COMMISSION ON REFORM AND EFFICIENCY

CORE

BUDGETING AND FINANCIAL MANAGEMENT IN MINNESOTA STATE GOVERNMENT

SUMMARY REPORT

JANUARY 1993

Pursuant to 1991 Laws, Chap 345, Article 1, Section 17, subd 9

THE CORE VISION OF STATE GOVERNMENT

The Commission on Reform and Efficiency envisions a Minnesota state government that is mission driven, oriented toward quality outcomes, efficient, responsive to clients, and respectful of all stakeholders. These goals are defined below.

Mission driven

State government will have clearly defined purposes and internal organizational structures that support the achievement of those aims.

Oriented toward quality outcomes

State government will provide quality services. It will focus its human, technical, and financial resources on producing measurable results. Success will be measured by actual outcomes rather than processes performed or dollars spent.

Efficient

State government will be cost-conscious. It will be organized so that outcomes are achieved with the least amount of input. Structures will be flexible and responsive to changes in the social, economic, and technological environments. There will be minimal duplication of services and adequate communication between units. Competition will be fostered. Appropriate delivery mechanisms will be used.

Responsive to clients

State government services will be designed with the customer in mind. Services will be accessible, located conveniently, and provided in a timely manner, and customers will clearly understand legal requirements. Employees will be rewarded for being responsive and respectful. Bureaucratic approvals and forms will be minimized.

Respectful of stakeholders

State government will be sensitive to the needs of all stakeholders in providing services. It will recognize the importance of respecting and cultivating employees. It will foster cooperative relationships with local units of government, and nonprofit and business sectors. It will provide services in the spirit of assisting individual clients and serving the broader public interest.

— Feb. 27, 1992

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EXECUTIVE SUMMARY

Although Minnesota state government's budget process has undergone improvements over the last several years, more changes are necessary so that the process can best serve a modern, efficient state government. Some of the problems in the system are:

- A "use it or lose it" paradox that discourages saving money.
- A focus on inputs, rather than on outputs.
- No connection between budgeting and strategic planning or critical issues.
- Limited information for legislative decision making.
- A lack of information on program accountability.

In this report, the CORE Budgeting and Financial Management Project examines these problems in the state budget process and recommends changes that would create incentives for efficiency and improved service delivery, encourage agencies to evaluate their programs, and retain necessary gubernatorial and legislative controls over agency budgets and activities.

The foundation of CORE's recommendations is performance-based budgeting, a system that provides a framework for measuring outcomes and information that can be used effectively by government decision makers. Performance-based budgeting is the system most consistent with CORE's vision of state government as mission-driven, outcome-oriented, efficient, responsive to clients, and respectful of stakeholders.

This new system would focus on the outcomes of state services and the end users of state systems. It would include these elements:

- A continuous performance management system that supports performance-based budgeting and ensures accountability for program results.
- Elimination of impediments to managerial flexibility.
- Increased managerial accountability through regular, periodic performance and financial management reporting.
- Replacement of the outdated complement control system with work force planning and full-time-equivalent reporting.

If adopted, CORE's recommendations would produce a budgeting system that emphasizes accountability for results instead of control over inputs — exactly what Minnesota needs for efficient and effective government.

INTRODUCTION

The purpose of the CORE Budgeting and Financial Management Project was to recommend changes in the state budget process that:

- create incentives for efficiency and service delivery improvement;
- encourage agencies to evaluate existing programs and determine if those programs are the best means for meeting the needs of target populations; and
- retain needed gubernatorial and legislative control over agency budgets and activities.

Problem identification

To identify problems in the existing system, a series of interviews and focus groups were conducted in the summer of 1992 with 76 state managers, 21 CORE commissioners, 43 legislators, 30 agency budget directors, and the Budget Division of the Department of Finance.

Several specific issues in the budget process emerged from CORE's data collection. Some of those consistently cited were:

- *"Use it or lose it" paradox.* A disincentive is created for managers to save money or improve program efficiency because they are penalized for not spending all the money they are allocated.
- *Focus on inputs.* The budget process focuses on how much money is spent in a program and involves little or no information on what the program has done or produced.
- *No link to strategic planning or critical issues.* The base budget system offers no incentive to alter or design programs to respond to new issues or policy directions that come out of agency strategic planning initiatives, legislative mandates, or social changes.
- *Limited information for legislative decision making.* Legislators must work with activity rather than program budgets, resulting in decisions made without a broad program performance perspective.
- *Program accountability.* Elected officials are not given the best information to make well informed resource allocation decisions.

