

STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

# Activity Guide

BUDGET DIVISION  
JULY 2011



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## 1. What is an activity?

An activity is a plain-English description of an agency's work, what it produces or accomplishes, and how it makes a difference.

Activities are things an organization does to accomplish its goals and objectives. An activity consumes resources and produces a product or service for customers that leads to results that those customers want.

## 2. What is the activity inventory?

OFM maintains a database (the *Activity System*) of every agency's activities as part of the Budget Development System (BDS). This inventory of activities shows each activity's description, expected results, performance, and estimated cost.

## 3. Why do we need activities?

*Activities show return on investment.* Activities help budget decision makers, and ultimately citizens, understand the return they get for their investment in state services. [RCW 43.88.090\(6\)](#):

In reviewing agency budget requests in order to prepare the governor's biennial budget request, the office of financial management shall consider the extent to which the agency's activities demonstrate progress toward the statewide budgeting priorities . . . .

Investment is shown from the enacted budget, as indicated by the agency's estimated cost of the activity. Return is indicated by the expected results – what public benefit the activity is supposed to accomplish - and by performance measures. Activities and performance measures are used in the Priorities of Government (POG) process to help prioritize budget investments based on which activities are most successful at achieving results that matter to citizens and policy makers.

*Accountability.* Activities provide citizens and policy makers with a clear statement of what an agency does to make a difference in the state. Because activities are linked to performance measures, citizens, legislators and budget analysts can see how effective agencies are at converting resources to outcomes through their activities.

## 4. What makes a good activity description?

Good activity descriptions communicate to citizens and decision makers what an agency does, what it produces or accomplishes, and how it makes a difference. They are written so decision-makers and the public can easily understand what the agency does, and the public good or benefit provided by an investment of funds in that work.

Activities are not necessarily the same as programs or the agency's organizational structure. An agency may carry out similar activities in different programs.

For the Activity Inventory, an agency's work should be broken into discrete functions or lines of business. An activity description that requires several compound sentences or lists to accurately convey the work probably needs to be divided into several separate activities.

One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state's citizens, we basically want to know, "What do you do? For whom? What will it accomplish?"

It is understandable that agencies want to cast activities in the best possible light. OFM does not restrict the amount of text in an activity description. However, a best practice should be to begin the activity description with a clear, plain-English statement of what the activity does before expanding on objectives or operational details.

### EXAMPLES OF ACTIVITY DESCRIPTIONS

Activity title	Activity description
Control Stormwater Pollution	The agency prepares tools, provides assistance, and offers compliance strategies to control the quantity and quality of storm water runoff from development and industrial activities. [. . .]
Investigate and Prosecute Medicaid Fraud and Resident Abuse	This federally-mandated activity investigates and prosecutes crimes of fraud and resident abuse committed by Medicaid providers. [. . .]
Acquire and Maintain Historic Collection	This activity collects, catalogs, and preserves artifacts, manuscripts, maps, ephemera, photographs and books that are irreplaceable and related to the interpretation of our state's history.

## 5. What makes a good expected result statement?

Every activity should have an Expected Results Statement. **Results** are what policy makers, citizens, customers, and stakeholders want government to accomplish. A good results statement should communicate outcomes that take place because of the activity, and suggest ways that an agency could measure success for this work. A simple “so-that” logic model may be useful for helping come up with pertinent results statements. (For information on logic models, see OFM’s [Performance Measure Guide](#).)

### EXAMPLES OF EXPECTED RESULTS STATEMENTS

Activity	Expected results
Chronic Disease Prevention	People have the information they need to prevent disease and injury, manage chronic conditions, and make healthy decisions.
Administration and management	Agency managers, the Governor, and the Legislature have confidence in financial information and can rely on it to make decisions. Agency workers have reliable computers and networks to do their jobs. Customers have easy access to information. Facilities and vehicles are well-maintained, safe and efficient.
Fire Regulation and Prevention	Reduce wildfires started by humans through risk assessment and mitigation plans.
Forecasting	Timely, accurate projections of caseload and revenue to inform decisions

## 6. How many activities should we have?

There is no formula for the right number of activities. An agency’s activity inventory should reflect discrete actions it performs, business lines it provides, or functions it carries out.

