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“A MODERN VISION OF THE TAX ADMINISTRATION”

Case Study 3.1

**MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING
THE PERFORMANCE OF THE TAX ADMINISTRATIONS**

**Tax Administration Service
Mexico**

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Case Study 3.1: MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS

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Case Study 3.1: MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS

SUMMARY

The purpose of this document is to present a synthesis of the practices and experiences in the Tax Administration Service (Servicio de Tax administration, SAT, in Spanish) of Mexico, regarding the implementation and operations of the management follow-up and performance evaluation system and the indicators to measure the institutional performance, which form part of the **SAT's Government Model for Planning, Strategic Management and Continuous Improvement**, and which implementation began in 2008.

The document is divided into five parts:

Part one describes the Government Model for Planning, Strategic Management and Continuous Improvement, which is the Institution's conceptual and functional framework of the Management follow-up and performance evaluation system.

Through this model the **Strategic Management, Tactical Management and Operational Management** are identified and linked, which correspond to SAT's Administrative Offices, the general administrations and the local administrations and customs, respectively, which gives sense to the alignment of the operation with the strategy at all levels and scopes of the institution. This disaggregation defines the characteristics and reaches in each decision level and operation scope, measuring and evaluating performance through the following indicators:

- Strategic for strategic management level;
- Specific for tactical management level;
- Operation for operational management level;
- Results, links to SAT's mission and vision.

Part two of this document describes the main results obtained from the implementation of the institution's management follow-up and performance evaluation system.

Part three refers to the problem affecting or which may affect the systems' implementation and operation.

Part four presents the strategies to respond to the problems detected, considering the **regulatory scheme, organization, processes, information and technology** (the components of the institutional architecture).

Finally, part five presents conclusions as general reflections.

Case Study 3.1: MANAGEMENT CONTROL AND THE INDICATORS FOR MEASURING THE PERFORMANCE OF THE TAX ADMINISTRATIONS

I. GENERAL CHARACTERISTICS OF THE SAT'S MANAGEMENT FOLLOW-UP AND PERFORMANCE EVALUATION SYSTEM

SAT's management follow-up and performance evaluation system originates in the **Government Model for Planning, Strategic Management and Continuous Improvement** of the Institution, which identifies three management levels:

- 1) Strategic;
- 2) Tactical;
- 3) Operational.

The Government Model, which implementation process began in 2008, links the three levels of Management and allows operations to be articulated with strategy. Its main characteristics, which are described herein, are the System's reference framework.

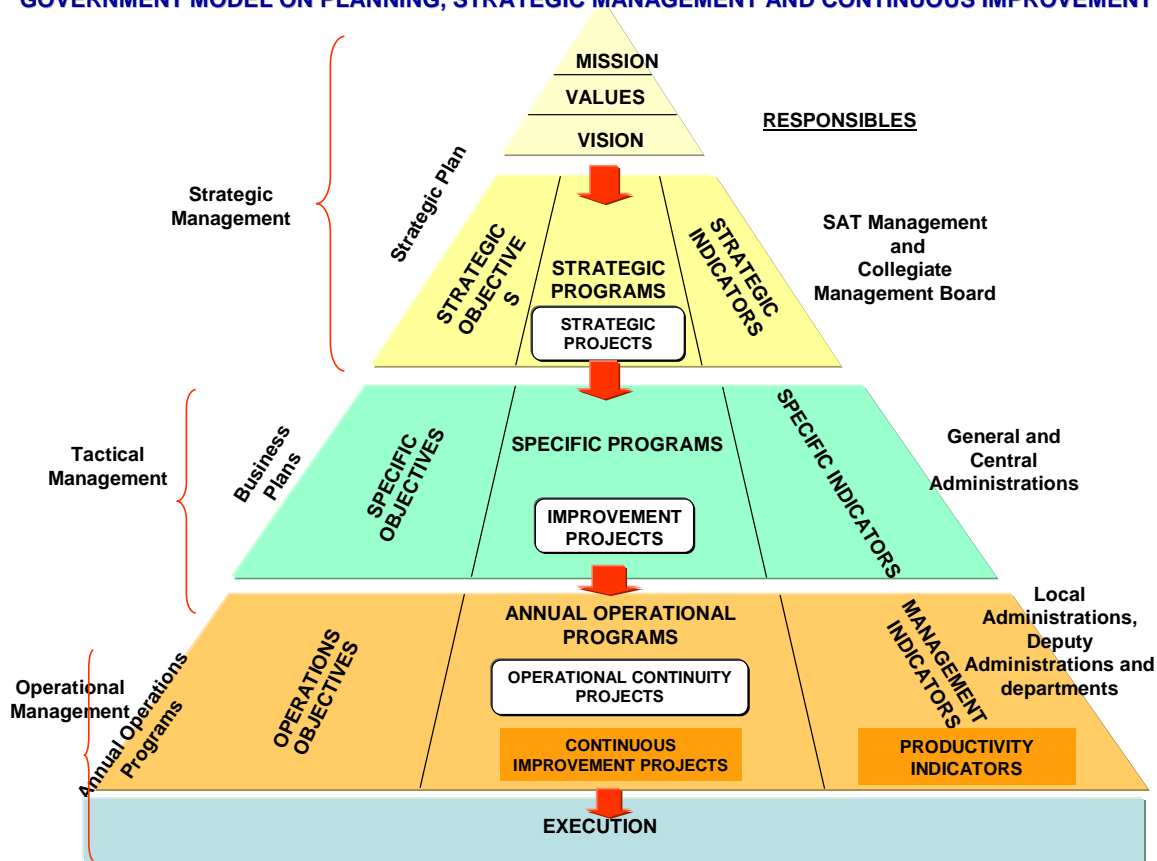
1.1 Government Model for Planning, Strategic Management and Continuous Improvement

