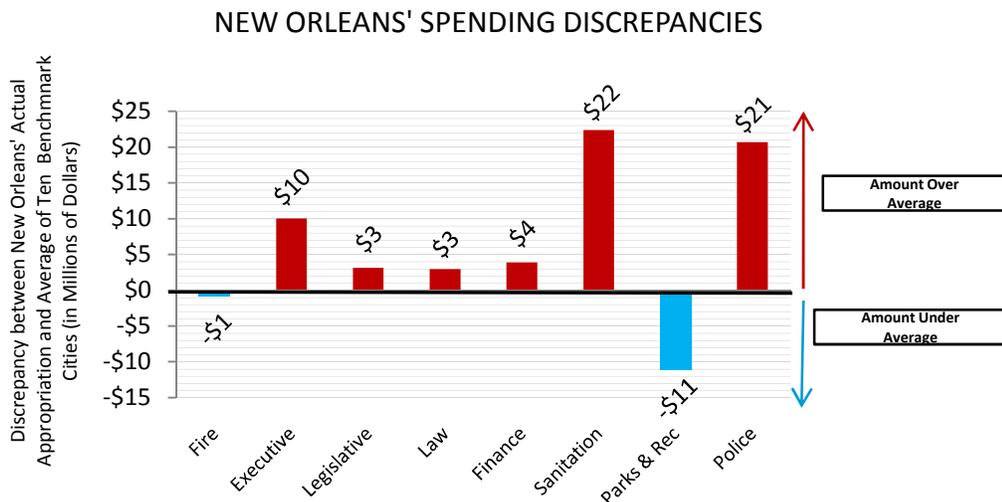


CONCLUSIONS OF THE BENCHMARKING PROJECT

The findings of the benchmark analysis show that the City of New Orleans differs greatly from nine other cities of comparable size on the amount of money spent on certain governmental services. The analysis of expenditures shows that New Orleans spends more per person on executive and legislative functions, finance and law departments, and sanitation than the other cities. In fact, the City's expenditures on these services are not only higher than average for the cities compared, but also higher than any of the nine other cities. New Orleans' per person police department expenditures are also higher than the group average, but not as high as those of two of the comparable cities. In contrast, the City spends less per person than the group average – and less than any benchmark city – on parks and recreation.

The difference between New Orleans' per person expenditures and the benchmark average for fire protection, executive functions, legislative functions, law department, finance department, sanitation, parks and recreation, and police is illustrated below in Figure O:

Figure O



This benchmark analysis is informative, but it is only a first step in assessing the need for changes in the City's management and operating practices to make the government work better for its citizens. The differences between New Orleans' level of spending and the benchmark averages are not necessarily indicators of waste but they should prompt further analysis to determine whether cost savings can be achieved. These comparisons can also help inform a discussion about whether the current allocation of resources reflects the priorities that matter to citizens.

The City has begun to implement a management tool known as Budgeting for Outcomes, which is intended to promote accountability in government operations and institute a system of performance measurement. These benchmark comparisons may be useful to the City in this effort. Findings based on the OIG's evaluation of the City's initial efforts to implement Budgeting for Outcomes are presented in Section V of this report.

V. IMPLEMENTATION OF BUDGETING FOR OUTCOMES

TRADITIONAL MUNICIPAL BUDGETING

Traditional budgeting is simple in theory. Each city department takes its past year's budget proposal, and amends it for the current budget cycle. This style of budgeting doesn't take into account changing times, changing values, or changing priorities; it assumes that the city will continue on the same basic path, providing the same services, at the same level. When faced with a shortage of resources, the most common way to balance this type of budget is to order "across-the-board" cuts. Unfortunately, across-the-board cuts may cripple a program that's doing high priority work, without considering whether a lower priority program might be cut altogether. This type of budget management has been described as taking a blow torch to the family car; the result of this type of cutting isn't a compact, it's a wreck.⁴⁵

BUDGETING FOR OUTCOMES: THEORY

Budgeting for Outcomes, or "performance-based budgeting," is a term used to describe a set of practices recommended by the Government Finance Officers Association and others as tools to promote broad inclusion in the budgeting process and to improve the accountability and performance of government programs. Budgeting for Outcomes is a conceptual departure from the traditional manner of budgeting. Instead of using the prior year's budget as the starting point, Budgeting for Outcomes begins by determining the citizens' priorities, with the goal of focusing the city's resources on the results that matter most to its citizens. The Budgeting for Outcomes process involves the following steps:

1. Set priorities. Establish the results citizens want from government services. Priorities should be determined based on research into citizens' wants and needs through town hall meetings, surveys, opinion polls, and other information-gathering strategies. Citizens' priorities generally depend on the city's circumstances and may include such outcomes as reduced crime, efficient public transportation, more recreational opportunities, or improved code enforcement. The process should involve all citizens in identifying priorities that will guide budget decisions, including city leaders and the legislative body.
2. Solicit budget proposals. Ask departments to submit "proposals" for each program or service to be performed. Each proposal should include performance indicators that measure the results achieved by the program and budget information to show the cost.

45. Editorial, *The Seattle Times*, November 17, 2002.

3. Allocate resources among high-priority results. Based on revenue estimates for the upcoming year, allocate the amount of funding available for each of the priorities or results citizens have identified.
4. Budget available dollars. Fund programs according to the priority established for the results each program will produce. (For example, police department programs could be assigned to a priority designated *Public Safety*. Police department programs would be ranked and funded in order of effectiveness up to the limit of the funding allocated to *Public Safety*).
5. Establish performance goals. First, set clear and objective measures for tracking the performance of each program. Second, set goals for progress.
6. Monitor results. Track performance measures throughout the year and communicate the results to citizens.

Budgeting for Outcomes was designed to link resources to objectives rather than simply perpetuating the same allocation of resources by funding departments based on their prior budgets. According to its proponents, this approach helps public managers identify opportunities to increase efficiency and to target budget cuts so that the high-priority programs are not crippled. Budgeting for Outcomes requires a frank and honest assessment of citizens' priorities for government and the effectiveness of government programs in producing the outcomes citizens expect. The success of Budgeting for Outcomes depends on the willingness of government leaders to challenge the status quo and to institute real performance measures that hold departments accountable for results.

THE ROLE OF PUBLIC FINANCIAL MANAGEMENT IN IMPLEMENTING BUDGETING FOR OUTCOMES

In July 2007, the City contracted with consultant Public Financial Management, Inc. (PFM) to help implement Budgeting for Outcomes. For the period from October 2007 through December 2008, the City paid PFM slightly over \$1.5 million primarily for services related to implementing Budgeting for Outcomes.

PFM quickly began conducting training sessions with City departments to provide guidance to them about the new budget system. PFM was charged with training the departments in preparing and ranking their programs, developing their performance measures, establishing performance targets, and monitoring performance. PFM was closely involved, in the fall of 2007, in the creation of the Mayor's 2008 Proposed Budget, including description of revenues, long-term projections, statement of debt, and departmental budget summaries.

PFM's involvement increased in 2008 and included the preparation the 2009 budget. PFM staff worked closely with the administration to review departmental budget proposals and allocate funding. They participated in the Revenue Estimating Conference and developed the presentation materials; they created templates by which the departments produced Budgeting

for Outcomes documents; and they created various budget documents. PFM staff conducted training sessions with the departments on budget development, budget submission, and development of performance measures. PFM also took charge of gathering data and preparing quarterly performance reports for all departments for 2008 and 2009. PFM has continued to be deeply involved in the budgeting process in 2009, including preparation of the budget for 2010.

In May 2009, the City amended its contract with PFM to extend the term and add an additional \$997,000 in services.

A. ENACTMENT OF THE BUDGET FOR 2009

According to the Mayor's description of the City's Budgeting for Outcomes process, priorities are established in consultation with the City Council and community leaders and reflect the goals of both the Mayor and the Council.⁴⁶ However, according to interviews with City officials, there was no Council participation in establishing the City's priorities for 2009. Rather, the priority-setting process was carried out solely by the CAO's budget staff and department heads (who report to the CAO) in conjunction with PFM. Community leaders were also notably absent from the process.

Departmental budget preparation for 2009 began in June 2008, when City departments submitted budget proposals to the CAO's Office. The proposals were reviewed by Results Teams made up of the CAO's budget staff, the Mayor's executive team, and department heads. Then a Leadership Team, consisting of the Director of Finance, as well as staff from the CAO's Office and the Mayor's Office, convened, ostensibly to allocate funds for each priority. Subsequently, the Results Teams reconvened to determine which programs would be funded.

On October 28, 2008, the Mayor announced a proposed budget calling for just over \$500 million in general fund expenditures, which included a property tax increase to generate \$24 million in additional revenue. On November 5, the Council held its first public budget hearing (after racing against the clock to analyze budget proposals received the prior week) and learned that the administration was basing a large portion of its proposed expenditures on the property tax increase. The Council unanimously rejected the Mayor's proposed tax increase. The Council then reduced certain expenditures proposed by the Mayor, transferred funds to the District Attorney's Office and the State of Louisiana Public Defenders Office, applied funds from a federal Community Disaster Loan to balance the budget, and adopted the 2009 annual operating budget on December 1, 2008.

On December 12, 2008, the Mayor rejected the adopted budget by vetoing certain appropriations added by the Council. In lieu of the tax increase, the Mayor proposed an approximate 2.5% spending cut and hiring freeze across all departments, with the exception of

46. 2009 Adopted Operating Budget, p. 15.

police, fire, and emergency medical services. On December 17, 2008, the Council voted to override the Mayor's vetoes and reinstated the budget originally adopted on December 1.

With the reinstatement, the Council also proposed an across-the-board budget cut of approximately 5% for all City departments, excluding public safety, sanitation, and recreation. However, the Mayor suggested the 5% reduction was too severe, and on January 12, 2009, the Council amended the reinstated budget to include a smaller 3% cut across most departments. Finally, on January 16, 2009, the Mayor approved the amended 2009 budget, ending the contentious back-and-forth between the executive and legislative branches.

FINDING 17. THE CITY DID NOT FOLLOW RECOMMENDED PRACTICES, OR ITS OWN GUIDELINES, REGARDING INCLUSIVENESS IN THE BUDGETING PROCESS.

The Mayor's proposed budget purports to have adopted a process that included the City Council along with other citizens in setting priorities and defining the results. In practice, the budget development process was anything but inclusive and provided no opportunity for outside input until after the proposed budget had been submitted to the Council for the November budget hearings. In November 2008, the Council compressed 47 budget hearings into 15 days, on a schedule described by one councilmember as "painful." Councilmembers were in wide agreement that these budget hearings, while essential for providing public information, were not well suited to decision making and that the time available to analyze the large volume of information presented in the proposed budget was inadequate to make informed choices.

The absence of effective communication between the executive and legislative branches in the early stages of budget development contributed to the disorderly budget adoption process that undermined the City's efforts to implement the Budgeting for Outcomes method. The City paid PFM to implement a system for ranking funding priorities that was intended to avoid resorting to across-the-board budget cuts. But when the Council rejected the Mayor's proposed tax increase, after a contentious struggle over funding priorities, the Mayor and Council fell back on broad-based cuts to balance the budget. All pretense of prioritizing programs through the Budgeting for Outcomes ranking system went out the door when the final spending decisions were made.

In addition to its failure to follow procedures regarding inclusion of the City Council, the administration also neglected to follow its own stated policies regarding inclusion of community leaders, experts in the field, and citizens. According to the administration's records, the Results Teams were comprised entirely of administrative and departmental staff members, plus a PFM consultant to facilitate each team. Not one councilmember, not one community leader, and not one ordinary citizen was included on any of the Results Teams or the Leadership Team for the 2008 budget or the 2009 budget.⁴⁷

47. The administration has confirmed the membership of its Results Teams and its Leadership Team for the 2010 budget process. It is again composed solely of members of the administration and the departments.

The National Advisory Council on State and Local Budgeting (NACSLB) recommends developing and implementing a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget. According to the NACSLB, appropriate procedures are needed to resolve conflicts, promote acceptance of the proposed budget by citizens, and assist in timely adoption of the budget. The group's publication, titled "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting," offers this advice:

A series of processes should be developed that permit stakeholders to satisfy themselves as to the appropriateness of the budget proposal and to allow the legislative body to achieve consensus and adopt a budget . . . Discussion will inevitably be needed regarding the tradeoffs and choices that need to be made. Issues can be more satisfactorily addressed to the extent that there are clear and accepted processes for considering options and reaching the compromise position that most budgets inevitably represent.⁴⁸

An important component of Budgeting for Outcomes is meaningful involvement of citizens and the legislative body in setting priorities. In reality, however, the budget development practices were not inclusive and no procedures were implemented to reach out to citizens or to build consensus with councilmembers on budget matters. For its part, the Council has no process for developing or communicating its priorities to the Mayor before the proposed budget has been completed.

FINDING 18. THE CITY USED TRADITIONAL BUDGETING, NOT BUDGETING FOR OUTCOMES, TO ALLOCATE FUNDS IN THE 2009 BUDGET.

In spite of all the time and resources expended since 2007 on implementing Budgeting for Outcomes as its new model, the City's process for adopting the 2009 budget employed the traditional budgeting approach.

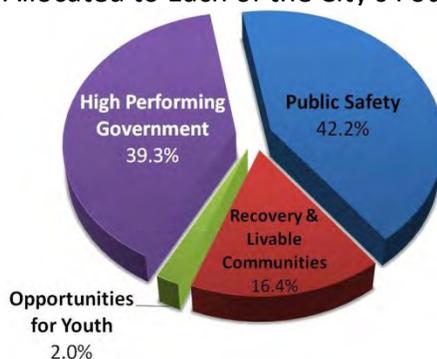
The 2009 budget document claims that the City used a Budgeting for Outcomes process that included the following three steps: (1) determine how much money is available; (2) prioritize the results that matter most to the public; and (3) allocate the funding to each result. The process described in the budget document was intended to re-align the City's resource allocation to better reflect citizens' priorities. In order to successfully implement this approach, the City would have needed to be prepared to reduce or eliminate funding to departments or programs that were not producing results and redirect those resources to better serve the public. But the OIG found no evidence that the City made any effort to base departmental budget allocations for 2009 on the results of the performance measures instituted in 2008 or that any consideration was given to reallocating resources based on citizens' priorities. Instead, the City continued to follow traditional budgeting practices that maintain the status quo.

48. Government Finance Officers Association (GFOA), *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 8.4.

The Mayor described the 2009 budget as a “stand-still budget,” with increases over 2008 based largely on debt service and mandatory personnel-related expenses.⁴⁹ The term “stand-still” comports with instructions given to departments for budget preparation. Departments were told to submit budgets for 2009 that matched *exactly* their 2008 base budget; no variation was permitted in the base submission.⁵⁰ Departments were able to submit enhancements separately; few of these were funded.⁵¹ The City essentially replicated the prior year’s allocation of resources and funded departments based on their prior year’s budget.

Contrary to the claim made in the 2009 budget document, there is no evidence that the City reached out to community leaders or citizens to establish funding priorities. The Results Teams, made up entirely of City employees from the Mayor or CAO’s Office, formulated four categories for City services. These categories were deemed to be the City’s “priorities.” Figure P shows the share of the City’s 2009 General Fund devoted to each category:⁵²

Figure P Share of the 2009 General Fund Budget Allocated to Each of the City's Four Priorities



The category that received the largest share of funding was *Public Safety* (42.2%) which consists primarily of police and fire department expenditures. Just behind this was the second highest funded category, *High Performing Government* (39.3%), a term used to describe mostly administrative functions carried out by the Office of the Mayor, the CAO’s Office, the City Council, and several other departments. Coming in a distant third (16.4%) was *Recovery & Livable Communities* which includes essential city services such as sanitation, public works, parking enforcement, and parks and parkways. Last, with 2% of funding, was *Opportunities for Youth*, a term that was euphemistically applied to juvenile court funding and juvenile detention services, as well as to all City recreation programs.

49. 2009 Adopted Operating Budget, p. 1, Budget-in-Brief.

50. Emails sent to all departments by the CAO’s Office Budget Administrator regarding budget preparation for 2009 and 2010.

51. An enhancement is a funding request for anything that did not appear in the prior year’s budget, without regard for its importance. Examples of enhancements are the Police Department’s request for tasers and the Fire Department’s request for radio maintenance. Both of these were denied.

52. 2009 Proposed Operating Budget, p. 5.

There is no basis for concluding that this allocation of resources reflects citizens' priorities, as the City did not use the Budgeting for Outcomes process to redirect funding according to priority. The proportionate share of available funds dedicated to each of the four priorities in 2009 was predetermined because the budget process simply replicated the pre-existing departmental allocations.

B. THE IMPLEMENTATION OF PERFORMANCE MEASURES IN THE 2009 BUDGET

Performance measurement is a critical part of Budgeting for Outcomes. Measures should be designed to assess how departments are succeeding on the outcomes that matter to citizens. The results should be considered when making funding decisions.

There are different types of performance measures. One approach focuses on "inputs" and "outputs." Inputs measure the resources used by a department, outputs measure its work product. Examples of inputs include the money appropriated to a department (its budget), number of employees, number of facilities, number of computer workstations. Examples of outputs include arrests made, traffic citations issued, acres mowed, permits issued, or applications processed. Inputs and outputs both rely on objective data and are relatively easy to measure. These two measures can be put into equations to determine departmental efficiency, which speak to how well a department is performing. One measure of efficiency involves comparing things like number of arrests per number of commissioned officer.

While outputs are often easy to quantify and can be useful indicators, the primary goal of performance measurement is to assess the effectiveness of government programs at producing the results citizens want. For this reason, it is important to identify ways to measure "outcomes." While outputs like "arrests made" measure work products, outcomes like "lower crime rate" measure results. Whenever possible, performance measurement focuses on the outcomes achieved by government programs because results are what matter to citizens. There are often debates about the most effective way to achieve outcomes. Such debates should be informed by serious efforts to assess the effectiveness of the methods used to produce the outcomes. This requires (1) designing performance indicators that use reliable, objective data to measure outcomes; (2) implementing an efficient system for collecting data; and (3) communicating the results to the public in a timely manner.

Performance measures can improve accountability if they include criteria to assess how departments are performing. However, general statements about loosely defined goals provide no basis for assessing if a department is making progress. In order to be effective, a

performance measure must relate to a result or goal that is capable of being measured and compared.⁵³

FINDING 19. MANY CITY PROGRAMS HAVE NOT ADOPTED MEANINGFUL PERFORMANCE MEASURES.

The OIG evaluated performance measures incorporated into the 2009 Operating Budget for the thirteen departments established by Charter. The clarity and relevance of these performance measures varied widely from one department to another, with only some departments adopting well-drafted measures capable of producing concrete and useful data about their performance. A substantial number of departmental programs, however, either had no performance measures at all or merely stated vague goals without any measurable standards.⁵⁴ In general, even programs reporting concrete data about their performance focused entirely on outputs, such as the number served, but not on efficiency of service or effectiveness of outcomes. In some cases, the outputs to be measured were simply described (e.g., number of citations written), but no numerical data or goals were provided. Overall, a great deal of work remains to develop an effective system of performance measurement.

The following discussion highlights examples of issues the OIG identified with respect to performance measures used by some departments. Appendix C of this report provides a more comprehensive summary of performance measures included in the 2009 Operating Budget.

POLICE DEPARTMENT

The only performance measurements the Police Department as a whole included are taken from the FBI's Uniform Crime Report.⁵⁵ These statistics simply describe the incidence of crimes. What they fail to do is reveal anything about the Police Department's efficiency or goals. There are no targets set, either against internal goals or by external benchmarking.

Each of the eight police districts includes the following statement, which purports to be the "key performance indicator":

53. "A measure is a number, not a 'yes' or 'no'; A measure is objective, not a value statement; A measure is defined numerically, not with a paragraph." PFM presentation to City of New Orleans on Performance Measurement, April 23, 2008, p. 18.

54. No performance measures were included for the Office of Inspector General in the 2009 Operating Budget. The OIG, a newly created department, did not begin to hire staff until 2008. When the OIG budget was developed in July 2008, the OIG had just hired its first six employees and did not develop performance measures or targets in time to be included in the 2009 budget. The OIG's 2010 budget submission includes performance measures.

55. There is an unexplained discrepancy between the Police Department's reported crime statistics and the numbers published in the 2009 Adopted Budget (p. 180). The 2009 budget shows 1,049 violent crimes in 2006; the FBI and Police Department records show 2,255. For 2007, the budget shows 1,153 violent crimes; the FBI and Police Department records show 3,451. A Police Department source confirmed that the FBI statistics were reported to the CAO's Office; neither the Police Department nor the CAO's Office knew the source for the numbers reported in the 2009 budget.

District performance is measured by the ability to use assigned staff and equipment in the most efficient manner. Each district must be capable of providing a satisfactory response to calls for service.⁵⁶

This is an example of the type of vague, subjective statement that cannot be used to measure performance because it provides no basis for evaluation or comparison. In contrast with this standardless generalization, police departments in other cities have implemented concrete indicators such as: sworn police officers per 1,000 population, number of patrol vehicles, cases cleared per sworn officer, calls dispatched per sworn officer, and minutes of response time for high priority calls. Such quantifiable measures promote accountability and allow the department to set goals for improved efficiency.