Project work plan and methods

In an effort to address as many of the budget system's problems as possible, CORE staff examined the budget processes of other states and the private sector, along with previous budget reform efforts in Minnesota, and identified the components of an effective budgeting model. Performance-based budgeting was the model, which CORE then implemented in three case studies.

Two reports were prepared, this one summarizing the project and a much more detailed version, available from the Department of Administration, Management Analysis Division, 203 Administration Building, 50 Sherburne Ave., St. Paul 55155, telephone (612) 296-7041.

Project participants

Advisory committee

Because the budget process affects everyone involved in state government, an advisory committee for the project was created to ensure regular input from these stakeholders. The committee consisted of five agency budget directors and managers, two representatives of the Department of Finance's Budget Division, and two fiscal analysts each from the Minnesota House and Senate. The members are listed in the appendix.

CORE staff met monthly with advisory committee members to update them on the progress of the project and receive their input on data collection and recommendations.

Department of Finance

CORE worked closely with the Department of Finance and its Budget Division was represented on the advisory committee. In addition, CORE staff met several times with the executive budget officers working with the two agencies and one program involved in the case studies, and monthly meetings were held with the state budget director to apprise her of project developments.

State managers

CORE staff met regularly with the Council of Managers to provide project updates and held focus group sessions with a subcommittee of the council to receive further input on budgetary and financial management issues.

BACKGROUND

The budget is the primary accountability tool used by agency managers, the governor, and the legislature. The budget in its current form, however, is not an effective tool. The information provided to the governor and the legislature is primarily financial, with little if any data relating to outcomes. Decision makers generally receive information from the statewide accounting system on how much a program is spending on salaries vs. how much it is spending on supplies and equipment. This type of information does not allow decision makers to monitor program performance.

Budget structure evolution

Early models of budgeting stressed control. Control is the process of both enforcing the limitations and conditions set forth in the budget and securing compliance with the spending restrictions imposed by central authorities. To achieve this type of control, budgeting and financial management systems emphasized means, rather than ends; they used resource inputs and organizational structures as the basis for categorizing financial activities and for reporting [Howard].

Line-item budgeting is the format most often used to emphasize control. It focuses on specific components, such as wages and supplies, and provides no information about the quantity or quality of goods and services produced, the efficiency or effectiveness of service delivery, alternatives, or uncontrollable expenditures.

Over time, decision makers have shifted from an interest only in exercising fiscal control to obtaining program results. Program budgeting has been commonly used since the mid- to late 1970s to focus more broadly on the delivery of services, rather than on detailed line-item expenditures. Program-based budgets are designed to focus more on programs and program elements, which represent the major activities for which funds are to be spent.

Minnesota's budget system

Minnesota used a line-item budget format until Fiscal Year 1974, when it changed to a modified program budget. This format includes more focused activity, as well as program-level expenditure data. It does not include specific line items. This basic budget structure is still used.

Many of the financial controls essential for developing a line-item budget were left in place, even though they are less necessary in a program-based budget. Some of these unnecessary controls include the "use it or lose it" paradox, legal levels of budgetary control, restrictions on transfers, and complement control.

CORE VISION FOR BUDGETING: PERFORMANCE-BASED BUDGETING

CORE chose to examine an "ideal" state budgeting system for comparative purposes. This system — performance-based budgeting — was the most consistent with CORE's vision of state government as:

- Mission-driven;
- Oriented toward quality outcomes;
- Efficient;
- Responsive to clients; and
- Respectful of stakeholders.

Performance-based budgeting: definition

Performance-based budgeting "is a means of judging policies and programs by measuring their outcomes or results against agreed upon standards. A performance [budgeting] system provides the framework for measuring outcomes — not merely processes or workloads — and organizes the information so that it can be used effectively by political leaders, policy makers, and program managers" [Brizius & Campbell].