SAT's Government Model for Planning, Strategic Management and Continuous Improvement establishes the mechanisms for **tactical** and **operational management** to work articulated as a consequence of **strategic management**. It links and aligns the operational programs of the local administrations and customs (operational management level), with the business models of the general administrations (tactical management level) and these with the strategic plan of the Institution (strategic management level), through cause-effect relations.

As seen in the following graph, the Model shows the hierarchy and correspondence with the management level and the organizational level, defining the type of indicators corresponding to each level.

The short, medium and long-terms are articulated with the institutional strategy, and institutional tasks are assessed in terms of results, efficacy, coverage, efficiency and quality.

GOVERNMENT MODEL ON PLANNING, STRATEGIC MANAGEMENT AND CONTINUOUS IMPROVEMENT



The Model integrates the three management levels of the Institution through the following processes:

1. Diagnostic;
2. Strategic plan;
3. Business Plan;
4. Programming and Budgeting;
5. Execution;
6. Evaluation; and
7. Continuous Improvement.

The management follow-up and performance evaluation system is located in the evaluation process, therefore its interaction with the other processes of the Model allows following-up of the actions and results, considering the short, medium and long term horizons, such as the different decision making levels and the institution's field of work.

In this manner, the different components of the system intervening in the operation are articulated, providing feedback for decision making in the strategic, tactical and operational levels.

It is important to mention that the Model also establishes the link with the institution's Projects Portfolio, to potentiate the results of the strategic, specific and operational programs, through investment programs and projects.

In summary, Government Model gives the organization the instruments required to define, rule, implement, and control and feedback the strategy and also enables the execution of the Institution's strategic plan, through the business plans of the general administrations, of the annual operational programs of the local administrations and customs and the Institution's Projects Portfolio investment programs and projects.

1.2 Strategic Maps and Management Follow-up and Performance Evaluation System

For information integration purposes and methodologically, the Government Model and, consequently, the management follow-up and performance evaluation system, is based on the institutional strategic map and the strategic maps of SAT's general administrations.

The strategic institutional map shows our objectives linked to SAT's mission and vision and orders and identifies the same pursuant to their perspective and issue, therefore it constitutes the base for the control and the evaluation of the institutional strategic plan.

The maps of the general administrations originate as from the institutional strategic map, conserving at all times its alignment and congruent with the same by showing a greater breakdown of the issues identified as strategic for the Institution.

