FISCAL RESEARCH CENTER

AN ANALYSIS OF THE IMPLEMENTATION OF PROGRAM BUDGETING IN GEORGIA

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Executive Summary

This report examines the challenges faced by Georgia in its implementation of a Prioritized Program Budgeting system, with a particular focus on the development of the state's budgetary program structure. While there is voluminous information about the development and use of performance measures, e.g.,(Hatry 1999; Poister & Streib 1999; Kittredge & Kissler 1998; Joyce 1999, 2003), there are few resources to help guide states through the process of building the initial programmatic "platform." This initial step, which was first comprehensively implemented in the fiscal year (FY) 2006 budget year, has proved more challenging for Georgia than was perhaps anticipated. This report is meant to help the various state budget and program officers in Georgia reflect on their current transition from line item to program budgets as well as to provide a resource for other states considering a similar transition.

History in Brief

Although Georgia has developed program structures at other times—most recently after the adoption of the 1993 Budget and Accountability Act—the 2006 transition was the most dramatic because for the first time the legislature changed its system of budgeting. The legislative transition was important because legal accountability for budgeting shifted from object class to program, and legislative attention shifted from a focus on inputs to a focus on agency purposes. Previously agencies had been responsible for ensuring that they did not transfer more than 2 percent into any one object class appropriation (associated with personal services, travel, regular operating expenses, etc.) without legislative approval. With the switch to program budgeting, the legislature imposed transfer controls of 2 percent or $250,000 whichever was less on programs in the budget.

Why a Program Based Performance Oriented Budget?

States have been transitioning to performance based budgets in an effort to focus resource allocation decisions on outcomes or results rather than on control over inputs. The theory behind performance based budgeting is that in return for greater accountability for results, agency managers will be given increased flexibility to manage inputs as necessary in order to produce the desired results. "Programs" often provide the platform for a performance based system because of the intuitive idea that that a program is the appropriate budgetary unit for assigning managerial flexibility and responsibility for results. In this formulation, programs are the level at which agencies enter into a "contract" to produce results.

Programs are also often linked to result measures and overall agency goals through a strategic planning process. In this model, programs can be conceptualized as the "strategies" that an agency uses to achieve a set of outcomes and ultimately overall agency and statewide goals. The problem is that such definitions and guidelines are rarely sufficient—program definitions and the associated transfer controls interact with existing organizational arrangements, accounting structures, demands for evaluation and transparency as well as the institutional tug-of-war between the legislature, executive, and agencies for strategic control of agency priority-setting. In Georgia, these criteria actually played a far greater role in shaping a program structure than strategic planning or the idea of a managerial performance contract.

Difficulties in Implementation

By all accounts, the state has struggled with implementation of its program structure. The problems include:

- A lack of clarity about program definitions and the process through which the state would transition to program budgeting. Fundamentally, almost no agency derived its program as part of a strategic planning process.

- Some of the programs, as defined, may "lack integrity"—or it is not entirely clear how different activities (and associated expenditures and revenues) are assigned to programs. Although, this report did not audit agency programs and thus does not purport to verify this problem, there are a number of indications from interviews with staff at all levels of government that this is likely to be a serious issue.

- Reduced flexibility for agencies because of a combination of stringent transfer controls in the appropriations bill, highly differentiated programs, and continued restrictions on object class transfers. From an agency perspective, program budgeting just added another level of control on top of the previous level of control.

- Conflict between the legislative and executive branches over strategic control of agency priorities as well as control over federal and other funds.

Conflicting Demands on the Program Structure

In part, the problem of program budgeting requires a careful assessment of *how* programs are going to be used within the larger system of resource allocation, managerial decision-making, and oversight and evaluation. In this context, the state needs to assess when a program should be constrained through the transfer controls that enforce legal accountability and when a program (or other budget unit) can be simply reported, monitored, and/or evaluated. The state could also be more creative about types of transfer controls and systems of oversight and evaluation.

Evaluation Models, Oversight, and Transparency

Based on the theory of performance based management and budgeting, programs should be associated with result measures and then evaluated for cost-effective attainment of these results. Informally, staff throughout government can often evaluate performance by looking at trends over time, or assessing performance measures in relation to performance targets or benchmarks. These sorts of evaluations, however, suggest program structure that has clear lines of association between activities, funding, and sets of results that can be measured in a reasonable time frame.

However, often truly answering underlying questions about program performance requires more formal evaluation. Formal evaluations might examine questions of 1) why a program has not achieved desired outcomes; 2) program efficiency or cost-effectiveness in achieving outcomes; 3) comparisons between programs, activities, or sub-programs; 4) appropriateness or effectiveness of internal processes, activities, or sub-programs; 5) comparisons of regional or institutional effectiveness, etc. For both formal and information evaluations, the appropriate units of evaluation are likely to be far more disaggregated than exists in Georgia's current program structure and would likely encompass subprograms, activities, and object class level information in the current program structure.

Systems of transparency are likely to be similar. A transparent budget system suggests the availability of information about agency performance and priorities to those external to government. Being able to see agency allocation of resources at a subprogram or even activity level in the current system is likely to improve transparency.

Managerial Considerations

Running directly counter to an evaluation-oriented program structure, a key purpose of program-based performance-oriented systems is to provide managerial flexibility and discretion. Further, correctly allocating expenditures (and at times non-state fund revenues) to programs presents serious organizational and technical challenges. Programs may cut across organizational lines requiring cost-allocation procedures to sort through costs. Budget directors and program managers have to appropriately project demand for services for a particular program as well as potential revenues that might be associated with a program. At times, federal funding systems or even state laws and existing state policies have to be harmonized with a program budgeting structure (for instance, formula grant programs may not align appropriately with a program budgeting structure). Accounting systems have to be aligned to accommodate a program structure, and administrators throughout the organization have to be trained to appropriately allocate funds. Failure to appropriately implement these systems can lead to a loss of "program integrity." For these reasons, a number of agencies would like to see a program structure with much larger programs than currently exists in Georgia.

Legislative versus Executive and Agency Control

Although discussions of budget reforms often try to pretend that "politics" does not exist – many reforms have failed because they do not recognize and accommodate the natural institutional tension between the legislative and executive branches of government. In Georgia, the executive branch through the Office of Planning and Budget has a certain amount of operational oversight of an agency's budget—e.g., it oversees transfers between object classes, programs and subprograms, amendment of federal and other funds and so forth. Thus, the executive does not require the budget document to be structured a particular way in order to retain power or control over agency activities.

In Georgia's current system, the legislature, however, relies on the budget document and supporting materials, such as the tracking documents, to prioritize and communicate legislative intent. As a result, the legislature will tend to prefer a more disaggregated program structure with stricter transfer controls, while the executive and agencies tend to prefer larger programs with looser transfer controls. (This dilemma is not unique to Georgia.) As a result, the transition to program budgeting has become a tug-of-war between the legislature that wants to use control over the program structure as an extension of its ability to convey legislative intent and the executive and agencies that have to struggle with the managerial and technical problems associated with defining program structures. The executive and agencies, however, also express concern about the loss of strategic control (or power) to the legislature as a result of program budgeting.

Analysis and Considerations

A number of tensions have been brought to bear on the program structure in Georgia's budget. At the most basic level, the programs need to be reviewed to clarify how activities and associated expenditures and revenues are assigned to different programs and to align programs with a strategic plan. However, Georgia also needs to consider the larger framework in which the program structure is being implemented: this includes an assessment of *how* programs are going to be used as well as an effort to better reconcile the competing political, managerial, evaluation oriented, and technical pressures.

Some Alternatives:

Adjust the transfer controls: Much of the current tension associated with program budgeting is result of the transfer controls. Transfer controls in the appropriations bill typically have the benefit of ensuring accuracy in accounting for expenditures at the program level; and are a source of legislative control over funding. Transfer controls over object classes are used by the executive to monitor agency operations and are a source of executive control over agency activities.

These controls, however, are not fixed, nor are the processes through which transfers are monitored. The legislature could adjust transfer controls associated with programs to focus on programs where there is a particular concern about control and relax the controls where the legislature trusts the agency to manage the funds in accordance with legislative intent. The legislature could move between different groupings of programs based on these concerns. Such shifts though would have to be tempered by agency ability to accurately account for funds at different program levels.

Adjust the process of oversight: Rather than adjusting the transfer controls, the legislature and executive could streamline the process of oversight for transfers. For instance, the legislature could allow legislative staff to sign off on transfers rather than referring decisions to the full Fiscal Affairs Committee. Alternatively, the Fiscal Affairs Committee could meet more regularly. Or the state could develop systems where the legislature is notified and transfers are considered approved unless the legislative staff or selected legislators request additional information or protest the transfer within a certain period of time. There are a number of variations.

Similarly, OPB could adjust the monitoring of transfer controls over object classes to ensure that some transfers are only monitored while others require explicit approval.

Switch from ex ante control to ex post control: Currently, Georgia is relying heavily on ex ante (or up front) control over agency spending rather than ex post (or after the fact) control. Ex post systems, which are the premise of performance based budgeting, rely more heavily on evaluation and remedial action for poor performance rather than controls over spending up front, particularly by the legislature. Virginia provides a good example of such a system.

In an ex post system of control, Georgia might have a well defined and disaggregated program structure in the appropriations bill, but the executive branch and agencies would be given extensive authority to transfer funds as long as it was in keeping with legislative intent. Programs would also be associated with key performance measures that were important to legislators, the executive, and the public at large. At the end of the fiscal year, the legislature would commission evaluations to assess a host of implementation questions, including whether agency decisions are in keeping with legislative intent. In such a system, expectations would be set beforehand through the budget process; however, agencies would have significant flexibility to adapt. Control would be exerted through evaluation and potential legislative remedial action if performance was poor or legislative intent was ignored. Georgia has elements of such a system in place; however, the state would likely have to invest in a greater *legislative* capacity to evaluate and would have to develop performance measures with legislative input.

I. Budgeting in Georgia

Introduction

In 2003, the newly elected governor of Georgia Sonny Perdue initiated a budgetary reform called Prioritized Program Planning and Budgeting (PPPB), now renamed to Prioritized Program Budgeting (PPB). This reform transitioned the state from appropriating by line item to appropriating by program and further required agencies to rank order programs by priority and to develop strategic plans and performance measures. As such, PPB closely resembles a variety of "program based, performance oriented budgets" in other states.

This report focuses on the process and challenges associated with the first part of the reform – the designation and development of a *program* budget structure. While there is voluminous information about the development and use of performance measures, e.g., Hatry 1999; Poister & Streib 1999; Kittredge & Kissler 1998; Joyce 1999, 2003, there are few resources to help guide states through the process of building the initial programmatic "platform." This initial step, which was first comprehensively implemented in the fiscal year (FY) 2006 budget year, has proved more challenging for Georgia than was perhaps anticipated. This report is meant to help the various state budget and program officers in Georgia reflect on their current transition from line item to program budgets as well as to provide a resource for other states considering a similar transition.

Background

Understanding Georgia's transformation and current dilemmas requires some familiarity with Georgia's budget process, traditions, and previous budget formats, as well as the context within which this reform was initiated.

Budget Process and Recent Changes

Georgia's budget process has traditionally been managed by the Governor's Office of Planning and Budget (OPB). In the early summer, OPB issues budget instructions to the agencies for both a mid-year "amended budget" as well as for the up-coming fiscal year's regular budget. These budget requests are typically due at the beginning of September. In the fall, OPB and the Governor's staff develop the executive budget report which is presented to the legislature in early January in conjunction with the beginning of the 40 day legislative session.[1]

Georgia's legislature then considers both the amended and general budgets. Once they have signed off on the budget, the agencies develop an operating budget, which serves as their work plan for the year. OPB is heavily involved in monitoring the movement of funds within the agency during the year. When the budget year ends, the Department of Audits and Accounts (DOAA)—an agency overseen by the legislature—conducts financial audits. During the year, DOAA may conduct performance audits at the request of the legislators (House Budget Office 2006; Carl Vinson Institute 2005). In 2004, the state also created a State Accounting Office in order to handle the development of the financial reports at the end of the year, maintain the state's financial accounting systems, and improve internal control (Georgia State Accounting Office 2006). The state fiscal year runs from July 1st to June 30th.

The transition to program budgeting occurred in conjunction with several major shifts in governmental control. First, the executive and legislative branches transitioned from being controlled entirely by Democrats to being controlled entirely by Republicans—for the first time in over a century. The transition also was accompanied by institutional changes. Prior to 2003, the legislature had a single budget office, but in 2003, the legislature was split with the Democrats continuing to hold the House and Republicans controlling the Senate and the Executive. This change precipitated a split in the legislative budget office with each chamber of the General Assembly creating its own office. By 2004, both chambers had become Republican but the two budget offices did not then re-merge. There is now a House Budget Office (HBO) and a Senate Budget and Evaluation Office (SBEO).

The new staff in these legislative budget offices, and the Senate staff in particular, took a more active role in the budget process. According to a number of budget and agency staff who served in positions on both the legislative and executive

[1] By law the Governor must present the budget within five days after the start of the legislative session. The session is 40 legislative days not calendar days.

sides in the 1990s, prior to 2003, the executive dominated the budget process. The legislature focused on "special projects" for legislative districts and at times on minor policy changes, but most of the dialogue over budgeting took place between the agencies, the Governor and his policy staff, and OPB.

Legal Framework and the Traditional Budget Format

These shifts in the political and institutional arrangements are important because they both precipitated program budgeting and have created challenges in its implementation. In particular, the legislative involvement in program budgeting represents a major departure from previous efforts to implement performance reforms. In 1993, the state passed the Budget Accountability and Planning Act, and in subsequent budgets, performance measures as well as various program and even subprogram designations for each agency were reflected in the Governor's budget reports. (e.g., see the FY 1999-2002 Budget Reports). However, by 2003 the initial efforts at the reform had waned after having little effect on actual agency operations. In the FY 2004 amended Governor's report, agency budgets were only reported by "object class" or line item and by a few functional areas (see Figure 1). Throughout this initial implementation, the legislature never adopted a program budget nor fully developed systems to use performance information in making budget decisions.[2]

With functional or line item budgeting, the legislature and others external to the agency cannot see what the agencies *do* in a general sense, nor can they assess the actual cost of various agency activities. For instance, in Figure 1 the Governor's budget request for the Department of Corrections shows a cut of $13 million in personal services. However, it is not clear which programs or purposes out of a $904 million budget this shift will affect.