Performance-based budgeting: use

Performance-based budgeting is not a new idea. Several states have used aspects of this system, including Iowa with its strategic planning and performance measurement system [Cavanaugh & Tegler], Oregon with its performance measurement model [Oregon Executive Department; Oregon Progress Board], and Texas with its performance-based budgeting development [Alwin]. In fact, Minnesota has used performance-based budgeting to some degree in the past.

Several lessons can be learned from the experiences of other states:

- In early efforts at performance-based budgeting, not all state agencies were willing or able to comply. Many agencies need help in developing performance-based budgets.
- Lack of legislative involvement creates problems for implementing budget reforms. Legislative support is needed to affect how resources are allocated.
- Attempting to implement a performance-based budgeting system too quickly or with inadequate preparation for the stakeholders may result in an ineffective system.

Performance management is spreading in the private sector, as well. Among the companies using this approach are Xerox Corp., Nordstrom's, United Parcel Service, and Citicorp [Heskett, Sasser, & Hart]. Companies such as these have found that by improving service quality and productivity, they can increase demand for their products or services and avoid painful cost-cutting measures.

Minnesota's most recent experience

Changes in Minnesota's revenue situation have generated a renewed interest in performance-based budgeting in the 1990s. For the 1992-93 biennium, the Department of Finance instructed each agency to submit a budget at the program level that included a mission statement, the purposes of the programs, and performance information for each program.

To assess the degree of implementation of these budget instructions for 1992-93, the CORE Budgeting and Financial Management Project conducted an exploratory analysis of the biennial budget performance measures reported in the 1992-93 budget document in order to identify and classify measures and to draw conclusions from the findings. In summary, all agencies attempted to measure performance in some way. Many measures, however, were inappropriate or not of high quality. As a whole, the budget document was disorganized, and the information varied in quality.

For the 1994-95 biennium, the Department of Finance again emphasized performance- or outcome-based budgeting as a means of conveying important information to decision makers, and it gave agencies more guidance and instruction on this budgeting process than in the prior biennium.

This budget format emphasizes the broad use of performance information at the agency level. The Department of Finance sees the 1994-95 biennial budget as a first step toward implementing a budget for the state that is fully performance-based. The 1994-95 budget was not available for examination before the release of this report.

CORE PERFORMANCE-BASED BUDGETING CASE STUDIES

Complementing the Department of Finance's efforts to institute the concept of performance-based budgeting, CORE initiated an in-depth examination of how this approach could be implemented for all state activities. The project consisted of case studies of the performance-based budgeting applications in the 1994-95 biennial budgets of two agencies and one program.

Chosen to participate in the study were the Community College System, the Office of Waste Management, and the State Road Construction Program of the Department of Transportation.

The study was designed to test the applicability of performance-based budgeting in a government setting, the availability of necessary data, and the development of meaningful performance measures.

Meetings were held with representatives from each agency and program to study the process of developing performance indicators. Since each study participant was at a different point in the process, the length of time and the amount of resources needed to develop performance indicators varied.

Findings

- *Useful data is being collected.* Case study participants were collecting a considerable amount of data that can be used to formulate performance indicators. In many cases, agency or program staff had not realized that the information constituted potential performance indicators.

- *Collected data is not always properly configured.* Although the study participants were collecting a significant amount of information, much of it was not configured in a way that makes it useful for measuring outcomes. With some modifications, however, the data can be redesigned to support outcome measurement.

- *Some new data will need to be collected.* In some cases, measures were suggested that will require changes in ongoing data collection efforts.

- *Efficiency and output measures are easily produced.* Due to the availability of data, generating efficiency and output measures was relatively easy. However, although these measures are useful as workload indicators, they do not really demonstrate the effectiveness of the program or agency.

- *Determining causality can be a major problem in devising measures.* By far the most difficult problem in devising measures for the study participants was determining causality for outcomes. This problem can be minimized by using several measures for each agency and controlling for external factors where possible.

- *External factors can interfere with performance indicators showing an agency's progress toward meeting goals.* This problem can be resolved by carefully choosing performance indicators.

- *Levels of outcomes must be different for agencies and programs.* The measurements appropriate for a program within an agency and for an agency as a whole differ. An agency is interested in making big changes and implementing broad strategies. An individual program within the agency is but one of many tactics by which the agency hopes to achieve strategic goals.