An interesting and relevant statistic reported in the 2008 budget for the Police Department was the percentage of residents reporting crime as their biggest problem. This statistic was taken from the University of New Orleans (UNO) Quality of Life Survey of May 2007. The 2008 budget statistic showed that from 2006 to 2007, fewer Orleans Parish citizens perceived crime to be their biggest problem, an encouraging improvement. The 2008 target for the statistical measure was “to be determined.”⁵⁷

Unfortunately, the numbers were less encouraging the following year, with 34% of citizens reporting crime as their biggest problem in 2008 (up from 29% in 2007.) However, the 2008 statistic was eliminated from the 2009 budget, even though UNO has continued to conduct the survey. It is unfortunate that the Police Department did not follow through with the plan to incorporate this useful outcome indicator.

CHIEF ADMINISTRATIVE OFFICE (CAO’S OFFICE)

The CAO’s Office has thirty-one programs under its umbrella. Of these thirty-one, only four included performance measures in the 2009 Operating Budget.⁵⁸ Of the four programs that included measures, only two provided any data on actual performance. The only four programs that have performance measures are:

- *Equipment Maintenance Division Fuel*. This program is responsible for dispensing fuel for the City’s fleet of vehicles and equipment. The program plans to measure its performance by availability of fuel services for vehicles and timeliness of fuel use reports to departments. The goals – fuel availability 99.5% of the time and timely reports 100% of the time – are objective and measurable.
- *Office of Emergency Preparedness (OEP)*. This program’s only measure is the following goal, which is vague and not susceptible to measurement:

56. 2009 Adopted Operating Budget, p. 181.

57. 2008 Adopted Operating Budget, p. 195.

58. 2009 Adopted Operating Budget, pp. 128-135.

OEP measures its performance by being able to reliably provide quality emergency services for both planned and non-planned emergency responses within the City while maintaining the standards set forth in Homeland Security Presidential Directive (SPD) 5 and 8.

- *Capital Projects*. This program, responsible for capital budgeting and non-street capital projects, has five performance measures:
 - 1) Number of projects that maintain established project schedules;
 - 2) Number and value of projects completed and occupied;
 - 3) Number of bond-funded projects completed within budget;
 - 4) Number of public assistance-funded projects capturing added costs for eligible damage;
 - 5) Amount of funds reimbursed by the State for FEMA-eligible projects.

These performance measures are objective and measurable, but no goals are established for future performance.

- *Capital Projects Architects*. This program is responsible for overseeing construction projects and includes two performance measures: “1) Number of projects administered by Capital Projects in lieu of outside contractors; 2) Performance measures and targets for project delivery will mirror those of existing staff.” The first of the two performance measures appears to be objective and verifiable, although no data is provided on the program’s past or current performance and no goal is established. The meaning of the second performance measure is not clear.

The CAO’s Office manages a large range of programs, yet only a few included performance measures. The CAO’s Office also oversees critical programs such as:

- Managing the City’s fleet of vehicles,
- Managing the City’s equipment,
- Overseeing the City’s information technology systems, and
- Providing electric and gas utility services for City buildings and equipment.

None of these programs adopted performance measures for 2009.

Further, the entire focus of performance measurement appears to be misplaced. For instance, the only goal for the City’s vehicle fleet is to make fuel available to City employees around the clock, with no goals for tracking or reducing costs to taxpayers for vehicle operation and maintenance.

The CAO's Office is responsible for spearheading the City's effort to implement Budgeting for Outcomes, but has not set a good example for other departments by measuring and setting goals for improving the efficiency and cost effectiveness of its own programs.

CITY COUNCIL

In the 2009 budget, the Council lists nine programs.⁵⁹ Of these, seven have no measures for either the 2008 or 2009 budget. The only two Council programs that included performance measures are:

- *Clerk of Council.* This program proposes to measure its timeliness in responding to public records requests and in responding to document requests from departments. A goal of one to three days was set for public records requests, but no actual performance data was provided.
- *General Advertising.* This program proposes to measure the number of articles published and timeliness of submitting advertising to the Official Journal. There is no goal for either of these measures and no actual performance data is reported.

As is the case with the CAO's Office, the Council's failure to adopt performance measures for most of its programs is disappointing. The Council is responsible for vital City functions, including the regulation of electric and gas utility services for the residents of New Orleans and reviewing appeals of property assessments, yet it adopted no performance measures relating to these and other important functions.

This discussion of performance measures developed for three divisions – Police Department, CAO's Office, and City Council – presents examples that demonstrate the need for more relevant and meaningful measures of the efficiency and effectiveness of City programs. A summary of measures adopted by the other ten Charter departments is presented in Appendix C of this report.

For successful implementation of performance measurement, the City will need the full support of department managers and the cooperation of staff. The Government Finance Officers Association (GFOA) advises that:

Governments in the early stages of incorporating performance measures into their budget process should strive to [. . .] ensure that the entire organization is receptive to evaluation of performance."⁶⁰

59. 2009 Adopted Operating Budget, pp. 86-87.

60. Government Finance Officers Association, Recommended Practice, *Performance Management: Using Performance Measurement for Decision Making* (2007).

To assess the degree to which City managers have embraced the notion of performance measures and their perception as to the quality of the training and guidance provided, the OIG conducted a series of interviews with directors of the thirteen Charter departments. The interviewees were asked a series of questions about their perception of the City's budgeting process. These individuals expressed a wide range of opinions regarding the contribution that Budgeting for Outcomes makes to their own priority setting, the extent to which performance measures help improve their departmental performance, how well the budget process enables them to advocate for their priorities, and how well the City's budget process succeeds in allocating funds according to the City's highest priorities.

The survey results indicate that there is no consensus among department managers as to whether the City's implementation of Budgeting for Outcomes is achieving its objectives. More work remains to ensure that this effort has broad-based departmental support. The results of the departmental survey are presented in Appendix B of this report.

FINDING 20. THE CITY DOES NOT HAVE AN EFFECTIVE SYSTEM FOR TRACKING AND REPORTING PERFORMANCE MEASURES.

The success of Budgeting for Outcomes depends on tracking performance measures and communicating the results in a timely manner. When performance data is allowed to age, it no longer provides a relevant tool for redirecting an agency when most needed. According to the GFOA, "consistency and timeliness are particularly important when implementing this practice: it is essential that reports are prepared on a routine, widely publicized basis."⁶¹

The plan set forth in the 2009 Operating Budget calls for the City to publish performance measures in three places: 1) in the budget document by department so that those reviewing and approving the annual operating budget can see progress toward goals during the budget adoption process; 2) in quarterly performance reports presented to the City Council; and 3) in a "scorecard" published on the City's website to alert citizens to the progress being made towards the goals. As of September 2009, the City had not followed through with its plan to provide regular quarterly reports or maintain website scorecards to track progress on performance measures.

A few departments, including Parks and Parkways, Recreation, and Public Works, publish weekly reports of their activities on the City's website. Although these reports help inform the public about important activities, they are not tied to performance goals established for the departments and cannot be used to gauge progress. The City's website does not provide information that would allow citizens to compare departmental performance to a benchmark or goal or to track progress over time.

61. Government Finance Officers Association, *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 11.2.

The quarterly progress reports to the City Council have not been produced as planned. The report for the first quarter of 2009 was presented at the end of August 2009, and the quarterly report for the fourth quarter of 2008 was never produced. These lengthy intervals in producing quarterly reports indicate that the City needs to develop more efficient reporting methods if it expects successful implementation of performance tracking.

The lack of an automated reporting system appears to make the process of preparing quarterly performance information time consuming. Some departments use a word processing program to create individualized reporting tables; nothing is standardized or automated. This makes integration and reporting laborious, as data must be entered multiple times. As with other City operations, the lack of effective computer technology contributes to the inefficiency of reporting on performance measures. This may partially explain why the quarterly performance reporting has been irregular.

The process originally envisioned by PFM is that staff in the CAO's Office would be responsible for obtaining performance data from the departments on a quarterly basis, issuing a quarterly report, and reporting on the performance measures in each year's operating budget. Since 2007, however, PFM has continued to be responsible for all data collection and reporting. The CAO expressed great concern over current staff being able to take on this or other Budgeting for Outcomes tasks anytime soon, necessitating expensive reliance on the contractor for the foreseeable future.

Two years after the City began to implement Budgeting for Outcomes, more than \$2 million has been devoted to training personnel, creating performance measures, developing budget documents, tracking departmental performance, and instituting a performance reporting system. Despite a substantial investment of time and money, the City has not yet succeeded in implementing an effective system of performance measurement. As of the 2009 budget, many departments had developed only minimal performance measures, which failed to give insight into functionality and efficiency. The City's tracking and reporting functions are haphazard at best and the City is still relying on an outside professional consultant to carry out what should now be a routine staff function.

VI. PROBLEMS WITH THE CITY'S FINANCIAL REPORTING SYSTEM

FINDING 21. THE CITY LACKS A FINANCIAL REPORTING SYSTEM CAPABLE OF PRODUCING ACCURATE AND TIMELY REPORTS ON REVENUES AND EXPENDITURES.

A budget-related issue that emerged during the OIG's evaluation concerns the City's critical need to improve its financial reporting capabilities. An operating budget functions as part of the financial management system to control expenditures. This control function depends on an accounting system that continuously monitors actual revenues and expenditures and precludes expenditures not allowed in the budget. Standards established by the American Institute of Certified Public Accountants, and adopted for local governments by the Louisiana Legislative Auditor, call for monthly reports comparing actual expenditures with budgeted amounts.⁶²

The OIG found that the periodic budget reports produced by the City's budget office were incomplete because they did not track departmental expenditures other than personnel costs, which account for only about 51% of General Fund expenditures. Managers in several City departments told the OIG that they did not consider information generated by the City's accounting system to be reliable for tracking their expenditures and that they maintained their own spreadsheet systems to manage their budgets. The failure to produce comprehensive budget reports likely stemmed from serious weaknesses in the City's financial reporting system.

The statements made by City personnel to the OIG are consistent with a needs assessment of the City's business and administrative systems performed by the GFOA Research and Consulting Center in November of 2008.⁶³ That report found many weaknesses in the budgeting functionality of the City's accounting system. The report noted that operating budget reporting was non-existent and that the system provided no on-line, real-time revenue or expenditure information. Additionally, there is no review of the current year budget in order to control cost. The needs assessment confirmed that City personnel rely on shadow systems, such as Excel spreadsheets, to record, track, and manage information outside of the City's financial reporting system.

The Management Letter from the independent auditors who prepared the City's 2007 Financial Statement noted that the City did not have an appropriate infrastructure to prepare accurate and complete financial statements in a timely manner in accordance with U.S. generally accepted accounting principles. The Management Letter that accompanied the City's 2008 Financial Statement reported that the 2007 finding had not been resolved even though the City increased the personnel dedicated to financial reporting. In addition to causing the control deficiencies which were reported in the 2007 and 2008 auditors' reports, the dysfunction of the

62. *Best Financial Practices: Louisiana Local Government* (Louisiana Legislative Auditor 2004), p. 20.

63. *City of New Orleans Business and Administrative System Needs Assessment Report*, GFOA Research and Consulting Center, November 2008.

City's financial management system is a major impediment to the efficient operation of the City's daily business activity.

The risk posed by weaknesses in the City's financial reporting system came to light dramatically at a City Council meeting held on June 18, 2009. The Council was asked to approve ordinances to amend retroactively the City's 2008 budget to cover expenditures that had been made in excess of appropriations. This overspending was uncovered by independent auditors who prepared the City's 2008 Financial Statement. The auditors determined that expenditures by several departments exceeded their budgets by substantial amounts. The Department of Sanitation had the largest excess expenditure – about \$4.3 million – and the Department of Public Works overspent its budget by more than \$1 million. Recognizing that excess expenditures of this magnitude represent a serious risk to the City's financial health, the Council in July 2009 asked the City's budget office to provide departments with weekly revenue and expenditure reports. The budget office is attempting to comply with this request for reports, but must contend with the limitations of an accounting system that is difficult to use and creates data consistency problems.⁶⁴

64. The City has experienced some technical difficulties which have resulted in only six “weekly” reports in the twelve weeks between July 8 and September 2, 2009.

VII. CONCLUSION AND RECOMMENDATIONS

A. CONCLUSION

The OIG conducted this evaluation of the City's budgeting process and its annual Operating Budget for 2009 to assess compliance with legal requirements and best practices and to make recommendations to improve transparency, accountability, and the delivery of cost-effective services to the citizens of New Orleans. The OIG determined that changes are needed to make the Operating Budget an effective communication device under standards set by the National Advisory Council for State and Local Budgeting and to implement a meaningful system of performance measurement for the delivery of City services. Through a benchmarking project, the OIG also determined that New Orleans' expenditures for basic municipal services are higher than the average among a group of comparable cities and that for certain functions, including executive, city council, and sanitation services, New Orleans spends far more per capita than its peers.

Although the 2009 budgeting process was fraught with difficulty and conflict, the 2010 process looms with even greater hurdles. As with most municipalities across the country, New Orleans is facing a fiscal year with dwindling income due to national economic downturns. With little help coming from a strapped state government, New Orleans must face this task head on. Based on the findings and recommendations in this report, it will be possible for the City to move forward on some reforms now. Others will take a number of budget cycles before improvements in efficiency and performance take effect.

Another milestone in the City's history will be occurring as the election process for a new Mayor and several City Council members takes place over the fall and winter months. Citizens will have the opportunity to discuss with candidates some of the recommendations in this report and ask if support for reform is forthcoming. Both current and future city officials must begin to face the shortcomings found in this report.

The following section offers recommendations which address the findings of this report. These recommendations are intended to provide elected officials, administrators and citizens with objective action items. They go hand in hand with other post-Katrina activities which call for reform and improved performance of government.

B. RECOMMENDATIONS

RECOMMENDATION 1. THE CITY SHOULD CREATE A MORE TRANSPARENT ANNUAL OPERATING BUDGET.

The budget serves a critical role in setting public policy and holding government accountable to its citizens. The Louisiana Budget Act, the City's Home Rule Charter, and standards set by professional organizations require the City's budget to be published and debated at public hearings because citizens have a vital stake in understanding how public resources are used.

These legal requirements and standards also call for the budget to include (1) a meaningful budget summary, (2) clear and detailed descriptions of all programs funded, (3) a coherent plan of operations with organizational charts to show reporting relationships, and (4) adequate expenditure detail, including a description of the services provided and costs incurred under major contracts. The 2009 Operating Budget for the City of New Orleans had deficiencies with respect to all of these four critical elements.

The OIG recommends that the City make future operating budgets more accessible to both the City Council and the public by including:

- **A concise summary of the budget that focuses on the critical issues.** The summary should highlight all significant changes in priorities, service levels, revenue sources, and tax rates as well as the reasons for those changes. It should explain trade-offs made to balance the budget and candidly discuss challenges as well as accomplishments. The budget should articulate tough choices in plain and simple terms.
- **Meaningful descriptions of all programs funded.** The program descriptions should clearly describe the services to be performed, and include the number of staff and amount of funding allocated. Every program should also have meaningful performance measures that relate its efficiency and effectiveness.
- **Organizational charts showing the plan of operations, staffing, and reporting relationships for all departments and functional entities.**
- **An itemization of expenditures currently classified only as "Other Operating" to disclose expenditures for contracted services.** The City is spending a substantial portion of its budget on contracts for a host of services including information technology, project management, management consulting, accounting, legal, and other services. Decisions to outsource these and other critical functions should be made through a transparent process, in connection with an assessment of the cost-effectiveness of this approach. The OIG recommends that appropriations for contracted services specify the nature of the services to be procured and the anticipated cost.

RECOMMENDATION 2. THE CITY SHOULD DEVELOP A MEANINGFUL PROCESS TO ALIGN SPENDING DECISIONS WITH CITIZEN PRIORITIES.

In 2007, the City began to implement Budgeting for Outcomes, a model intended to promote broad inclusion in budgeting and improve accountability in government programs. Budgeting for Outcomes requires (1) obtaining input from citizens, community groups, and legislators to establish spending priorities and (2) allocating funds to match those priorities. The OIG found that the City's 2009 budget process, however, did not provide meaningful opportunities for input from citizens or legislators prior to the completion of the Mayor's proposed budget and was not designed to redirect funds to reflect citizens' priorities.

The OIG recommends that the City implement the following changes to bring its budgeting process into compliance with the Budgeting for Outcomes model:

- **Establish permanent, continuous channels for citizen participation in setting budget priorities.** There are many models for citizen involvement, including budget summits, town hall meetings, focus groups, citizen surveys, and maintaining data from 311 calls or feedback received by departments and councilmembers. The City could also avail itself of citizen input collected by other groups, such as the Survey Research Center at the University of New Orleans. The City should formalize a process for incorporating input from citizens and from legislators into the development of the Mayor's proposed budget so that spending priorities reflect a community consensus.
- **Reallocate funds according to the priorities that matter most to citizens.** The City's 2009 budget process essentially replicated the prior year's departmental allocations. There is no evidence that spending decisions were based on the value citizens placed on specific services. Nearly 37% of the 2009 General Fund budget was allocated to a category labeled *High Performing Government*, consisting mostly of administrative functions performed in the Mayor's Office, CAO's Office, City Council, and other departments. A mere 2% was devoted to *Opportunities for Youth*, a figure that actually overstates the share devoted to recreational and developmental programs for youth because it includes all the City's recreation programs for both adults and youth, as well as juvenile court and juvenile detention services. These allocations resulted from a budget process designed to maintain the status quo rather than target resources based on citizen priorities.

The benchmarking comparisons in this report show that New Orleans differs greatly from comparable cities, spending far more on administrative functions and far less on recreational opportunities. The City should determine whether these spending decisions reflect the community's values and engage in a budgeting process that allows funds to be shifted from low priorities and ineffective programs to pay for the services that citizens want.

RECOMMENDATION 3. THE CITY SHOULD IMPLEMENT AN EFFECTIVE SYSTEM OF PERFORMANCE MEASUREMENT FOR ALL CITY PROGRAMS.

Performance measurement is a critical element in Budgeting for Outcomes. The goal of performance measurement is to assess the effectiveness of government programs at producing the results citizens want. The OIG found that the 2009 budget did not include performance measures for many important City programs. Other programs relied on performance measures that were merely vague goals without measurable standards or that focused entirely on outputs, such as number of persons served, but not on efficiency of service or effectiveness of outcomes. The OIG also found that the City had not developed an efficient system for collecting data on departmental performance and reporting the results to citizens in a consistent, timely manner.

The OIG recommends that the City continue to develop and improve its system of performance measurement. The City should:

- **Develop performance measures for all City programs that measure progress toward achieving the program's key mission.** These indicators should measure the effectiveness of the program at producing results that citizens care about. The measures should set concrete performance targets that are based on historical experience, on benchmarking data from other municipalities, and on the funding allocated for a specific function.

The City should look to performance measures implemented by other municipal governments for examples. The OIG has included some of these examples in Table 1 of Appendix C to this report.

- **Implement an efficient system for collecting and reporting data on performance measures.** The City's reporting system should be standardized and automated to save time and money. Performance results should be made available on the City's website to make the information readily accessible to citizens.
- **Regularly review and analyze performance data.** The objective of performance measurement is not to simply collect data, but to improve services. After data is collected, it should be reviewed regularly by managers to identify operational issues and to develop action plans to address those issues.
- **Identify a set of major strategic measures that align the City's highest priorities.** In addition to developing a wide range of measures for all City programs, the City should focus on a set of strategic measures that can serve as yardstick for the most critical municipal operations. The City of Atlanta, for example, tracks data on eight strategic measures and reports the information on the City's website.

RECOMMENDATION 4. THE CITY SHOULD DEVELOP A COMPREHENSIVE FIVE-YEAR CAPITAL PROGRAM.

The New Orleans Home Rule Charter requires the City Planning Commission and the CAO to prepare a five-year Capital Program as part of the annual budget process. The Capital Program must include a list of all capital projects in order of priority including all sources of funding for each of the five years.

The OIG found that the Capital Program submitted for the 2009 budget did not comply with the Charter because it did not include information on project funding beyond the first two years. Projects included in the Capital Program do not appear to be prioritized to ensure that critical needs are funded first. In addition, the Capital Program did not appear to include all the City's planned projects. The Mayor's letter introducing the Capital Program referred to 344 projects valued at \$613 million in design or under construction but the Capital Program included only 169 projects and \$233 million in funding. In some cases, the total funding identified in the Capital Program was much less than the City's cost estimate for the project. For example, only about \$7 million in funding was identified for five new design-build libraries the City plans to construct at a total cost of about \$32 million.