The process that the legislature had used since the 1970s focused on object classes as well as a list of "amendments" or marginal changes for each agency which it approved or disproved *at the agency level* not at a programmatic level (see Figure 2). Again, it's hard to match these marginal changes with the bigger picture. For

[2] There were efforts such as the creation of the legislative Budget Responsibility and Oversight Committee, but these were never fully implemented.

FIGURE 1: EXAMPLE OF A PREVIOUS BUDGET FORMAT, GOVERNOR'S REPORT

DEPARTMENT OF CORRECTIONS

GOVERNOR'S RECOMMENDED BUDGET - AMENDED FISCAL YEAR 2004

Budget Classes / Fund Sources	FY 2004 Current Budget	Changes	Amended FY 2004 Recommendations
Personal Services	$557,879,142	($13,820,551)	$544,058,591
Regular Operating Expenses	65,607,903	(1,549,903)	64,058,000
Travel	2,145,465	(143,137)	2,002,328
Motor Vehicle Purchases	1,809,244		1,809,244
Equipment	3,869,690	(1,377,796)	2,491,894
Computer Charges	5,695,899	(14,382)	5,681,517
Real Estate Rentals	7,824,211	(31,350)	7,792,861
Telecommunications	7,229,608	(51,277)	7,178,331
Per Diem and Fees	42,637		42,637
Contracts	79,470,632	(3,396,369)	76,074,263
Utilities	26,836,730	(527,325)	26,309,405
Court Cost	1,300,000		1,300,000
County Subsidy	37,726,400		37,726,400
County Subsidy for Jails	6,450,000	8,900,000	15,350,000
Central Repair Fund	1,093,624		1,093,624
Payments to Central State Hospital for Meals	4,268,025		4,268,025
Payments to Central State Hospital for Utilities	1,627,150		1,627,150
Payments to Public Safety for Meals	577,160		577,160
Inmate Release Fund	1,450,000		1,450,000
Health Services Purchases	128,474,770	2,634,307	131,109,077
University of Georgia - College of Veterinary Medicine Contracts	449,944		449,944
Minor Construction Fund	856,000		856,000
Subtotal	$942,684,234	($9,377,783)	$933,306,451
Less: Federal Funds	$7,625,794	$2,490,455	$10,116,249
Other Funds	18,384,010	(162,627)	18,221,383
Indirect DOAS Funds	450,000		450,000
Subtotal	$26,459,804	$2,327,828	$28,787,632
TOTAL STATE GENERAL FUNDS	**$916,224,430**	**($11,705,611)**	**$904,518,819**
Positions	15,512	(143)	15,369
Motor Vehicles	1,917	(14)	1,903

FUNCTIONAL BUDGET FINANCIAL SUMMARY - AMENDED FISCAL YEAR 2004

Functional Budgets	FY 2004 Current Budget	Changes	Amended FY 2004 Recommendations
1. Executive Operations	$30,351,748		$30,351,748
2. Administration	21,381,376	($5,352,076)	16,029,300
3. Human Resources	8,653,841	3,300,000	11,953,841
4. Field Probation	82,294,180	(3,772,573)	78,521,607
5. Facilities	636,450,129	(4,662,240)	631,787,889
6. Programs	137,093,156	(1,218,722)	135,874,434
TOTAL STATE GENERAL FUNDS	**$916,224,430**	**($11,705,611)**	**$904,518,819**

FIGURE 2: EXAMPLE OF BUDGET AMENDMENTS (GOVERNOR'S REPORT)

GOVERNOR'S RECOMMENDED BUDGET ADJUSTMENTS

FY 2004 STATE GENERAL FUND APPROPRIATIONS	**$916,224,430**
1. Reduce the counseling program by eliminating 37 middle management positions.	($1,218,722)
2. Furlough non-security staff one day every other month, beginning October 1st.	(4,132,831)
3. Reduce funding through operational cut backs in the areas of operating expenses, equipment, computer charges, and travel.	(2,119,245)
4. Adjust funding associated with a change in the occupancy dates of the following facilities:	
a. Georgia Diagnostic & Classification Prison Super Max Unit - 9 months delayed operating.	(4,191,189)
b. Bacon Probation Detention Center - 12 months delayed operating.	(2,854,873)
c. Clayton Transitional Center - 5 months delayed operating.	(986,096)
d. LaGrange Transitional Center - 2 months delayed operating.	(370,607)
e. Rome Diversion Center - 2 months delayed operating. 20	(94,905)
5. Reduce the private prison per diem contract by 5%, effective October 1st.	(3,153,161)
6. Utilize State Criminal Alien Assistance Program funding to off-set startup cost for the Long Probation Detention Center ($1,101,282) and GDCP Super Max Unit ($1,389,173)	(2,490,455)
7. Eliminate funding related to the closure of the following facilities:	
a. Putnam State Prison - 138 beds, 54 positions, and 8 vehicles.	(1,372,014)
b. Cobb Diversion Center - 50 beds, 21 positions, and 3 vehicles.	(355,409)
c. Savannah Diversion Center - 52 beds, 22 positions, and 3 vehicles.	(366,104)
8. Reduce funds related to the implementation of "online law information services" enabling a reduction in the Prisoner Legal Assistance contract.	(200,000)
9. Fund inmate health costs associated with the Medical College of Georgia ($3,000,000) and medical payments to county jails and correctional institutions ($300,000).	3,300,000
10. Allocate additional funds for a projected shortfall in jail subsidy.	8,900,000
11. Transfer $370,370 for 9 nurse positions from the department to the health services contract.	Yes
TOTAL NET STATE GENERAL FUND ADJUSTMENTS	**($11,705,611)**
TOTAL NET STATE GENERAL FUNDS RECOMMENDED	**$904,518,819**

instance, in FY04 (Figure 2), the state proposed to cut counselors; however, a legislator would not know if this cut affected probation services, prison services, transition centers, detention centers or any other program run by the agency.

Also, in the appropriations bill (Figure 3), *the legal weight* of the budget fell on the object classes—agencies were locked in to the object class amounts and were only permitted to spend up to 2 percent over the state funds budgeted for each line item (keeping the bottom line for the agency the same). Alternatively, they could return to the legislature or the legislature's Fiscal Affairs Committee to request a transfer, but the legislature only met for three months at the beginning of the year, and the Fiscal Affairs Committee typically met only once a year in the intervening

FIGURE 3: APPROPRIATIONS BILL, HB 1180 (FY04 AMENDED BUDGET)

Section 9 – Department of Corrections

Objects of Expenditure	**Total Funds**
Personal Services	$545,711,723
Regular Operating Expenses	$64,058,000
Travel	$2,002,328
Motor Vehicle Purchases	$1,809,244
Equipment	$2,491,894
Computer Charges	$5,681,517
Real Estate Rentals	$7,792,861
Telecommunications	$7,178,331
Per Diem and Fees	$42,637
Contracts	$76,074,263
Utilities	$26,309,405
Health Services Purchases	$131,109,077
Court Costs	$1,300,000
County Subsidy	$37,726,400
County Subsidy for Jails	$15,350,000
Central Repair Fund	$1,093,624
Payments to Central State Hospital for Meals	$4,268,025
Payments to Central State Hospital for Utilities	$1,627,150
Payments to Public Safety for Meals	$577,160
Inmate Release Fund	$1,450,000
UGA College of Veterinary Medicine Contracts	$449,944
Minor Construction Fund	$1,024,200

Functional Units	**State Funds**	**Total Funds**
Administration Division	$17,682,432	$17,682,432
Executive Operations	$30,351,748	$30,801,748
Facilities Division	$631,956,089	$647,609,708
Human Resources Division	$11,953,841	$11,953,841
Probation Division	$78,521,607	$82,741,411
Programs Division	$135,874,434	$144,338,643

Fund Allocations	**Fund Amount**
Total Funds	$935,127,783
Federal Funds	$10,116,249
Intra-State Agency Funding	$450,000
Non-State Funds	$18,221,383
State Funds	$906,340,151

period.[3] Finally, each agency was audited back to these agency level object class categories. Agencies were not similarly restricted by any "functional categories" that might also be reported in the appropriations bill.

This form of budgeting forced agencies to think upfront about *how* a task would be performed, for instance the agency had to decide early on if they would provide a new service by hiring a new person, contracting out, or paying on a per diem basis, but within each input category, the agencies had extensive flexibility to determine priorities and move funds to meet the agencies' perceived areas of need. For instance, the Department of Corrections could prioritize the allocation of its $544 million in personal services budget between administration, prisons, detention centers, transition centers, boot camps, and a variety probation services as long as it did not exceed the legislatively specified amounts for personal services overall. OPB monitored and approved all transfers between object classes and functional categories and further had accumulated institutional knowledge about the on-going operations of agencies. As a result, OPB and by extension the Governor had some degree of operational control over agency activities. However, again, to those external to the agency or OPB, it is not clear how the agency is prioritizing its personal service funds.

Federal and Other Funds

Another issue in this budget was the allocation of federal funds and other funds raised by the agency. Much as with state general funds, lack of a program structure meant that the purposes behind funding streams was not clear. Also, agencies do not appear to have been required to be particularly accurate in their projections of federal or other funds and were allowed to amend in these funds to the budget bill throughout the year.

Table 1 shows the difference between the funds "budgeted" in the appropriations bill relative to the total funds that were budgeted by the end of the year. During the year, the agency, with approval from OPB, would "amend in" or

[3] By statute they are supposed to meet at least quarterly (see §28-5-25 of the Georgia Code (Unannotated)).

TABLE 1: COMPARISON OF ORIGINAL AMOUNTS BUDGETED VERSUS FINAL AMOUNTS

Georgia (from CAFR)	**Original (Budgeted Amt)**	**Final (After Amendments)**	**Variance**	**%**
FY03				
State Appropriation				
Regular	$15,307,983,094	$15,315,646,346	$7,663,252	0%
Lottery	$625,000,000	$665,037,766	$40,037,766	6%
Tobacco	$173,002,372	$185,622,923	$12,620,551	7%
Federal Revenues	*$6,536,341,100*	*$8,621,512,245*	*$2,085,171,145*	*32%*
Other Revenues Retained	*$5,394,646,037*	*$6,664,250,642*	*$1,269,604,605*	*24%*
Total Revenues	$28,036,972,603	$31,452,069,922	$3,415,097,319	12%
FY04				
State Appropriation				
Regular	$15,307,459,296	$15,203,968,291	$(103,491,005)	-1%
Lottery	$691,795,656	$700,839,757	$9,044,101	1%
Tobacco	$175,080,760	$174,384,699	$(696,061)	0%
Federal Revenues	*$7,152,378,659*	*$10,770,534,647*	*$3,618,155,988*	*51%*
Other Revenues Retained	*$5,165,293,804*	*$7,651,867,389*	*$2,486,573,585*	*48%*
Total Revenues	$28,492,008,175	$34,501,594,783	$6,009,586,608	21%
FY05				
State Appropriation				
Regular	$15,448,164,768	$15,625,848,315	$177,683,547	1%
Lottery	$771,553,228	$776,892,107	$5,338,879	1%
Tobacco	$156,370,000	$156,370,000	$ -	0%
Federal Revenues	*$7,704,412,702*	*$11,039,161,593*	*$3,334,748,891*	*43%*
Other Revenues Retained	*$4,731,916,530*	*$7,597,466,604*	*$2,865,550,074*	*61%*
Total Revenues	$28,812,417,228	$35,195,738,619	$6,383,321,391	22%
Average Underestimate of Federal Funds				**42%**

TABLE 2: BUDGETED VERSUS FINAL AMOUNTS OF FEDERAL FUNDS COMPARISON OF GEORGIA TO OTHER STATES (000)

	Original (Budgeted Amt)	Final (After Amendments)	Variance	%
Georgia				
FY 03	$ 6,536,341	$ 8,621,512	$ 2,085,171	32%
FY 04	$ 7,152,378	$ 10,770,534	$ 3,618,156	51%
FY 05	$ 7,704,412	$ 11,039,161	$ 3,334,749	43%
Average				42%
Virginia				
FY 03	$ 3,808,380	$ 4,525,866	$ 717,486	19%
FY 04	$ 3,791,860	$ 5,123,470	$ 1,331,610	35%
FY 05	$ 4,445,322	$ 5,011,642	$ 566,320	13%
Average				22%
Texas				
FY 03	$ 14,364,098	$ 18,381,663	$ 4,017,565	28%
FY 04	$ 17,877,709	$ 19,662,905	$ 1,785,196	10%
FY 05	$ 17,489,688	$ 20,931,657	$ 3,441,969	20%
Average				19%
South Carolina				
FY 03	$ 4,622,626	$ 5,599,917	$ 977,291	21%
FY 04	$ 5,056,463	$ 6,009,629	$ 953,166	19%
FY 05	$ 5,725,125	$ 6,343,617	$ 618,492	11%
Average				17%
North Carolina				
FY 03	$ 6,632,554	$ 8,258,591	$ 1,626,037	25%
FY 04	$ 7,334,712	$ 8,814,136	$ 1,479,424	20%
FY 05	$ 7,812,271	$ 9,913,998	$ 2,101,727	27%
Average				24%
*Maryland**				
FY 03	$ 5,186,037	$ 5,691,478	$ 505,441	10%
FY 04	$ 5,462,179	$ 6,297,649	$ 835,470	15%
FY 05	$ 5,689,469	$ 6,251,842	$ 562,373	10%
Average				12%

*Note: Maryland allocates some federal funds under "special funds"& "general fund" that are not shown here; however, these amounts are small. Source documents for this table are the Comprehensive Annual Financial Reports for each state.

increase their federal funds as they received them. Although all states try to be conservative in their projections of these external funding sources, Georgia has been off by as much as 51 percent for federal funds and by as much as 61 percent for other revenues. Looking at several other southern states for purposes of comparison in Table 2, Georgia's underestimations are almost double those of the next highest state.