- *Different performance indicators should be used for different purposes.* Some performance indicators are more useful to program managers for program monitoring and internal decision making. These indicators would not be included in the budget documents sent to the governor and the legislature.

  Other indicators are useful to the governor and the legislature as well as program managers in demonstrating the results of program or agency actions. These are the indicators that would be included in the budget document.

Conclusions

Based on these findings, performance-based budgeting would have these benefits:

- *Improved accountability information for decision making.* The information provided to decision makers can be used to show the effects of a given program and to test the premises of policies. As a result, decision makers can change course when necessary to modify policies and programs and improve performance.

- *Improved efficiency.* Employees typically choose to enhance their performance of a measured objective that is recognized or rewarded. By measuring in high-priority areas, managers can create the right incentives for employee performance.

- *Long-term evaluation.* Regular measurement of performance objectives can contribute to ongoing evaluation of goals within programs, agencies, and government overall.

- *Wide applicability.* Although some areas of state government, such as higher education, have traditionally been treated differently from state agencies in the budget process, the Community College System case study shows that performance-based budgeting can be applied to such areas.

These benefits are even greater when performance-based budgeting is used in conjunction with a complete performance-based management system, most notably in human resources management. Adoption of performance-based budgeting in concert with the recommendations of the CORE Human Resources Project would create a stronger, more effective management system. The complete performance accountability system is shown in Figure 1 on the next page.

Some challenges remain to creating an effective performance-based budgeting system:

- *Trust.* A fundamental distrust exists between the state's managers and its appointed and elected officials. The current budget process involves an adversarial relationship between the executive (state agencies) and legislative branches, which results in a great deal of political maneuvering. Agency managers view the legislature's decision-making process as micro-managing their activities, while the legislature sees it as holding agencies accountable for their programs. On the other hand, the legislature is concerned about managers inflating their budgets to hedge against fiscal constraints, and the managers feel they must do this to protect the integrity of their programs.

- *Existing norms of behavior and motivation.* State employees and managers are accustomed to counting only their inputs and rarely measuring project results. Existing management systems reinforce this mindset.

- *Time and resource investment.* Developing performance indicators would require some initial investment of staff time and agency resources. Time would also be needed to maintain and refine the performance indicators on an ongoing basis to ensure that they continue to accurately and effectively measure the mission and programs of the agency.

- *Negotiated process for defining desired outcomes.* One potential difficulty, especially in more complex and politically charged policy areas, is determining the desired outcomes for a given