Based on the Balanced Scorecard (BSC) in SAT's 2007-2012 strategic plan, the strategic purposes are identified through the following perspectives:

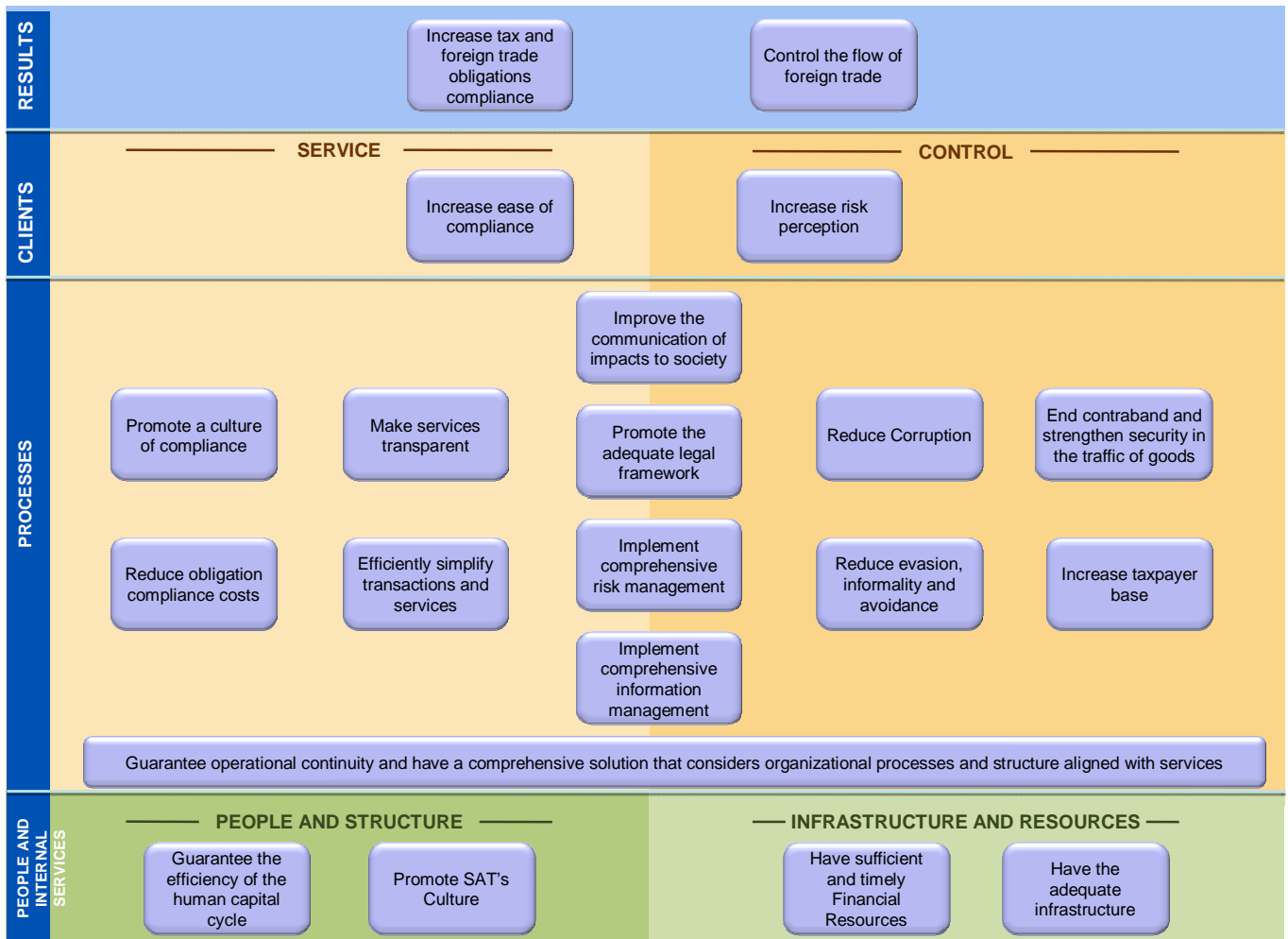
1. Results;
2. Clients;
3. Internal Processes;
4. People and Services (organizational training and growth).

Similarly, four strategic issues are defined:

1. Services;
2. Control;
3. People and Structure;
4. Infrastructure and Resources.

The first two are applied to clients and processes, while the two remaining disaggregate the purpose related to people and internal services. The articulation of these spheres has been very useful for the splitting of the Institutional strategy.

SAT STRATEGIC MAP



1.3 Systems Indicators

The management follow-up and performance evaluation system, in agreement with the Government Model for Planning, Strategic Management and Continuous Improvement, identifies the following indicators:

- 1) Strategic;
- 2) Specific;
- 3) Operation:
 - Central
 - Local
- 4) Results or impact.

1.3.1. Strategic Indicators

These indicators are associated with the level of compliance with the strategic objectives and oversee the 14 Strategic Programs of the Institution.