II. The Transition to Program Budgeting

The Governor's Proposal: Prioritized Program Planning and Budgeting

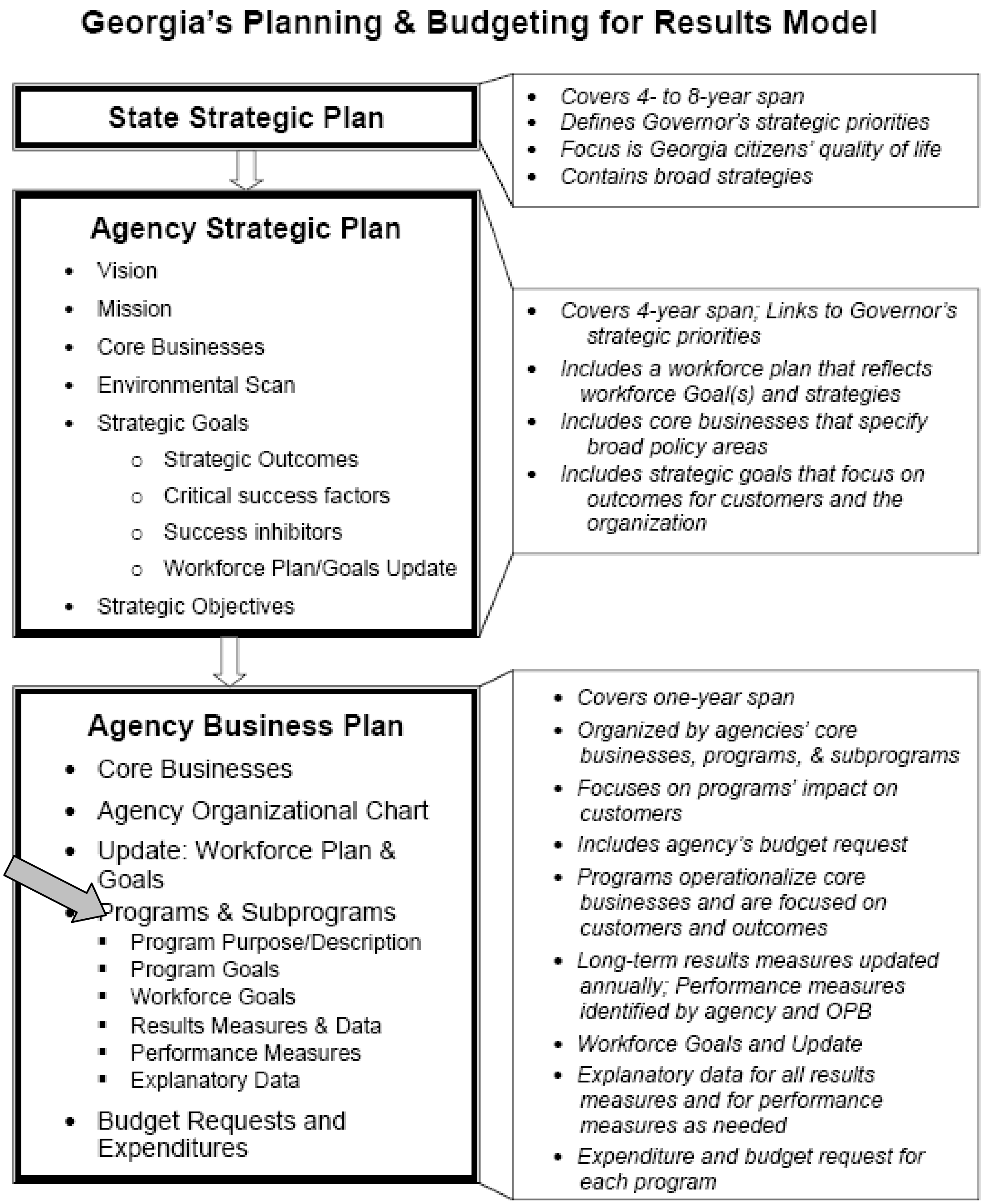
The most recent effort to transition to program budgeting was initiated by Governor Perdue in his 2004 budget instructions. When Governor Perdue came into office in 2003, he was immediately faced with a seven percent decline in real revenues for FY03 (a three percent decline or $380 million shortfall in current dollars). In FY02, revenues had also declined by 7 percent (Bourdeaux 2006b). The initial transition to program budgeting was intended to help the new executive staff handle the shortfall through a better understanding of the purposes for which state funds were being spent. Program budgeting with a performance orientation was also viewed as a "best practice" and one that would presumably reorient managers away from inputs towards results.[4]

The 2004 new budget instructions required agencies to prepare a strategic plan with performance measures linked to statewide priorities, as well as to develop a budget based on *programs.* According to the state's strategic planning documents, each agency had to identify its core businesses (see Figure 4) with associated performance measures and indicators. A subset of these core businesses would be *programs* which would be identified in the "Agency Annual Business Plan."

Each of these programs was expected to be attached to a set of results measures and agencies were required to rank the importance of these programs in a "prioritization process." This ranking and program designation process remained internal to the executive branch and the appropriations bill only reflected the object class expenditures. In the FY05 Governor's budget report, each agency reported programs and performance measures as well as the object class results. Although the General Assembly listed the programs in the appropriations bills, the legal burden, in the form of the 2 percent restriction on transfer of state funds, continued to be on the object class designations. In FY06, the Governor's budget again reported a more

[4] Interviews with GA20 & GA25.

FIGURE 4: STRATEGIC PLANNING INSTRUCTIONS



From: Governor's Office of Planning and Budget, Georgia Merit System, and Georgia Technology Authority 2004.

FIGURE 5: GOVERNOR'S REPORT AND THE SHIFT TO PROGRAM BUDGETING IN FY 2006

DEPARTMENT OF CORRECTIONS

Mission: The Georgia Department of Corrections protects and serves the public as a professional organization by effectively managing offenders while helping to provide a safe and secure environment for the citizens of Georgia.

Vision: The Georgia Department of Corrections is the best corrections system in the nation at protecting citizens from convicted offenders and at providing effective opportunities for offenders to achieve positive change. We are a leader and partner in making Georgia a safer, healthier, better educated, growing, and best managed state. We accomplish this by ensuring public safety, operating safe and secure facilities, providing effective community supervision of offenders, creating opportunities for restoration to offenders, ensuring the rights of victims, partnering with public, private, and faith-based organizations, sustaining core values of loyalty, duty, respect, selfless, service, honor, integrity, and personal courage, and ensuring the well being of employees and their families.

CORE BUSINESS Offender Incarceration		CORE BUSINESS Community Supervision
Programs	**Programs**	**Programs**
State Prisons	Probation Detention Centers	Probation Supervision
Bainbridge Probation Substance Abuse Treatment Center	Probation Diversion Centers	Probation Diversion Centers
Healthcare for Inmates	Parole Revocation Centers	Bainbridge Probation Substance Abuse Treatment Center
Food and Farm Operations	Probation Boot Camps	
Offender Management		
Private Prisons		
Transition Centers		

Figure 5 continues next page…

FIGURE 5 (CONTINUED). GOVERNOR'S REPORT AND THE SHIFT TO PROGRAM BUDGETING IN FY 2006

DEPARTMENT OF CORRECTIONS

PROGRAM BUDGET SUMMARY - FISCAL YEAR 2006

Program Budgets	FY 2005 Appropriations Total	FY 2005 Appropriations State	FY 2006 Governor's Recommendations Total	FY 2006 Governor's Recommendations State
1. Administration	$51,490,459	$49,204,459	$58,419,011	$56,583,011
2. State Prisons	411,817,936	402,650,148	432,642,131	423,474,343
3. Private Prisons	79,470,468	79,470,468	72,518,200	72,518,200
4. Transitional Centers	20,967,831	20,967,831	22,061,532	22,061,532
5. Probation Detention Centers	41,847,876	40,305,207	40,693,393	39,150,724
6. Parole Revocation Centers	3,786,848	3,727,200	3,960,948	3,901,300
7. Probation Boot Camps	5,024,140	4,824,516	5,254,491	5,054,867
8. Offender Management	50,245,710	50,245,710	56,172,697	56,172,697
9. Food and Farm Operations	13,280,093	13,048,368	13,584,508	13,352,783
10. Health	147,932,259	139,468,050	159,725,013	151,260,804
11. Probation Supervision	62,721,706	62,721,706	66,369,419	66,369,419
12. Probation Diversion Centers	16,088,980	12,900,288	17,017,842	13,829,150
13. Bainbridge Probation Substance Abuse Treatment Center	3,157,813	3,130,024	3,281,079	3,253,290
Subtotal	$907,832,119	$882,663,975	$951,700,264	$926,982,120
TOTAL APPROPRIATIONS	**$907,832,119**	**$882,663,975**	**$951,700,264**	**$926,982,120**

refined program structure. See Figure 5 for the Department of Corrections budget as presented in the Governor's FY 06 Budget Report.

The Senate Change: Program Budgeting

In FY06, the state fully transitioned to a program budget when the Senate made two major changes which were ultimately adopted in the final FY06 appropriations bill:

1) The Senate switched the legal requirements to place the 2 percent restriction on programs rather than object classes and added a $250,000 restriction (2 percent or $250,000 whichever was less)[5] on the transfer of funds between programs.

2) The final bill also reported federal and "other" state funds as well as general fund allocations *at the program level* and attempted to constrain agencies to spending these monies based on these appropriated amounts.

The implication of this switch was that any changes over 2 percent or $250,000 across programs for state funds would require the agency to submit a request to the legislative Fiscal Affairs Committee for approval. Further, agencies would now be audited for spending compliance based on programs rather than object classes.

The Director of the Senate Budget and Evaluation Office had long been interested in changing the type of information presented to legislators to one that moved away from the input based object class system to one based on purposes. Further, SBEO saw an evolving role for the legislative budget office – away from focusing on incremental changes at the margins each year to a system built on budget analyst evaluation of programmatic effectiveness.[6] While the executive offices saw program budgeting as a platform for focusing agencies on results, the SBEO saw program budgets as defining the appropriate units for more in depth evaluation and oversight. Importantly, program budgets would also allow legislators more control over the *strategic choices* made by agencies, where the previous line item budgets

[5] Medicaid was excluded from this requirement.
[6] The Senate changed the name of its budget office to the Senate Budget and *Evaluation* Office to reflect this change in outlook.

only allowed control only over a variety of inputs (Bourdeaux and Fernandes forthcoming).

Observations about Implementation Problems in the State

This report is based on interviews with agency staff, representing 10 of the 15 major departments (as well as some smaller agencies), OPB and executive staff, Senate Budget and Evaluation Office staff, staff in the Office the State Auditor, and several previous state budget staff who are still involved in state budgeting in external roles, as well as personal experience working as an executive loan with the Senate Budget and Evaluation Office on FY05 Amended and FY06 budget development.

Many interviewed indicated they supported the transition to program budgeting in concept; however by all indications, the state has struggled with implementation. At the most fundamental level, there are somewhat different concepts about what program budgeting should be. Agencies in particular perceive the purpose of program budgeting as giving them increased flexibility to manage in return for performance. This view is not entirely shared by the legislative or executive branches, which are more concerned with the use of programs for focusing agencies on key public purposes, prioritization of these purposes, and control.

In terms of implementation, the overarching problem has been putting together a systematic *process* for implementing program budgeting reform. The problems in implementation include the following:

- *The state started into program budgeting without an accounting system that could support many agencies' program structures.* This issue was addressed in the summer of 2006, but this shift occurred at the end of the fiscal year in which the transition to program budgets had occurred.

- *There has been a lack of clarity about program definitions and the process through which the state would transition to program budgeting.* Examples of this include instructions about creating an "administration" program. This program was initially not an option for agencies(see Governor's Office of Planning and Budget, Georgia Merit System, and Georgia Technology Authority 2004), but then it became required.

  Similarly, the legislature, executive branch, and agencies did not begin the transition with an agreed upon process for establishing a program structure for each agency.[7] As a result, program structure for some agencies has continued to shift each year, as the legislative branch, and the agencies and executive branch struggle over the program structure.[8]

Although one of the purported ideas behind program budgeting was to align major agency operations with a strategic plan, most agencies appear not to have used a strategic planning process to develop programs or to link programs to strategic plans and outcome measures.[9]

Several of the larger agencies report being surprised by the legislative shift of the 2 percent or $250,000 transfer controls from object classes to programs. As a result, they initially proposed more programs than they might have if they knew that their flexibility would be curtailed.[10]

- *Some of the programs, as defined, may "lack integrity"* – or it is not entirely clear which funds should be allocated to which program. Although, this report did not "audit" agency programs and thus does not purport to verify this problem, indications of this problem include:

  Some agencies began program budgeting without a solid idea of either expenditures or non-state revenues associated with a particular programs.[11] This problem may have been exacerbated if the agency has new programs which cut across previous budgeting, organizational and/or accounting categories.

  Some agency budget directors report concerns that administrators at lower levels of their organization have not been trained in how to appropriately allocate funds to programs.

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[7] See New Mexico's process. Other states struggle with this problem, as well, and a failure to receive cross-branch endorsement of a strategy often means the reform is not accepted by the legislature and eventually falters (see South Carolina).

[8] A particular problem has been the Department of Human Resources program structure which can be observed shifting each year from 2004. Also, this problem can be observed by looking at different documents during the FY 2006 debates over the judicial branch and the Department of Education.

[9] I was only able to identify one (the Georgia Department of Revenue) that truly went through a "textbook" strategic planning process. Although some agencies are now adding in strategic planning and performance only three agencies initially (Revenue, Pardons and Paroles, and perhaps Transportation) had a vision of how programs linked to core businesses and performance. Almost all of the other agencies, and to some degree the Department of Transportation as well report using accounting, organizational, revenues streams or other very pragmatic criteria to select programs in order to try to minimize the impact of the transition to program budgeting on their agency operations.

[10] DHR, GDC, DJJ have asked to consolidate programs. Surprise noted by many interviewed: GA23, GA24, GA27, GA28, GA32.

[11] One indication of this is the significant number of "bookkeeping" and "overrun" shifts requested through Fiscal Affairs transfers.

Some agencies indicate that they are shifting funds to programs through backdoor transfers. They are "reclassifying" expenditures from one program to another (typically to programs with extra money). On the one hand, this could be a simple product of initial misestimates about program funding levels. On the other hand, such shifts avoid having to report transfers to OPB or Fiscal Affairs and can be abused.

Cost accounting techniques being used by agencies involve assumptions that can be gamed to place more expenditures in one program or another (e.g., they will allocate all of office space or all of a person to one program rather than splitting between programs based on actual usage or activities). Although this decision-rule may be valid in some contexts, there is no oversight or common agreement on how to allocate funds. A result of this sort of cost allocation can cause some programs to look more expensive than they actually are and others to look cheaper.

Some agencies report difficulty projecting service demand (e.g., number of prisoners in the prison system, number of mental health patients) and the impact of demand on the level of funding required for each program. In other cases, agencies report difficulty projecting federal or other agency level revenues.

- *In its current form, program budgeting has resulted in a loss of flexibility for agencies.* The increasing rigidity of the budget has occurred for several reasons.