Figure 1. Performance Accountability System Model

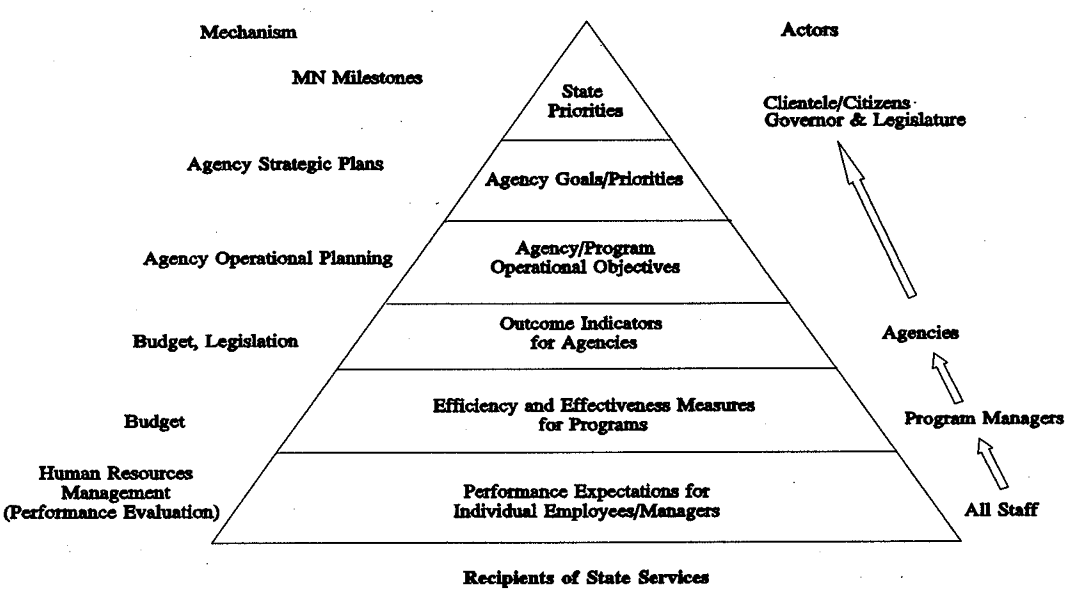
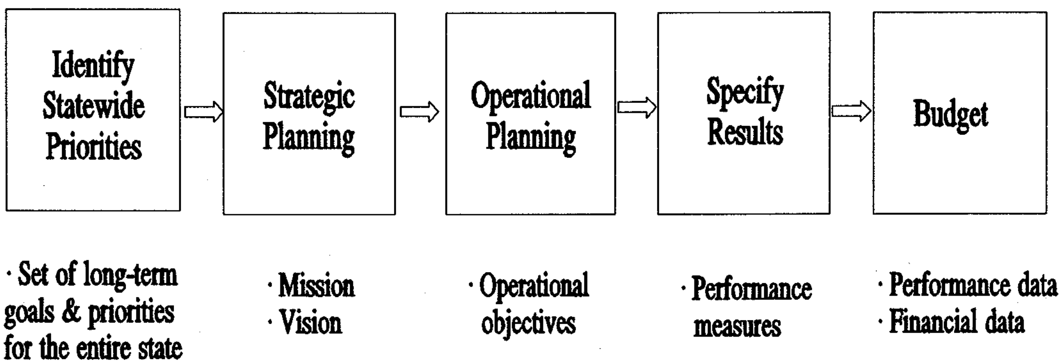


Figure 2. Performance-based Budgeting Process



program. Sometimes the governor, the legislature, and the agency may not agree on what the desired effects of a program are. While it is hoped that the process recommended here would help build consensus between the parties on program goals, reaching agreement is likely to be difficult and time-consuming. It is, however, critical. In the long run, if agencies and elected and appointed officials all agree on the goals of a program, expectations will be clearer and effective administration of programs will be easier.

- *Need for multiple performance indicators.* Numerous indicators must be collected to determine an agency's performance. In areas where the performance indicators can be affected by factors outside the agency's control, a balanced set of measures is required to get a complete picture. Multiple measures can also dilute the effect of such external factors.

- *Accuracy of data.* The choice of how to measure a performance indicator determines the accuracy of the data collected. Poor proxy selection, bad methodology, or inaccurate measurement can result in ill-informed or misdirected policy choices and management decisions.

- *Inappropriate incentives.* In a performance management system, employees typically act in accordance with the incentives that are created through the performance indicators. Incentives may be created that are counterproductive to the overall goals of the organization.

In conclusion, the research and case studies demonstrate that implementing a successful performance-based budgeting system is feasible and that the benefits of achieving this type of system are numerous.

Recommendations

1. ***The state should adopt a fully performance-based budgeting system for resource allocation.***

The use of a performance-based budgeting system at all levels of agency activities provides numerous benefits. A performance-based budgeting system is mission-driven and oriented toward quality outcomes, encourages managers to be efficient, rewards innovation, and provides outcome data to decision makers.

2. ***The performance-based budgeting process should begin broadly with identification of state priorities and agency strategic planning, then be continually narrowed down to specific performance indicators.***

A five-step approach to performance-based budgeting is recommended, as shown in Figure 2.

Performance measures must be established from the ground up so that input from all levels of the organization is considered. In most cases, the expertise about program goals and operations lies with the line staff, managers and program clientele (the citizens of the state). Therefore, indicators should be constructed in consultation with staff and customers.

The use of Minnesota Milestones, a statewide initiative to articulate the priorities of the citizenry of the state, and agency strategic planning should enable agencies to receive input from citizens, agency customers, service providers, and employees.

3. ***The state should select a single contractor to provide assistance on a fee-for-service basis to agencies in adopting the performance-based budgeting process.***

Having a single provider of these services would help ensure a standard process with similar results for all agencies and would make the contracting process simpler.