Strategic indicators evaluate and feedback the Tax Administrations strategic and priorities, valuing the efficacy, efficiency and quality of the actions and services generated to increase Collection, reduce tax evasion, avoidance and contraband, increase tax efficiency and control foreign trade, among the other key objectives of SAT.

Example of SAT's strategic indicators:

- SAT's general image
- Primary collection
- Secondary Collection
- Collection efficiency
- Number of taxpayers updated
- Tax revenue managed by SAT in regards to the GDP
- General perception corruption index
- Perception in the ease of compliance with tax obligations
- Effectiveness of examination actions
- Auditable gap
- Recovery of the tax credit portfolio
- Profitability of examination actions
- Final judgments favorable to SAT
- Cost of processes
- Organizational environment

1.3.2. Specific Indicators

These are used to measure and evaluate the degree of compliance with specific programs of the general administrations in the **tactical management level**.

Similarly, the action and the relevance of the organizational structure are also evaluated, as well as the vertical and horizontal coordination mechanism among management areas responsible of executing the strategy and coordinating the operation.

Specific indicators refer to the intermediate products generated by the areas to feed strategic programs as well as specific products inherent to their functions. Management follow-up allows evaluating the actions of the general administrations in function of the entire institution. The evaluation obtained responds to coverage, quality, efficiency and efficacy in the target population criteria.

Example of SAT's specific indicators:

- Average collection by global examination actions
- Increase in primary collection by effects of the collection
- Cost of secondary collection
- Persuasive collection in regards to enforced collection
- Taxpayer risk perception due to collection actions
- Increase in the level of compliance for large taxpayers

- Coverage of physical and potential persons registered in contrast with the economically active population.
- Examination efficacy
- Percentage of in depth reviews of the total reviews practiced
- Fiscal presence
- Risk rating of foreign trade agents
- Profitability of examination actions
- Percentage of inquiries resolved and notified within the legal term established
- Percentage of trials won in final judgments
- Issued consigned in contrast with issued presented
- Degree of compliance of administrative service levels
- Quality of service

1.3.3. Operation Indicators

These are identified in the **operational management level**. These refer to the operational processes resulting from tactical management. These indicators evaluate the productivity of the programs and projects of the local administrations and the customs administrations, and the general administrations with representations in the same.

Management control in this level is addressed to the optimization of the use of resources. It responds to efficiency, productivity and quality criteria on services issues, therefore it considers the products and the inputs of the operational processes. It is the basis for the transparency of public work.

At the same time these indicators are divided into central and local:

a) Central scope operations indicators

These indicators are designed to follow-up and evaluate the operation of the general administrations, substantive operations as well as support operations.

Example of central scope operation indicators:

- Perception on customs operations
- Attention to high risk situations
- Wait times (queues) in the customs office
- Efficiency in the customs recognition process
- Fight contraband
- Advance in fiscal damages
- Effectiveness of the risk model for labels
- Information requests served on time
- Returns and compensations
- Percentage of first instance sentences favorable to SAT (amount)
- Increase in the recoverable portfolio value by the originating authority.

b) Local scope operations indicators

These indicators are designed to evaluate operational performance relating to taxpayer services, Collection, federal, juridical and foreign trade fiscal audits, performed by local administrations and customs administrations.

Example of local operations indicators (local administrations):

- Registry update
- Streamlining taxpayers that have not be located
- In-depth surveillance
- Increase in compliance
- Perception of the quality of the service
- Recovery of the credit portfolio
- Rotation of collection documents
- Auctions
- Quality in the credits inventory
- Index of final judgments awarded by amount
- Index of resolved administrative resources
- Index of penal issues requests served
- Index of favorable judgments of certain actions in indirect protection proceedings (amparo)

Example of local operation indicators (customs administrations):

- Percentage of detection, drugs and weapons confiscation and/or seizures
- Seizure of goods resulting from piracy
- Penal cases
- Detection, confiscation and/or seizures of cash (national and foreign currency)
- Orders to verify goods in transit which originated a serious incidence
- Effectiveness in the transfer of goods which property was transferred to federal tax authorities
- Recognition time (first recognition)
- Collection (passengers)
- Effectiveness of conviction resolutions issued
- Serious precedents detected during the second recognizance and not detected by the first.

1.3.4. Results or impacts indicators

Are the highest level of SAT indicators aggregation and allow measuring and evaluating of the Institution's comprehensive performance vis-à-vis its mission and vision.