There should be enough activities to describe the agency’s work thoroughly, but too many activities can make it difficult to tell a story about what the agency does to accomplish its mission. If an agency only does one thing, then having one activity may be appropriate.

Avoid having activities that are too large to accurately describe work. An activity description that requires several compound sentences or lists to convey the work probably needs to be divided into separate activities.

Programs are not a good proxy for activities, because program structures do not always meet the criteria of being a plain-talk description of a discrete action, function or line of business.

Some rules of thumb for deciding on what’s an appropriate activity include:

- Does the activity serve a common type of customer?
- Does the activity rely on a common set of tools to carry it out?
- Does the activity use a common approach or business function to deliver its results?

## 7. Review – what are some common errors in activities to avoid?

Activities are intended to provide a plain-talk view of an agency's work so budget decision makers can understand what the agency does and why that work matters to evaluate benefits from investing in that work.

The following errors can make these objectives more difficult to achieve:

1. Not beginning an activity description with a clear statement of what work is performed. An activity is an action. The activity description should begin with a clear indication of what the activity does.
2. Making activity descriptions and results statements too long. Longer does not equal better when it comes to describing activities and results.
3. Creating multiple activities that are not sufficiently differentiated from each other. Write activity descriptions so a reader can easily tell what is unique about each activity.
4. Creating an activity structure that mirrors program or funding structure. Activities are supposed to be a statement of what your agency does. They are not meant to reproduce existing organizational or legal arrangements.
5. Combining dissimilar functions into a mega-sized activity. Some lines of business may be very large in terms of dollars or staff, yet carry out a single function, and hence appropriate for being a single activity. However, some "activities" proposed by agencies have widely different customers, functions and processes.
6. Writing activity descriptions as result statements. Although it is tempting to describe why an activity matters, that is best done in the expected results statement.
7. Writing expected results statements as performance measures. Results are outcomes that the activity is intended to produce or accomplish. The expected results should suggest measures of success, but should not be a bulleted list of outputs to be achieved in the next biennium.
8. Including current period performance data in activity descriptions or expected results statements. For budget continuity, activity descriptions and result statements should stand alone, without reference to a single fiscal year or biennium's performance. That information is best communicated in the performance measures linked to activities. However, it may be appropriate to include general data to describe the scale or scope of work handled by an activity (e.g., "This activity receives over 10,000 applications a year.").

## 8. Can we change our activities?

Yes, subject to OFM review and approval.

We expect activity cost estimates to change when the budget changes (that is, after the biennial and supplemental budgets are enacted).

Agencies can change performance measures linked to activities at any time, subject to review and agreement by the agency's budget analyst. See OFM's [Performance Measure Guide](#) for more information.

OFM will consider requests to combine or split existing activities, create new activities, or change activity descriptions before activity recasts are due.

## 9. How do we change activities?

Start the process by writing a proposal describing what you want to do and why you want to make the change. The proposal should provide a clear picture of the “before” and “after” set of activities. Please include:

- The current list of agency activities, descriptions, and expected results
- The proposed list of agency activities, explaining where current activities have been merged or split
- A brief explanation of the reason for the requested change.

If there is a change to activity structure, provide a cross-walk showing a comparison of the description, expected results, and cost estimates of current activities and proposed new activities. If there is a change in activity description or results statements, use either revision marks to show desired changes to current text, or provide a table showing a side-by-side comparison of current title, description and/or expected results, and the proposed changes.

Consult with your agency's [OFM budget analyst](#) about the proposal. They will review the proposal, ask questions, and provide feedback about your proposed activity changes.

Finalize proposals by emailing them to Garry Austin, Senior Budget Assistant (SBA) in OFM Operations ([garry.austin@ofm.wa.gov](mailto:garry.austin@ofm.wa.gov)), Linda Swanson, Activity System Manager ([linda.swanson@ofm.wa.gov](mailto:linda.swanson@ofm.wa.gov)), and your OFM budget analyst.

OFM will review the proposal, considering how the proposed change in information will affect the budget process, and provide a decision to the agency as soon as possible about which activity changes are reasonable to accept. Once the proposal is approved by the OFM budget analyst and budget operations, OFM staff will make non-fiscal additions and changes to agency activity data in the Activity System, or will unlock the system so the agency can make the changes. Once this is done, these activities can be used for the next budget recast.