4. ***Performance-based budgeting should be used across the entire state budget, including grants and aid and educational systems.***

CONTROL MECHANISMS

The successful implementation of a performance-based budgeting system inherently decreases the need for many of the financial controls that are currently in place. Performance-based budgeting creates accountability by providing performance data for managers, agency heads, and elected officials. They can then determine resource allocation based on priorities and on agencies' performance. They are also able to compare the success of programs with past performance and the results of one program with those of other programs.

Existing financial controls

In CORE's initial data collection and discussions with the advisory committee and the Council of Managers, it became clear that as budgeting has evolved to a more program-focused system, many financial restrictions remain that reflect the traditional command-and-control mechanisms of the past.

CORE identified four primary controls that impair managers' flexibility to administer programs efficiently: the "use it or lose it" paradox, legal levels of budgetary control, restrictions on transfers, and complement control.

'Use it or lose it' paradox

The current management system supports inefficiencies. Managers learn early in their careers not to save resources because the resources "will likely be used to make up deficits incurred by other less efficient and self-sacrificing units and managers" [Levine]. This disincentive for savings is often referred to as the "use it or lose it paradox."

Findings

- *Most budget areas are not allowed carry-forward capabilities.* Only six budget areas have been granted authority by the legislature to carry forward an unlimited amount of money between fiscal years and biennia: the legislature, the Higher Education Coordinating Board, community colleges, technical colleges, state universities, and the University of Minnesota.

- *Agencies that are allowed carry-forward capabilities generally use them appropriately.* Monies carried forward are primarily used for reasonable expenses that simply cross fiscal years. These agencies do not appear to be building a substantial reserve or discretionary fund for their own benefit.

Conclusions

- *The "use it or lose it" paradox creates inefficiency.*

- *A balance needs to be struck between managerial flexibility and legislative control.*

- *The current system overemphasizes control.*

Recommendations

5. ***Agencies should be permitted to carry forward any savings from the end of one fiscal year into the next. Monies could also be carried forward into the next biennium but would have to be spent by the end of the first fiscal year of that biennium.***

   The return of all savings to the general fund at the end of the fiscal year constitutes a significant disincentive for agencies to save money or encourage efficiencies. However, it is also important to retain the accountability that ensures that agencies are not simply building "rainy day" reserve accounts within their budgets.

6. ***Monies carried forward must be used for investments that enhance the efficiency or improve the effectiveness of the program. Information would be provided to the Department of Finance and the chairs of the appropriate legislative committees after savings are spent to show where the money went and the results of the expenditure.***

   One way to ensure that unspent monies are used responsibly and for the good of the citizens of the state is to control the purposes for which the monies carried forward can be used. These monies should be used only to improve program effectiveness and efficiency. In some cases, the use of these savings may help to generate future cost savings.

Legal levels of control

State managers often face difficulty in deploying financial resources where they are needed. Funds frequently are appropriated by the legislature for one particular program within the agency. If that program does not require all the funds, a complicated and time-consuming process must be followed to shift the monies elsewhere. This restricts the flexibility of managers to set priorities and to reallocate resources where needed to provide services effectively and efficiently.

The legal level of budgetary control is the level at which a decision to reallocate appropriated funds can be made. In some cases, funds can be shifted from one program to another within an agency by the manager or commissioner. In others, different levels of approval must be obtained from the commissioner of finance, the governor, or the legislature.

The legislature makes three different types of appropriations:

- *Departmental appropriations* are general appropriations made to an agency. These appropriations are used by the agency to carry out many different programs.
- *Activity-specific appropriations* are appropriated for a specific activity or program within an agency. This money can be used only for the activity specified in the appropriation, although some mechanisms do exist for transferring the funds.
- *Grants and aids* are appropriated to individual agencies for distribution to third parties.

Current prevalence of levels of control

To determine the current prevalence of legal levels of budgetary control, CORE analyzed FY 91 appropriations and expenditures of the 23 cabinet-level agencies in the general, game and fish, environmental, and trunk highway funds (these funds account for the bulk of state-appropriated spending, not including entitlements). The legislature appropriates about 14 percent of all funds to specific programs. However, a wide degree of variance exists between funds and the level of budgetary control different managers have within different agencies.