The legislature tightened transfer controls from 2 percent of funds in any category to 2 percent or $250,000 whichever is less.[12] Further the legislature attempted to bring federal and other funds under this control as well (see discussion below) where agencies were accustomed to extensive flexibility in how to use these funds.

OPB continues to require that agencies report transfers by object class. Thus, agencies are not only constrained in moving funds by program but by object class within each program as well.[13] In part, this appears to be a problem because OPB lacks confidence in the integrity of programs.

Agency staff, and in particular budget staff in the larger agencies, felt that both OPB and the legislative budget staff fail to recognize the technical complexity associated with having to shift money across multiple budget and accounting categories. This challenge is discussed in more detail in the next chapter.

[12] There are some exceptions for the Medicaid program.
[13] All major agencies as well as OPB staff reported this issue.

Legislative involvement and the restrictions on agency flexibility have significantly increased the number Fiscal Affairs requests. Agencies complain that Fiscal Affairs does not meet enough.[14] Legislative staff say that they have not been asked to meet more frequently by OPB.

Federal Funds

There was and continues to be some disagreement over the level of control that applies to federal and "other" funds. Traditionally, agencies have had significant flexibility to "amend in" federal and other funds to their base budget as they receive the funds throughout the fiscal year. The agencies benefited by making very conservative projections because they then retained control of the funds (although constrained by federal and state law and regulations). The funds were not subject to comprehensive review by the legislature as part of the budget process even though federal funds may make up almost one-third of the state's budget (see Table 1).

With the transition to program budgeting, the legislature tried to control this practice by adding in federal funds based on previous year's expenditures, and in the amended budget, recognizing and allocating federal funds that had been "amended in" by the agency and executive during the periods when the legislature was not in session. This effort created several problems. In some cases where the legislature recognized funds that had been "amended in," the legislature ended up appropriating funds to programs where the federal money had already been obligated or allocated to another program. A memo issued by the GA Department of Law indicated that the legislature did not have the authority to retroactively move federal funds that had been recognized by the executive and agencies between the legislative sessions (Ballard 2006). The Office of Planning and Budget then shifted these funds back to their original position.

The legislature also allocated federal funds to agencies that received these funds as a "transfer" payment from another agency, shifting authority for the funds from the agency that the federal government recognized as responsible to the agency that would ultimately receive the funds. For instance, the Department of Labor receives federal Temporary Assistance for Needy Families (TANF) job placement

[14] GA27, GA36, GA31, GA26, GA30, GA37.

funds from the Department of Human Resources to help place welfare recipients. DHR enters into a performance contract with DOL to provide employment services for its clients – the TANF funds are reimbursements for services rendered. When the legislature forced the funds to be placed in DOL, then the money was no longer for services rendered per se but was an automatic allocation. Also, DHR enters into contracts with the federal government over use of these funds and is recognized as the "cognizant agency" for such purposes. With legislative allocations, DHR loses control over the ways that the funds are spent. Although the implications of this transfer are not entirely clear, if not carefully considered, it has the potential to create a conflict between the requirements at the federal level and the state appropriations bill. Several agencies returned to the legislative Fiscal Affairs committee to shift federal funds out of their budgets to the agency that actually received the funds from the federal government.[15]

The legislature also attempted to allocate federal and other agency revenue sources by program rather than at the agency level. This also created confusion because agencies did not have a good understanding of how they allocated revenues at the program level and did not have the accounting system in place to effectively track funds by program. Agencies also argue that they are not always able to project federal funds accurately. For FY06, the state agencies were locked into these program categories across both state general funds and federal funds. For FY07, the Georgia Attorney General's office issued a ruling on the "flex" language in HB 1027. This opinion interpreted the restrictions on transfers between programs to only apply to state funds and not federal. The effect of this latter opinion is that federal funds continue to be largely controlled by the agencies and OPB for FY07 (Ballard 2006a, 2006b).

Legislative bodies asking agencies to more accurately project and allocate their federal funds is not uncommon. For instance, in the case studies, at the end of this report, both Virginia and New Mexico reported recent executive-legislative

[15] These changes were corrected in the Fiscal Affairs Committee meetings (see Fiscal Affairs Transfer Requests: Recommended to be processed by amendment, June 9, 2006). This problem might have been resolved by changing how these transfers are recognized in the appropriations bill.

debates over federal funds. The Virginia legislature required agencies to more carefully estimate and report federal funds for programs in the appropriations bill, and the legislative staff in New Mexico noted that they would adjust agency and program federal funds levels based on their internal staff analyses of anticipated funds. The analysis in Table 2 suggests that Georgia agencies could more accurately project federal funds.

On the other hand, legislative misallocations or mistakes can create serious problems for agencies particularly when they are coupled with stringent transfer controls. In both New Mexico and Virginia the legislative and executive branches have systems in place that allow agencies to adapt in a timely way.[16] In New Mexico, while the staff wants accurate reporting, the executive branch has significant autonomy to move or amend in federal funds. In Virginia, programs and subprograms are reported at a detailed level in the appropriations bill, but the legislature allows the executive significant authority to move funds—and explicit authority to move funds if necessary to be in compliance with federal law. The Virginia legislature then periodically asks the Joint Legislative Audit and Review Committee (JLARC) to evaluate executive program transfers associated with certain agencies to ensure that the agency or executive have not violated legislative intent or authority.

[16] I have not verified with agencies how well these work. In Virginia, the executive staff perceived that they had significant flexibility up front, but were held accountable through JLARC reviews.

III. Conceptual Dilemmas in Program Budgeting

Why Use Program Budgeting?

Program budgeting (typically combined with a performance measurement orientation) is expected to have the following benefits:

1) Increases transparency by showing the relationship between funding and public purposes.

2) Gives managers freedom from restrictive control over inputs.

3) Provides a platform for attaching outcomes to key public services and for evaluating the relationship between funding and outcomes.[17]

Budget reforms also need to ensure that they do not undermine existing systems that provide controls over potential "waste, fraud, and abuse." Unlike the private sector, which can focus heavily on efficiency, public systems generally require a heavier emphasis on control. Public organizations are influenced by public perception about how public dollars are being spent, and public organizations do not face competitive pressures to enforce efficiency. A number of states use some form of program budgeting, including Virginia, Pennsylvania, New Mexico, Texas, Oregon, and Iowa. Case studies are included in the appendix.

Program budgeting has its origins in the 1960s with a reform known as Planning, Programming Budgeting Systems (PPBS). This form of budgeting was intended to reorient decision-making towards a planning focus, allowing top managers to evaluate the efficiency of existing strategies in achieving broad based objectives and to assess public expenditures across previous budgetary and organizational silos (Wildavsky 1969; Schick 1966). This reform wilted in part from the magnitude of its ambition – it required complex analysis and significant institutional change to support it (Schick 1973; Mosher 1969).

[17] These benefits are described in interviews with staff in New Mexico, Florida, and Texas. Also, these benefits were reflected in comments from budget staff in Georgia about reasoning behind the transition to program budgets. Similar discussion associated with performance based budgeting (which relies on a program platform) are described in (Government Finance Officers Association 2005; Joyce 1999, 2003; Hatry 1999).

Since then, budgeting has been influenced by ideas surrounding performance based budgeting, a reform that focuses both on performance measures or outcomes *and* on managerial entrepreneurialism. The theory behind performance based budgeting is that managers should be held accountable for results, but should be allowed to shift inputs as needed in order to achieve these results (Hatry 1999; Broom 1995; Joyce 1999). Performance based budgeting has become interlinked with program budgeting because of the intuitive idea that programs are the level at which managers should be given financial flexibility to achieve results. For instance, Texas, New Mexico and Florida all developed their program structures, in theory, starting with agency strategic planning and then conceptualizing "programs" as the activities or strategies through which agencies achieve their goals and objectives. This format is described in the GFOA documents on best practices as well (Government Finance Officers Association 2005).

Legislative Considerations

Presumably performance based budgeting alone *could* occur at an agency rather than program level in conjunction with "lump sum" budgets. For instance, states such as Iowa have developed systems of performance contracts with agency heads. In return for maximum flexibility, agency heads agree to produce certain results and achieve a certain level of savings. However, in Georgia, the budget offices and elected officials have been reluctant to turn over millions or even billions of dollars to agency staff to make decisions without a more disaggregated level of control. The legislators and legislative staff appear to be also interested in using program designations to clarify actual levels of spending on state services, evaluate at this level, and to strengthen the legislative ability to set strategic priorities.

Challenges in Program Budgeting

Although seemingly a simple shift, the actual designation of a program structure for the state lies at the cross section of several competing agendas as well as a series of technical and organizational challenges for agency staff. The remainder of this report presents an analysis of the expectations and challenges associated with program budgeting.

Defining "a program" for budgetary purposes is conceptually more complex that most people realize. Although significant attention has been given to policy criteria linked to strategic planning, program definitions in actuality also need to accommodate:

1) Varying levels of control and accountability.

2) Demand for transparency and links to evaluation.

3) Technical and managerial concerns.

Linking Programs to Strategic Planning Processes

What is a Program?

Most states begin their program based performance oriented budgeting process by attempting to define programs in relations to a strategic plan. Texas provides one of the clearest examples where agencies were instructed to identify mission, goals, objectives and outcomes and then the strategies or "programs" that would be associated with attainment of those outcomes and objectives (see Texas Legislative Budget Board 2004). Louisiana, New Mexico, and Virginia also provide significant guidance in how to link strategic plans to budgets: see New Mexico Legislative Finance Committee 2005b, 2005c; Virginia Department of Planning and Budget 2003, 2005a, 2005b; and Louisiana Office of Planning and Budget 1999. Georgia itself has guidelines as well (Governor's Office of Planning and Budget, Georgia Merit System, and Georgia Technology Authority 2004).

However, Georgia's experience suggests that most states will quickly find that this sort of guidance only provides one piece of the puzzle in developing a program structure:

Georgia's definition of a program is as follows:

> Programs are systematic sets of activities undertaken to carry out an agency's core businesses. Programs should be customer- and outcome- focused and should result in a positive change for the

> programs' customers. Programs should address key policy and service areas. Decision makers must be able to link budget requests, funding, and expenditures to individual programs. (Georgia's Office of Planning and Budget, Georgia Merit System, and Georgia Technology Authority 2004)

This planning document also allows agencies to define subprograms when "programs are large enough or have distinct operational components so that they can be divided into two or more subprograms." (Governor's Office of Planning and Budget, Georgia Merit System, and Georgia Technology Authority [2004], p.17)

Other states define programs as follows:

- Texas: a "method to achieve goals and objectives. Formulated from goals and objectives a [program] is a means of transforming inputs into outputs and ultimately outcomes with the best use of resources."(Texas Legislative Budget Board 2004)
- Virginia: programs are products ("items produced by the agency") or services ("an action that the agency takes to fulfill its mission"). (Virginia Department of Planning and Budget 2005a) [18]
- New Mexico: a set of activities undertaken in accordance with a plan of action organized to realize identifiable goals and objectives based on legislative authorization. (New Mexico Legislative Finance Committee 2005c)

These definitions of a program provide a basic framework. The linkage to *products, services, or outcomes* is particularly important. For instance, in Figure 1, the functional categories listed by the Department of Corrections, particularly "executive operations," "administration," and "human resources," probably would not count as programs under the definitions above because they are not directly associated with a distinct end product, service, or outcome.

Similarly, such criteria suggest identifying activities that produce similar products, services, or outcomes and combining them into a single program. For instance, in the Department of Corrections the "State Prisons" program and the "Transition Centers" program (a program charged with transitioning prisoners into

[18] Technically, Texas refers to "programs" as "strategies," and Virginia has recently switched to a classification system where there are programs and sub-programs which are referred to as "service areas."

the community) both are associated with the common and shared outcomes of reducing recidivism, protecting public safety, protecting inmate safety, etc. On these grounds, one might argue that they should be combined into a single program.

Using this criterion, sets of activities that are associated with unique and distinct outcomes might be differentiated into separate programs. For instance, in the Division of Public Health, the Vital Records program is charged with maintaining records of births and deaths, while the "Inspections and Environmental Hazards" program is charged with conducting restaurant inspections and environmental hazard control. The activities that make up each program are organizationally separate and the outcomes for each are distinct and unique. Shifting funds between these programs usually suggests a trade off in state priorities or outcomes rather than a means of optimizing a single outcome (Bourdeaux and Fernandes forthcoming).

In Georgia the problem quickly emerged that there are different levels and types of products, services, and outcomes. Further the different levels of outcomes are associated with levels of legislative versus executive and agency accountability and control. In particular, more disaggregated programs allow the legislature a higher level of strategic control, and provide a more effective platform for transparency and evaluation. On the other hand, defining programs at a high level of detail and then restricting transfers between programs can create serious technical, managerial, and organizational problems for agency managers. This level of control may also undermine the philosophy of a performance oriented system which is intended to give managers flexibility in return for results.

Example of the Department of Corrections

Focusing only on products, services and outcomes can lead to any number of types of program structures. The Department of Corrections programs could be divided many ways. Table 3 gives the actual program/subprogram structure for the Department of Corrections.