## 10. What does OFM consider in evaluating proposals for activity changes?

*Understandability.* The proposed activities should make sense to a budget and policy audience. It should be clear what each activity does and how the activity relates to the agency mission and statewide results. The set of activities should represent an accurate, complete view of the agency's major lines of business.

*Consistency.* The legislature, OFM and the public are interested in preserving a history of state spending on activities in the budget. This is difficult to do if there are frequent or major changes in activities. OFM will consider the number of proposed changes and potential effects on the budget in evaluating whether to change activities.

*Magnitude of change.* A few minor description changes or dividing a single activity into two are examples of relatively minor changes. A major re-writing of all activity descriptions, or combining several activities into a single one, are examples of major changes that will be considered more closely.

## 11. What is the activity recast of the budget?

When a new biennial or first supplemental budget is enacted, agencies must update their estimated costs of agency activities to reflect the new budget. This budget recast becomes the foundation for the next budget.

## 12. How do we do activity recasts?

Agencies update their activity estimates through the Budget Development System (BDS), using\* the same approach used to recast maintenance level totals by activities during budget development. In BDS, use the Enacted Recast, Regular Version. Agencies have two choices on how they want to recast the enacted budget:

1. Enter a bottom-line total budget for each activity by fiscal year and account in a decision package PL-9Z.
2. Copy an existing version by activity to enacted version and update, delete and add decision packages to reflect the enacted budget.

Do not assign costs to Activity ZZZX – Other Statewide Adjustments or other temporary activities used by OFM to capture statewide adjustments during budget development.

Do not assign any costs to inactive activities (see item 16, below). Activities for which no funds are allocated will be considered to be inactive.

For more information, see the [Enacted Recast system tutorial](#), the [Activity System Guide](#), or contact OFM Budget System (hotline 360-725-5278, or email [ofmbass@ofm.wa.gov](mailto:ofmbass@ofm.wa.gov).)

### 13. How do we treat administrative costs in the activity inventory?

The activity inventory should provide a reasonable estimate of the full cost of carrying out each activity. Part of the full cost includes administrative costs that are essential to support the activity.

Administrative costs can be broken into two components: indirect costs and overhead costs. In general, overhead costs should be displayed as a separate activity, while indirect costs should be allocated to activities.

We realize many of the cost terms used here mean different things in different organizations. Please use the definitions below for the purpose of developing activity inventory estimates.

*Indirect costs* are administrative costs that are linked to two or more activities, closely related to (and tend to vary with) activity level or size, but cannot be practically or economically assigned as direct charges.

Types of costs that could be classified as indirect costs may vary from agency to agency, but here are some possible examples:

- Rent costs (if these are not already direct charged).
- Postage costs.
- Software development and information technology support costs.
- Other shared administrative costs that are closely related to activity levels and size.

These costs should be assigned to activities through cost allocation and included in the total cost of the activity in the activity inventory.

*Overhead costs* are core administrative functions and costs that every agency will have, regardless of the number or size of its activities. These overhead costs usually support the entire organization, are not directly attributable to specific activities and tend to be relatively fixed and not readily affected by fluctuations in activity levels.

Types of costs that could be classified as overhead costs may vary from agency to agency, but here are some possible examples:

- Salary and support costs for the agency director.
- Core portions of accounting, budgeting, personnel, communications, and receptionist functions.
- Other shared administrative costs that are not closely related to activity levels and size.

Overhead costs should not be allocated to activities because they are not “caused” by the activity. Show these costs separately in an “Administration” activity in the activity inventory. OFM has determined that some agencies (those with only a few activities) are not required to break out overhead costs as a separate administration activity. If your agency does not currently have an administration activity, you are not required to submit one unless requested separately by OFM.

## 14. How do we allocate indirect costs to activities?

Indirect costs should be assigned to activities on some generally accepted cost allocation basis. We encourage agencies that already use a cost allocation methodology for some accounting purposes to use that method to allocate indirect costs to activities.

Other possible approaches to allocating indirect costs to activities include, but are not limited to:

- Allocating by the number of staff (FTEs) in each activity.
- Allocating by the total dollars budgeted for each activity.
- Allocating by one or more bases that serve as good surrogates for the costs caused by each activity. For example, IT staff costs could be allocated by the number of personal computers, or rent costs could be allocated by the number of square feet.