The Charter requirement for a Capital Program is intended to promote a rational planning process that prioritizes the most critical projects and ensures adequate funding to successfully complete projects. A capital spending plan should also identify repair and renovation needs for aging facilities. To comply with the Charter and with best practices, the OIG recommends that the City develop a comprehensive five-year Capital Program annually that includes:

- **A descriptive summary of each project, including a general scope, expected benefits, and priority ranking;**
- **A cost estimate for each project, based on recent and accurate sources of information;**
- **A schedule for completion of each project, including specific phases and planned timing for acquisition, design, and construction activities;**
- **Identified funding sources for all aspects of each project, specifying the sources of funding for each of the five years and referencing any financing requirements.**

In addition to the elements listed above for all capital projects, the OIG recommends that the City incorporate the following additional information in the Capital Program for non-routine projects, such as a new city hall or other major public facility:

- **A cost/benefit analysis and other analytical information deemed helpful for setting capital spending priorities;**
- **The projected impact of the project on the current and future operating budgets.**

RECOMMENDATION 5. THE CITY SHOULD DEVELOP AND ADOPT A SEPARATE BUDGET FOR THE USE OF LONG TERM COMMUNITY RECOVERY FUNDS.

In 2006, the City undertook a public process to engage citizens in developing a strategic recovery and rebuilding plan. A broad outline for the City's recovery was presented in the Unified New Orleans Plan (UNOP), which was approved by the City and submitted to the Louisiana Recovery Authority in 2007. The UNOP included an extensive list of potential programs and projects, but deferred the tough decisions about which of these would actually be funded.

The City has begun to receive long-awaited federal funds to implement recovery initiatives, as discussed in Section III of this report. Much of this funding comes in the form of FEMA payments that must be used to repair or replace hurricane damaged property. In addition to the highly restricted FEMA payments, however, the City has qualified for \$411 million in Long Term Community Recovery (LTCR) funds that can be used for a wide variety of recovery initiatives, including public infrastructure improvements, real property acquisitions, blight reduction, and assistance to neighborhood-based organizations. These funds represent an unprecedented opportunity for the City to address decaying infrastructure, blight, and other long-neglected problems.

The OIG found that a major portion of the \$411 million in LTCR funding was appropriated for the Office of the Mayor in the 2009 Operating Budget. The budget for the Mayor's Office includes \$309 million in LTCR funds with almost no description of how these funds will be used. The OIG determined that the largest share of this \$309 million is intended for economic development projects such as the VA Medical Center project, Downriver Park, Saenger Theatre, and Methodist Hospital. In stark contrast to the public process used to develop the UNOP, the choice of specific projects to be funded with these recovery grants was developed out of public view.

The citizens of New Orleans have a critical stake in spending decisions for recovery funds. To ensure that these decisions are subjected to meaningful scrutiny in the budget process and that limited resources are not allocated to projects that are not feasible, the City should develop a separate budget to appropriate LTCR funds that includes:

- **A detailed description for every project or program to be funded, including the expected public benefits;**
- **Cost estimates for all capital improvements, including all sources of funding in addition to the City's recovery grant funds;**
- **Feasibility analyses for economic development projects, assessing the need for and economic viability of each project.**

RECOMMENDATION 6. THE CITY SHOULD REQUIRE ALL OFFICES, BOARDS, AND DEPARTMENTS TO COMPLY WITH THE CHARTER REQUIREMENT TO FILE ANNUAL REPORTS.

The Charter requires every office, board, and department to prepare an annual report of its activities no later than March 1. These reports, which must be filed with the City Archives, provide an opportunity to state accomplishments for the past year and discuss ongoing projects and goals. For many cities, annual reports provide citizens and legislatures with important performance information that can be used to plan and budget for the upcoming year.

The OIG found that annual reports have not been filed in recent years. These annual reports are required by the Charter and also provide a means of making City government more accountable. The City should:

- **Update guidance to departments to specify that annual reports should include current data on all performance measures in addition to other information about departmental organization and activities.**
- **Ensure that all offices, boards, and departments submit annual reports by the March 1 deadline.**
- **Publish all annual reports on the City website.**

RECOMMENDATION 7. THE CITY SHOULD EXPEDITE THE PROCUREMENT AND IMPLEMENTATION OF A FULLY INTEGRATED FINANCIAL MANAGEMENT SYSTEM.

Findings in this report relating to the City's financial reporting system indicate significant deficiencies exist. This was noted by the City's independent auditors for 2007 and 2008, and confirmed by a Needs Assessment Report commissioned by the City in 2008.⁶⁵ The current financial reporting system is dysfunctional.

The November 2008 Needs Assessment Report details the myriad problems attributable to poor planning by the City's information technology department since 2005 when it attempted to replace the City's primary financial system. The failure to integrate the new application with existing systems has produced a technology infrastructure that is:

Difficult to use, expensive to maintain, makes data access arduous, suffers from data consistency issues, and promotes the use of shadow systems because of the lack of functional integration."⁶⁶

The efficiency of City operations is severely impaired by this system. In addition, management letters based on the City's last two annual financial audits have reported that the current technology structure poses unacceptable risks to the City's system of financial controls.

The City has taken an important first step in addressing its critical information technology needs by obtaining a needs assessment. The City should regard the implementation of a functional, modern financial management system as one of its highest priorities and proceed expeditiously with acquiring the needed technology.

65. *City of New Orleans Business and Administrative System Needs Assessment Report*, GFOA Research and Consulting Center, November 2008, p. 3.

66. *Ibid.*

VIII. OFFICIAL COMMENTS FROM CITY OF NEW ORLEANS

City Ordinance section 2-1120(9)(c) provides that a person or entity who is the subject of a report shall have 30 working days to submit a written explanation or rebuttal of the findings before the report is finalized, and that such timely submitted written explanation or rebuttal shall be attached to the finalized report.

An Internal Review Copy of this report was distributed on October 2, 2009 to the entities who were the subject of the evaluation in order that they would have an opportunity to comment on the report prior to the public release of this Final Report. Comments were received from Council District A and from the Chief Administrative Office; these comments are attached as Appendix G and Appendix H.

APPENDIX A

BENCHMARKING METHODOLOGY

Benchmarking compares the performance of an entity to that of a peer group to demonstrate an expected standard of performance and identify any discrepancies from that standard. Understanding one's position relative to peers may offer insight into improving performance. The process is not competitive; rather, benchmarking serves as a guidepost for discovering potentially better practices.

Municipal benchmarking refers to the comparison of cities across any number of areas, which may be useful to government officials by exposing them to new ways of providing public services.¹ As part of the budget evaluation, the OIG conducted a comprehensive municipal benchmarking project comparing New Orleans' 2009 budgeted expenditures on basic municipal services to those of nine similar cities. The purpose of this benchmarking project was to compare budget information across the chosen municipalities to identify whether the City's expenditures differ from those of comparable cities.²

The benchmark cities were chosen according to population size as determined by the U.S. Census Bureau.³ The most recent measure indicated that New Orleans' population in 2008 to be approximately 311,853, hence, that figure was used as an anchor to identify comparable cities. First, U.S. cities with populations ranging from 200,000 to 400,000 were randomly identified. From the selected group, seven cities ordered by ascending population were selected, with New Orleans occupying the approximate average. The final sample included Buffalo, NY; Corpus Christi, TX; Toledo, OH; New Orleans, LA; Cincinnati, OH; Tampa, FL; St. Louis, MO; and Wichita, KS (Table 1). In addition, the cities of Baton Rouge, LA and Atlanta, GA were included, as both have historically been comparable to New Orleans.⁴

¹. David H. Folz and P. Edward French, *Managing America's Small Communities: People, Politics, and Performance* (Maryland: Rowman & Littlefield Publishers, Inc., 2005).

². Such an analysis is never "apples-to-apples" as every city is unique. The project is intended to identify discrepancies between the observed practices of New Orleans and those of similar cities to prompt discussion among local government officials about potential means of improving the budget process in New Orleans.

³. Census figures from 2007 were the latest available for the benchmark cities, excepting New Orleans and Baton Rouge, whose latest counts were from 2008.

⁴. The population for Baton Rouge included all of East Baton Rouge Parish, as the local government functions for both the City and the Parish.

TABLE 1		
CITY	POPULATION	LAND AREA (sq. miles)
Buffalo	272,632	40
Corpus Christi	285,507	154
Toledo	295,029	80
New Orleans	311,853	180
Cincinnati	332,458	77
Tampa	336,823	112
St. Louis	350,759	61
Wichita	361,420	135
Baton Rouge	428,360	76
Atlanta	519,145	131

Once benchmark cities were identified, the OIG determined the citizens of New Orleans would most benefit from a comparison of recurring annual expenses for typical municipal services, such as provided by police, public works, and sanitation. However, due to the unique organizational structure of each city, a direct comparison of expenditures by department would not be valid. To make the benchmark as meaningful and fair as possible, the OIG first determined the amount of general funds appropriated to the departments of interest then examined the types of services provided. The costs of services that were not funded in the New Orleans' budget were eliminated from the analysis and specific line-item adjustments were made so that all departments were made as comparable as possible. The only appropriations included in the analyses were those that appeared to fund similar departmental services across the ten benchmark cities.

The New Orleans 2009 Operating Budget provides a summary of each department and its programs and costs. This information was used as a guide when determining the comparable services across the ten cities. The OIG determined that many of the programs within certain departments were not commonly funded by the same departments in other cities. The costs of these services were subsequently eliminated from the benchmark analysis. For example, the executive offices (i.e., Mayor's Office and the CAO's Office) in New Orleans spend money on services not incurred by the same offices in the other cities (i.e., electricity for street lighting). Therefore, these expenditures were not included in the cost of the executive function for New Orleans, as represented in Figure F.

After determining which services within each of the City of New Orleans' departments would be removed, the remaining programs were compiled into a list (Table 3). Because cities vary in organization, the OIG used this list of departmental programs as an informal guide to help identify the amount of funding appropriated for similar services in other cities. At times, within any given benchmark city, some costs for one department were moved to another to best match the City of New Orleans' appropriations for the same services. For example, in many cities the public works department funds street sweeping, but as seen in Table 2, New Orleans' Sanitation Department provides this service (read: Manual/Mechanical Street Cleaning). So, if a benchmark city was found to appropriate street sweeping costs to public works, the cost was subtracted from the city's public works appropriation and added to the city's sanitation

appropriation. This practice was applied to all departments and services under review, with adjustments being made when needed.⁵

TABLE 2 COMPARABLE SERVICES INCLUDED IN THE BENCHMARK PROJECT (SOURCE: NEW ORLEANS 2009 OPERATING BUDGET)	
FIRE	Communications, Fire Prevention and Suppression, Public Affairs, Administration, Pension, Safety Equipment/Supplies, Hazardous Materials, Academy Training, Dedicated Millage, Apparatus Lease
EXECUTIVE	Administration, Scheduling, Inter-government Relations, City Information (i.e. 311), Policy, Communications, Personnel, Fiscal, State/Federal Programs, Coordination of Americans with Disabilities Act (ADA), Budget Operation/Management, Election, Mailroom, Special Projects, Municipal Training, Emergency Preparedness, Property Inventory, Education/Staff Training, Department Needs/Initiatives
LEGISLATIVE	Council or Board Offices, Clerk of Council, Council Research, Council Fiscal Office, Advertising, Cable Access
LAW	Administration, Civil Litigation, Municipal Traffic, Federal/Police Litigation, Housing/Finance
FINANCE	Administration, Employee Retirement, Accounting, Policy Analysis, Purchasing, Revenue, Treasury
POLICE	Districts, Recruits, Policy Review, Technical Services, Investigative, State Pension, Special Operations, Criminal Intelligence Bureau, Superintendent, Traffic, Scientific Criminal, Operations Bureau, Public Integrity, Dedicated Millage, Narcotics, Administrative Support Bureau, Transit Police, Security, School Crossing, Special Programs
SANITATION ⁶	Administration, (Residential only) Garbage Collection, Hauling, Transfer, Disposal, Landfill Closure, Manual/Mechanical Street Cleaning
PUBLIC WORKS	Parking Enforcement, Towing/Impound, Engineering Capital Program, Abandoned Vehicle, Residential Parking, Administration, Parking Adjudication, Sign Shop, Roadway Maintenance, Traffic Management/Safety
PARKS & RECREATION ⁷	Management of Grounds, Major Parks, Urban Forestry, Golf Courses, Special Operations, Athletic Programs, Centers, Summer Programs, Aquatics, Maintenance

⁵. While the benchmark analysis compared services, not departments, the term “department” is used interchangeably with “services” in the benchmarking section of the report for purposes of simplicity.

⁶. Sanitation appropriations are for residential services only and exclude recycling costs.

⁷. While New Orleans funds a department of recreation separate from park and parkways, the appropriations for both were considered together for the purpose of the benchmark project, as many of the benchmark cities fund both through a single department.

Each city’s website was scoured for relevant budget documents (Table 3):

Buffalo	http://www.ci.buffalo.ny.us/Home/Mayor/Leadership/Archived_Budgets/20082009MayorsBudget
Corpus Christi	http://www.cctexas.com/?fuseaction=main.view&page=2967
Toledo	http://www.ci.toledo.oh.us/Departments/Finance/BudgetDivision/tabid/202/Default.aspx
New Orleans	http://www.cityofno.com/pg-35-97.aspx
Cincinnati	http://www.cincinnati-oh.gov/cmgr/pages/-12848/
Tampa	http://www.tampagov.net/dept_Budget/information_resources/budget_documents/FY2009_budget/Annual_Budget.asp
St. Louis	http://stlouis.missouri.org/government/budget09/
Wichita	http://www.wichita.gov/CityOffices/Finance/Budget/Budget/
Baton Rouge	http://brgov.com/dept/finance/budget.htm
Atlanta	http://www.atlantaga.gov/government/finance/budget_091903.aspx

The appropriation values for the services of interest were obtained from each city’s 2009 budget documents, including annual operating budgets and supplemental documents, and city personnel were contacted when clarification of information was needed.

After confirming their reliability,⁸ values were entered into a database and converted into per person expenditures by dividing each department’s appropriation by city population. For example, in order to determine the amount of funds appropriated to New Orleans’ Sanitation Department per person, the appropriation value of \$41,884,576 was divided by the population value of 311,853, yielding a per person cost of \$134. The per person expenditures for sanitation department services were calculated for each city then the values were plotted on a graph, with cities ranked from lowest to highest spender ascending across the X axis and per capita expenditure ascending up the Y axis. A horizontal line was then added to the graph to indicate the mean value for each service across all the benchmark cities. As seen in Figure J, the per person value for the New Orleans’ Sanitation Department falls above the mean line, suggesting that the City spends more than the average given the populations and per person spending of all of the benchmark cities.

The benchmarking graphs should be approached as a starting point for discussion regarding the spending practices of New Orleans. While the findings are as accurate as can be, there are limits to the comparability of services across municipalities. Therefore, the City’s performance should be considered within the confines of this project. Future benchmark projects are recommended in which the City may include additional cities, variables, and statistical analyses to determine the significance of New Orleans’ deviations from an expected standard. At least two local universities have departments well suited to performing this type of analysis.⁹

⁸. Budget information was collected by two independent analysts. Pearson correlation coefficients between the two sets of data averaged .97, indicating strong agreement between the two sets of values.

⁹. Loyola University runs a “Policy Research Shop,” which proposes research projects to the City Council’s Government Affairs Committee. Additionally, the University of New Orleans houses The Survey Research Center ,

Finally, additional variables of interest were reviewed to help comprehend the benchmark findings. For example, personnel costs and number of Full-Time Equivalents (FTEs) were identified for each city to determine the percentage of recurring funds appropriated to employee versus operating expenses. All variables of interest are included in Table 4.

TABLE 4 MUNICIPAL BENCHMARKING VARIABLES OF INTEREST	
<i>General Information</i>	
City Population	Total number of individuals living within city limits (U.S. Census Bureau, 2007)
MSA Population	Metropolitan Statistical Area; population count of city and surrounding areas (U.S. Census Bureau, 2007)
Type of Government	Political, Adaptive, or Administrative (Folz, D. and French, P. (2005) <i>Managing America's small communities</i> . Rowman & Littlefield Publishers: Lanham, MD.)
Land Area	City land area in square miles (U.S. Census Bureau, 2007)
<i>Overall Operating Budget</i>	
Legislative Budget Review	Number of days legislative branch is given to review budget before adopting
Budget Development Personnel	Number of individuals cited as being responsible for budget preparation
Last CAFR available	Most recent comprehensive annual financial report available via city website
FTEs	Total number of full-time equivalents on city payroll (not just General Fund)
Personnel Expenditures	Total dollar amount of operating budget spent on personnel costs
Police FTEs	Total number of full-time equivalents in Police Department (not just General Fund)
Police Personnel Expenditures	Total dollar amount of operating budget spent on Police Department personnel costs
# Uniformed FTEs	Total number of uniformed full-time equivalents in Police Department
<i>General Fund</i>	
GF Projected Revenue	Total dollar amount expected to be allocated to the General Fund
GF Projected Expenditures	Total dollar amount expected to be spent out of the General Fund
GF Property Tax Rate	Millage rate in dollars owed to General Fund per \$1,000 of taxable property value
GF Property Tax Revenue	Total dollar amount expected for the General Fund from property tax payments
GF FTEs	Total number of full-time equivalents paid out of General Fund
GF Personnel Expenditures	Total dollar amount of General Fund spent on personnel costs
GF Police FTEs	Total number of full-time equivalents in Police Department paid from General Fund
GF Police Personnel Expenditures	Total dollar amount of General Fund spent on personnel costs in Police Department
GF Legislative	Total dollar amount appropriated to City Council/Board from General Fund
GF Executive	Total dollar amount appropriated to Mayor/City Manager from General Fund
GF Law	Total dollar amount appropriated to Law Department from General Fund
GF Finance	Total dollar amount appropriated to Finance Department from General Fund
GF Fire	Total dollar amount appropriated to Fire Department from General Fund
GF Police	Total dollar amount appropriated to Police Department from General Fund
GF Public Works	Total dollar amount appropriated to Public Works Department from General Fund
GF Human Resources	Total dollar amount appropriated to Human Resources Department from General Fund
GF Sanitation	Total dollar amount appropriated to Sanitation Department from General Fund
GF Water & Sewerage	Total dollar amount appropriated to Water & Sewerage from General Fund
GF Schools	Total dollar amount appropriated to Schools from General Fund

which “exists to serve the research, teaching and service needs of the University and of the larger community.” For reference on other universities which perform such civic services, see the Florida Benchmarking Project, partnered with the University of Central Florida, and the North Carolina Benchmarking Project, run by the University of North Carolina’s School of Government.

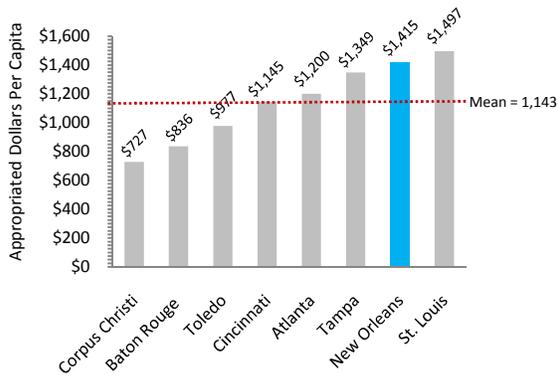
BENCHMARK RESULTS WITH ADJUSTED NEW ORLEANS POPULATION

The preparation of a city's operating budget typically occurs during the year prior to its use. To best approximate per person spending for each benchmark city, the OIG used the most recent population counts provided by the U.S. Census Bureau. These counts are from 2007, with the exception of New Orleans and Baton Rouge, which were re-estimated in 2008. Due to rapid population change since 2005, however, local researchers have also conducted independent population surveys that suggest the population for New Orleans exceeds the Census Bureau's estimates. The Greater New Orleans Community Data Center (GNOCDC) conducted several population surveys for 2008. One, based on electrical accounts with greater than 200 kilowatts of usage per month, produced a population count of 336,644 for July of that year. Because this methodology used by the GNOCDC was accepted by the Census Bureau to revise the City's 2007 population count, there is some reason to believe that the Census Bureau will accept the revised population statistic of 336,644 for 2008.

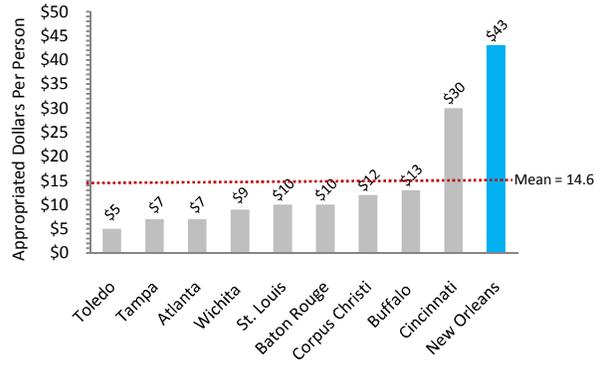
Although it remains to be seen whether the Census Bureau will accept this higher population count, the OIG re-ran the benchmark analysis with the adjusted population value of 336,644 for New Orleans. Using the GNOCDC population count for 2008 does not change the City's relative standing in expenditure comparisons compared to the other benchmark cities, except for money spent on overall general city services and the Police Department. The new results are depicted in the following graphs, which reveal that, even with the larger population estimate, New Orleans still spends more per person than the average and more than any other city on executive and legislative functions, and on the Law and Sanitation Departments. New Orleans also still spends less per person than the average and less than any other benchmark city on parks and recreation.