Represent the impact of the Entity's actions in the country's socio-economic context and allow evaluating the institution's performance as a whole unit. Furthermore, they are used to prepare official reports, tax and management reports, which the institution presents periodically to different offices of the federal government as well as the Congress of the Union, on issues, such as:

- Tax efficiency;
- Real Collection behavior;
- Collection behavior by types of taxes;
- The impact of examination actions in Collection activities;
- Collection in regards to the national GDP.

1.4. Implementation of Management follow-up and performance evaluation system

The frequency in the measuring performance is an essential feature of SAT's management follow-up and performance evaluation system. However, the quality and the representation of the indicators generated for the measurement, is of even greater transcendence.

The starting point for the construction of indicators is the clear and agreed description of the strategy, tactics and operation. In this regard, important efforts have been made to develop indicators that provide a better representation, which consider the measurement of the Institution's comprehensive performance as well as its three levels of management.

1.4.1. Management control de los strategic and specific programs

In the current implementation stage, indicators to measure **bad behavior and the results of the strategic plans** was adopted, as well as determining specific programs and projects which contribute to compliance with the objectives that gave place to the same. In this manner, the follow-up and evaluation of strategic programs is done based on indicators, while for specific programs and projects it is done based on the advances in their execution. These last programs are reported through a "Project" for each specific program and project.

1.4.2. Management control of operation programs

a) Local administrations

Local administrations are the 66 regional offices of SAT located throughout the country which carry out the general administration activities of Collection, legal and taxpayer services and federal fiscal audit., becoming in this manner the Windows through which all taxpayers, excepting large taxpayers, carry out practically all their fiscal transactions.

Work characteristics and burdens of these administrations are various, this is observed in factors such as the amount of the collection, and the amount of taxpayers, audits carried out, the number of judgments, the number of employees and others. In this sense, the comparison between administrative units with important differences in their results, vocation and work burdens would not be fair; therefore it would be necessary to define a model that “evaluates” them more homogeneously, to be in the position of making valid comparisons amongst them.

Therefore a decision was made to **group local administrations in seven groups** with similar characteristics. These grouping criteria also seek to generate enough incentives to promote more direct competition amongst the local administrations of the same group.

With the purpose of complimenting follow-up and obtain specific information on the performance of the local administrations, “self-evaluation questionnaires” were designed and the same were collected by those in charge of local operations. Responses to these questionnaires are reviewed periodically at headquarters, by selecting the local administrations under review.

b) Customs administrations

The General Customs Administration carries out its operations programs and projects throughout the country through its 49 customs administrations.

The system is applied in customs, based on 14 relevant indicators, performance based on those that are followed-up from headquarters.

Ten groups were formed to evaluate customs offices, and the following criteria were used:

- Type of traffic: border, inland and maritime customs;
- Operations volume: number of operations modulated by vehicle;
- Collections by passengers;
- Operations similarity by type: cargo or passengers

In this manner each group is formed by customs administrations which operation and dimensions are similar, giving place to fair comparison amongst customs belonging to the same block. The purpose is that the evaluation scheme should generate sufficient incentives to continuously improve its performance through competition among customs belonging to the same block.

II. RESULTS OBTAINED AS A RESULT OF THE GOVERNMENT MODEL OPERATION

2.1. General Results

- The Government Model for Planning, Strategic Management and Continuous Improvement was institutionalized, disseminating the regulatory framework requirement so that the planning and implementation of the strategy of the Institution and the management follow-up and performance evaluation system be done with a long, medium and short-term vision, by the linking of the strategic management, tactical and operations levels and the alignment of the operational programs with the business plans of the general administrations and these with the institutional strategic plan.
- SAT's culture has been strengthened on strategic management, management control, accountability and institutional performance evaluation issues, through its use in the daily operation of the administrative units of the institution and the unification of the administrative and operational language on these subjects.
- All SAT director, tactical and operational areas are involved in the implementation and operation of the Government Model for Planning, Strategic Management and Continuous Improvement y del Management follow-up and performance evaluation system, at headquarters level as well as throughout the country, at the offices that form part of local administrations and customs.
- The organization, daily operation and operational budget was aligned with the strategic institutional plan and the business plans of the general administrations, as well as with the programs, processes and projects deriving from the same.
- Greater congruence among products, services and results generated by the general administrations was generated with the strategic goals and targets, as well as with the institution's budgetary process.
- Standardization of concepts, methodologies and procedures for the preparation, execution, control and evaluation of the strategy, tactic and institutional operation at all levels and scopes of SAT.
- Commitments and responsibilities were defined and made more transparent for the implementation and operation of the management follow-up and performance evaluation system at all areas and levels of SAT.