General fund — The vast majority of expenditures in the general fund was in departmental appropriations or grants. Only 2 percent of cabinet-level agency general fund spending came from activity-specific appropriations. But that 2 percent of the money was under relatively strict control. Of the 201 appropriations, the average activity-specific appropriation was $446,000. New initiatives accounted for a minority of activity-specific appropriations, both in terms of dollar amount and numbers of line items. The proliferation of levels of control in the general fund is probably due more to legislative desire for control over existing programs than to an increase in new programs.

Other funds — The other major funds showed a much higher percentage of activity-specific appropriations:

- Trunk highway fund, 54 percent
- Game and fish fund, 22 percent
- Environmental fund, more than 99 percent

The high percentage of activity-specific appropriations in these funds was probably a result of these funds being dedicated primarily to a single policy area in a small number of agencies.

Findings

- *More than a third of the cabinet-level agencies have more than 25 separate appropriations.* This profusion of appropriations is not the result of new initiatives.

- *Agencies with many different grant and aid programs have more activity-specific appropriations.* The departments of Revenue, Education, and Trade and Economic Development receive numerous activity-specific appropriations.

- *Areas with direct services have more activity-specific appropriations.* Because direct-service programs are more visible to voters, they may attract more legislative interest than programs that provide services to other parts of state government.

- *Areas with significant public interest have more appropriations.* There is significant political capital in keeping control over programs and starting new initiatives in popular issue areas.

- *New programs often have activity-specific appropriations.* The appropriation for a new program can be based only on the legislature's or the agency's estimate of how much it will cost. Making a separate appropriation for the program allows actual costs to be tracked easily.

- *Activity-specific appropriations are sometimes created to enhance legislative control.* Legislators may fear that unless they dictate that the dollars appropriated will be used for a specific program, the program may not be carried out or may be poorly enacted due to apathy on the part of the agency or the executive branch.

Conclusions

- *Activity-specific appropriations provide an incentive to spend unnecessarily.*

- *Activity-specific appropriations cause administrative confusion and increased overhead costs.*

- *Legal levels of control are another mechanism of command and control.* The behavior of managers is dictated by up-front controls, which restrict their flexibility and lessen the opportunities for fraud and abuse.

- *Performance-based budgeting decreases the need for legal levels of control.* While performance-based budgeting does not help to address the need for tracking grants and aids appropriations, it has the potential to replace details of financial inputs with performance data that measures the results of a program.

Recommendations

7. ***The legislature should evaluate the existing structure of legal levels of budgetary control to eliminate any levels that are no longer needed.***

   Legal levels of budgetary control are often initiated when a program is created or some occurrence seems to require more active monitoring of certain activities. As appropriation bills are written, they are often based on the structure of previous bills, and as a result, the levels of control remain. Because some of these levels may no longer be needed due to changing environments and circumstances, the bill structure should be examined and any levels that the legislature no longer desires eliminated.

8. ***Legislation should be drafted that would encourage the inclusion of performance indicators in legislation and rules wherever possible, instead of creating additional levels of control for program monitoring.***

   As discussed above, performance-based budgeting should provide information on the performance of a program. Decision makers would be able to evaluate a program based on the outcomes it achieves, not just on its financial information.

Agency transfer restrictions

Legal levels of budgetary control are not the only restriction on agencies' financial management capabilities. Agencies to which the legislature has given authority to transfer monies between programs within their budget still cannot do so without written approval from the Department of Finance. To obtain Finance's approval, agencies must fill out a request form documenting the need and amount to be transferred. The executive budget officer assigned to the agency then reviews the request and, if it is approved, sends a copy to the legislative finance committees to inform them of the change.

The Department of Finance processes three types of transfers:

- *Interfund transfers*. These transfers occur between funds and can include transfers between and within agencies.

- *Intrafund transfers*. These occur within the same fund in an agency and are the most common type of transfer in cabinet-level agencies.

- *Reprogramming transfers*. These are requested when an agency undergoes a change in structure or programming and the budget allocation does not match the structure of the agency.

Findings

- *The use of transfers differs widely across state agencies*. While such agencies as the Department of Transportation make many transfers every year, others, such as Human Rights, use transfers only rarely. This discrepancy can largely be attributed to the size and complexity of the agency's budget.