However, with the population adjustment, while New Orleans still spends more per person on general city services compared to the average, the City is no longer the highest spender. Compared to Figure E, the new analysis suggests that, given a higher population count, the City's spending on general services is surpassed by one other benchmark city. The City also appears to spend closer to the average, and less than four other benchmark cities, on the Police Department. And, while the City still spends more per person than the average on the Finance Department, it now only spends more per person than eight of the benchmark cities, sharing the highest expenditures with one other city.

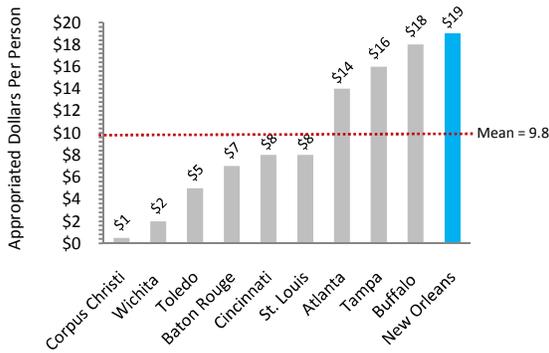
2009 APPROPRIATIONS FOR CITY SERVICES



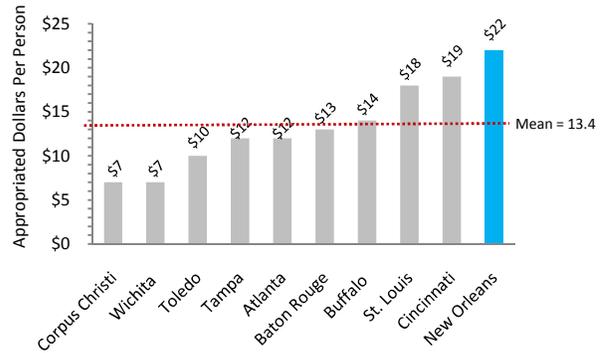
2009 APPROPRIATIONS FOR EXECUTIVE FUNCTION



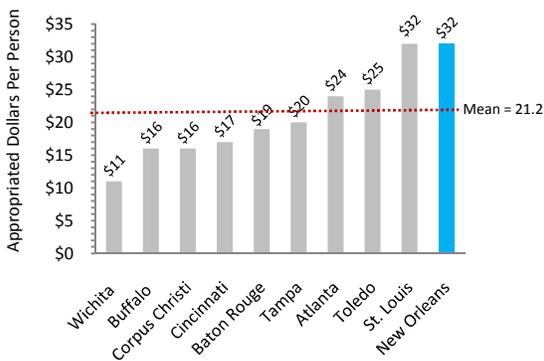
2009 APPROPRIATIONS FOR LEGISLATIVE FUNCTION



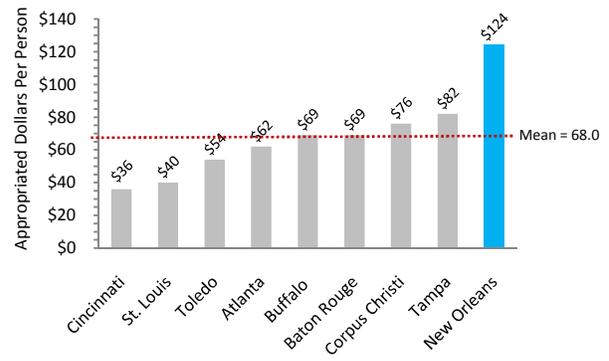
2009 APPROPRIATIONS FOR LAW DEPARTMENT



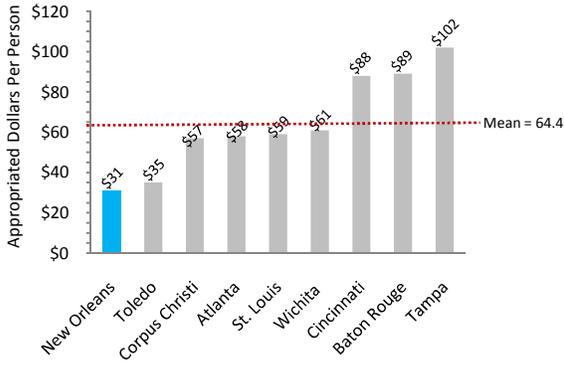
2009 APPROPRIATIONS FOR FINANCE DEPARTMENT



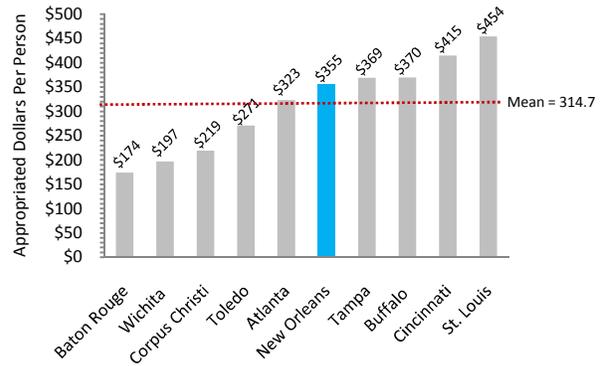
2009 APPROPRIATIONS FOR SANITATION DEPARTMENT



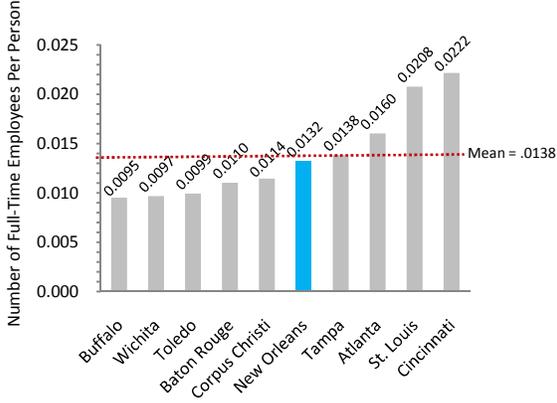
2009 APPROPRIATIONS FOR PARKS & RECREATION



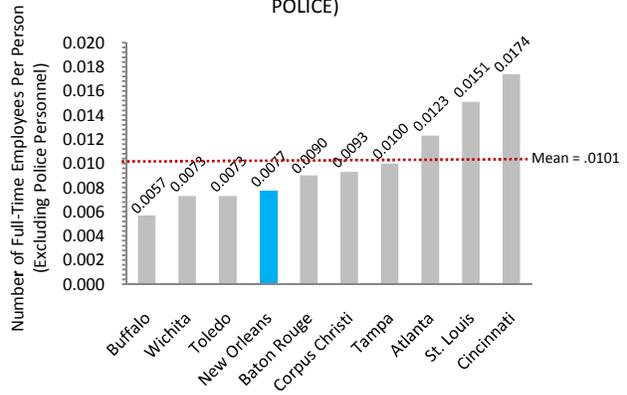
2009 APPROPRIATIONS FOR POLICE DEPARTMENT



2009 CITY FULL-TIME EQUIVALENTS



2009 CITY FULL-TIME EQUIVALENTS (EXCLUDING POLICE)



Again, the results of both sets of analyses should be used to prompt critical debate about how New Orleans allocates funding for different public services, not to automatically label its spending as wasteful. Considerations must always be made about the unique challenges faced by the City; however, while New Orleans is characteristically distinct, the results of a benchmark analysis are still useful. A well-executed benchmark project provides the catalyst for local officials to identify areas of public service in which change may need to be implemented.

APPENDIX B

DEPARTMENTAL SURVEY

As part of the budget evaluation, the Office of Inspector General also conducted a series of interviews with the directors of thirteen major City departments, and at times, their budget personnel. During these meetings, the OIG conducted semi-structured interviews, in which a series of questions about the staff's perception of the City's budget process were used as a guide (Table 1):

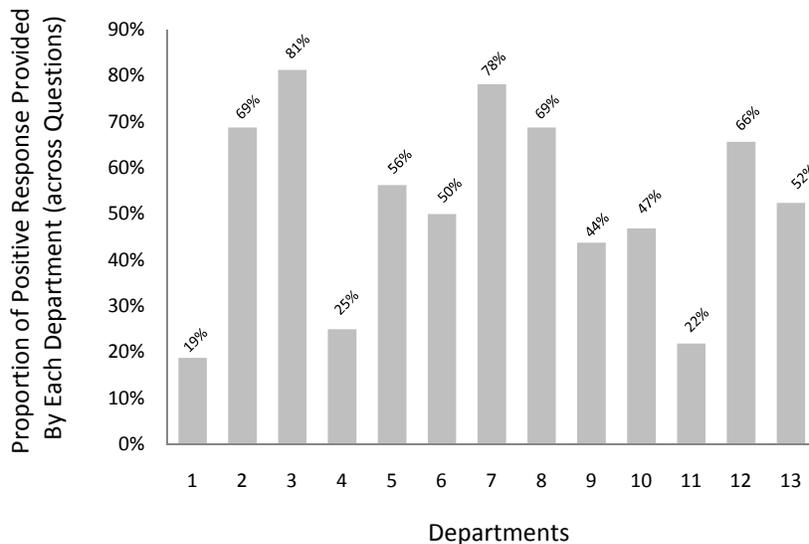
TABLE 1			
DEPARTMENTAL SURVEY QUESTIONS			
1. Has the BFO approach helped your department to develop budget priorities?	Not Helpful	Somewhat Helpful	Helpful
			Very Helpful
2. Do you believe the performance measures your department developed for the 2009 budget will help your department improve its performance?	Not Helpful	Somewhat Helpful	Helpful
			Very Helpful
3. How would you rate the guidance you were given this year for developing your department's proposed budgets?	Very Inadequate	Barely Adequate	Adequate
			Good
4. Did the budget process give you an opportunity to advocate for your priorities for 2009?	No Opportunity	Some Opportunity	Good Opportunity
			Very Good Opportunity
5. Were your department's budget priorities reflected in the Mayor's proposed budget for 2009?	Not at All	Somewhat	Substantially
			Completely
6. How would you rate the information you receive on revenue and expense throughout the fiscal year to gauge whether your departmental expenditures are in line with your budget?	Very Inadequate	Barely Adequate	Adequate
			Good
7. Over the past two years, how frequently has your department experienced cost overruns or revenue shortfalls that required you to request a budget amendment?	More than 4 Times	2 to 3 Times	Once
			Never
8. Overall, do you think the City's budgeting process succeeds in allocating the funds available according to the City's highest priority?	Not Successful	Somewhat Successful	Substantially Successful
			Very successful
9. Do you think the City's budget department personnel have adequate training? Explain.	No	Yes	
10. Would you like to see changes in the guidance you receive concerning the budget process?	No	Yes	
11. Would you like to see changes in the software used for budget preparation?	No	Yes	
12. Would you like to see changes in the schedule for budget preparation?	No	Yes	
13. Would you like to see any other changes?	No	Yes	
14. Do you think the City Council budget hearings in November on the proposed budget are an effective medium for communicating with council members or the public for providing information?	Not Effective	Somewhat Effective	Substantially Effective
			Completely Effective

The interviewees were asked to specify their level of agreement with most of the survey questions by choosing one of four Likert-type responses. For example, for the question “Has the Budgeting for Outcomes approach helped your department to develop budget priorities?” the response options were: (1) Not Helpful, (2) Somewhat Helpful, (3) Helpful, and (4) Very Helpful. In addition, each respondent was prompted to provide a verbal explanation for each of their choices.

Upon completion of the interviews, the response information was quantified and analyzed. Specifically, each response was given a numerical value from 0 to 3, with the most positive responses assigned the highest value. Next, the values were summed across questions for a total score for each department and across departments for a total score for each question. The total scores were then converted into percentage values, the higher of which were considered more positive.

As can be seen in Figure Q, there was a mixed response across departments regarding their perceptions of the City’s current budget process.

Figure Q Department Perception of City Budget Process

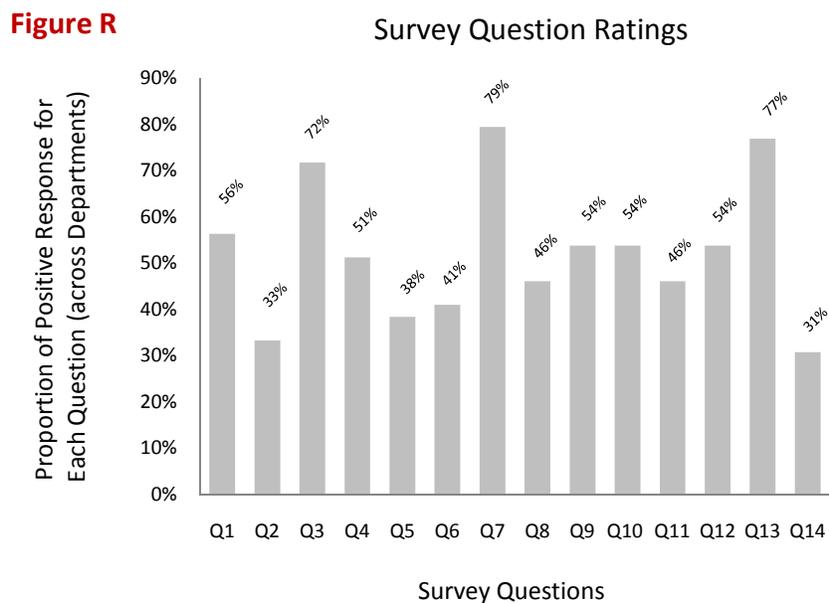


The percentages ranged from 19%, which approximates a low or very negative perception, to 81%, which approximates a high or very positive perception, suggesting that there is little consensus among City departments in how helpful, adequate, and successful the annual budget process is.

The data also suggest that departments with low percentage values (below 30%) tended to particularly differ from departments with high percentage values (above 70%) on Questions 4, 6, 9, 10, and 11, indicating a greater discrepancy in perception of issues concerning communication with the administrative and legislative branches. For example, when asked whether the current budget process allowed them an opportunity to advocate for their

priorities (Question 4), one respondent said the “9th floor” (i.e. the administration) does not know what their department does and that the “Council only works with us on an as-needed basis...when constituents are complaining.” Others said that the process did allow them to advocate for their priorities, but that they are never rewarded for achieving their prioritized goals, and others said “we advocate throughout the year via budget committee meetings.” Clearly, some departments feel out of the loop with regards to the administration’s budget preparation while others feel completely informed, with still many others falling in the middle.

As seen in Figure R, when analyzed across departments for each question, the data suggest that departmental perceptions vary among the different aspects of the budget process.



First considered were the highly rated items. At 79%, the overall departmental rating for question 7 suggests that most of the City’s departments rarely face shortfalls or overruns on spending. While this finding is desirable in one sense, the reason given by the interviewees for this under-spending is the consequence of the administration’s decision to annually “freeze” allocated general funds around the end of the 3rd quarter. As a result, departments must try to anticipate all costs and spend funds early in the year, forcing those with unexpected and/or late year expenses to face much difficulty in meeting all of their needs sufficiently. In fact, one respondent was forced to pay for certain operating expenses out of pocket until reimbursement was issued by the City the next year.

At 72%, the percentage value for Question 3 suggests that most departments are satisfied with the level of guidance they were provided in the development of their respective proposed budgets. However, upon further inspection, the statements made by several of the respondents suggested that they viewed the new budget process introduced by PFM as helpful, but not necessarily the training for utilizing it. For example, one department stated that “PFM did come up with a fantastic idea” and another that the new budgeting process “stimulated creativity on

the budget people's side, but PFM didn't bring much to the table...would have liked more input." And, while some departments rated the guidance provided by PFM and the administration as adequate or very good, they did not describe the quality of the help. In other words, these respondents made statements such as, "PFM was always helpful and always available to meet" and "the administration is sensitive to our needs;" however, there were no detailed statements made about what the guidance specifically entailed.

Finally, the value of 77% for Question 13 indicates that most of the interviewees did not provide any suggestions for improving the City's budget process. At first glance, one may deduce that there is either a general perception that there is no need for constructively criticizing the City's budget process or that any suggestions for improvement would simply fall upon deaf ears. Judging by the varied response set, it is likely the result of both.

Next, items with low percentage scores were analyzed, particularly Questions 2 and 14. Regarding Question 2, while respondents seemed to like the idea of performance measures, they evidenced concern about their ability to implement them without proper funding. In other words, the system is perceived as a good one theoretically, but does not function practically. For example, while one department head said "it is critical to use numbers," another said that "current performance measures do not tell the real story." Further, many departments appeared frustrated by their lack of funding despite managing to meet performance expectations. One interviewee said that performance measures "help us set our goals and help us in meeting our goals to the best of our ability given our resources", but also stated that "it is hard to meet priorities outlined if we are not given the funds to do so." Another mentioned that "we perform, but we don't get paid for the performance" and that "the system doesn't exactly work the way it is supposed to."

With respect to Question 14, respondents generally seemed to think the City Council budget hearings revolve around "theatrics" versus the budget. However, even though most of the interviewees perceived the budget hearings as ineffective, some noted that there are always opportunities to meet with the council throughout the year.

As a final observation, responses were analyzed for large perceived differences between high and low rating departments. The inspection indicated that Questions 1, 2, 4, and 8 were rated either very negatively or very positively, while the other items appeared to be rated more discriminately. The individuals interviewed clearly have strong and polarized opinions regarding the contribution that Budgeting for Outcomes makes toward their own priority-setting, the extent that performance measures help improve their departmental performance, how well the budget process enables them to advocate for their priorities, and how well the City's budget process succeeds in allocating funds according to the City's highest priorities.

In conclusion, the results of the departmental survey suggest that there is no consensus regarding the budgetary procedures employed by the City. Departmental employees involved with budget preparation exhibit a wide variety of opinion concerning the many areas of the City's budget process. In addition, even when rated items were high, there often appeared to

be a lack of elaboration as to why the item should be rated as such. These findings, while not entirely conclusive, raise serious concerns. Because the planning, preparation, and adoption of a city's annual budget is extremely complex, all individuals involved should be adequately educated and motivated about the process. This is clearly not the case in New Orleans, as evidenced by the range of disagreement among departments regarding the City's budget process.

APPENDIX C

PERFORMANCE MEASURES

There are different types of performance measures. One approach focuses on “inputs” and “outputs.” Inputs measure the resources used by a department, while outputs measure its work product. Examples of inputs include the money appropriated to a department (its budget), number of employees, number of facilities, number of computer workstations. Examples of outputs include arrests made, traffic citations issued, acres mowed, permits issued, or applications processed. Inputs and outputs both rely on objective data and are relatively easy to measure. These two measures can be put into equations to determine departmental efficiency, which speak to how well a department is performing. One measure of efficiency involves comparing things like number of arrests per number of commissioned officer.

While outputs are often easy to quantify and can be useful indicators, the primary goal of performance measurement is to assess the effectiveness of government programs at producing the results citizens want. For this reason, it is important to identify ways to measure “outcomes.” While outputs like “arrests made” measure work products, outcomes like “lower crime rate” measure results. Whenever possible, performance measurement focuses on the outcomes achieved by government programs because results are what matter to citizens. There are often debates about the most effective way to achieve outcomes. Such debates should be informed by serious efforts to assess the effectiveness of the methods used to produce the outcomes. This requires (1) designing performance indicators that use reliable, objective data to measure outcomes; (2) implementing an efficient system for collecting data; and (3) communicating the results to the public in a timely manner.

Performance measures can improve accountability if they include criteria to assess how departments are performing. However, general statements about loosely defined goals provide no basis for assessing if a department is making progress. In order to be effective, a performance measure must relate to a result or goal that is capable of being measured and compared.¹ Additionally, performance must be assessed and reported in a timely manner. When performance data is allowed to age, it no longer provides a relevant tool for redirecting an agency when it is most needed. According to the Government Finance Officers Association, “consistency and timeliness are particularly important when implementing this practice: it is essential that reports are prepared on a routine, widely publicized basis.”² Finally, the performance measures

¹. “A measure is a number, not a ‘yes’ or ‘no’; A measure is objective, not a value statement; A measure is defined numerically, not with a paragraph.” PFM presentation to City of New Orleans on Performance Measurement, April 23, 2008, p. 18.

². Government Finance Officers Association, *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (National Advisory Council of State and Local Budgeting, 1998), Recommended Practice 11.2.

are meant to be published in several specific ways. They are supposed to: 1) appear in the budget document by department so that those reviewing and approving the annual operating budget can see progress towards goals during the budget adoption process; 2) appear in performance reports presented quarterly to the City Council; and 3) provide the basis for the “scorecard” published on the City’s website to alert citizens to the progress being made towards the goals.

This section contains the full performance measure reviews of thirteen City departments, plus the Mayor’s Office, the Chief Administrative Office, and the City Council.