- A local website was built as well as the necessary repositories to generate an information structure of strategic, tactic and operation components to register, give follow-up and evaluate the results obtained by the different levels and scopes of SAT, resulting in more efficient decision-making.

2.2. The General Administrations Participation

- Prepare, implement and execute their business plans and the specific programs, projects and processes that form part of the same in agreement with the Institution's strategic plan.
- Register their business plans, programs, projects, objectives, indicators and goals, among other components of strategic planning, to set-up and maintain the respective catalogs permanently updated.
- Formulate and disseminate the strategic map of its general administration.
- Align their organization and resources in agreement with their Business line or lines and with its Business Plan.
- Align their daily operation to the institutional strategy and to their business plans.
- Apply continuous of programs in agreement with the evaluation of its action.
- Define and report their indicators as set forth in the Government Model and for the management follow-up and performance evaluation system.

2.3. Results on the subject of focusing on the strategy

During 2008, the group of Programs of strategic nature was revised by the Board of Directors (SAT's CEO and General Manager) and this resulted in the reduction of the universe of strategic programs from a total of 56 programs in effect in 2007, to 14 strategic programs for the term 2008-2012.

1. Large Taxpayers Program.
2. Program to Strengthen Taxpaying Culture.
3. Program to Facilitate Compliance with Tax Obligations.
4. Program to Align and Systematize Processes.
5. Comprehensive Intelligence Program.
6. Program to Improve the Defense of Tax Interest.
7. Program to Improve Collection.
8. Human Capital Program.
9. Program to Fight Corruption.
10. Program for Coordination with States.

11. Program to Facilitate Foreign Trade.
12. Technological and Infrastructure Modernization Program for Foreign Trade.
13. Program for Foreign Trade Control and Security.
14. Program to Strengthen Customs Operations

These programs are the shared responsibility of the different general administrations and one of them, pursuant to the business line under its responsibility, is appointed ad responsible for its compliance, while the others are appointed as correspondents.

III. PROBLEMS OBSERVED DURING IMPLEMENTATION AND OPERATION

The problem for the full implementation and operation of the Government Model and the management follow-up and performance evaluation system is centered in the following aspects:

- SAT does not have a planning culture consolidated.
- The measurement, follow-up and performance evaluation must be ruled to be applied fairly.
- The execution and operations areas use planning strategic Management standards as reference documents, but not as effective instruments for the operation and control of their daily work;
- The interrelation of operational areas and the area responsible of implementing and operating the system is insufficient;
- The termination of the strategic plans and programs of the institutional budgetary process forces areas to comply with a double disassociation exercise among themselves: planning and programming - budgeting;
- Indicators used by the general administrations make difficult the comprehensive evaluation of institutional performance, because substantive processes, such as support and assistance are disassociated from strategic planning;
- Lack of historical series indicators databases which allow management and in-depth performance analysis;
- Information available is not homogeneous or sufficient to perform adequate diagnostics of the needs of the institution, the taxpayers and/or the customs users;
- Information exchanged by areas is scarce, thus making difficult the execution, control and evaluation of shared strategic programs;

- Self-evaluation culture has not been developed because it generates fears because of management control and performance evaluation, causing areas to commit with targets under their installed capacity.

In summary:

- Control of activities and expenses is preferred over the evaluation of the results;
- Institutional evaluation as well as the evaluation of the areas is based on goals attained and not results;
- Resistance to the development of the strategic management culture continues, as well as its follow-up and performance evaluation because the regulatory instruments that establish their need and fairness and define their responsibilities, roles, management instances and coordination are not at hand;
- It is difficult to identify and quantify the contribution of the areas towards the institutional results, since its indicators are more centered on operational efficiency than in the efficacy of the programs.