The allocated costs should be included in the total costs for the activities. Agencies must also provide OFM with information about the cost allocation approach:

- The total amount of indirect costs allocated.
- A brief description of the allocation method selected.
- The allocation percentage for each activity (percentage of the total indirect cost the agency allocated to each activity).
- The dollar amount allocated to each activity each fiscal year.
- A brief, high-level description of what is included in indirect costs being allocated

Please use a format similar to the example below. Submit this information to Linda Swanson at [linda.swanson@ofm.wa.gov](mailto:linda.swanson@ofm.wa.gov).

Activity Inventory Indirect Cost Allocation Approach					
Agency ABC					
Date					
<b>Allocation Method Description:</b> Total indirect costs were allocated to activities based on the number of FTEs in each activity					
<b>What is included in indirect cost being allocated?</b> Three Human Resources FTE and seven Information Technology FTE that are not included in the Administration activity, and the operating costs of our building.					
	FTEs	% Allocation Received	Dollars Allocated FY1	Dollars Allocated FY2	Total Dollars Allocated
Activity A	20	20%	\$200,000	\$250,000	\$450,000
Activity B	50	50%	\$500,000	\$625,000	\$1,125,000
Activity C	10	10%	\$100,000	\$125,000	\$225,000
Activity D	20	20%	\$200,000	\$250,000	\$450,000
<b>Total</b>	<b>100</b>	<b>100%</b>	<b>\$1,000,000</b>	<b>\$1,250,000</b>	<b>\$2,250,000</b>

OFM is not concerned that each agency classifies the same type of cost in the same way. We most want to ensure that activity costs include administrative costs that are critical to support the activity and achieve its intended outcomes.

## **15. Can we delete activities or make them inactive?**

Yes, it is possible to remove activities from an agency's activity inventory. Follow the process for proposing changes to activities described in item 9, above. Once the proposal has been reviewed and accepted, OFM will edit the activity title to begin with the word "Inactive".

During the recast, do not allocate any funds to inactive activities. This is important for two reasons. First, activities with zero funding will not appear on Activity Reports. Second, activities cannot be deleted if they have funds allocated to them or if they have a decision package associated with them.

Only OFM staff can delete an activity. After the recast has been done, notify your budget analyst that activities are ready for deleting, and we will remove activities marked Inactive from the inventory.

## **16. Where can I get activity reports?**

Once the activity recast is complete, OFM budget staff will run activity reports and post them to the OFM web site <http://www.ofm.wa.gov/budget/manage/default.asp>. These also appear on each agency's page in OFM's "[Performance and Results Directory](#)"

Activity reports include the activity name; description; the expected results of the activity; funds allocated to that activity, by fund type and fund; staff (FTE); statewide results and strategy, and performance data associated with the activity.

Activity reports on OFM's web site are posted once a year, so represent a snapshot taken at the time of the recast. This means that performance data is not updated, nor will changes to activity description or expected results text appear, until the next recast.

Agencies with access to budget reports in Enterprise Reporting (ER) system can run activity reports on demand. After logging into [Enterprise Reporting](#), choose "Budget Reports", then "Operating Reports", then "Activity Inventory Reports". Use the ACT001 report to get the activity inventory for a single agency, and ACT003 to get all activity information for a statewide result area. (For more information on using Enterprise Reporting, see the [User's Guide](#).)

## **Questions Specific to the 2011-13 Biennium**

### **17. When are activity recasts due?**

Activity recasts are due **September 2, 2011**, after agency allotments are completed (August 14, which is 45 days after the beginning of the biennium). Recasts must be completed in time for OFM to set up the budget system for the supplemental budget, which is due in mid-October.

Proposed changes to activities must be submitted and approved with enough lead time so OFM staff can make changes to activities so the agency can accomplish its recast.

Performance measure targets should be updated by October 14.

### **18. Will we need to provide “essential services” information about activities?**

No, this information was used in preparing the Governor’s 2011-13 budget. It does not need to be updated at this time.

### **19. How will new agencies set up activities?**

New agencies should work with their assigned OFM budget analyst to establish activities for the 2011-13 biennium, following items 4 through 9 above.

OFM budget and information technology staff are currently exploring the feasibility of automating the transfer of activities among agencies. We will provide more information closer to when the recast is due.

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