- *The number and dollar amount of transfers make them a significant issue*. Transfers are important because of their number and size and the time spent processing them.

- *Most transfers require less strict monitoring*. Monitoring of interfund transfers is needed for the yearly audit of accounts, but the bulk of transfers, which are intrafund and reprogramming transfers, can be monitored less strictly.

Conclusions

- *Transfer restrictions represent an excessive amount of control.*

- *Control instead of accountability is stressed.*

Recommendations

9. ***The transfer process for interfund transfers should remain the same.***

   Because it is important to establish an audit trail for all state funds, monitoring interfund transfers should continue in the same way. This provides sufficient information on the flow of monies between funds for the yearly audit.

10. ***Agencies should be permitted to transfer monies between programs within the same fund without authorization. The agencies would inform the Department of Finance and the chairs of the appropriate finance committees of the transfer once it is completed.***

    Requiring agencies that have already received intrafund transfer authority in riders to their appropriations bills to go through the approval process is duplicative and unnecessary.

11. ***All agencies should be given standard transfer authority in statute.***

    To standardize financial management across the state, all agencies should be given a standard authority to transfer monies at a level determined by the legislature.

Complement control

Complement control is a mechanism that establishes a limit on the number of full-time, permanent employees an agency may have at any time. The complement includes all full-time, permanent positions, expressed as full-time equivalents (FTEs), regardless of which fund or appropriation pays for them. An agency may exceed its complement only in cases of public necessity or emergency, and to do so, it must obtain written approval from the Legislative Advisory Committee.

Complement control was originally established when agency staff rosters were fully funded. The budget for salaries was developed by annualizing the cost for each position on the roster for the next biennium, including any new positions that have been approved. At that time, complement was a control on the actual number of employees in an agency.

The switch from a line-item expenditure budget to a modified program budget in the mid-1970s ended the separate funding of the staff roster. Thus, complement control is no longer a useful tool.

Findings

- *The complement number includes only full-time, permanent employees. It excludes part-time, seasonal, and temporary hires.*
- *The control is related to an established number of positions and has no relationship to the funds available.*
- *Complement figures are not an accurate measure of the number of employees in an agency.* These figures often do not agree with the Department of Employee Relations rosters, because those rosters include all positions within an agency, while complement figures reflect only full-time, permanent positions.

Conclusions

- *Complement does not reflect real employment levels.*
- *Complement control restricts a manager's ability to make staffing decisions.* Even if an agency can afford an additional full-time position and it may be efficient to have that position, the agency cannot create that position if it would result in exceeding the agency's approved complement.

Recommendations

12. ***The complement control system should be replaced with a system of quarterly FTE reporting, already available through the state payroll system and used yearly to provide state employment counts to the U.S. Department of Commerce for a nationwide comparison of public employment.***

    The benefits to this approach would be:

    - A more accurate reflection of employment levels than that provided by complement control would be created.
    - Regular information for good comparison of employment data would be provided without an up-front control mechanism.
    - A better link with work force planning would be established.
    - Agencies' work force growth would be controlled by their budget, not by an artificial limit on complement.

SUMMARY

CORE's recommendations, if adopted, would produce an improved budgeting and financial management system for the state that emphasizes accountability for results. Rather than dealing with process, this new system would focus on the outcomes of state services and the end users of state systems. The new system would include the following elements:

- A continuous performance management system that supports performance-based budgeting. Instead of focusing on inputs, such as dollars spent, the performance management system would make state government accountable for the ultimate results of its programs. It would also facilitate comparison of cost vs. outcome for various programs.

- The elimination of impediments to managerial flexibility, including limits on carrying forward monies between fiscal years, numerous and inconsistent legal levels of budgetary control, and the lack of investment incentives.

- Increased managerial accountability through regular, periodic performance and financial management reporting.

- The replacement of outdated administrative systems for complement control with work force planning and FTE reporting.

By turning the state's budgeting and financial management systems away from outdated and unnecessary command-and-control provisions and toward end-result accountability, the actions recommended here would make the state's financial systems more consistent with CORE's vision for state government as mission-driven, outcome-oriented, efficient, responsive to clients, and respectful of stakeholders.

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APPENDIX

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