IV. STRATEGIES TO ADDRESS THE PROBLEMS OBSERVED

Measures to facilitate the implementation of the Government Model and the management follow-up and performance evaluation system, as well as to anticipate and counteract the abovementioned problems, were defined by considering the five dimensions that constitute SAT's Institutional Architecture: **regulations, organization, processes, information and technology.**

4.1 Strategies on the subject of regulation

On the subject of regulation it was mandatory to prepare, agree and implement the necessary specific regulations to have a reference framework and the behavior guidelines to implement the Government Model and the management follow-up and performance evaluation system, in agreement with the regulatory framework that rules SAT. In this regard the following internal regulations have been issued:

1. Guidelines to regulate the Government Model for Planning, Strategic Management and Continuous Improvement;
2. Guidelines for Follow-up, Evaluation and Planning Supervision and SAT's Strategic Management;
3. Regulation of the SAT's Collegiate Management Committee and its Specific Collegiate Committees;

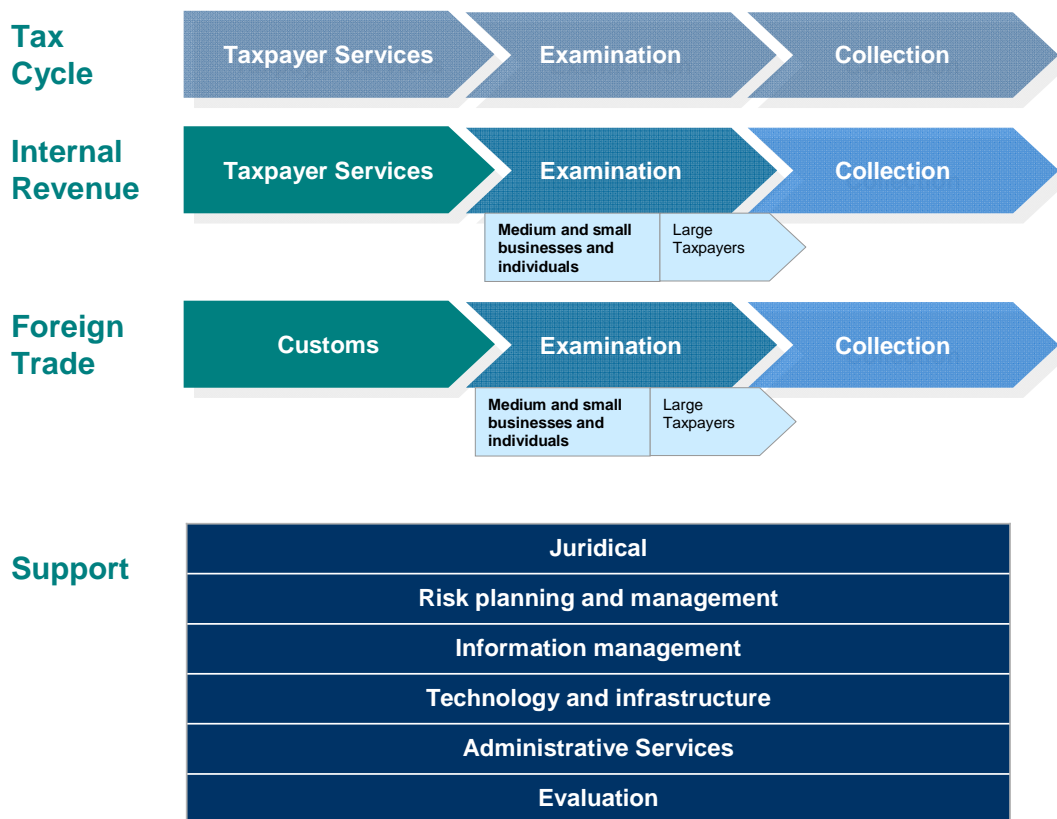
4. Guidelines to Rule SAT's Project Management Cycle;
5. Guidelines for Follow-up, Evaluation and Project Management Supervision Cycle.

4.2 Strategies on the subject of organization

This dimension refers to the organizational structure linked to the execution of activities that form the processes, through which the three levels of management are linked.

4.2.1 Organizational Structure Focused on Processes and Services

There is a close relation between the strategy and the organizational structure, therefore a decision was made to align the institutional organization to processes instead of doing it by functions, as it had been worked to date.



4.2.2 Collegiate Management Committee

Another provision that was taken was the formalization of the Collegiate Management Committee as coordination, follow-up and evaluation body of senior management. This Committee analyzes, agrees and instruments the strategies and priorities of the Strategic Plan of SAT; it provides follow-up to the management and evaluation of institutional results and defines and coordinates the relevant actions to adjust scopes, change, strengthen or disregard any strategy or incorporate new options.

The Central Planning and Evaluation Committee depend on this Committee as well as the work groups, which provide follow-up and evaluate the institutional work pursuant to the following three types of taxpayers:

- Large taxpayers;
- Internal revenue;
- Foreign trade.