TABLE 3: PROGRAM AND SUBPROGRAM STRUCTURE FOR THE DEPARTMENT OF CORRECTIONS

Program	Subprogram
1308 – Administration	
0211 - Bainbridge PSATC	
	0213 - PSATC-Admin Support @ Facilities
	0217 - PSATC-Counseling
	0216 - PSATC-Education
	0214 - PSATC-Food Service
	1234 - PSATC-New Bed Start-up
	0215 - PSATC-Plant Operations and Maintenance
	0212 - PSATC-Security
1384 - Compensation per General Assembly Resolutions	
0165 - Food and Farm Operations	
	0166 - F&F-Farm Operations
	0168 - F&F-Food Distribution Unit
	0167 - F&F-Food Operations
0169 – Health	
	0172 - H-Dental Health
	0171 - H-Mental Health
	0170 - H-Physical Health
0176 - Jail Subsidy	
0173 - Offender Management	
	0175 - OM-County Camps
	0174 - OM-Inmate Classification
	0177 - OM-Special Operations
0178 - Parole Revocation Centers	
	0180 - PRC-Admin Support @ Facilities
	0187 - PRC-Chaplaincy
	0184 - PRC-Counseling
	0186 - PRC-Education
	0181 - PRC-Food Service
	0183 - PRC-Library
	1235 - PRC-New Bed Start-up
	0182 - PRC-Plant Operations and Maintenance
	0179 - PRC-Security
2002 - Private Prisons	
0199 - Probation Detention Centers	
	0201 - PDC-Admin Support @ Facilities
	0210 - PDC-Chaplaincy
	0205 - PDC-Counseling
	0209 - PDC-Details
	0207 - PDC-Education
	0202 - PDC-Food Service
	0204 - PDC-Library
	0208 - PDC-New Bed Start-Up
0199 - Probation Detention Centers (continued)	
	0203 - PDC-Plant Operations and Maintenance
	0200 - PDC-Security
0158 - Probation Diversion Centers	
	0160 - DC-Admin Support @ Facility
	0163 - DC-Counseling
	0164 - DC-Education
	0161 - DC-Food Service
	1060 - DC-New Bed Startup
	0162 - DC-Plant Operations & Maintenance
	0159 - DC-Security
0219 - Probation Supervision	
	0223 - PS-Community Service
	0224 - PS-Day Reporting Center
	0227 - PS-Family Violence
	0221 - PS-Field Supervision
	0222 - PS-Intensive Probation Supervision
	0220 - PS-Probation Operations
	0225 - PS-Savannah Impact
	0226 - PS-Victim's Services
0228 - State Prisons	
	0230 - SP-Admin Support @ Facilities
	0237 - SP-Chaplaincy
	0238 - SP-Counseling
	0242 - SP-Details
	0233 - SP-Diagnostics
	0236 - SP-Education
	0239 - SP-Fire Services
	0231 - SP-Food Service
	0241 - SP-Inmate Construction
	0235 - SP-Library
	0234 - SP-New Bed Start-up
	0232 - SP-Plant Operations and Maintenance
	0229 - SP-Security
0243 - Transition Centers	
	0245 - TC-Admin Support
	0250 - TC-Chaplaincy
	0249 - TC-Counseling
	1236 - TC-Details
	0248 - TC-Education
	0246 – TC-Food Service
	1064 - TC-New Bed Start-Up
	0247 - TC-Plant Operations and Maintenance
	0244 - TC-Security

Table 4 shows four examples which reflect different types of program structures.

Alternative 1: This is the current program structure and is primarily based on organizational "cost centers." As will be discussed in Chapter 4, there are some functional categories (food services and health) blended in with programs oriented around organizational arrangements.

Alternative 2: This model reflects a higher level of "aggregation" relative to the original model. (States with similar models include New Mexico and Texas.)

Alternative 3: This model takes the current "subprograms" and turns them into programs. In many cases, these subprograms are services that could easily be considered "systematic sets of activities undertaken to carry out an agency's core businesses." For instance, counseling, education, prison industries could be considered "programs" that contribute to rehabilitation of offenders. (States with similar models include Virginia and Pennsylvania.) Some of the programs might be considered "functional" such as "new bed start-up" or "plant operations and maintenance."

Alternative 4: This model is facility based and breaks up the current set of programs into each organizational unit responsible for administering the program. (States such as Iowa and South Carolina appropriate by facility.)

Each of these alternatives is mostly oriented around programs associated with a unique product, service, or outcome. In effect, they meet the main definition of a "program" described above. However, each has differences in the types of outcomes that are germane to the funding stream, each has different political and managerial implications, and each has different technical implications as well.

TABLE 4: VARIATIONS IN PROGRAM STRUCTURE

Alternative 1 (Actual)	Alternative 2	Alternative 3	Alternative 4
1308 - Administration	Administration	Administration	Administration
0173 - Offender Management	Offender Management	Inmate Classification	Offender Management
0211 - Bainbridge PSATC	Incarceration	Special Operations	Jail Subsidy
0165 - Food and Farm Operations		County Camps	Albany Transitional Center
0169 - Health		Chaplaincy	Arrendale State Prison
0178 - Parole Revocation Centers		Counseling	Atlanta Male Transitional Center
2002 - Private Prisons		Details	Augusta State Medical Prison
0228 - State Prisons		Diagnostics	Augusta Transitional Center
0243 - Transition Centers		Education	Autry Pre-Transitional Center
0199 - Probation Detention Centers		Fire Services	Autry State Prison
0158 - Probation Diversion Centers	Community Probation	Food Service	Baldwin Inmate Boot Camp
0219 - Probation Supervision		Prison Industries	Baldwin State Prison
0176 - Jail Subsidy	Jail Subsidy	Library	Bostick State Prison
		New Bed Start-up	Bulloch County Correctional Institution
		Plant Operations and Maintenance	Burrus Correctional Training Center
		Security	Burruss Inmate Boot Camp
		Community Service	Calhoun State Prison
		Day Reporting Center	Central State Hospital
		Family Violence	Central State Prison
		Field Supervision	Clarke County Correctional Institution
		Intensive Probation Supervision	Coastal State Prison
		Probation Operations	Coastal Transitional Center
		Victim's Services	Coffee Correctional Facility
		Jail Subsidy	Colquitt County Correctional Institution
			Coweta County Correctional Institution
			D. Ray James Correctional Facility
			Decatur County Correctional Institution
			Dodge Boot Camp
			Dodge State Prison
			Dooly State Prison
			Effingham County Correctional Institution
			Floyd County Correctional Institution
			Georgia State Prison
			Gwinnett County Correctional Institution
			Hall County Correctional Institution
			Hancock State Prison
			Harris County Correctional Institution
			Hays Inmate Boot Camp
			Hays State Prison
			Homerville State Prison
			Jefferson County Correctional Institution
			Johnson State Prison
			… (All Facilities)

Programs and Levels of Control and Accountability

The alternatives above reflect trade offs between *who* makes decisions about strategies to achieve long term outcomes *and which* outcomes are the focus of accountability in the budget process. The tension over strategic control is noted in other states such as New Mexico and Florida and is not one that is easily resolved (Florida Office of Program Policy Analysis and Government Accountability 1997).[19] In the FY 07 budget cycle and continuing in the FY 08 cycle, agencies and the executive are continuing to try to consolidate program structures, while the legislature is resisting. For instance, the Department of Human Resources, Division of Public Health had 30 programs in 2004. In 2006, they reduced their programs to 22. In 2007, they requested a further consolidation to 7 programs, and the legislature allowed a reduction to 12 programs. Other agencies are less publicly following suit.

Agency and Executive Preference for Large Programs

Agencies typically prefer Alternative 2 because they then have control over strategic choices (it also avoids technical and managerial problems). Alternative 2 is almost a lump sum budget and associates funding with "end-state" or "long term outcomes," such as reduced recidivism among the prisoner population. What is invisible in this sort of program structure is the management or policy strategies used to achieve this particular end. For instance under the incarceration program, does the Commissioner decide to focus on transition programs, substance abuse treatment, job training, or chaplaincy as a strategy for reducing recidivism? Such underlying "strategies" are associated "short term" or "intermediate outcomes" that lead to the end-state or longer term outcomes. Although presumably performance measures could be *reported* for these shorter term outcomes, based on this particular program structure, they would not be reported with their associated funding streams.

Designating programs at this large a scale also can give agencies and the executive leverage with the legislature. For instance, if the legislature were to cut a large program like "incarceration," they cannot control whether the agency might cut

[19] The agency preference for large programs is also described in interviews with New Mexico legislative budget staff.

prisons in a key legislator's home district or make cuts in politically popular programs.[20] The legislative intent behind a cut or increase in funding may also be lost. The legislature may want to reduce funding for education programs within the incarceration program—but because the cut is only reflected in the overall incarceration program, the legislature would have to request a performance audit to see if these activities were actually curtailed.

Legislative Preference for Small Programs

The legislature is likely to prefer a more discrete program structure which allows them strategic control either in a policy or political sense. At a policy level, Alternative 3 focuses on the Department's subprograms which roll up in to the larger programs described in Alternative 2. Legislative budgeting based on Alternative 3 would allow the legislators to influence the intermediate or short term strategies used to achieve a lower recidivism rate. For instance, it allows control over funding for substance abuse reduction programs, which relates to the intermediate outcome of reducing substance abuse among prisoners, which in turn relates to the longer term outcome of reducing recidivism. These outcomes are also much more likely to be measurable in a budget cycle and thus lend themselves to "informal oversight" through the legislative budget process.

From a political perspective, Alternatives 1, 3, or 4, allow the legislature to be much more targeted about the specific purposes associated with a fund cut or increase. Legislators are often very concerned about facilities in their districts and a cut to a lump sum "incarceration program" could fall anywhere. A cut to a private prison or detention center is likely to be a much more "controlled" cut, and to cut a specific prison (as might occur in Alternative 4) would be the most controlled of all. In a sense, a more discrete program structure allows the legislature to use programs to clarify legislative intent. In Georgia, this may be a particular temptation since legislators are barred from making explicit policy changes in the appropriations bill and only express intent through their "tracking documents." It may also be a

[20] Some of this played out in the FY07 debate over the Administrative Office of the Courts, where apparently, the legislature wanted to cut overhead, and the AOC threatened to cut judicial training. The legislature then moved funds for training to a separate training program.

temptation where the legislators do not trust the agencies or executive branches to adhere to legislative intent as expressed in the tracking documents.

Accountability for Results

Technically, as the legislature appropriates to more and more specific programs, they should assume more and more accountability for results. In Alternative 2, the Commissioner has flexibility to pick the strategies that would lead to good results for the prison system. So for instance, the Commissioner gets to allocate funds to the mix of substance abuse treatment, education, counseling, chaplaincy, etc. that he or she believes will lead to the best possible outcomes (typically improved prison safety and reductions in recidivism). In Alternative 3, however, the legislature would be allocating funds to the appropriate mix of strategies that they believed would lead to good outcomes, and in a sense, holding the agency accountable for intermediate and short term outcomes, while they take responsibility for the long term outcomes.

Control Orientations: Ex-Ante Control versus Ex-Post Control

Having the legislature intervene heavily, as would be the case in Alternative 3 or 4, is a legislative prerogative associated with the design of democratic government. These sorts of refined program structures are visible in states such as Pennsylvania. However, the legislature, particularly a part time one (Pennsylvania is a full time legislature), typically is not in a position to enforce effective day-to-day management of public funds. Locking agencies into funding levels at a high level of detail emphasizes control over flexible management. It might stop some poor management practices, limit agency choices, force the agencies to adopt legislative strategies, and prevent abuse, but it does not allow managers to adapt to changing circumstances, to implement policies effectively, or to innovate. For instance, to shift money out of a strategy that may not be working may take an entire budget cycle. The executive budget office might also adopt a control orientation with a similar effect although the time to transfer funds may be shorter.

In the public administration literature, flexibility and managerial discretion is associated with better and more innovative management practices (Wilson 1989; Rainey 1997) and is one of the fundamental tenets of performance based budgeting (Osborne and Gaebler 1992; Hatry 1999). It is also, of course, associated with corruption, waste, and mismanagement. The question is how to mediate between a control versus management orientation.

Ex Ante Control

Program and performance budgeting is intended to shift control legislative and to some degree executive control from “ex-ante” (or occurring prior to budget implementation) to “ex-post” (or occurring after budget implementation), with the idea that ex-post controls of audit and evaluation are more effective at mediating the control versus management dilemma than ex-ante controls. Ex ante controls, however, which are associated with extensive agency reporting requirements, are *cheaper* to implement (or at least the systems are already in place for their implementation). In the current budget framework, ex-ante control is represented by the transfer controls established by the legislature over programs and the transfer controls established by OPB over the object classes. Although the program controls may be new, the systems for ex ante oversight are already in place.

Ex Post Control

Ex-post controls are associated with audit and evaluation and require new investments in government operations. In an ex-post framework, managers have more discretion to move funds as needed, but will be held accountable through evaluation after implementation. An ex post framework requires some up front thought: programs must be appropriately defined and the state must have systems for accurately tracking funds by program without having to rely on ex ante controls to attain accurate numbers. Currently, agencies in Georgia indicate that they carefully track funds that are monitored by OPB, the legislature, and the auditor, but are less careful about funds that are not monitored. Control based on evaluation becomes expensive because it requires investment in accuracy and it requires an on-going investment in trained and trusted staff or contractors who can conduct appropriate evaluations.

Program Development for Evaluation and Transparency

Ex post controls rely on transparency and evaluation, which in turn require a program structure that is *defined* at a more discrete level and perhaps reported at a more discrete level, but is *not necessarily heavily controlled* (ex ante) at a more discrete level. Looking at the evaluations of the Department of Corrections conducted by Florida's Office of Program Policy Analysis and Governmental Accountability (OPPAGA), one of the more respected evaluation agencies in the country,[21] one can see that the evaluations occur at many different levels of the department (see Table 5). For instance OPPAGA evaluates the prison industries program, an "activity" in Georgia's budget, a demonstration project intended to reduce prostitution, and use of the motor vehicle fleet, an object class. In some earlier cases, not shown in the table, OPPAGA evaluated a specific prison or center.

Although not all of these evaluations involve funding, one can imagine evaluations assessing efficiency and levels of funding along all of these different budgetary dimensions. This suggests that a program structure appropriate to support evaluations may need to be flexible or one that can be sliced across different and at times overlapping dimensions. Given existing transfer controls in Georgia's budget, an evaluation-oriented program structure is likely to be too rigid to be appropriate for the current appropriations process.

There are some benefits to reporting programs in the appropriations bill, however. As noted earlier, reporting a program in an appropriations bill may improve the accuracy of reporting funding levels in each program. If programs are not carefully tracked or activities are not tracked at all, then the costs of evaluation (at least in terms of associating evaluation with spending) will rise. An evaluator is more likely to have to use cost allocation techniques to estimate the costs of the program.

[21] See Government Performance Project (2005a) Note not all evaluations relate to the budget per se, but these evaluations could be used for purposes of giving legislators budgetary advice.