CHIEF ADMINISTRATIVE OFFICE

The CAO’s Office has thirty-one programs under its umbrella. Of these thirty-one, only four included performance measures in the 2009 Operating Budget.³ Of the four programs that included measures, only two provided any data on actual performance. The only four programs that have performance measures are:

- *Equipment Maintenance Division Fuel*. This program is responsible for dispensing fuel for the City’s fleet of vehicles and equipment. The program plans to measure its performance by availability of fuel services for vehicles and timeliness of fuel use reports to departments. The goals – fuel availability 99.5% of the time and timely reports 100% of the time – are objective and measurable.
- *Office of Emergency Preparedness (OEP)*. This program’s only measure is the following goal, which is vague and not susceptible to measurement:

OEP measures its performance by being able to reliably provide quality emergency services for both planned and non-planned emergency responses within the City while maintaining the standards set forth in Homeland Security Presidential Directive (SPD) 5 and 8.

- *Capital Projects*. This program, responsible for capital budgeting and non-street capital projects, has five performance measures:
 - 1) Number of projects that maintain established project schedules;
 - 2) Number and value of projects completed and occupied;
 - 3) Number of bond-funded projects completed within budget;
 - 4) Number of public assistance-funded projects capturing added costs for eligible damage;
 - 5) Amount of funds reimbursed by the State for FEMA-eligible projects.

³. 2009 Adopted Operating Budget, pp. 128-135.

These performance measures are objective and measurable and no goals are established for future performance.

- *Capital Projects Architects.* This program is responsible for overseeing construction projects and includes two performance measures: “1) Number of projects administered by Capital Projects in lieu of outside contractors; 2) Performance measures and targets for project delivery will mirror those of existing staff.” The first of the two performance measures appears to be objective and verifiable, although no data is provided on the program’s past or current performance and no goal is established. The meaning of the second performance measure is not clear.

The CAO’s Office manages a large range of programs, yet only a few included performance measures. The CAO’s Office also oversees critical programs such as:

- Managing the City’s fleet of vehicles,
- Managing the City’s equipment,
- Overseeing the City’s information technology systems, and
- Providing electric and gas utility services for City buildings and equipment.

None of these programs adopted performance measures for 2009.

CITY COUNCIL

In the 2009 budget, the Council lists nine programs.⁴ Of these, seven have no measures for either the 2008 or 2009 budget. The only two Council programs that included performance measures are:

- *Clerk of Council.* This program proposes to measure its timeliness in responding to public records requests and in responding to document requests from departments. A goal of one to three days was set for public records requests, but no actual performance data was provided.
- *General Advertising.* This program proposes to measure the number of articles published and timeliness of submitting advertising to the Official Journal. There is no goal for either of these measures and no actual performance data is reported.

As is the case with the CAO’s Office, the Council’s failure to adopt performance measures for most of its programs is disappointing. The Council is responsible for vital City functions, including

⁴. 2009 Adopted Operating Budget, pp. 86-87.

the regulation of electric and gas utility services for the residents of New Orleans and reviewing appeals of property assessments, yet it adopted no performance measures relating to these and other important functions.

CIVIL SERVICE

Civil service has some well-conceived performance measures, and it exceeded its targets in all areas for 2008, according to its report from the first quarter of 2009. Like most other departments, it has no actual data which appears in the 2009 budget.

FINANCE DEPARTMENT

This department has well-developed performance measures for its programs, but no actual numbers for 2008 appear in the 2009 budget. When reporting on its performance for the fourth quarter of 2008 and the first quarter of 2009, it added four additional measures, all of which are good gauges of departmental progress. This department appears, in the OIG's benchmarking study, to spend more than comparable departments in other cities. This department has received recommendations from a variety of sources relative to improving processes and increasing automation.

FIRE DEPARTMENT

The Fire Department reports well-conceived measures which provide useful information about the department, and is one of only a few departments for which actual numbers for 2008 appear in the 2009 budget. PFM made a number of recommendations in September 2007 which would help to improve the function of the Fire Department; none of these was funded in either the 2008 or the 2009 budget.

HEALTH DEPARTMENT

The Health Department has two relevant statistics in the 2009 budget for its programs, but no actual numbers for 2008 appear in the 2009 budget. Of its five programs, two have no measures for either the 2008 or 2009 budgets. The other three have measures that would be excellent indicators if there were any statistics reported. PFM states in its Strategic Opportunity Report of September 2007 that the Health Department measures its progress by tracking reductions in HIV

cases and infant mortality rates. While these would be good indicators, these statistics don't appear on any published performance report.

Emergency Medical Services (EMS) is included in the Health Department's budget and accounts for 70% of the total. EMS also has no numbers for 2008 reported in the 2009 budget, and no statistics were reported for EMS in the Health Department's performance report for the fourth quarter of 2008 and the first quarter of 2009.

HUMAN SERVICES DEPARTMENT

The Human Services Department has two relevant statistics in the 2009 budget for its programs, but no actual numbers for 2008 appear in the 2009 budget. Of its four programs, each has subjective sentences about goals, without any that can actually be measured. For example, the Youth Studies Center (YSC) has a goal of maintaining a "safe, secured environment." But there must be a clearly defined, objective measure that can be tracked so that reviewers can see the progress towards that goal.

LAW DEPARTMENT

The Law Department has a number of well-crafted performance measures, and the 2009 budget appears to have actual numbers for 2008 performance (the graphs show statistics for January through June, but do not indicate the year). However, the department may wish to establish performance targets to bring it more in line with spending in similarly sized cities.

MAYOR'S OFFICE

Out of twelve programs under the Mayor's Office, three do not list performance measures for either the 2008 or the 2009 budget. The remaining nine have relevant measures, but no actual numbers for 2008 appear in the 2009 budget.

PARKS & PARKWAYS DEPARTMENT

In the 2009 budget, the department of Parks and Parkways reported data on two measures: acres of grass mowed, and number of trees cut. The department includes measures for six of its programs, but no data appears in the budget. However, when reporting on performance for the

fourth quarter of 2008, and the first quarter of 2009, the department reported on six additional measures, all of which are well-crafted to gauge departmental progress.

POLICE DEPARTMENT

The only performance measurements the Police Department as a whole included are taken from the FBI's Uniform Crime Report.⁵ These statistics simply describe the incidence of crimes. What they fail to do is tell anything about the Police Department's efficiency or goals. There are no targets set, either against internal goals or by external benchmarking.

Each of the eight police districts includes the following statement, which purports to be the "key performance indicator":

District performance is measured by the ability to use assigned staff and equipment in the most efficient manner. Each district must be capable of providing a satisfactory response to calls for service.⁶

This is an example of the type of vague, subjective statement that cannot be used to measure performance because it provides no basis for evaluation or comparison. In contrast with this standardless generalization, police departments in other cities have implemented concrete indicators such as: sworn police officers per 1,000 population, number of patrol vehicles, cases cleared per sworn officer, calls dispatched per sworn officer, and minutes of response time for high priority calls. Such quantifiable measures promote accountability and allow the department to set goals for improved efficiency.

An interesting and relevant statistic reported in the 2008 budget for the Police Department was the percentage of residents reporting crime as their biggest problem. This statistic was taken from the University of New Orleans (UNO) Quality of Life Survey of May 2007. The 2008 budget statistic showed that from 2006 to 2007, fewer Orleans Parish citizens perceived crime to be their biggest problem, an encouraging improvement. The 2008 target for the statistical measure was "to be determined."⁷

⁵. There is an unexplained discrepancy between the Police Department's reported crime statistics and the numbers published in the 2009 Adopted Budget (p. 180). The 2009 budget shows 1,049 violent crimes in 2006; the FBI and Police Department records show 2,255. For 2007, the budget shows 1,153 violent crimes; the FBI and Police Department records show 3,451. A Police Department source confirmed that the FBI statistics were reported to the CAO's Office; neither the Police Department nor the CAO's Office knew the source for the numbers reported in the 2009 budget.

⁶. 2009 Adopted Operating Budget, p. 181.

⁷. 2008 Adopted Operating Budget, p. 195.

Unfortunately, the numbers were less encouraging the following year, with 34% of citizens reporting crime as their biggest problem in 2008 (up from 29% in 2007.) However, the 2008 statistic was eliminated from the 2009 budget, even though UNO has continued to conduct the survey. It is unfortunate that the Police Department did not follow through with the plan to incorporate this useful outcome indicator.

PROPERTY MANAGEMENT DEPARTMENT

The Department of Property Management has two relevant statistics in the 2009 budget for its programs, but no actual numbers for 2008 appeared in the budget. The three programs within this department list a total of eleven measures in the budget, but when reporting on its performance for the fourth quarter of 2008 and the first quarter of 2009, only two measures were reported.

PUBLIC WORKS DEPARTMENT

The Public Works Department lists, in the 2009 budget, a number of relevant measures showing the department's work product for 2006 and 2007. Like almost all other departments, the budget contains only 2008 projected data; no actual numbers are reported.

RECREATION DEPARTMENT

Some of the Recreation Department's (NORD) performance measures in the 2009 budget have the potential to demonstrate the department's progress towards its goals, but some essential components are missing. For example, the measures for the *Director/Management Office* program are "proper administration of the department's operation budget," and "proper administration of all program components." There are values assigned to these measures, indicating that the department projects it will improve slightly in its "proper administration" in 2008, and that it hopes to improve even more for 2009. However, there is no indication about what is being measured or the meaning of the assigned numbers. The term "proper administration" provides no objective basis for evaluation and cannot reasonably be used as a measure.

The other five NORD programs have good measures that would provide relevant information about NORD's work product and its efficiency, but none contains any data for 2008.

When reporting on performance data for the fourth quarter of 2008 and the first quarter of 2009, NORD does not include a number of the most relevant measures listed in the 2009 budget. There

is no information reported for “average days to complete work request,” “number of complaints,” “number of active parks,” or “number of lifeguards trained and certified.”

SAFETY AND PERMITS DEPARTMENT

Safety and Permits contains two relevant measures in the 2009 budget for its programs, but doesn't report any actual numbers for 2008.

Another of its programs has measures for which there are neither statistics for past years, or targets for future years; another program lists some subjective criteria which can't be measured numerically.

SANITATION DEPARTMENT

The Sanitation Department lists measures in the 2009 budget, but like most other departments, no actual numbers for 2008 are in the budget.

The measures are presented in an indecipherable graph, and it is unclear what information the graph is hoping to convey.⁸ The graph appears to indicate, for example, that neighborhood cleanups were at 100% in January, dipped to 75% in February, and accelerated up to 200% in June. No explanatory information is presented for this statistic. A similar slope is described for debris removed, although it is puzzling how more than 100% of the garbage could be collected.

There are six other programs in the Sanitation Department; there are measures listed, but no statistics provided, for these other programs.

⁸. 2009 Adopted Operating Budget, p. 209.

Table 1
Examples of Recommended Municipal Performance Measures⁹

<p>1. Chief Administrative Office</p> <p><u>General:</u></p> <p><u>Fleet Maintenance:</u></p> <p><u>Fleet Management:</u></p> <p><u>Information Systems:</u></p>	<ul style="list-style-type: none"> • % of total mail cost charged back to departments • Average number of KW hrs per square foot reduction in electricity usage <hr/> <ul style="list-style-type: none"> • Number of vehicles maintained per capita • Average age of vehicles • % of rolling stock available per day • Average miles driven per vehicle per year • Fleet value • Value of vehicles maintained per capita • Fleet maintenance cost per mile driven • Number of vehicles maintained per mechanic • % of all work completed within one working day • % of vehicles returned for the same problem within three months • Miles between breakdowns • Downtime percentage • Employees per supervisor • % of mechanics time spent servicing equipment • % of operators rating service as satisfactory or better • % of “quick fix” repairs within 60 minutes <hr/> <ul style="list-style-type: none"> • Average fuel use per vehicle • Average fuel use per department • Total fuel consumed annually • Average miles per gallon of fuel use by vehicle • Average number of times tire pressure is checked monthly • Annual miles driven per vehicle • Annual fuel consumption per vehicle • Operation and maintenance cost per mile per vehicle • Annual vehicle miles traveled divided by annual fuel consumption <hr/> <ul style="list-style-type: none"> • Average online transaction response time • % of mainframe processor downtime • % of online requests for assistance answered within 1 hour • Average time to address computer and software
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⁹. Examples culled from the following: North Carolina Local Government Performance Measurement Project, *Final Report on City Services for Fiscal Year 2007-2008, Performance and Cost Data* (University School of Government, 2009); David N. Ammons, *Municipal Benchmarks: Assessing Local Performance and Establishing Community Standards* (Sage Publications, 2001); The Florida Benchmarking Consortium (www.flbenchmark.org); Government Finance Officers Association (gfoa.org).

	<p>review</p> <ul style="list-style-type: none"> • % of claim cases in which the city prevailed • Maintain annualized self-insurance program savings of at least 175% of Risk Management Division costs • % of self-insurance losses recovered • Rate of success on subrogation claims • % of risk management budget as part of total operating budget
<p>5. Police Departments</p> <p><i>General:</i></p> <p><i>911 calls:</i></p>	<ul style="list-style-type: none"> • Accreditation by Commission on Accreditation for Law Enforcement Agencies (CALEA) • Police services costs per capita • Police personnel per capita • Sworn officers per capita • Calls dispatched per sworn officer • Cases cleared per sworn officer • Arrests per sworn officer • Ratio of DWI arrests to alcohol-related traffic accidents • Minutes of response time for high priority calls • % of cases accepted for prosecution by district attorney • % of citizens' who feel safe • % of reports entered within 1 day of receipt • Average response time for criminal history requests • % of complaints against officers completed within 30 days • Reduced crime rate <hr/> <ul style="list-style-type: none"> • Total 911 calls per authorized line personnel • Time from initial ring to answer • % of calls answered within 3 rings • Seconds from call receipt to dispatch
<p>6. Fire Departments</p>	<ul style="list-style-type: none"> • # of fire department responses • Fire code violations found • Fire incidents per capita • Fire incidents per 1,000 structures • # of full time employees per capita • Cost of fire services per capita • Fire inspections completed per capita • Fire loss as % of total property value • # of fires per capita • Responses per capita • # of inspections completed per full-time inspector • Average time per inspection • Responses per company • % of fire code violations corrected • Average response time to high priority calls • % of fire code violations cleared within 90 days • % of fires confined to rooms or objects involved on

	<ul style="list-style-type: none"> arrival • Control time following arrival • % of arson cases cleared • % of citizens reached by public fire education • % of fires for which cause was determined • # of fire stations per capita • # of minutes from arrival to get water on fire • # of hazardous materials inspections • % of hydrants tested/serviced per year • % of hydrants broken/inoperative • % of employees in “fit” or “athlete” fitness range • % of active, sworn personnel with EMT certification, with EMT-D certification, with CPR certification
<p>7. Safety and Permits Departments</p> <p><u>Building Inspections:</u></p>	<ul style="list-style-type: none"> • Building Inspections per capita • Value of total building permits as percent of tax base inspected • Value of commercial permits as percent of tax base inspected • Cost per building inspection and inspection per FTE • Value of building permits per FTE • Number of commercial plan reviews per reviewer FTE • Percent of inspection responses within one working day of request • Percent of inspections that are reinspections
<p>8. Sanitation Departments</p>	<ul style="list-style-type: none"> • Residential refuse collection costs per capita • Complaints per 1,000 collection points • Refuse tons collected per municipal collection FTE • Residential refuse collection cost per collection point • % of residential refuse collected on schedule • Lane miles swept per crew hour • Curb miles swept per sweeper operator • % of downtown streets swept weekly
<p>9. Public Works Departments</p> <p><u>General</u></p>	<ul style="list-style-type: none"> • Maintenance & repair service costs per capita • Service costs per lane mile of road maintained • Reported pot holes per lane mile maintained • Resurfacing cost per lane mile resurfaced • Square yards of asphalt pavement repairs per labor hour • FTE hours per square yard of streets rebuilt • Street segments rated 85% or better • % of work performed by employees vs. by contractors • % potholes repaired within 24 hours • Response time to 311 reports • % of streetlight requests investigated within 1 week • % of damaged streetlights orders cleared within 1 day of

<p style="text-align: center;"><u>Parking Enforcement:</u></p> <p style="text-align: center;"><u>Traffic Engineering:</u></p>	<p>receipt</p> <ul style="list-style-type: none"> • % of citizen lighting complaints addressed within 5 days • Average time to repair utility service cuts • Average time for routine pavement repairs • Average number of days to complete unscheduled service (sidewalk/street) repair <hr/> <ul style="list-style-type: none"> • # of parking citations monthly per attendant • # of vehicles on scofflaw list immobilized • % of parking citations contested <hr/> <ul style="list-style-type: none"> • % of intersections with average delay greater than 40 seconds in peak hours • Traffic fatalities per capita • Average time to respond to neighborhood traffic/parking concerns • % of traffic engineering studies completed within 3 weeks • Average time to review development applications • Average marking frequency per year for crosswalks • % of streets striped annually • Average time to respond to traffic sign emergency calls • Average time for repair/replacement of non-emergency signs • Average time to respond to non-functional traffic signal • Number of traffic signals maintained per FTE • Average labor hours to make up and install new street signs
<p>10. Recreation Departments</p>	<ul style="list-style-type: none"> • % of scheduled time tennis courts are available • % of scheduled time pools are operational • % of functional community centers • % of safety-related repairs made same day as reported • % of vandalism responses within 48 hours • % of playground repairs accomplished within 2 weeks • % of youth population participating in recreation programs • # of specialty recreation class participants per 1,000 population • # of youth participating in youth sports programs per 1,000 population • % of time ball fields are acceptably prepared • % of park, facility, field and special event permits processed within 48 hours • % of costs recovered for recreation activities <ul style="list-style-type: none"> •
<p>11. Human Services Departments</p> <p style="text-align: center;"><u>Youth Studies Center:</u></p>	<ul style="list-style-type: none"> • Number of injured detainees or staff • Ratio of staff to detainees • Number of days that population exceeded capacity

	<ul style="list-style-type: none"> • % of youths receiving mental health screenings • Percent of interviewed youths who report that they fear for their safety • Percent of interviewed staff who report that they fear for their safety • # of incidents of youth misconduct leading to use of restraints, use of isolation or staff or youth injury per 100 person-days of youth confinement • Staff involvement in administrative sanction for conduct related to youth (e.g., suspension, letter of reprimand, demotion, etc.) per 100 staff-days of employment • Average duration of isolation and room confinement and segregation/special management unit in hours • Average number of idle hours youth spend in their rooms or dorms not including 8 hours for sleeping • Completed escapes, walk-aways and AWOLs per 100 person-days of youth confinement • Attempted escapes per 100 person-days of youth confinement • Incidents involving contraband (weapons or drugs) per 100 person-days of youth confinement
<p>12. Health Departments</p> <p style="text-align: right;"><u>General:</u></p> <p style="text-align: right;"><u>Emergency Medical Services:</u></p>	<ul style="list-style-type: none"> • Reduction of death from heart disease • Reduction in obesity • Reduction in cigarette smoking • Reduction in adolescent pregnancy • Reduction in child malnutrition • Increased child dental care • Reduction in infant mortality • Increase in prenatal care • % of children immunized by time they start school <hr/> <ul style="list-style-type: none"> • Time from receipt of call until dispatch • Time from dispatch until arrival • Time from call to arrival at hospital • % of patients improved with treatment • % of critical patients transported within 20 minutes • % of cardiac arrest survival • % of net billings collected
<p>13. Finance Departments</p> <p style="text-align: right;"><u>General:</u></p>	<ul style="list-style-type: none"> • Audits per employee • Municipal bond rating • Overall debt per capita • % uncollected property taxes • Debt service • % of debt to city funds • Debt service as % of operating expenditures • % of time that Monthly Financial Reports are issued by

<p style="text-align: center;"><u>Purchasing:</u></p>	<ul style="list-style-type: none"> 7th working day of following month • % of bank statements reconciled within 30 days of month end • % of completed general ledger reconciliations within 30 days of period close date • Issuing CAFR • % of vendor invoices processed within 5 days • Payroll posted within 7 days • % of bank deposits made for same business day • % of idle funds invested • Investment program costs as % of total portfolio • % of audit recommendations implemented <hr/> <ul style="list-style-type: none"> • % of purchase requests of less than \$500 processed within 1 workday of receipt • Average time required to process purchase order • % of formal bids opened within 90 days • Average preparation time for bid documents • Average number of offers per solicitation • Average difference between high and low bid • % of bids that are protested
<p style="text-align: center;">14. Property Management Departments</p>	<ul style="list-style-type: none"> • Square footage maintained per custodian • % emergency building repairs responded to within 1 hour • % of corrective maintenance calls completed same day • % of routine work orders completed within 7 workdays • % of graffiti removed within 3 days
<p style="text-align: center;">15. Civil Service Departments</p>	<ul style="list-style-type: none"> • Total municipal employees per capita • Civil Service employees per capita • % of employee orientations within 5 days of hire • % of EEOC complaints found in favor of city • % of annual performance evaluations with “Outstanding” rating • % of annual performance evaluations with “Needs Improvement” rating • % of “customers” satisfied with hiring services • Turnover rate • Average length of service • # of position requisitions • # of employment applications processed • # of retirees serviced • % of employees successfully passing probationary period • Rates of sick leave use • Average number of applications received per posted position • Average time to certify professional applicants • Average time to certify other applicants • % of positions filled within 90 days of vacancy • Average time to perform reclassification studies requested by departments

	<ul style="list-style-type: none"> • % of grievances resolved at department level • Average time to hold administrative hearings on employee grievances • % of grievance decisions upheld • % of grievance resolutions decided in city's favor • Formal grievances per 100 employees • % of benefits requests handled with 2 days
<p>16. Parks and Parkways Departments</p>	<ul style="list-style-type: none"> • Park acres per 1,000 residents • % of municipal land devoted to parks • Acres maintained per maintenance employee • % of emergency requests for tree maintenance responded to within 1 hour • % of citizen tree requests responded to within 7 working days • Mowing frequency during growing season • Work hours per mile of acre mowed per tractor • Work hours per mile of acre mowed by push mowing • # of trees planted annually • # of shrubs planted annually • Labor hours per tree pruned

APPENDIX D

REVENUE SOURCES:
CITY OF NEW ORLEANS 2009 OPERATING BUDGET

Fund Name	Amount	%
Recurring Revenues (Standard component of operating budgets):		
General Fund	\$ 486,250,404	42.1%
Funds not normally in operating budgets:		
Self Generated Fund	\$ 775,000	0.1%
HUD Fund	\$ 65,913,755	5.8%
Library Fund	\$ 6,849,529	0.6%
Local Law Enforcement Grants Fund	\$ 4,084,213	0.4%
Federal Grants Fund	\$ 142,859,185	11.9%
State Grants Fund	\$ 325,359,951	27.3%
Grants, Contributions, & Transfers Fund *	\$ 100,000,000	8.6%
Downtown Development District Fund	\$ 8,501,419	0.7%
Regional Business Park Fund	\$ 275,000	0.02%
Economic Development Fund	\$ 9,939,424	0.9%
Housing Trust Fund	\$ 3,569,548	0.59%
Total 2009 Operating Budget:	\$ 1,154,377,428	

* This is not a true fund; it is a placeholder for unanticipated other funding which may be received during the fiscal year.