4.3. Strategies on the issue of processes

This dimension considers two strategies.

4.3.1 The Government Model link with SAT substantive and support processes

The strategy defined is the focus of systems and processes to form the three levels of management with the substantive processes of support and assistance.

4.3.2 The Government Model link with the planning, programming and budgeting process of the federal government

This is an alignment strategy. The objectives of budgetary programs, business plans, programs and specific projects are aligned with objectives, priorities and strategies of the strategic plan of SAT which at the same time is aligned to the Sector's program and the National Development Plan (PND, in Spanish).

The performance indicators of the budgetary programs are aligned with those established in the strategic plan of SAT. The goals for the indicators of the budgetary programs are established in function of the budgetary assignments.

4.4. Strategies on the issue of information

Guidelines for this dimension are intended for SAT to generate, process and conserve the necessary information which allows timely assessment of the efficiency of the processes, the impact of the results, performance evaluation and carry out planning in the three levels of management.

4.5. Strategies on the issue of technology

This dimension of the Institutional Architecture of SAT refers to the technological Framework to rule the incorporation of the applications that support the Entities' processes, as well as the institutional repositories that store the information thereof. In this field the IT tools, the systems and websites required for institutional applications stand out.

4.5.1 Website for the Management follow-up and performance evaluation system

The management follow-up and performance evaluation system operates through an expressively Website designed, whereby the areas of SAT that supply the information necessary for their evaluation have access to the results of the same.

The website is framed institutionally in a processes alignment and systematization initiative, which purpose is to simplify procedures, capitalize best practices and automate operations.

The website complies with three basic functions:

- To serve as a communications interface between the site's operator and the users areas of the same;
- To contain an evaluation board in order for the areas to know the advance achieved from its indicators and extract information for its diagnostic, planning, follow-up, control and evaluation activities;
- To produce advance reports by area, objective, program, indicator and goal, pursuant to the classification or grouping catalogues, which facilitate inference in regards to the results and the efficiency of the strategic management.

Depending on the Management level applied to the indicators the performance of SAT is measured and evaluated.

Currently, work is being carried out so that in near future, workers' performance evaluation is done base don their contributions to the institution's daily tasks.

V. CONCLUSIONS

1. Subsequent traditional follow-up and management evaluation approaches are practices that are still too rooted in the culture of the public administrations; this makes the conception, implementation and operation of modern systems to evaluate the actions of public entities from various perspectives (results or impact, coverage, efficacy, quality, efficiency, productivity) instead of audits difficult, as the usual practice.

2. The modern and comprehensive sense of control of public management is real time follow-up, evaluation and feedback of government actions, with the purpose of:
 - a) Prevention of deviations;
 - b) Comprehensive self-assessment of the Institution and its results;
 - c) Feedback for strategic planning and operation;
 - d) Support for decision-making;
 - e) Transparency and accountability.
3. The new challenges posed by globalization, Information and Communication Technology (ICT) and the permanent innovation on the subject of tax strategies and financial instruments used by corporations and multinational companies throughout the world, render obsolete the paradigms ruling the organization y operation of the tax administrations. To anticipate and efficiently respond to the new challenges of the modern world, **the traditional forms of work of the tax administrations must be substituted by strategic management and risk management approaches**, where the only constant is constant change.
4. Management and indicators control for performance measurement represent an important role in the strategies' feedback, as well as to align and make more efficient the operation of tax administrations. However, **management control, without a sound reference framework given by the strategy, becomes a fragmented and sterile exercise of reports on the institution's day-to-day operation, which conceal all sorts of deficiencies.**
5. In modern tax systems, the operation without the strategy is blind; similarly, the strategy detached from the operation becomes a mere intellectual exercise.
6. The Government Model for Planning, Strategic Management and Continuous Improvement is the base to implement and operate strategic management, management follow-up and performance evaluation, in agreement with the institutional strategic plan, the business plans of the general administrations and the operational programs at the Institutions' management levels.
7. Strategic, specific and operation programs, as well as its respective indicators, goals and components, continue with the review and adaptation process until it reaches the desired levels for the evaluation institutional performance.

The Institution is considered to be in the first stage of maturity for the comprehensive evaluation of institutional performance, therefore, it is foreseen that this review, changes and adjustment process will conclude in 2010, regardless of the annual adaptations required by the institution's strategic plan.