TABLE 5: OPPAGA EVALUATIONS FOR DEPARTMENT OF CORRECTIONS 2003-2006

OPPAGA Report	Unit of Analysis	Current Status in Georgia Budget Designation: Program, Sub-Program, Object Class, Activity
Report No. 06-67 Progress Report: PRIDE Is Tightening Its Business Practices But Needs Greater Transparency (October 2006)	Prison Industries	Activity
Report No. 06-37 Several Deficiencies Hinder the Supervision of Offenders in the Community Corrections Program (April 2006)	Probation Supervision	Program
Report No. 06-15 Parole Commission Operations Consistent with Its Mission; Clemency Workload Needs to Be Addressed (February 2006)	Parole Supervision Clemency	Program (State Board of Pardons and Paroles)
Report No. 05-19 OPPAGA Report: Electronic Monitoring Should Be Better Targeted to the Most Dangerous Offenders (April 2005)	Electronic Monitoring	Activity (Department of Corrections) Sub-program (State Board of Pardons and Paroles)
Report No. 04-69 Information Brief: Correctional Substance Abuse Programs, While Few, Are Reasonably Efficient and Effective (October 2004)	Substance Abuse	Activity
Report No. 04-61 Progress Report: Inmate Health Care Consolidation Progressing; Privatization Requires Agency Vigilance (August 2004)	Health	Program
Report No. 04-60 Progress Report: Corrections Program Still Challenged by Inmate Idleness, Prison Planning, and Fleet Maintenance (August 2004)	State Prisons Motor Vehicles	Program Object Class
Report No. 04-59 Progress Report: Corrections Education and Rehabilitative Programs Significantly Reduced (August 2004)	Education	Sub-program
Report No. 04-58 Progress Report: More Efficient Use of Probation Officers and Prioritization of Victim Restitution Needed (August 2004)	Probation Services Victim Services	Program Sub-program
Report No. 04-50 Project HOPE Helped Break the Cycle of Prostitution and Solicitation, But Had Implementation Problems (August 2004)	HOPE Program	Not implemented in Georgia
Report No. 03-68 Special Report: PRIDE Benefits the State But Needs to Improve Transparency in Operations (December 2003)	Prison Industries	Activity

Source: OPPAGA Web Site: Office of Program Policy Analysis and Government Accountability. *Reports by Topic Area. Criminal and Juvenile Justice*: URL http://www. oppaga.state.fl.us/ reports/topic/crimetop.html [Accessed January 15, 2006].

Also, if the program is found to be not effective, then it will be more difficult to reallocate the resources to more effective strategies or to adjust the resources to improve effectiveness.

Informal Evaluation and Transparency

Reporting programs in the appropriations bills allows a type of "eyeball" evaluation, where legislators and other external constituencies can place performance measures next to a revenue stream and assess progress towards an outcome. This sort of visibility means that a program is not "out of sight out of mind" as was often the problem with the previous line item budgets.

A program structure that provides a platform for evaluation and transparency requires a variety of elements:

1) tracking at a high level of refinement.

2) accuracy in tracking programs.

3) visibility in documents available to the legislators and the public.

Again, an evaluation oriented program structure does not necessarily require the types of transfer controls seen in Georgia's budget. The transfer controls become important only in so far as they ensure accuracy. Further, it may be useful to report programs in the budget, but only because this is a publicly available document (unlike BudgetNet currently). If the state wants to shift to an ex post control model—as suggested by a program based performance oriented model and avoid the conflicts associated with ex ante control, then it may want to look for ways to improve accuracy and reporting without the burden of the transfer controls associated with reporting a program in the budget document. Also, as noted earlier, an ex post system requires capacity to evaluate. A legislature may be hesitant to give up ex ante control over programs if it does not have ex post capacity to evaluate based on a trusted source of information.

IV. Technical Challenges in Implementing a Program Structure

All of the previous policy, control, and evaluation criteria also have to be reconciled with technical challenges associated with defining programs. In fact, when Georgia's agencies designed their program structure, most were more concerned about these technical problems than performance measures or strategic planning. These problems are fundamentally related to synchronizing the program structure with existing accounting structures and organizational arrangements. Most agencies attempted to avoid creating "new programs," or in other words, they tried to create programs that rested on existing accounting categories. In almost all cases where agencies created "new programs," it was at the behest of the legislature. The fundamental technical challenge in developing programs is figuring out how much an agency actually spends on a particular public purpose. Where the legislature requires the program to account for revenues— a further technical challenge becomes tracking the revenues by program.

Accounting Problems: The Structure of Expenditure and Revenue Allocation

Prior to program budgeting, most agencies "accounted for" expenditures based on object class, cost center (organizational unit), and typically some mix of functional classifications which varied widely. For the Department of Corrections, functional classifications included administration, health, counseling, inmate education, etc. For agencies such as the Department of Human Resources, functional classifications included "mini-programs"—such as suicide prevention, tobacco use reduction, and restaurant inspections. Agencies such as DHR and DCH also had to mesh the state accounting structure with federal funding requirements (such as Medicaid classifications which provided the structure for the federal Medicaid reimbursement rates).

In constructing programs, it is helpful to visualize the process within the organization through which expenditures are classified. In large state agencies, there may be administrators throughout the agency accounting for expenditures. For every expenditure item, administrators have to assign an account code which determines how the expenditure will be classified—by object class, by organization, by function, by fund source, at times by revenue source, and now by program.

These classifications can be thought of as a multidimensional matrix. As an example, prior to the advent of program budgeting, the Department of Corrections had expenditure categories by object class, cost center (typically a facility), and by functional codes. A very simplified version of a matrix for a *single* state prison might look as follows:

TABLE 6: MATRIX OF EXPENDITURE ACCOUNTS FOR A STATE PRISON

	------Functional Class------							
Object Class	**Admin.**	**Chaplaincy**	**Counseling**	**Education**	**Food Service**	**Library**	**Plant Operations and Maintenance**	**Security**
Personal Services	$							
Regular Operating Expenses								
Travel								
Motor Vehicle Purchases								
Equipment								
Computer Charges								
Real Estate Rentals								
Telecomm.								
Per Diem and Fees								
Capital Outlay								
Contracts								
Utilities								

This is a "simple" matrix because in reality there are hundreds of codes and sub-codes for object classes. Administrators at each state prison (or each facility) keep track of how much money they have as well as how money is being spent using the same matrix. At any point in time budget officers in the main office should be able to pull up all the funds that are classified under the common object class codes, the functional codes, *or* by organization. The matrix will also have another dimension that includes revenues with a particular emphasis on restricted revenues such as federal funds that go to support operations.

Most agencies' program structures aligned program designations with combinations of existing functional or organizational accounting classifications in order to keep the accounting process simple. In a system that follows existing classifications, lower level administrators do not have to make choices about programs, they have a single program code because the "program designation" is a roll up of multiple cost centers or functional categories.

As shown in Table 7, the Department of Corrections provides an example of an organizational "roll up." In creating programs, the Department mostly was guided by facility or cost centers. So for instance, administrators responsible for expenses within a state prison only have to add one program code – they are not dividing their activities between multiple programs. They can continue on more or less as previously and for the most part their program code is simply associated with their overall organizational codes (or "cost center") since all of the prisons and the associated prison expenditures roll up into the state prisons program. Incidentally, the subprograms (see Figure 3) are the previous functional codes with which administrators are already familiar. The Department of Corrections, presumably with the same ease, could have created "programs" based on these functional classifications as well.

TABLE 7: DEPARTMENT OF CORRECTIONS PROGRAM STRUCTURE

State Prisons	Based on facilities
Probation Supervision	Based on probation offices which are organized by judicial circuits
Offender Management	Several cost centers are rolled up into this program, including offender classification, special operations, and county camps
Jail Subsidy	Previously an object class; broken out by the legislature from the offender management program
Private Prisons	Based on contracts for facilities
Transition Centers	Based on facilities
Probation Detention Centers	Based on facilities
Parole Revocation Centers	Based on facilities
Probation Diversion Centers	Based on facilities
Bainbridge PSATC	Based on facilities
Health	Technically a functional code, but state has several discreet contracts with private organizations to provide health care, mental health care and dental care to the prison system
Food and Farm Operations	Technically a functional code and the one program where operations cut across organizational boundaries. This program captures central administration and the costs of purchasing food produced at different prisons.

Most agencies built their initial programs on existing functional or organizational codes. Keeping the underlying structure the same has the following advantages:

1) Agencies avoid having to work through new cost allocation systems.

2) The agency will be able to generate historical information on expenditures by a variety of public purposes.

3) Staff throughout the organization do not have to be significantly retrained.

4) Less potential for error or "gaming the system" by misclassification of expenditures.

The Dilemmas of Creating New Programs

Consider for instance if a policymaker asked the Department of Corrections to create a boot camp "program." Some state prisons run a "boot camp" program that is integrated into their daily operations and there might be good policy reasons to understand whether or not this program is a cost effective strategy for managing the prison population. However, if told to create a boot camp program, the Department would have to make a number of changes:

1) *Cost Allocation:* The agency will have to come up with methods to assign expenditures and revenues to the new program. In effect, some decision rule would have to be adopted to break out all of the various boxes in Table 7 between the old state prisons program and the new boot camp program. There are a variety of techniques for assigning costs some involve breaking up each object class by program use or random moments surveys. Typically, however, agencies will use rough estimates; for instance, an agency might assign staff and all the associated costs of that staff member to a particular program. Even these rough estimates, however, can be complicated. Agencies prefer to develop a cost center when a new program is created and funded through law rather than to go back and have to break out costs after the fact.

   Cost Allocation Assumptions: One danger in cost allocation is making assumptions that bias funding levels towards one program or another. For instance, in talking with agencies, several assigned office space to only one program (usually the program that uses the most office space), even though a space may house several programs. Although such decision-rules are much easier to administer than actually splitting the cost for the space among several programs, consistently assigning these expenditures to one program rather than another (for instance the "administration program") can inflate the overall budget for that program, and in general, means that the state still does not truly know how much is being spent on a particular public service.

Cost Allocation and Federal Funds: Some federal grants require the state agencies to develop cost allocation plans to ensure appropriate charges for overhead and agency services. As new programs are added or there are changes in cost allocation for state funds, this may trigger a need to recalculate cost allocation plans at the federal level as well. For instance, if a program is added to an agency and the federal government stipulates that it will only pay its proportionate fair share of overhead, then that new state program will have to be charged a percentage of agency overhead and the federally reimbursed percentage of overhead will decrease.

2) *Lack of Historical Data:* The larger and more complex these estimates and assumptions are, the more likely the agency is to misestimate the costs when making budget requests because they do not have historical information about how the money was expended.

3) *Training and Changing Organizational Practices:* Staff in the organization would have to be trained about which expenditures should be billed to the boot camp program. Such a classification might require changes in organizational practices. For instance, security personnel may need to keep time sheets to show which fraction of their time (and thus salary) should be allocated to the boot camp program and which to general security services in the state prison. These changes in accounting and organizational practice would have to cut across every state prison that had the program.

4) *Misclassification:* One of the dangers of program budgeting that may become especially acute when new programs cut across historical accounting categories is that staff at different levels of the organization begin to accidentally or purposefully "game the system." Imagine that the Department of Corrections created the boot camp program but overestimated the costs perhaps by assigning too much for regular operating expenses to the boot camp program. If an administrator at the facility found that there was a surplus in the boot camp program but a deficit in the prison as a whole, it would not be hard to reason that the activities of the two programs are closely intertwined, and thus, to start paying for more expenditures such out of the boot camp program.

Misallocation of funds to programs are likely to be a problem if the agency has 1) new programs and no historical precedent of how to allocate costs to the new program; 2) agency staff were previously careless about assigning costs to the cost *center or functional classes upon which their current programs are based; or 3) program expenditures or revenues are consistently difficult to predict.*

The first two are technical problems that can be worked out over time, but in the interim it can be very time consuming for agencies and put them at risk for audit exceptions (when auditors' find that funds were improperly accounted for) or for violations of state law. The third problem is "systemic" and suggests that the program definitions themselves need to be restructured to accommodate the practical realities of a particular public service.

Although the example above is hypothetical, there are real problems experienced by agencies as they attempt to sort through their program structures. Examples include:

- *The Department of Transportation:* Previous accounting categories were by project, function, and object class. Now staff serving similar functions, such as planning and design, are split between programs such as Local Road Assistance Program and State Highway Construction and Improvement. The Department has solved the cost accounting problem by fully allocating staff to one program or the other (even though on occasion, a local planner will do state work and vice versa). Office space is tied to the FTEs. IT is in administration and so forth.

- *The Department of Community Health*: Previous accounting categories allowed Medicaid payments to be rolled up under a single object class and functional class category. This large lump sum was divided into activities in the agency accounting systems based on services provided and in alignment with federal expense classifications for reimbursement. With program budgeting, the legislature split the Medicaid program into two programs—Medicaid Aged, Blind, and Disabled (ABD) and Low Income Medicaid (LIM) programs. Now every service provided must also be allocated to one of the two Medicaid programs depending on the type of client served. What this requires is a change in coding for services. Some services such as nursing home care can generally be coded under the ABD program; other services such as physician primary care has to be divided based on the client. The agency does not have historical information related to how these funds were previously classified.

- *The State Board of Pardons and Paroles:* Previous accounting categories were by object class and cost center. Field offices must now account for staff and related expenses that are in the Clemency program versus the Parole Supervision Program (as well as a variety of subprograms). Similar to the Department of Transportation, this also requires cost allocation rules to account for office space, equipment, etc.

Clarity of Program Definitions

A closely related issue is the clarity of program definitions. Previously, with the use of object classes, agencies, the State Auditor, OPB, and the legislature could be very consistent across agencies about how to classify expenditures. With programs, every agency is now different. If the agency is using "roll ups" of previous classifications, there is more likely to be a precedent and common set of understandings throughout the agency of how to determine what goes into which program. However, again with new programs, there will be issues of classifying expenditures to programs. The more disaggregated the program structure and the less institutional history there is, the more complex the problem.

Major issues with respect to the program definition include:

- Clarification of cost accounting procedures between programs where necessary.
- Clarification through agreement and discussion with agencies about which expenditures are appropriately classified in a particular program.

Defining Administration

One area where program definitions are a problem across agencies is in the definition of administration. Agency staff identified a number of considerations in the definition of administration—some of which may be cause for considerable concern among policymakers.

- Some agencies indicate that they use administration program funds to give themselves flexibility across programs. Since there is no clear definition of administration, many kinds of expenditures can be technically classified as "administrative." This tactic is being used to shore up program shortfalls.
- Some agencies indicate that because legislators like to "cut" administrative funds, they are making a concentrated effort to cost allocate all funds possible to programs.
- Other agencies, in the name of being "transparent," are allocating all programmatic administrative functions to the administration program.