Disaster CDBG
Recovery Budget

L-CDBG		
	Total	Subtotals
OPERATING	\$	
Administrative		6,296,636\$
Staffing(ILTR-00046)	2,353,792\$	
Fringe Benefits	632,344\$	
Haggerty Consulting	2,700,000\$	
Office Space	450,000\$	
Other Operating for Staff	160,500\$	
Program Delivery		3,133,668\$
Community Services Staffing(ILTR-00045)	1,757,840\$	
Code Enforcement Staffing(ILTR-00040)	376,021\$	
Development Staffing (CPC)	915,807\$	
Other Operating for Staff	84,000\$	
Public Infrastructure Planning		16,088,000\$
Zoning-City's Master Plan(ILTR-00001)	2,050,000\$	
Drainage Plan (ILTR-00002)	2,000,000\$	
Orleans Neighborhood Health Implementation Plan	100,000\$	
Rehab & Construction Mitigation Study (ILTR-00014)	550,000\$	
Methodist Hospital Planning Project (ILTR-00011)	588,000\$	
Recovery School District-International Business Campus (CBD)	4,500,000\$	
Recovery School District-Maritime (Federal City)	5,300,000\$	
Mahalia Jackson Community Center	1,000,000\$	
Housing Construction Financing		31,000,000\$
Loan Loss Reserve (ILTR-00049)	4,000,000\$	
Soft Seconds Mortgage Loans (ILTR-00044)	27,000,000\$	
Blight Reduction		19,662,000\$
Lot Next Door Incentive Program	250,000\$	
Blight & Historic Property Rehab Loan Fund	2,000,000\$	
Property Inventory Database	375,000\$	
Interim Nuisance Abatement	3,000,000\$	
Clean & Lien Program	4,912,000\$	
Strategic Demolition for Economic Recovery	9,125,000\$	
Healthy Communities		13,000,000\$
Soil Decontamination Initiative (RFP)	4,000,000\$	
Fresh Food Retailers Initiative, "Green Grocers" (CDFI)	7,000,000\$	
Urban Food Gardens Initiative (RFP)	500,000\$	
Community Markets Initiative (RFP)	1,500,000\$	
Economic Development		\$ 202,000,000
Commercial Rehabilitation/Façade Improvements (CDFI)	20,000,000\$	
Façade Improvements/ Historic Structures	2,000,000\$	
Grants/Loans Strategic Commercial/Cultural Assets	14,000,000\$	
Biomedical District	75,000,000\$	
Hospitals	40,000,000\$	
Theater District	9,310,000\$	
Saenger Theatre Renewal Project (ILTR-00088)	3,190,000\$	
Theater District Infrastructure	2,000,000\$	
Reinventing the Crescent: Downriver Park (ILTR-00039)	30,000,000\$	

Gentilly Avenue Streetscape(ILTR-00020)	\$	700,000	
O.C. Haley Streetscape(ILTR-00021)	\$	300,000	
S. Claiborne Streetscapes(ILTR-00024)	\$	2,000,000	
Bus Shelters	\$	500,000	
N. Claiborne Streetscapes(ILTR-00058)	\$	300,000	
Broad & Lafitte Streetscape(ILTR-00027)	\$	600,000	
Robert E. Lee Streetscape(ILTR-00023)	\$	500,000	
St. Bernard Streetscape(ILTR-00025)	\$	600,000	
Tulane Av./Jefferson Davis Streetscape(ILTR-00026)	\$	300,000	
St. Anthony Pathway (ILTR-00030)	\$	400,000	
Broad/Napoleon/Fountainbleau Intersection A&E	\$	250,000	
Gert Town Pool Street Improvements	\$	500,000	
New Orleans East -Read, Crowder & Lake Forest Streetscape	\$	3,000,000	
Lafitte Greenway (ILTR-00003)	\$	2,600,000	
Minor Streets	\$	1,268,700	6,800,000\$
Napoleon/Freret Roadway Improvements	\$	855,300	
Gentilly Roadway Improvements(ILTR-0028)	\$	700,000	
St. Roch Av. Roadway Improvements(ILTR-00043)	\$	1,476,000	
Holy Cross(Douglas & Andry) Roadway Improvements	\$	2,500,000	
Major Streets	\$	-	\$ 977,906,272
Carrollton @ Washington Intersection Improvements (ILTR-00104)	\$	1,500,000	
Libraries	\$	-	13,900,000\$
Robert E. Smith Library	\$	2,500,000	
Algiers Regional Library	\$	3,000,000	
Treme Branch/Nora Navra Library	\$	2,500,000	
Norman Mayer Library	\$	2,500,000	
East New Orleans Regional Library	\$	3,000,000	
CC Haley Storefront	\$	400,000	
Public Buildings/Community Centers	\$	-	7,900,000\$
Sanchez Center Pool expansion	\$	2,300,000	
Behrman Community Center	\$	1,500,000	
Gert Town Community Center and Pool	\$	600,000	
St. Roch Market	\$	500,000	
Lafitte/Providence Community Center and Health Clinic	\$	1,000,000	
Pontchartrain Park Club House	\$	1,000,000	
French Market	\$	1,000,000	
Land Acquisition	\$	-	8,500,000\$
Lower Nine Public Facilities	\$	1,500,000	
Other Library Sites	\$	3,000,000	
Norman Mayer Library Temp Storefront	\$	500,000	
Other Public Facility Sites	\$	3,500,000	
Parks and Recreation			22,550,000\$
Taylor Playground(ILTR-00004)	\$	350,000	
Hunter's Field(ILTR-00008)	\$	900,000	

Comiskey Park and Community Center	\$	500,000	
Joe Brown Park	\$	4,000,000	
Stem Tennis Center	\$	350,000	
Benman Stadium and Park(ILTR-00029)	\$	1,700,000	

**Disaster CDBG
Recovery Budget**

L-CDBG			
		Total	Subtotals
Pontchartrain Golf Course		3,000,000\$	
Pontchartrain Park		500,000\$	
New Recreation Areas at Lafitte Greenway		1,000,000\$	
City Park		4,000,000\$	
Neutral Grounds and other ROW-Phase 1		750,000\$	
Neutral Grounds and other ROW-Phase 2		1,250,000\$	
Unallocated Parks-Citywide		4,250,000\$	
Contingency		1,500,000\$	1,500,000\$
Total L-CDBG Capital		85,016,240\$	
TOTAL GRANT		410,720,016\$	
		410,720,016\$	



Office of Inspector General
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September 16, 2009

Honorable C. Ray Nagin, Mayor
City Hall, Room 2E04
1300 Perdido Street
New Orleans, LA 70112

Rev. Kevin Wm. Wildes, S.J., Ph.D. Chair
Ethics Review Board
6363 St. Charles Ave.
New Orleans, LA 70118

Arnie Fielkow, Council President
City Hall, Room 2W40
1300 Perdido Street
New Orleans, LA 70112

Re: Management Alert Report (MAR 09-I&E-001)

Dear Mayor Nagin and Councilmember Fielkow:

Attached is the MAR issued in connection with the Office of Inspector General's evaluation of the City's budgeting process. An internal review copy was transmitted to the Mayor and Council on April 30. The purpose of this MAR was to offer recommendations to facilitate the discussion, modification, and adoption of the City's operating budget for 2010. An internal review copy of the complete budget evaluation will be released by month's end.

City Ordinance §2-1120(9)(c) provides that reports are final thirty working days after transmittal. As such, attached is the final MAR.

Sincerely,

Dr. David L. Westerling
Interim Inspector General

cc: Dr. Brenda Hatfield, Chief Administrative Officer
Jacquelyn Brechtel Clarkson, Council Vice President
Shelley Midura, Councilmember District A
Stacy S. Head, Councilmember District B
James Carter, Councilmember District C
Cynthia Hedge-Morrell, Councilmember District D
Cynthia Willard-Lewis, Councilmember District E
Cary Grant, Assistant CAO, Budget Office
Barbara T. Avalos, Council Budget Office
Calvin J. Aguillard, Council Budget Office

Rev. Cornelius Tilton, Ethics Review Board
Elizabeth S. Nalty, Ethics Review Board
Winston D. Brown, Ethics Review Board
Leah Chase, Ethics Review Board
Dr. Beverly C. Favre, Ethics Review Board
Kathryn V. Lorio, Ethics Review Board

CITY OF NEW ORLEANS OFFICE OF INSPECTOR GENERAL

525 St. Charles Avenue
New Orleans, La 70130-3409
504-681-3200



April 30, 2009

Honorable C. Ray Nagin, Mayor
City Hall, Room 2E04
1300 Perdido Street
New Orleans, Louisiana 70112

Jacquelyn Brechtel Clarkson, Council President
City Hall, Room 2W50
1300 Perdido Street
New Orleans, Louisiana 70112

Dear Mayor Nagin and Councilmember Clarkson:

This is a Management Alert Report (MAR 09-I&E-001) issued in connection with the Office of Inspector General's ongoing evaluation of the City's budgeting process. The purpose of this MAR is to offer timely recommendations that can be implemented immediately to facilitate the discussion, modification, and adoption of the City's operating budget for 2010.

The City is making a substantial investment in an effort to implement a set of practices collectively known as "Budgeting for Outcomes," which is intended to promote transparency, accountability, and inclusion in the budget process. A key component of the Budgeting for Outcomes approach is establishing procedures to involve stakeholders, including citizens, community leaders, and councilmembers, in establishing the City's budget priorities. However, the OIG has found that the City's actual budget development practices have been anything but inclusive, and offer no effective opportunities for discussion until after the Mayor's proposed budget is submitted to the Council just prior to the November budget hearings.

According to the National Advisory Council on State and Local Budgeting, appropriate procedures are needed to resolve conflicts, to promote acceptance of the proposed budget by stakeholders, and to allow the legislative body to achieve a consensus. The recommendations offered in this MAR are intended to promote more informed decision making and a reasoned

debate over budgetary issues. The OIG's final report, which will be issued later this year, will offer more extensive recommendations relating to the budget process.

If you wish to provide comments regarding this MAR to be considered in our final report, please do so by May 29, 2009. Any response should include actions taken or planned, dates for completion of planned actions, and reasons for any disagreement with the concerns and recommendations presented.

Should you have any questions, or would like to meet prior to preparing your response, please contact Janet Werkman, First Assistant Inspector General for Legal Affairs, or David Westerling, Supervisory Forensic Engineer, at 504-681-3200.

Sincerely,



Leonard C. Odom

Interim Inspector General

cc. Dr. Brenda Hatfield, Chief Administrative Officer
Arnie Fielkow, Council Vice President
Shelley Midura, Councilmember District A
Stacy S. Head, Councilmember District B
James Carter, Councilmember District C
Cynthia Hedge-Morrell, Councilmember District D
Cynthia Willard-Lewis, Councilmember District E
Cary Grant, Assistant CAO, Budget Office
Barbara T. Avalos, Council Budget Office
Calvin J. Aguillard, Council Budget Office

**CITY OF NEW ORLEANS
OFFICE OF INSPECTOR GENERAL**

525 St. Charles Avenue
New Orleans, La 70130-3409
504-681-3200



INSPECTIONS AND EVALUATIONS DIVISION
MANAGEMENT ALERT REPORT

MAR-09-I&E-001

Interim Recommendations for Adopting the 2010 Annual
Operating Budget

April 30, 2009

Introduction

The Office of Inspector General is conducting an evaluation of the City's process for developing and adopting its annual operating budget. This evaluation will include a comprehensive examination of the City's policies and practices, interviews of many participants in the budget process, including City department heads, and a review of widely accepted best practices. The final report will assess the City's implementation of performance measures in conjunction with the budgeting process for 2008 and 2009. The OIG's goal in conducting the evaluation is to develop a set of recommendations to improve transparency and accountability and help ensure that the goals and priorities of the citizens are reflected in future operating budgets.

The OIG's final report will be completed in 2009, but the City's implementation of the recommendations will not likely be possible prior to the upcoming budget cycle. The OIG is aware that the City faces a daunting challenge in allocating operating funds for 2010 as it completes the transition from disaster relief funding to recurring revenues. For this reason, the OIG has identified specific actions that City officials may take in the near term to facilitate the process of adopting a budget for the coming year and is issuing this Management Alert Report (MAR) to provide timely recommendations that can be implemented immediately.

The recommendations offered in this MAR relate to one concern with the City's current practices: the absence of processes to facilitate discussion, resolve conflicts, and promote informed decision making in the adoption of the proposed budget. Despite the City's recent efforts to implement a budgeting methodology that is more inclusive, there was little or no effective exchange between the executive and legislative branches in setting policies and priorities during the City's most recent budget cycle. The actions recommended in this MAR are intended to ensure that councilmembers and the public are better informed and to provide the Council with a more effective forum for developing and communicating its priorities. These actions may help to build a consensus on difficult decisions and ensure that the City's needs are discussed and weighed in a reasoned and orderly fashion.

Background

The Mayor and City Council share joint responsibility for establishing the City's annual operating budget. Their respective roles are set by the City Charter, which requires the Mayor to submit a proposed budget to the Council no later than November 1. The Council holds public budget hearings during the month of November and adopts a final budget by December 1 for the fiscal year beginning January 1. Neither the Charter nor the budgeting practices the City has employed over the years provides a process to engage the Council or citizens until after the

Mayor's proposed budget has been completed. The public debate on important budgetary decisions is therefore effectively postponed until the eleventh hour.

Budgeting for Outcomes Model

In 2007, the City contracted with consultant Public Financial Management (PFM) to help the City implement a set of budgeting practices that is collectively referred to as "Budgeting for Outcomes." For the period from October 2007 through December 2008, the City paid PFM over \$1.5 million primarily for services related to implementing Budgeting for Outcomes. These practices are recommended by the Government Finance Officers Association and others as tools to promote transparency, accountability, and inclusion in the budgeting process. They are intended to focus the City's resources on the results that matter most to its citizens. The Budgeting for Outcomes process calls for involving stakeholders, including citizens, community leaders, public employees, and the legislative body, to identify priorities that will guide budget decisions.

The Budgeting for Outcomes model contemplates setting up a formal framework for active participation of stakeholders and legislators in the development of broad goals and in prioritizing spending decisions accordingly to achieve the goals. The framework established for the City of New Orleans is described in the Mayor's Proposed 2009 Operating Budget, which includes the budget calendar shown as Table 1 on the next page. This framework calls for the Mayor to consult community leaders and the City Council in April, at the beginning of the budget development process, to begin to work toward a consensus on the results the City will seek to achieve for its citizens through its spending decisions. The calendar also calls for including leaders within City government and citizens on "Results Teams," which are committees chosen to rank budget proposals submitted by departments and other entities seeking funding. Finally, the process described in the Mayor's proposed budget includes City leaders and community leaders on a "Leadership Team" appointed to determine the funds to be allocated to each of the results the City seeks to achieve.

The Enactment of the City's Budget for 2009

According to the Mayor's description of the Budgeting for Outcomes process, priorities are established in consultation with the City Council and community leaders, among others. However, according to interviews with City officials, there was no Council participation in establishing the City's priorities for 2009. Rather, the priority-setting process was carried out solely by the Chief Administrative Officer (CAO)'s budget staff and department heads (who report to the CAO) in conjunction with PFM. Budget preparation for 2009 began in June 2008,

Table 1	
City's Budget Planning Process	
Mayor's 2009 Budget Proposal	
April	The Mayor, in consultation with community leaders, department heads, and the City Council, establishes the results for the next year.
June	City departments submit requests for funding of budget programs to the Results Teams.
July-August	After receiving feedback from the Results Teams, departments submit final requests for funding.
August	The City estimates revenue for the upcoming year. A Leadership Team, consisting of City leaders, department heads, and community leaders, determines what percent of funds will go to each result.
September	The Results Teams rank the funding requests submitted by the departments and determine which programs will be funded based on the rankings and the available funds.
October	Once programs are ranked, the Mayor reviews them to ensure they are coordinated and address city-wide goals, then finalizes all budget information.
November	The Mayor submits a proposed budget to the City Council by November 1. Upon receipt of the Mayor's proposed budget, the City Council Budget Committee will begin holding public hearings as an additional check that the budget meets the citizens' needs.
December	After public budget hearings, the City Council approves an adopted budget by December 1.

when City departments submitted budget proposals to the CAO's office. Once collected, the proposals were reviewed and ranked according to the City's priorities by Results Teams made up of the CAO's budget staff, the Mayor's executive team, and department heads. The Leadership Team, consisting of the Director of Finance, as well as staff from the CAO's office and the Mayor's office, convened to decide on the percentage of the budget to be assigned to each priority. Subsequently, the Results Teams reconvened and assigned their budget allocation by program. Throughout this entire decision-making process, communication between the executive branch and the Council was limited to infrequent and informal discussions between the CAO's office and the Council. The reported lack of coordination between the two branches of city government in setting budget priorities became evident in the struggle that ensued after the Mayor submitted his budget proposal on October 28.

On October 28, 2008, the Mayor announced a proposed budget calling for just over \$500 million in general fund expenditures, as well as a property tax increase to generate \$24 million in additional revenue. On November 5, the Council began holding public budget hearings, and on December 1, 2008, adopted the 2009 annual operating budget. However, the Council did not adopt the Mayor's proposed budget but instead unanimously rejected the Mayor's proposed tax increase. The Council also reduced certain expenditures proposed by the Mayor, transferred funds to the District Attorney's Office and the Indigent Defenders, and applied funds from a federal Community Disaster Loan to balance the budget.

On December 12, 2008, the Mayor rejected the adopted budget by vetoing certain appropriations added by the Council. In lieu of the tax increase, the Mayor proposed an approximate 2.5% spending cut and hiring freeze across all departments, with the exception of police, fire, and emergency medical services. On December 17, 2008, the Council voted to override the Mayor's vetoes and reinstated the budget originally adopted on December 1.

With the reinstatement, the Council also proposed an across-the-board budget cut of approximately 5.58% for all City departments, excluding public safety, sanitation, and recreation. However, the Mayor suggested the 5.58% reduction was too severe, and on January 12, 2009, the Council amended the reinstated budget to include a smaller 3% appropriation cut across most departments (excepting Criminal Justice and Public Safety). Finally, on January 16, 2009, the Mayor approved the amended 2009 budget, ending the contentious back-and-forth between the executive and legislative branches.

The Issue

The National Advisory Council on State and Local Budgeting (NACSLB) has formulated comprehensive guidelines and recommended practices for governmental budgeting.¹ The NACSLB guidelines for preparing and adopting a budget call for developing a process to assist stakeholders in understanding tradeoffs and to help decision makers choose from among competing options. The guidelines define “stakeholders” broadly to include members of the public who are affected by the government’s resource allocation plans and service decisions. For the City of New Orleans, the decision makers include not only the Mayor and his administration but also councilmembers, who share responsibility for setting City policy.

The Mayor’s proposed budget purports to have adopted a process that includes the City Council along with other stakeholders in setting priorities and defining the results. In practice, the budget development process has been anything but inclusive and has provided no opportunity for outside input until after the proposed budget has been submitted to the Council for the November budget hearings. In November 2008, the Council compressed 47 budget hearings into 15 days, on a schedule described by one councilmember as “painful.” Councilmembers were in wide agreement that these budget hearings, while essential for providing public information, were not well-suited to decision making and that the time available to analyze the large volume of information presented in the proposed budget was inadequate to make informed choices.