In the original budget instructions, administration is not considered to be a program. According to the state's strategic planning instructions: "activities that are solely management or administrative (e.g., budgeting, human resource management, and data management) are not directly related to changes in the agency's customers and, thus, are not considered programs." (Governor's Office of Planning and Budget, Georgia Merit System, and Georgia Technology Authority [2004], p.16) Technically, best practices in cost accounting require all funds to be distributed to a program since administration is just "overhead." (Michel 2004) *At a minimum, consistency in allocating as many direct costs as possible to a program is important if programs are intended to accurately reflect actual costs of providing a particular public service.*

Organizational/Structural Considerations

Programs not only create management dilemmas if they cut across accounting lines but they can also create dilemmas as they cut across organizational lines. At the most basic level, new programs within an organization can require administrative staff to be trained in new ways to account for expenditures. However, there are also more serious dilemmas associated with program budgeting and the way the program structure interacts with organizational considerations. Some selected examples follow:

- *The Department of Human Resources, Division of Public Health:* Prior to program budgeting, the Division of Public Health (DPH) allocated around $65 million to local public health offices and to public health districts based on a formula. This "grant-in-aid" program was used for a variety of public health activities—for instance, epidemiology, refugee health, and cancer screening, etc. The agency gave localities significant flexibility to use the funds for purposes as needed and further to account for the funds using their own system. At the end of the year, the agency conducted a random moment survey (RMS) and used this to account for how funds were spent.

  Program budgeting caused the local grant-in-aid formula funds to be split across nine of the twelve DPH programs, but the administration of grant-in-aid funds has not shifted to reflect the change in philosophy. In effect, the Department of Public Health pulls funds out of the nine programs based on the previous year's expenditures and allocates them to localities as through the grant-in-aid formula. The local offices proceed to spend the money without reference to the program designations. At the end of the year, using the random moments survey, the agency then re-spreads the funds across the programs based on how the local entities actually spent the funds.

This method requires the agency to return to Fiscal Affairs prior to the end of the fiscal year to ensure that the budgeted amounts for each program align with actual expenditures. This sort of organization means that program allocations do not drive state priorities; rather the local entities choose the priorities and then the funds are retrofit back into the program categories. On the one hand, the state does account for how much was spent on selected public priorities as described by the programs. On the other, the actual allocations to the programs does not necessarily correspond with the priorities that are funded. Table 8 shows the anticipated spread of the local grant in aid (GIA) funds through the public health budget.

TABLE 8: DISTRIBUTION OF LOCAL GRANT IN AID (GIA) "FORMULA" GRANT IN PROGRAMS

New Program	Total Budget	Local GIA
Adolescent & Adult Health Promotion	$48,538,817	$12,967,693
Adult Essential Health Services	$14,627,430	$6,734,563
Emergency Preparedness & Response	$6,989,265	$1,866,932
Epidemiology	$5,538,665	$1,004,518
Immunization	$17,982,978	$7,660,179
Infant & Child Essential Health Services	$44,873,323	$8,374,928
Infant & Child Health Promotion	$108,203,999	$7,212,223
Infectious Disease Control	$46,185,547	$8,011,465
Injury Prevention & Control	$539,398	$0
Inspections & Environmental Hazard Control	$14,955,915	$11,900,473
Vital Records	$2,496,867	$0
Public Health Administration	$18,782,210	$0
Total Base Budget	$329,714,414	$65,732,974

Were the localities to actually be restricted by the program designations as they currently stand, there might be a problem of having programs (and particularly subprograms) with amounts too small to be of use to localities, and further, these splits would likely create serious problems of cost allocation at the local level. These sorts of program restrictions would also mean that localities could no longer allocate funds to meet local needs. For instance, public health offices in rural areas need to spend money on immunizations, while those in urban areas will find that most of the immunizations are administered through private providers.

Although a program structure *can* be designed to overcome these dilemmas, the program structure as it currently stands does not mesh well with the devolution of funds to the local level.

- *Department of Juvenile Justice:* Another dilemma raised by the Department of Juvenile Justice as well as several other agencies (in different contexts, such as the need to mask over-inflated federal funds appropriated to a program) is the need for the central office to hold money in reserve in order to make up for overspending by field offices or other cost centers.

If an agency chooses to devolve programmatic control to the local level, then they need to think carefully about how to manage agency-wide financing. Program managers at lower levels of an organization may have an incentive to spend all their money and force liabilities to the larger agency level.

DJJ along with several other agencies as well as OPB noted that for management purposes, object classes are useful in identifying where shortfalls are occurring and to generally diagnose input problems throughout the agency.

- *Fragmentation and Pockets of Funding:* Until agencies become more adept at predicting amounts required in programs, programs can have the effect of creating "pockets" of funding that cannot be spent. A more serious problem associated with having many programs is fracturing funding streams as the funds are "devolved" down through the organizational structure, such as regional or local offices. For instance, if transfer controls were put on the Department of Corrections subprograms (which are equivalent to its functional categories such as counseling, chaplaincy, education, etc.), then the agency would not only be constrained by the existing organizational arrangements but would be constrained by very small amounts of money allocated across many of the activities internal to each prison (see Tables 3 and 4).

  Similar fragmenting might happen with the Division of Public Health, which sends money to the local and regional public health offices, if it were to actually constrain the local offices by the program categories (see Table 8) rather than "retrofitting" local assistance grants to programmatic categories as described above.

Volatility in Population and Revenues

The following section lists concerns raised by agencies about the difficulties predicting the need for expenditures within a particular program category. Over time, most of these estimates should become more stable and more predictable; however, during the initial creation of programs agencies may have to guess. Most states tend to underestimate federal funds as a way of being conservative about revenues available to the state; however, as shown earlier, the magnitude of these underestimates vary across states.

Considerations include:

1) Difficulty in accurately projecting service demand or in projecting federal or other revenues anticipated to cover program expenditures.

2) Requirements for immediate payment may lead to agency problems of overspending in a particular program and then retroactively requesting program shifts to reflect actual expenditures (and the uncertainty that comes from submitting this to a political process after the decision has actually been made).

These considerations are affected by:

- *Frequency of Crisis:* An issue raised in conjunction with the Public Health Division budget is the need to reallocate funds in response to a public health crisis. The division noted that something as simple as discovering a person with active tuberculosis can cause all public health resources in a jurisdiction to be diverted to identifying and notifying people who have come into contact with that person. Similarly, major crises such as Hurricane Katrina caused a diversion of funds into emergency health services, crossing program categories.

- *Shifts in Service Demand:* Some agencies such as the Department of Corrections, Department of Community Health and Department of Human Resources expressed concern about the difficulty of projecting "population demand" for particular services. The Department of Corrections is influenced by the crime rate, the propensity of judges to make different kinds of sentences, and legislation influencing placement of offenders. Program budgeting requires more accurate projections about how trends and legislation will influence not just overall agency budgets but the very specific programs affected.

  Similarly, mental health programs with the Department of Human Resources are influenced by federal legal requirements for the state to transition from mental health hospitals to community based care – each of which are separate programs. Accurately projecting how this transition will affect each program's budget can be complex. First, the agency may need to project how rapidly patients will transition from one program to the next. Second, they have to predict how this will affect costs. These transitions cannot simply be calculated on a "cost per patient" basis. For instance, hospitals tend to have high fixed costs (for instance, all the costs of keeping the infrastructure running), which of course do not vary on a per patient basis.

- *Federal Reimbursements:* Population demand may also interact with federal regulations. The Department of Human Resources and Department of Community Health use state Medicaid funds to meet initial service demands. Although these funds are matched at the federal level, these agencies are not immediately reimbursed by the federal government which means that they may have to shift state funds across program categories to pay for services and then reimburse back into programs through federal funds. Thus, not only may population demand vary from year to year and thus influence demand for particular programmatic services, but also keeping track of the "loans" made across programs creates a level of complexity that did not exist prior to program budgeting.

Complications with Federal or "Other" Funds

Although not mentioned by agencies as a specific problem to date (and certainly something that they are unlikely to reveal), complications can occur with federal funds which need to be considered when designating a program structure—particular if policymakers external to the agency want a hand in the allocation of federal funds. Specifically, federal funds come with legal restrictions such as "supplement not supplant" requirements or they may be associated with certain fund maximization efforts (such as Medicaid programs). Programs have to align with federal funds so that the agencies do not end up in violation of federal requirements—for instance, if state general funds are removed from a program and federal funds are used instead of state funds, the agency may end up appearing to "supplant" state funds with federal funds within a program.

Another major concern could be if federal funding streams cut across program categories and create another tier of problems with the classification of funds. Some agencies end up keeping one set of books for the federal government and another for the state.

Finally, federal programs may have requirements about the distribution of overhead for federal reimbursement purposes. Although it does not initially appear to be a major complication for agencies, agencies often have to allocate overhead based on their federal agreements and there could be potential complications when they have to "back out" these federal funds into their state "administration" program.

Making a Program Out of a Fund Source

Several staff interviewed expressed concern that fund sources, such as Temporary Assistance for Needy Families, the Solid Waste Trust Fund, and the Hazardous Waste Trust Fund are not programs but fund sources. The legislative staff made these into programs with the argument that this would enforce more accountability in how the funds are spent.

Technical Problems and the Agency Preference for Large Programs

Agencies prefer large programs, and associated flexibility, for management purposes and strategic purposes. However, agencies *also* prefer flexibility and larger programs because it helps them avoid many of these technical and organizational challenges. Larger programs mean that agencies face less complexity in assigning expenditures and revenues to programs or in transferring funds between different public purposes or activities. They do not have to conduct complex cost allocation procedures, or worry about different levels of the organization misallocating expenditures. They are less likely to face audit risks, and they have more ability to adapt to changing circumstances and emergencies. This agency preference for large programs is related to concerns over complexity, flexibility, and (likely) transparency each of which can be addressed with different structures:

- *Complexity:* Agencies prefer large programs in part because they reduce the complexity of accounting and budgeting and reduce the potential for audit risk in appropriately assigning expenditures and revenues to the correct programs. Although agencies can adjust to some of these problems over time, complexity itself can only be solved through larger programs and a program structure that is not highly refined.

- *Flexibility:* Some of this preference for large programs is really about the flexibility to move funds to respond to changing circumstances. Addressing these issues can be solved through reducing transfer controls or the various requirements that the agency solicit approval from OPB or the legislature prior to moving money. In theory, agencies could have a highly refined program structure, with significant flexibility—in keeping with an ex post control scenario. Complexity would still be a concern.

- *Transparency:* Agencies may be reluctant to reveal their internal operations and decision-making. For instance, some agencies express concern that if they shift funds between programs, it will be interpreted by the Governor or legislature as "excess funds." Addressing this concern can be solved through large programs that mask internal operations; however, this approach can also undermine accountability. Rather than creating lump sum programs, a better solution would be increased legislative and executive branch sensitivity to the problems of management and the need to adapt to changing circumstances or to simply correct mistakes that occur in any large organization.

V. Considerations in Building a Program Structure

In summary, considerations in program designation are:

1) The association of a discrete set of activities with a discrete product, service, or outcome.

2) Balancing between legislative and executive control and managerial flexibility (associated with *who* should be held accountable for making the strategic choices that lead to a particular outcome and what level of outcomes the executive and legislature want to associate with funding).

3) Providing a platform for evaluation and transparency for public purposes – in particular the association of funding with outcomes.

4) Avoiding technical, managerial, and organizational costs.

Part of the dilemma of program budgeting in Georgia rests on competing pressures for a highly aggregated program structure versus a highly disaggregated program structure, and part of the dilemma rests on the interaction of a "program" designation in the appropriations bill with the legal restrictions on the transfer of funds. Key elements of this control framework in its current form in Georgia include:

- A 2 percent restriction on transfer of funds from object class to program designation and the addition of a $250,000 restriction on transfer of funds (in FY06 and FY07, the restriction is 2 percent or $250,000, whichever is less except for Medicaid).

- Inter-program transfers require approval from both OPB and the Fiscal Affairs Committee. Although OPB is available year round, Fiscal Affairs only meets occasionally (typically once or twice a year).

- Agencies are audited not to the object class accounts but to the programs. Being significantly off in program designations can cause an "audit exception."

- Although the transition to program budgeting has removed some of the legal requirements associated with object classes, OPB continues to monitor and (at least informally) approve transfers of funds between object class and/or program or subprogram classification.

These controls create "friction" for agencies when they try to move funds between programs and are the basis for the legal worries about appropriately allocating expenditures and revenues to the correct program. The more disaggregated the program structure, the more problematic this friction becomes. However, the more disaggregated the program structure, the more control the legislature has over various strategic policy decisions about how to achieve certain outcomes and the more useful the program definitions become for evaluation purposes and for providing a clear picture of agency priorities and operations to those external to the agency or executive branch (transparency). There are several ways that the state might want to consider adjusting its program structure and related controls to better mediate between these competing tensions.

Analysis and Considerations

Building a Versatile Program Structure

First, it is helpful to separate considerations of reporting, transparency, and evaluation from considerations about control. In theory, a number of types of activities, programs and subprograms can be tracked, reported, evaluated and made more transparent without having to control at a highly specific level. It should also be possible to track funds to accommodate a variety of legislative concerns including tracking funds by population, region, county, etc. Such a program structure would lay a foundation for evaluation of a variety of activities and if reported in places that were readily visible to the legislature and public, would improve transparency.

The most important item would be to build a system that is supple and where everyone can agree over the long term on a set of expenditure (and revenue) tracking categories that will be important over time and that can be coherently meshed with the agency organization and managerial capacity. Setting such a foundation would also hopefully avoid future problems with the creation of new programs that cut across existing accounting structures, although agencies may still have problems with complexity and the legislature might still have problems trusting accuracy if transfer controls are not attached.

Adjusting Transfer Controls

Second, given this accounting structure, policymakers can set up a hierarchy of control. Table 9 represents the structure of control as it currently stands—however, any box in this matrix can be manipulated through changing the legal requirements, executive directives, or dialogue with the agencies. For instance:

- Policymakers may want high agency flexibility but also high transparency—then it is simply a matter of systematically reporting expenditures on key "activities," "programs" or "subprograms," but not locking the agencies down into expenditure categories (or giving higher levels of flexibility) or requiring regular reporting of fund transfers.

- The 2 percent or $250,000 transfer control could obviously be adjusted across a number of dimensions—attaching 2 percent where the legislature wants significant control and allowing 5 percent or more where there is a need or desire for more flexibility.

- If the legislature or executive choose to designate a program in the budget bill where the agency indicates that there will be problems with cost allocation, difficulty in predicting expenditure levels, or volatility in revenue/population then the legislature and executive might 1) allow a period of phase in to watch the expenditures to see if there are trends prior to designating the program in the budget bill or 2) designate the program but give the agency more flexibility in moving funds between selected program categories.