The absence of effective communication between the executive and legislative branches in the early stages of budget development contributed to the disorderly budget adoption process that undermined the City’s efforts to implement the Budgeting for Outcomes method. The Mayor and CAO had devoted time and resources, paying a consultant to help rank City programs according to priorities. This ranking system was intended to avoid resorting to across-the-board budget cuts, which fail to weigh the relative merits or efficiencies of competing programs. But when the Council rejected the Mayor’s proposed tax increase, after a contentious struggle over funding priorities, the Mayor and Council fell back on broad-based cuts to balance the budget. All the extensive planning work that had gone into prioritizing programs through the Budgeting for Outcomes ranking system went out the door when the final spending decisions were made.

¹ The NACSLB guidelines represent a cooperative undertaking on the part of associations representing elected officials and professional managers of state and local governments, including the Government Finance Officers Association (GFOA).

Recommendations

The National Advisory Council on State and Local Budgeting recommends developing and implementing a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget. According to NACSLB, appropriate procedures are needed to resolve conflicts, promote acceptance of the proposed budget by stakeholders, and assist in timely adoption of the budget. In a publication titled "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting," the NACSLB offers this advice:

A series of processes should be developed that permit stakeholders to satisfy themselves as to the appropriateness of the budget proposal and to allow the legislative body to achieve consensus and adopt a budget. . . . Discussion will inevitably be needed regarding the tradeoffs and choices that need to be made. Issues can be more satisfactorily addressed to the extent that there are clear and accepted processes for considering options and reaching the compromise position that most budgets inevitably represent.

An important component of the Budgeting for Outcomes methodology the Mayor is attempting to implement is a meaningful effort to involve citizens and the legislative body in the process. In reality, however, the Mayor's budget development practices have not been inclusive and no procedures have been implemented to reach out to stakeholders or build consensus with councilmembers on budget matters. For its part, the Council has no process for developing or communicating its priorities to the Mayor before the proposed budget has been completed.

The OIG's final report will include additional recommendations for implementing more inclusive priority-setting procedures. The following recommendations address actions that can be taken in the next few months to facilitate an informed and reasoned decision-making process in the adoption of the City's budget for 2010.

1. The Council should schedule mid-year budget hearings in June 2009, to assess the performance of the 10 or so selected entities that warrant close examination, either because they account for a significant portion of general fund expenditures or because of other concerns. The Council should also focus on departments that generate or collect revenues and seek out information on the bases of revenue estimates and programmatic decisions that affect the level of revenue generated or collected. In connection with this assessment, the Council should review the quarterly performance reports prepared by the City's consultant, PFM, assessing the performance measures established in the City's 2009 budget.

2. Prior to September 1, 2009, the Council Fiscal Office and the Chief Administrative Officer should present an early budget briefing to the Council and the public with a detailed report on current revenues and expenditures, results from latest revenue projections and the five-year forecast, and an update on major budget issues, which could include:

- an assessment of the options identified by the City's financial adviser for paying bonds issued in connection with the firefighters' pension fund²;
- a status report on state funding levels and the implications for revenue sharing programs;
- potential changes that could affect revenue from traffic light cameras;
- employee healthcare and retirement costs;
- other significant impacts on revenues or expenditures.

3. During August and September, the Council should receive the budget proposals submitted by City departments and other entities seeking funds at the same time as the CAO receives them. The Council should also receive each of the reports prepared by the Results Teams in the CAO's office, ranking the budget proposals, as soon as each report is completed.

4. The Council should convene to establish a statement of budget priorities and policies. This statement could include the Council's rankings for budget proposals submitted to the CAO as well as additional proposals for programs, cost savings, or revenue enhancements. This statement should be submitted to the Mayor's Office by October 1, 2009.

² The City's Finance Director warned that this liability could require five annual payments of approximately \$26 million each starting in 2010.



The Council

City of New Orleans

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November 13, 2009

Mr. Edward Quatrevaux
Inspector General
City of New Orleans
525 St. Charles Avenue
New Orleans, LA 70130-3409

Dear Mr. Quatrevaux:

I am writing in response to your office's letter of October 2, 2009 transmitting an internal copy of the Office of the Inspector General's "*Review of the 2009 Budget Process for City of New Orleans*," to provide comments in response to the report. I want to commend your staff on the production of this report, as even in draft form, it has been extremely useful in our meetings with the public and in preparing for the 2009-2010 budget hearings.

The report delineates many inefficiencies in the way the City manages its budget process, which I have personally experienced as the District A councilmember for the last 3 ½ years. I welcome your office's analysis of this most important municipal function, and applaud you for this effort which has prompted renewed public interest in and discourse about management of the city's finances.

I offer the following thoughts in response to several of the issues raised in the report:

New Orleans 2009 Operating Budget

The OIG is correct in its assertion that the municipal budget is the single most important public policy document affecting the lives of New Orleanians. The budget sets the policy priorities of the City government; while the ways in which the budget is developed and presented are important communication devices to establish public confidence and trust in these priorities.

At least since my time on the Council, neither the Council nor the public has been adequately engaged by the Administration or its consultants in establishing the priorities for the way in which we allocate our precious resources. I feel that if a more open process were to be adopted much of the political back-and-forth that we witnessed last budget season could be avoided, and the public would have much greater faith in the efficacy of its government. There is great encouragement in the Mayor's recent actions

of hosting meetings with Councilmembers over the projected 2010 budget deficit, but this is only a half-step forward at best. I agree that a transparent budget process must begin with engaging the public to identify priority areas, and wide dissemination of information about the effectiveness of government programs.

As a document, the 2009 Budget falls far short of being a useful tool for average New Orleanians to understand the way the City allocates its resources. The OIG report corroborates a finding that my staff encountered last fall upon the release of the 2009 budget which lacked the assumptions behind and justifications for changes in funding levels.¹ As an example, the 2009 budget document compares previous years' allocations to the proposed amount for 2009, but fails to give a rationale or executive narrative to explain the decisions behind these modifications in funding levels. Though the proposed overall budget increases by 6.61% from that adopted in 2008, an analysis at the departmental level shows wider variation among the departments with some receiving large increases and others receiving large decreases.² Though this variation in the percentage of funding increases at the departmental level may, in fact, be a good thing, there is little discussion in the budget document itself as to why some departments are being treated the way they are relative to other departments. Since there is no accompanying rationale, and since there is no open process for setting priorities to the layman observer, these variations appear to be made arbitrarily and understandably fail to garner full public support.

Comparison with Benchmark Cities

By comparing the way in which New Orleans allocates its resources to nine cities of similar characteristics, the OIG has provided an interesting analysis and a valuable tool with many future potential applications. I would like to acknowledge the critical point made in the report that the comparisons are not recommendations, but simply attempts to identify objective differences.

For example, though New Orleans spends nearly \$20 million more than the average of its peer cities on sanitation services, the OIG is not recommending that New Orleans reduce its sanitation allocations by \$20 million.³ There may be several good reasons why New Orleans spends more on sanitation, for example: larger tourist traffic, sub-tropical climate, or a large physical land area,⁴ but the high discrepancy between New Orleans and its peers, and the large portion of general fund resources allocated to sanitation services, should raise questions in policy-makers minds as to the source of these differences and should provide fertile ground for future inquiry.

¹ Page 10, "Finding 1," Office of Inspector General, *Review of 2009 Budget Process for City of New Orleans*, October 2, 2009.

² For example, CAO – 13.75% increase; Human Services – 22.09% increase; and Miscellaneous – 127.71% increase; Safety & Permits – 14.12% decrease; and Mayor's Office – 15.91% decrease; Public Library – 40.61% decrease.

³ Page 26, Office of Inspector General, *Review of 2009 Budget Process for City of New Orleans*, October 2, 2009.

⁴ Page A2, Appendix, *Ibid.*

Additionally, one should be careful not to misinterpret the comparison between New Orleans and its peers for the amount being spent on the provision of police services. Here, the spending is much more in line with that of the benchmark cities; but a policy-maker should not conclude that improvements are unnecessary for this department simply because it falls closer to the statistical mean on this measure. This benchmark exercise, though fruitful, only informs us on one one-dimensional variable about department performance: cost. In the case of police, we would hope to look at other measures, such as reduction in crime rate, convictions per arrest, etc., in order to assess this department's efficacy. That said, the benchmarking exercise does serve as an important tool for assessing the landscape as it pertains to the one variable of cost. The information gleaned from this one project speaks volumes to the need for access to more data and the creation of effective performance measures for all city departments.

Finally, with respect to benchmarking in general, it is important to avoid being categorically dismissive of these comparisons on the grounds that New Orleans is different, and is, therefore, beyond comparison, an argument frequently by elected officials made to justify opposition to best practices or to changing the status quo. Typically, Hurricane Katrina or our unique culture is used as an excuse for implementing improvements. Yes, it is true that in many measurable categories, New Orleans is an outlier, and is, in fact, different. Difference alone, however, is not sufficient reason to stop measuring or stop looking at comparisons. ***This city may be an outlier on so many measures precisely because of the fact that we have for so long accepted an ethos of New Orleans exceptionalism.*** It is time that we look at ourselves in the appropriate perspective and allow our city to be compared to similar entities while civilly acknowledging the various sources of difference.

Response to City Council Benchmark Analysis

In the OIG report, the City Council is not immune from criticism with respect to how much it costs the tax payers of New Orleans relative to the tax payers of the nine other benchmark cities. In fact, like Sanitation, Executive, Legal and Finance, New Orleans spends more than any of the other cities on its legislative branch per capita.

My response is twofold: there is good reason for this, but this is unacceptable and we must do better. On average each Council office has two employees performing services that Council offices in many other cities may not have to perform: responding to a high volume of constituent complaints, and processing and approving land use applications according to the requirements set forth in the charter. Both of these functions speak directly to the system that we have inherited. With an effective City Master Plan which is currently being crafted to mitigate land use work, and a more efficiently functioning 311/customer service line to mitigate the volume of citizen complaints that require councilmatic intervention, many of these extra positions could be eliminated. Additionally, like the Administration, we are paying too much for some of the services that we do not perform in-house. ***(Although not analyzed in this report, of particular and on-going concern for me is the cost that we expend in procuring legal, engineering, and accounting services to carry out our regulation of utilities as***

mandated in the charter. I urge the OIG to perform a management review of this function.)

Implementation of Budgeting for Outcomes

Many of the issues that I have raised concerning transparent priority-setting for allocating resources would begin to be mitigated with a genuine implementation of the Budgeting for Outcomes (BFO) concept. The BFO model is a method of budgeting that ties programmatic funding directly to the outcomes they produce for the tax-payers. The BFO process for establishing priorities is one in which the Executive engages not just the legislative branch, but also non-profits, stakeholders and other concerned citizens to identify resources, assess needs, set priorities, and, finally, fund those priorities. BFO as a philosophy has been endorsed by the Administration and its consultants as the way forward, but both from my experience and as outlined in the IG report, it has only been implemented around the edges by adopting the vocabulary of BFO, but keeping the old way of funding departments intact.

Though neither the Administration nor its consultants have engaged the Council for its support in implementing a new budget process, I would be anxious to participate in such a sweeping and necessary endeavor. District councilmembers have the requisite ties to neighborhood associations and citizen groups to gather input on setting priorities. This more democratic budgeting process would allow citizens to have input on funding priorities while also getting a better understanding of the challenges that the City faces as it tries to provide critical services in a time of shrinking revenues. Unfortunately, we have not been engaged in a comprehensive manner to discuss solutions or to achieve consensus. This was particularly problematic during the 2009 budget process.

This year, separately, and after receiving the OIG budget report on the 2009 process, Councilmember Head and I undertook our own effort to engage the public for the 2009-2010 budget process with a goal of democratizing the budget. This effort has been received enthusiastically by the public, which is grateful for the information and opportunity to provide input, even at this late date in the process.

Implementing Effective Performance Measures

Establishing effective performance measures is a critical component in implementing Budgeting for Outcomes. Few City departments effectively report to the Council meaningful statistical data that can be analyzed longitudinally to assess improvements over time with any kind of regularity. Moreover, all too often, typical department head presentations to the Council during its November budget hearings have a noticeable dearth of data to justify funding requests. Departments asking for millions often give nothing more than their funding from the year prior as the justification of their request irrespective of results and outcomes of that funding.

City Council Performance Measures

The Inspector General is right to highlight the Council's failure to establish effective performance measures for its own department. Though I have not been approached to establish such measures for my office or any office under the supervision of the Council,

I would enthusiastically embrace this opportunity and participate fully in establishing performance measures in line with the BFO methodology. There is no doubt that the Council should establish and evaluate performance measures in order to link all funding to measurable outcomes.

The City's Financial System

The OIG report discusses the need for the City to update its financial reporting system. Currently, there is no control function that monitors actual revenue and expenditures to preclude expenditures not permitted in the budget. The Council has recently had to appropriate additional funds *ex post facto* to departments that had already spent over their allotted amounts. The report paints a picture of *ad hoc* and disjointed solutions at the departmental level to the fact that there is no way of adequately monitoring the City's non-personal expenditures in real time. The Administration's own consultants have highlighted various inadequacies in the financial system and offer several strategies, both short and long term, for tackling some of these systemic challenges to efficiency.⁵

I look forward to receipt of the final report, and will be willing to provide any additional information your office may need.

I have taken the opportunity to attach a copy of a document that the presidents of the District A neighborhood associations prepared for my use during the 2009-2010 budget process in my attempt to include the public in the process.

Sincerely,


Shelley Midura

⁵ *City of New Orleans Business & Administrative System Needs Assessment Report*, The PFM Group, November 2008.

CITY OF NEW ORLEANS

11/12/09

BRENDA G. HATHFIELD, PH.D.
CHIEF ADMINISTRATIVE OFFICER

November 12, 2009

Mr. Ed Quatreveaux
Inspector General
Office of Inspector General
535 St. Charles Avenue
New Orleans, LA 70130

Dear Mr. Quatreveaux:

This correspondence serves as the City administration's response to the Review of Budget Process for City of New Orleans: OIG – I&E – 09002, issued October 2, 2009.

In general, we found that several of the findings in this report were based on incomplete information or misinterpretations of current practices. Conducting exit conferences prior to publishing the report, as is a standard practice in auditing, would have provided an opportunity to exchange information that may have been helpful to make the final report more accurate and valid. In fact, we would still welcome a discussion of the details of this report in order to correct many of the assumptions that were made in compiling the findings and recommendations.

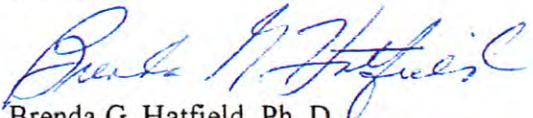
The lack of any exit conferences or discussions of the findings with the proper departments serves to emphasize the lack of clear and specific policies and procedures to guide the conduct of the Office of the Inspector General (OIG) for New Orleans. Although the New Orleans OIG website provides a copy of the *Principles and Standards for Offices of Inspector General*, which is produced by the Association of Inspectors General, this does not fulfill the requirement for an operations manual and governing policies for the New Orleans Office of Inspector General as mandated by Ordinance Calendar Number 26,748. We respectfully request that an operations manual and the governing policies specifically for the City of New Orleans OIG be produced as soon as possible to alleviate any further confusion regarding the process.

In an effort to independently verify some of the findings in this report, the City requested that the OIG provide the specific data, not just the sources, which were used by the OIG in formulating comparison benchmarks. Although your response on November 10, 2009 states that data were provided in Appendix A of the report, the appendix only provides a description of the methodology used and links to websites of the comparison cities. Without the actual data sheets used, we cannot be sure that the OIG report is actually comparing like functions between the departments of the various comparison cities. If we are to make informed decisions about spending priorities, we need to have confidence in the accuracy of the OIG's analysis.

As we did for the 2009 budget, we invite the staff of the OIG to participate in future Budgeting for Outcomes processes, including attending community meetings and observing the myriad discussions and ranking sessions conducted by the Result Area teams and the Budget Leadership team. The Office of the Inspector General would be able to provide strong leadership by example, if it submitted its own funding to the Budgeting for Outcomes process.

Indeed, we appreciate the work of the OIG in preparing this Review to improve the budget process. Please contact my office at (504) 658-8910, if you have any questions or if I can be of further assistance.

Sincerely,



Brenda G. Hatfield, Ph. D.
Chief Administrative Officer

cc: Mayor C. Ray Nagin
City Council Members
Dr. David Westerling
Penya Moses-Fields, Esq.

RESPONSE

Review of Budget Process for City of New Orleans: OIG – I&E – 09002, issued October 2, 2009.

Overview

In responding to the salient issues of the OIG report, we wish to highlight the following:

The Budget is a year-round process, beginning with the Council's appropriations and approval at the beginning of the fiscal year, and continuing throughout the year with Quarterly Revenue Estimating Reports, regular reports to the Budget Committee and other operating committees (e.g. Public Works, Recovery, Sanitation, Recreation, Capital, etc), year round monitoring, audits and departmental performance reports. Significantly, the Communications Department also provides many opportunities for the public to receive budget information through publications, press releases, the City's website and meetings with stakeholders, citizens and community leaders throughout the year.

Budgeting for Outcomes (BFO) was introduced to the City's administration and departments two years ago. Upon introduction of BFO to City government, we began training of department heads and staff. Implementation of the process has followed the BFO method precisely, beginning with establishment of the City priorities of Public Safety, Recovery and Livable Communities, Opportunities for Youth and High Performing Government. These priorities emanated from the community, including the United New Orleans Plan (UNOP), and continued year-round through meetings with citizens, community leaders and stakeholders. The Mayor also held individual meetings with Council members and conducted meetings with representatives of their districts to determine their priorities as part of the Budgeting for Outcomes process.

A significant aspect of the BFO method has been the development of performance measures and tracking progress throughout the year. On a weekly basis, operational departments submit data indicative of their performance. More formally, departments provide quarterly performance reports that are submitted to the Budget Leadership Team, to the Council and posted on the City's website for the public. Performance reports represent significant accountability and transparency. The reports also are included in the 2010 Budget book for public scrutiny and may be considered as part of the Council's final decisions for the 2010 budget.

The Revenue Estimating Conference provides the baseline for revenues available for funding priorities using the BFO method. In accordance with the City Charter, the Revenue Estimating Conference has met on a quarterly basis. Although the Administration followed the BFO methodology precisely, it soon became apparent during the fourth quarter Estimating Conference of 2009 that the City would face the second largest budget crisis in its history. This crisis was brought about by a downturn in the national and global economy, which led to reduction of local sales taxes; a rollback of the property tax millage; higher than expected expenditures for

hospitalization, workmen's compensation and insurance and pensions; and the end of federal loans and the State GO Zone payments. Thus, it was necessary for the Administration to pragmatically modify the BFO process back to the 2009 budgeted initiatives and implement extensive cost cutting and savings initiatives, and across-the-board 10 percent budget cuts to non-personnel costs in order to balance the 2010 Budget.

We appreciate that the OIG has acknowledged and recognized that the City received a Government Financial Officers Association (GFOA) Award in both 2008 and 2009 for our budget presentations. The City had not received this award in more than 25 years — so we are confident we are doing something right. Yet, we appreciate the recommendations from the OIG for improvements in the future and will continue to refine our processes for even greater excellence.

In general, the City has the following responses to the current report:

1. The document fails to recognize the progress made over the past three years in the presentation of a high quality budget document.
2. Given the flawed methodology for selecting comparable cities, along with the OIG's failure to provide data to ensure accuracy, the City summarily rejects the validity of comparisons of costs of service.
3. The current report does not address the original request by the City Council to provide promising practices for legislative review of budgets. Given the contentious reviews of budgets in the past, the OIG's input in this area would have been very valuable.
4. Ordinance Calendar 26,748 (calendar 26,748) requires the OIG to "...establish policy and procedures to guide functions and processes conducted by the Office of Inspector General." Specific governing policies for how the OIG will execute its duties in New Orleans would be valuable for all departments and organizations working with the OIG.

Responses to Findings

The Administration's responses to the specific findings of this Review are as follows:

FINDING 1: THE MAYOR'S 2009 BUDGET MESSAGE FAILS TO SUMMARIZE BUDGET ASSUMPTIONS OR DISCUSS THE BUDGET'S MOST IMPORTANT FEATURES AS REQUIRED BY STATE LAW AND BEST PRACTICES.

The Government Finance Officers Association describes a Budget-in-Brief as "perhaps most useful for governments with large and complicated budget documents."¹ In 2008, for the first time, the Budget document contained a Budget-in-Brief to provide citizens with a better

¹ Fishbein, John. Preparing High Quality Budget Documents, Page 166. Government Finance Officers Association. 2006

understanding of their budgets. Previous administrations did not provide a narrative summary of the budget, and the Mayor's message was sometimes no more than one paragraph.

In the 2010 budget, to comply with State Law and to continue the best practices adhered to in the 2008 and 2009 Budgets, these assumptions and features are included in the Mayor's letter.

FINDING 2: THE BUDGET MESSAGE IN THE 2009 BUDGET CONTAINS SIGNIFICANT INACCURACIES.

We disagree with this finding. This erroneous assumption could have been corrected in a post-review conference with the Administration, given the opportunity. This reinforces the need for formal policies and procedures from the OIG as mandated by the Calendar Ordinance Number 26,748.

FINDING 3: THE FIVE-YEAR CAPITAL PROGRAM FAILS TO FULFILL CHARTER REQUIREMENTS.

The Capital Program submitted for the 2009 budget complied with the City Charter. The Capital Projects Administration did work with the City Planning Commission in its preparation of the Budget and it did include known information on project funding beyond 2009 and 2010. As required by the Charter, the budget included amounts related to Miscellaneous Capital funds for the years 2011, 2012, and 2013. At the time the budget was prepared, we did not have any more information regarding additional sources of revenue. Subsequently, the City administration was advised by Council Research that the only funds required to be listed in the Capital Budget were anticipated funds that have not already been appropriated into the Capital Budget. Thus, the Mayor's letter reflects a significant amount of FEMA Obligations, General Obligation Bonds and CDBG funds that were already appropriated.

Using guidance from Council Research, funding for the planned five new design-build libraries only reflects additional FEMA obligations and CDBG funds which had not been appropriated. It was quite difficult to anticipate FEMA funding for future projects because initial FEMA Project Worksheets, written since 2005, had been significantly undervalued and later revised as versions. We have been working since the disaster to obtain multiple versions on most projects to ensure the FEMA obligations are closer to an actual cost of repair. As versions are received, they are appropriated into the Capital Budget. For example, New Orleans East Regional Library, Smith Library and Norman Mayer Library, were declared greater than 50 percent damaged, and significantly higher versions were then obligated by FEMA. We could not anticipate that these facilities would be considered for demolition initially. It was only after the architects completed their evaluations that we had knowledge of the higher funding levels.

More than 300 of the City's facilities suffered damages as a result of Hurricane Katrina in 2005. Repairs to public safety facilities were given the highest priority based on the fact that FEMA is a reimbursement process and the City did not have the financial resources to simultaneously fund all project. Since that time, we have been challenged to repair critical buildings without the benefit of adequate funding to successfully complete projects that required restoration. More than four years later, the inability immediately after the storm for the City to sell bonds approved by the voters in 2004, and the changing nature of projects from renovations to rebuilds caused the the Capital Budget to be in a constant state of change.

FINDING 4: DESCRIPTIONS FOR SOME PROGRAMS FUNDED IN THE 2009 BUDGET ARE SO VAGUE THAT THEIR PURPOSE IS IMPOSSIBLE TO DETERMINE.

We have adhered to the Government Finance Officers Association (GFOA) standards and guidelines, and earned the GFOA Award for Distinguished Budget Presentation for the past two years. Yet, the Administration appreciates the recommendations by the OIG for future documents and will work toward further improvements. As with multiple findings in this report, the Administration would also appreciate it if the Inspector General would recognize progress made over the past two years rather than viewing one budget document in isolation.

FINDING 5: CITY OFFICES, DEPARTMENTS, AND BOARDS ARE NOT COMPLYING WITH THE CHARTER REQUIREMENT TO PREPARE AND FILE ANNUAL REPORTS OF THEIR ACTIVITIES.

Departments report annually on their activities through the annual budgeting process, various budget presentation and various performance and accountability reports as components of Budgeting for Outcomes. However, there has not been strict adherence to CAO policy 30(R), which we will strictly enforce going forward.

FINDING 6: THE 2009 OPERATING BUDGET APPROPRIATES MORE THAN \$309 MILLION IN RECOVERY FUNDS WITH VIRTUALLY NO DESCRIPTION OF THE INTENDED USES.

We contend that the descriptions are adequate in the context of the operating budget. Furthermore, the Community Development Office and the Project Delivery Unit (formerly the Office of Recovery Development & Administration) publish reports describing the use of these funds on the City's website throughout the year, and distribute them to interested parties upon request. Descriptions for the use of these funds are provided through ordinances, public notices, Louisiana Recovery Authority (LRA) proposals and reports, and public hearings. They are also published on the City's website.

FINDING 7: INCORPORATING RECOVERY FUNDS INTO THE 2009 OPERATING BUDGET UNDERMINED THE TRANSPARENCY OF THE CITY RECOVERY PLAN.

It is an erroneous assumption that the 2009 Operating Budget book is the only document that publicly reports the use of Recovery funds. The Recovery Budget and Plan have been provided in detail on the City's website, in several special reports and publications, as well as publicly presented to the Louisiana Recovery Authority. An exit conference or meetings with the Recovery staff would have cleared this misunderstanding.

FINDING 8: THE OPERATING BUDGET PROVIDES NO INFORMATION ON CONTRACT EXPENDITURES.

This is not a requirement of the City Charter.

FINDINGS 9 – 16: REFERENCES TO COMPARABLE CITIES.

We do not accept the selections of comparable cities by the OIG based on differences in land areas and infrastructure, hurricane and flood damages, transitions in population, special requirements of tourism and demands on services, just to mention a few criteria.

The OIG's basis for many of the findings in this report is population, but when comparing a city to another, more than the population should be taken into account. For example, one of the cities used by the Inspector General as a comparable, Buffalo, N.Y., has 25.1 percent more residents, 77.5 percent smaller land mass, 20.6 percent lower per capita income, 63.2 percent lower median home values, 3.3 percent higher population of residents under 18 years, not in a Right to Work state, not impacted by the greater natural and man-made disaster in our nations' history worst national disaster, 466.1 percent fewer heating hours per year, 37.7 percent fewer inches of precipitation per year, etc. (U.S. Census, 2008; National Weather Service, 2008).

Additionally, the City objects to the Office of the Inspector General's refusal to provide the detailed research they performed. Without background data, we have no way to verify that the comparisons made were valid. The City does not accept the OIG's methodology and cannot attest to the accuracy of the data provided.

FINDING 17: THE CITY DID NOT FOLLOW RECOMMENDED PRACTICES, OR ITS OWN GUIDELINE, REGARDING INCLUSIVENESS IN THE BUDGET PROCESS.

The City administration utilized the Budgeting for Outcomes methodology in preparation for the 2009 budget. As was clearly outlined to the staff of the Office of the Inspector General in an earlier meeting, the 2008 Hurricane Gustav interrupted the 2009 budget process for more than a month, thus limiting the planned public meetings. Five meetings were held in the early summer

of 2008 and one meeting after Gustav just days before the Charter mandated date for the budget address to be delivered. Subsequently, the Council implemented across the board cuts in adopting the final budget. These reductions by the Council were not made in accordance with the Budgeting for Outcomes prioritization process. This emphasizes the need for the Office of the Inspector General to provide insight on strategies to improve legislative review of the budget – information requested by City Council and absent from the current report.

FINDING 18: THE CITY USED TRADITIONAL BUDGETING, NOT BUDGETING FOR OUTCOMES, TO ALLOCATE FUNDS IN THE 2009 BUDGET.

As noted in the response to Finding 17, the City utilized the Budgeting for Outcomes methodology in preparation for the 2009 budget. This is evidenced by the following chart of actions that were undertaken by the administration in performing Budgeting for Outcomes.

BFO Steps	Tasks Completed	Comments
1. Determine How Much Money is Available	Initial revenue estimation	City Economist projects \$449 million in available funding.
2. Establish Prioritized Results	In consultation with the New Orleans community, the Mayor sets the results for the next year	1. Public Safety 2. Recovery & Livable Communities 3. Opportunities for Youth 4. High Performing Government
	Creation of Results Teams	Teams included key department staff to review proposals not related to their core mission in order to increase objectivity.
3. Allocate Revenues to the Results	Allocation of funds by results	1. Public Safety - 44% 2. Recovery & Livable Communities - 17% 3. Opportunities for Youth – 2.25% 4. High Performing Government – 36.75%
4. Conduct Analyses/ Identify Performance Measures	Submission and review of initial budget programs to the Results Teams	Departments developed 350 proposals with accompanying performance measures.
5. Conduct Analyses	Departments revise budget programs	Departments provided revisions within 2 weeks that provided an increased focus on measurable results.
6. Rank Budget Programs	Submission and review of initial budget programs to the Results Teams	Results Teams reviewed 350 proposals from every department, prepared a preliminary ranking, and provided written input to departments for revisions.

	Ranking of programs by Results Teams	Results Teams ranked revised proposals and shared rankings with CAO. This identified which proposals fell above and below the line of available funding.
	Review of ranking by CAO and approval of ranking by the Mayor	CAO and Leadership Team reviewed all rankings from Results Teams. Some prior year base proposals funded in prior years were “moved below the line” and not funded.
7. Identify Performance Measures	Review and establish outcome measures related to 4 results	
8. Monitor Performance	Adoption of Budget	After the adoption, quarterly performance reports monitor performance.

FINDING 19: MANY CITY PROGRAMS HAVE NOT ADOPTED MEANINGFUL PERFORMANCE MEASURES.

It is important to note that in the evaluation of the City’s 2009 budget for the GFOA Budget Award, the City’s performance measures were evaluated as outstanding by a majority of the reviewers.² A key component of any performance-based government is the iterative and collaborative process between City leadership and departments to develop, review, and/or revise performance measures at each level of the departments. Over the past two years, the City has made great strides in developing performance measures at multiple levels of the organization. As with any organization, the development of performance measures is an evolving process. Indeed, we look forward to the OIG setting an example by presenting its performance reports, and then assisting with further training for our departments.

FINDING 20: THE CITY DOES NOT HAVE AN EFFECTIVE SYSTEM FOR TRACKING AND REPORTING PERFORMANCE MEASURES.

Over the past two years, the City has made significant progress in establishing performance measures throughout the organization and corresponding communications tools as noted in the OIG’s report. As noted in the response to Finding 19, the process of developing performance measures across City government is an evolving process.

² A reviewer is a “finance professional with at least one year of budget experience with a state or local government.” <http://www.gfoa.org/downloads/budgetreviewerbrochure.pdf>, accessed 11/12/2009.

The CAO is currently in the process of evaluating systems and staffing changes to provide both technology and staffing resources to maintain Budgeting for Outcomes and establish a formal system for tracking and reporting on performance measures. These steps have included:

- Review of potential needs to the CAO Budget Office for increased support of performance measures and Budgeting for Outcomes
- Assessment of City financial systems by GFOA
- Identification of requirements for a performance measure system in collaboration with the City's budget system.

As with multiple findings in this report, the Administration would appreciate it if the Inspector General would recognize progress made over the past two years rather than viewing one budget document in isolation.

FINDING 21: THE CITY LACKS A FINANCIAL REPORTING SYSTEM CAPABLE OF PRODUCING ACCURATE AND TIMELY REPORTS ON REVENUES AND EXPENDITURES.

We agree with this finding. Although we are hampered by a funding deficit, we are in the process of performing a needs analysis and developing a business plan to acquire a new system. Given the scope and cost of designing and implementing new financial information technology systems, the Administration has determined that it would be prudent to analyze the situation and allow the next Administration to determine the system that will best address its needs.

City financial systems by GFOA

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From: Kirk M. Bouyelas [mailto:]
Sent: Tuesday, November 17, 2009 12:13 PM
To: Ed Quatrevaux
Cc: Warren Riley; Marlon A. Defillo; John Bondio
Subject: Performance Measurements for NOPD

Mr. Quatrevaux:

Superintendent Riley asked that I forward the "Performance Measures" for the police department to your office for review. Attached, you will find those measures. I believe the documents demonstrate the exhaustive measures we currently have in place. However, if you have any questions, please let me know.

Kirk M. Bouyelas
Chief of Operations
New Orleans Police Department
504.658.5740 (Office)
504.658.5784 (Fax)

Department of Police
Interoffice Correspondence

To: Warren J. Riley
Superintendent of Police

Date: November 11, 2009

From: Marlon A. Defillo
Assistant Superintendent
Bureau of Investigations

Subject: Performance Measurements for Bureau of Investigations

The Bureau of Investigations (B of I) established performance measurements with the intent of delivering quality investigative services to the public and holding personnel accountable for that service.

The metrics used to gauge performance include, but not limited to; job knowledge, quality of work, volume of work, dependability, cooperation with other employees and the public, decision making based on information and sound judgment and organizational skills.

The various Units that comprise the Bureau of Investigations are Homicide, Sex Crimes (Rape and Child Abuse), Property Crimes (White Collar, Auto Theft, Domestic Violence and Victim's Assistance), Juvenile (primarily a book facility for juvenile offenders), District Attorney Investigators and Arson.

Personnel assigned to the Bureau of Investigations are held to a standard that is evaluated annually by Supervisors to determine if they are meeting the required measurements set forth by their Bureau Chief, as well as the Superintendent of Police.

Specifics are as follows:

Homicide Investigators are scrutinized more than any other investigative unit in the Bureau of Investigations because of the heinous crimes committed and the public's demand for solvability. They include;

I. Job Knowledge

- Performance is evaluated on his/her knowledge in regards to all aspects of death investigations.
- Performance is evaluated on his/her knowledge of all city and state laws in regards to not only death investigations, but ALL criminal codes.

II. Quality of Work

- Performance is evaluated on his/her ability to produce complete and accurate police documentation.
- III. Interpersonal Skills
- Must be able to properly communicate with the public in a manner which would be considered more “hands on” than the patrol officer.
 - Ability to perform in a hostile atmosphere is paramount to his/her ability to complete on-scene investigations as well as dealing with grieving family members.
- IV. Documentation of Work
- Must be able to compile homicide, suicide and all other death investigations via clear and concise reports.
 - Must complete all paperwork in a timely manner as outlined via Homicide Division rules and regulations.
- V. Dependability
- Must adhere to a strict twenty-four hour call-back rotation and their ability to respond is of the utmost importance to the overall performance of the Homicide Division.
- VI. Solve Rate and Acceptance Rate
- Performance is evaluated to not only their ability to solve investigations, but the acceptance rate for prosecution by the Orleans Parish District Attorney’s Office.
- VII. Decision Making
- Must be able to make decisions in a quick and accurate manner. These decisions must be made at times in a stressful situation and the ability of the detective to make proper decisions is of the utmost importance.
- VIII. Interviews and Interrogation Skills
- Must be able to conduct interviews with the public which lead to obtaining of valuable information in regards to investigations.
 - Ability to conduct interviews/interrogations with suspects is a finely crafted skill and often times the most valuable asset of an investigation.
- IX. Self-Motivation
- Many times detectives work long and arduous hours and the ability to further investigations require the detectives’ ability to stay focused on the task at hand.
- X. Case Management
- Must be able to complete all paperwork in a timely manner regardless of the caseload.

- Must be able to compile and complete all reports and documentation to be turned over to the Orleans Parish District Attorney's Office for prosecution.
- In addition to the platoon detectives, Cold Case detectives would be evaluated with the same standards as above and to the following.
- Cold Case Detectives must be able to review case files and have the ability to resurrect investigations.
- Cold Case Detectives must maintain the ability to communicate with family members of the deceased and maintain their trust, and confidence.

Platoon sergeants are also evaluated with the same performance guidelines as the detectives. Sergeants are unique, as they are responsible for investigations concerning police involved death investigations in addition to supervising their personnel.

Juvenile Detectives are unique because their primary responsibility is to process juvenile offenders and are measured by the number of "mistake free bookings" performed each week; the ability to review district officers report, particularly form, content and especially probable cause; the number of AFIS pictures and finger prints performed with minimal error; reported cases of missing juveniles handled weekly; positive interaction with members of the District Attorney's Office and Juvenile Court Judges; positive counseling interaction with nonviolent juvenile offenders.

Sex Crimes Detectives are evaluated in the following areas; The employee possess sufficient job knowledge as it relates to his/her respective position; manage his/her work load such that assignments are completed in a timely manner; sufficiently self-motivated to perform at a proficient level; exhaust all possible leads in investigations; competently performs both routine and new tasks; have sufficient knowledge of federal, state and city laws as well as departmental rules and regulations; exhibit a high level of professionalism in the performance of their assigned duties; courteous and respectful when representing the department; possess the ability to adequately complete all pertinent paperwork (i.e. report writing, warrant preparation, etc.); posses the proper etiquette for providing testimony in a court room setting; remain discrete and adhere to privacy policies in the handling of sensitive information pertaining to his/her respective investigations; regularly work their assigned shifts and maintain satisfactory job attendance; willingly work well with co-workers in order to maximize the units efficiency; display a pleasant demeanor

Does the employee maintain a proper and professional appearance at all times; willingness to learn while performing his/her respective duties; have the ability to competently communicate with other agencies such as the district attorney's office, other law enforcement agencies, medical professionals and advocate groups etc. pertinent to investigation.

Property Crimes Investigators are measured primarily measured in the same method; job knowledge, quality of work, interpersonal skills, dependability, decision making, self-

motivation, etc. Further measurements can include for auto theft investigators, number and type of arrests; value of recovered property; number of shop inspections.

Domestic Violence Investigators further measure their members on the number of victim contacts, number of consultations with the District Attorney's Office, follow-up investigations, community meetings, community awareness presentations, victim's assistance, training sessions conducted.

Arson investigations are technical and require expertise and job knowledge that results in the identification and solvability. Such metrics for measuring performance is the ability to respond to fire scenes, evaluate and classify, but most importantly able to work extremely well members of the New Orleans Fire Department training their personnel on detection and solvability. Since the recreation of the NOPD's Arson position, arrests have dramatically increased with increased productivity by members of the Fire Department's Arson and Prevention Unit.

District Attorney's Office Investigators are measured basically by standards set forth by the department and civil service, but most importantly in their ability to work well with prosecutors in the administration of justice. Such ability requires good communication skills, motivation, load work, dependability, professionalism and working closely with victims of crime or families of murdered victims.

In addition to the Department's Mission Statement, the Bureau of Investigations has created a Mission Statement for investigators and civilians, with high expectations that ultimately provides a more defined measuring gauge for better service to the public.

Respectfully submitted,

Marlon A. Defillo
Assistant Superintendent
Bureau of Investigations

The following performance measures / reports, represent those established by the New Orleans Police Department and the Operations Bureau specifically.

Crime Measures:

1. Daily Crime Reporting – Emailed to Command Staff
2. Daily Major Offense Log – Emailed to Command Staff
3. Weekly Crime Reporting – Emailed to Command Staff & Briefed at Supt. Staff Meeting
4. Bi-Weekly Crime Trends by District – District COMSTAT
5. 4-Week Crime Trends by District – District COMSTAT
6. 8-Week Crime Trends by District – District COMSTAT
7. YTD Crime Trends by District – District COMSTAT
8. Weekly Crime Tracking by Offense – District COMSTAT
9. Weekly Crime Trends – COMSTAT
10. 4-Week Crime Trends – COMSTAT
11. Monthly Crime Trends - COMSTAT
12. YTD Crime Trends – COMSTAT
13. YTD Shooting Report

* * Refer to Reports, District COMSTAT Book, Weekly / Monthly COMSTAT Book

Calls for Service Measures:

1. CFS by Location – COMSTAT
2. CFS by Day of Week – COMSTAT
3. CFS by Time of Day – COMSTAT

Calls for Service Measures Cont.:

4. CFS by Type of Incident – COMSTAT
5. CFS by Waiting Time – COMSTAT
6. CFS by Enroute Time – COMSTAT
7. CFS by On-Scene Time – COMSTAT
8. CFS by Handling Time – COMSTAT
9. Officer Activity Sheet Review
10. Supervisor Activity Sheet Review
11. Excessive Code 2 Response Time Reports
12. OB Policy #5 (Platoon Commander Guidelines)
Regulation of CFS Priority
13. OB Policy #18 (Platoon Sergeant Guidelines)
Regulation of CFS Response
14. OB Policy #20 (CFS Response Guidelines)
Regulation of CFS Response Guidelines for Officers

Arrest / Prosecution Measures:

1. Weekly District Arrest Breakdown and Comparison
2. Weekly District Activity Breakdown
3. YTD District Arrest Breakdown and Comparison
4. 701 Case Tracking (Not one NOPD 701 Release in the last 2 years)
5. A-Case Arrest Cases Screened
6. A-Case Arrest Cases Accepted for Prosecution

Arrest / Prosecution Measures Cont.:

7. A-Case Arrest Cases Refused
8. A-Case Refusals by Type / Reason
9. Expedited Narcotics Cases Tracked and Comparison
10. Domestic Violence Cases Tracked and Comparison

Clearance Rate Measures:

1. Tracking / Monitoring of DIU Clearance Rates
2. Tracking / Monitoring of Arrest Warrants / Wanted Criminals
3. Tracking / Monitoring of Search Warrants

Other Measures:

1. Accident Review Board
2. Shooting / Discharge Review Board
3. Pursuit Review & Critique

Personnel Resource Management:

1. Manpower Reports
2. Resource Allocation Report by District
3. Weekly District Staffing Report
4. Weekly Department Resource Deployment Strategy
5. OB Policy #2 (Staffing Parameters by District)
6. OB Policy #3 (Staffing Parameters by Platoon / Unit)

Personnel Resource Management Cont.:

7. Special Event Staffing Parameters (Both City Wide and District Specific)
8. OB Policy #8 (ICO Duties and Responsibilities)
9. Weekly ICO Report
10. In-Car Camera Review and Monitoring
11. AVL Review and Monitoring