Adjusting Processes Governing Transfers

- Right now OPB tracks both object class, program and subprogram and requires notification prior to any change across these categories—this system could be altered to streamline approval requirements, allowing notification rather than approval in some cases or adjusting the time periods for notification.

- The legislature could adjust the rules for the Fiscal Affairs Committee, meeting more often or delegating authority to staff to approve certain transfers. Alternatively, OPB could notify the legislature of transfers and then the legislature would have a certain number of days to object—otherwise the transfer would be considered approved.

Shifting to Ex Post Control

Another option is to shift more heavily to a system of evaluation and ex post legislative oversight and control. In Virginia's recent reform, the legislature budgets to programs at a high level, but reports a fairly disaggregated set of subprograms in

TABLE 9: CONSIDERATIONS IN PROGRAM DESIGNATION

Levels of Program Definition	Transparency	Management Discretion/ Flexibility	Accuracy (related to cost of Evaluation)	Legal or Audit Liability	Control over Strategy/ Priorities	Considerations
Non-Tracked Activities (Program-like activities that are not tracked in the accounting system)	Low	High	Low – no account codes; funds are not tracked to the purpose; requires estimate to determine costs	Low	Agency	• Expenditures that are not likely to be subject to evaluation • Agreement that this is entirely a strategy under the control of agency management • Authorization language provides sufficient control; efficiency not a major consideration • Cost allocation problems too high to make tracking worthwhile • Desire to reduce complexity of accounting system
Tracked Activities (Program-like activities not reported systematically but tracked in the accounting structure; these may also include "functional areas" such as support services) *Agencies report expenditures (may also include revenues) for "activities" upon request*	Low – contingent on request	High	Moderate – not audited but tracked internal to agency	Low	Agency	• Expenditures for public purposes that are small (relative to overall budget) • Activities of only intermittent political interest • High levels of executive and legislative confidence in agency responsiveness to or congruence with executive or legislative intent • Authorization language provides control but may want capacity for intermittent evaluations of efficiency
Sub-Programs (Reported but unrestricted Programs) *Subprograms are not formally designated in the appropriations bill, but are reported in BudgetNet. OPB reviews all transfers between subprograms.*	Moderate – currently requires access to BudgetNet	Moderate –	Moderate – tracked by OPB and agency but not audited amounts	Low	Agency/ Governor - OPB can deny approval to move funds	• Activities that might ideally be an appropriated program but there is significant difficulty with o cost allocation or o volatility in revenue availability or volatility in population demand (and thus agencies need to move funds rapidly) • Expenditures for public purposes that make up component parts of program • High level of legislative confidence in executive/agency responsiveness to or congruence with legislative intent
Appropriated Programs *Expenditures pools are locked into 2% limit (or $250,000 ceiling); audit is at the program level. Moving funds requires both OPB and Fiscal Affairs approval.*	High – reported in Governor's report and appropriations bill	Low	High – tracked by OPB, agency and legislature, audited to program	High – particularly with new programs and/or when high level cost allocation required	Governor/ Legislature	• Major areas of public purpose • Areas where there is a need for increased monitoring or accountability for expenditures associated with a particular public purpose • Areas where demand for high level of accuracy in expenditure classifications • Legislative or executive desire to communicate clear priorities and to control agency strategies for attaining long term outcomes • Lack of legislative/executive confidence in agency responsiveness to or congruence with legislative/executive intent

its appropriations bill (in keeping with ideas about transparency and units of evaluation). For instance the Department of Corrections has four programs for appropriations purposes: Supervision of Offenders and Re-Entry Services, Operation of State Residential Community Correctional Facilities, Operation of Secure Correctional Facilities, and Administrative and Support Services. For informational purposes, however, the appropriations bill reports a total of 27 subprograms.

The Auditor of Public Accounts reviews levels of spending in the different programs or service areas every couple years (presumably improving accuracy), and the Virginia legislature has one of the most respected evaluation and performance audit agencies in the country, the Joint Legislative Audit and Review Commission (Government Performance Project 2005b). The legislature relies on this agency to evaluate executive transfers to ensure compliance with legislative intent as well as to assess overall agency performance and operations (creating the initial conditions for ex post control). The legislature also has significant flexibility to make specific requests of agencies within the appropriations bill, something that the Georgia legislature may not be able to do.

The executive Department of Planning and Budget (DPB) currently is given significant flexibility to move funds as long as it is in keeping with legislative intent. Transfers of over 10 percent between categories are generally thought to trigger legislative concerns. DPB provides significant oversight of agency transfers between programs, subprograms, fund sources, years, agencies, etc. to insure that the agencies are not overspending and are complying with legislative intent. They do very little oversight of object class transfers although agencies track these.

Although this report does not presume to assess how effective Virginia's system is in its application, the state does consistently receive grades of "A" from the Government Performance Project for its financial management and performance management systems. Further, on the surface at least, the systems appear to be useful in mediating executive-legislative tension and providing a system of oversight and control that is compatible with managerial flexibility and discretion.

Appendix

Virginia

1) Does this state budget at the program level? At what level do they appropriate funds?

In the FY2007-08 biannual budget, the state budgeted at the program level, but reported funding levels for "service areas" in the appropriations bill as well. For instance, the Department of Corrections has five principle programs: Supervision of Offenders and Re-entry Services, Financial Assistance for Confinement of Inmates in Local and Regional Facilities, Operation of State Residential Community Correctional Facilities, Operation of Secure Correctional Facilities, and Administrative and Support Services. Under the program Operation of Secure Correctional Facilities, there are "service areas," Virginia's term for "subprograms" such as Supervision and Management of Inmates, Rehabilitation and Treatment Services, Prison Management, Food Services, Agribusiness, Medical and Clinical Services, Correctional Enterprises, and Physical Plant Services.

These areas are further divided by object class, but object classes are only tracked and reported by the agencies, they are not reported in the appropriations bill. Legislative staff also report that they collect data about other budgetary breakdowns—such as the budget "per prison" or data on object class expenditures. These numbers are submitted to the legislature at the end of the fiscal year and by request.

2) How does the state define "what is a program?"

Virginia has "service areas" which are similar to subprograms in Georgia, these are defined as "areas of expenditure that support one or more products or services." (Virginia Department of Planning and Budget 2005). These "roll up" into programs, which are products ("items produced by the agency") or services ("an action that the agency takes to fulfill its mission") (Virginia Department of Planning and Budget 2005a).[22]

[22] In another area, the State gives more detailed definitions. A product is "an item an agency produces (i.e., the tangible output of a process) to meet the needs or demands of its customers and to fulfill its mission." A service is a distinct endeavor than an agency undertakes to meet the needs or demands of its customers and fulfill its mission. A service can result form action taken by a single service area or multiple service areas. The service can impact individuals, groups of individuals, organizations, or organizational units both internal and external. An examination of an internal service may be the information-technology support to the business units of the organization. An example of an external service may be a service supplied to a citizen or another part of government such as state or local agencies that receive financial support." A service area is an "area of expenditure that supports one or more products or services. A service area can cut across more than one organizational unit." (Virginia Department of Planning and Budget 2005, pp. 44-45)

3) What was the process that the State used to determine program structure? In particular, how did the state coordinate between the agencies, executive budget office and legislative budget staff?

The state has had a program structure dating back to 1980. In 1995-96, the state implemented a strategic planning and performance management system. In July of 2003, the legislature passed the "Roadmap for Virginia's Future," which authorized the Governor's Council for Virginia's Future to overhaul the state's strategic management and performance budgeting system. Based on the Council's overall objectives and process design, the Governor's Department of Planning and Budgeting worked with the agencies to revise their current program structure. This restructuring involved consolidating some existing programs or resorting them into programs and service areas, organizing programs to better align with organizational arrangements, and aligning programs and service areas to feed into a strategic planning. Each program is linked to a "goal" and each service area is linked to an objective that is intended to assist the department in reaching its programmatic goals. (Virginia Department of Planning and Budget 2005a) (Janak 2005) The legislature was advised about these changes but was not heavily involved (Hickman 2007). This process was fully implemented in the 2006-2008 biannual budget.

4) What are the restrictions imposed on agencies in terms of moving funds between departments/programs and/or line items?

The Virginia legislature allows the Director of the Department of Planning and Budget (an executive branch agency) significant authority to oversee and permit fund transfers within agencies as long as the transfers support program purposes approved by the General Assembly.

> "During any fiscal year, the Director, Department of Planning and Budget, may transfer appropriation authority within an agency to effect proper accounting between fund sources and to effect program purposes approved by the General Assembly, unless specifically provided otherwise in this act or as specified in the Code of Virginia. However, appropriation authority for local aid programs and aid to individuals, with the exception of student financial aid, shall not be transferred elsewhere without advance notice to the Chairmen of the House Appropriations and Senate Finance Committees. Further, any transfers between capital projects shall be made only to realize efficiencies or provide for cost overruns unrelated to changes in size or scope." *(Virginia appropriations bill for FY 2007-08: http://leg1.state.va.us/062/bud/chapter3.pdf, p. 544)*

However, according to executive staff, the Joint Legislative Audit and Review Commission will at times critique DPB for permitting transfers that are too large or do not appear to be in keeping with program purposes.

In the appropriations bill, language also specifies the circumstances under which DPB can approve transfer of funds across agencies and even between years.

The bill may specify that the Director must notify the Appropriations committees of these transfers.

Legislative staff report that there are always some tensions in these areas. Their general perspective is that there should be significant flexibility to move funds from subprogram to subprogram, less to move from program to program and more restriction on moving funds between agencies.

Within DPB there is significant oversight of agency transfers and a hierarchy of control. When agencies want to transfer funds between service areas or programs, they submit a request to DPB and DPB can stop the request if it is "excessive" or not in keeping with legislative intent. Transfers of over 10 percent of funds between programs require approval of the DPB director, whereas smaller transfers can be approved by the analyst that oversees the agency (Janak 2007).

5) Are agencies audited at the program level?

The Auditor of Public Accounts reviews levels of spending in the different programs or service areas every couple years. DPB is responsible for adjusting program funding levels and service area funding to make sure that expenditure are accurately reflect. Legislative staff have enough history with the various levels of funding in programs, subprograms, and object classes that they are able to watch for consistency from year to year.

6) At what budget level are federal funds appropriated?

Federal funds are reported by program in the appropriations bill under the revenue source "federal trust fund." They are not specifically identified by the name of the grant or revenue source.

If federal funds are appropriated by program or line item, what restrictions are imposed on their transfer between programs and/or line items?

The restrictions for federal funds are the same as general funds. Agencies are allowed to amend in federal or other special reserve funds; however, the appropriations bill specifically instructs the agencies to use these funds prior to using general fund dollars. The Director of the Department of Planning and Budget has discretion to move funds to ensure matching dollars are maximized in particular circumstances specified in the appropriations bill. In the past couple of years, the legislature has made a significant push to make sure that all federal funds are recognized in the appropriate places in the appropriations bill. Although the estimates continue to be conservative, the appropriations bills have gotten much closer to the actual amounts (Hickman 2007).

7) Does the state allow a "program" designation for "administration" or overhead in each agency?

Yes, agencies have administration programs, the purposes of which are described in detail in the Governor's Budget Report. The overall administration program is further broken down into subprograms. For instance, in the Department of Corrections, administration has General Management and Direction, Computer Services, Accounting and Budget Services, Architectural and Engineering Services, Personnel Services, Planning and Evaluation Services, Procurement and Distribution. Also, programs may have an "administration" service area (or subprogram) at times.

8) Can program designations be changed mid-year (outside the regular appropriations process)?

No and the legislature rarely adjusts the program structure in the appropriations process either.

South Carolina

1) Does this state budget at the program level? At what level do they appropriate funds?

Two years ago, Governor Mark Sanford started "activity based budgeting." These activities are akin to "programs" in a program based budgeting system. The state identified over 1500 activities and produced an executive budget that showed funding breakdowns by activity. However, this budget has not crossed over into the legislative process.

The legislature does appropriate in part by "programs," which are different from the "activities" in the Governor's budget. These "program" definitions are long standing and can be traced through many appropriations bills, but staff do not have any formal guidelines for these. Although in some cases these programs do cross over organizational lines, these program definitions generally appear to map onto functional or organizational divisions. For instance, the Department of Corrections budget is broken down by each facility, and has programs for Administration, and Employee benefits. The Department of Education has programs such as Superintendent of Education, Board of Education, and Division of Curriculum.

Until recently, the State also budgeted by detailed object classes under each program. In the past couple of years, the state consolidated its budget to two object classes for each program: personal services and regular operating expenses.

2) How does the state define "what is a program?"

South Carolina defines an "activity" (the equivalent of other state's "programs") as: "something an organization does to accomplish its goals and objectives. Moreover, an activity is defined as something which consumes resources and produces a product, service, or outcome."(Office of State Budget 2004)

Programs in the appropriations bill are designated as described above.

3) What was the process that the State used to determine program structure? In particular, how did the state coordinate between the agencies, executive budget office and legislative budget staff?

"Activities" were defined in conjunction with the establishment of the South Carolina Budgeting for Results process. Key steps in this process included 1) establishment of organizational or structural units of "teams," and 2) development of distinct budget processes "steps."

> *Teams:* The state established three "teams" to assist with the identification of agency activities and the results associated with them. The Guidance Team consisted of the governor's deputy chief of staff and budget director as well

as senior staff of the Office of State Budget. It was established chiefly to plan, support, monitor, and steer the new Budgeting for Results process. An Enterprise-Wide Team was organized to study and analyze best management practices, systems, and organizational constructs that were being utilized in government, non-profit and/or private sector organizations. The Enterprise-Wide Team interacted with the Guidance Team and their results were incorporated into the work of the Result Teams (Young et al. 2005).

Eight "Results Teams" composed of private citizens, advocates, legislative staff, agency employees, employees from research universities, and others worked to develop chief "indicators" of progress and key "strategies" for achieving goals. These indicators and especially the strategies were later used as the basis to review, analyze, and ultimately prioritize and rank activities for inclusion in the executive budget (South Carolina FY 2005-06 Executive Budget 2005).

Process: The processes consisted of six steps: 1) setting major goal or result areas, 2) developing agency activity (or "program") inventories, 3) developing chief indicators of progress and key strategies for achieving results, 4) holding public budget hearings for each result area, 5) sorting and prioritizing agency or governmental activities and the identification of savings, and 6) distributing resources among goal areas, i.e. the finalization of the purchase plan by result areas (Young et al. 2005).

Agencies submitted their activities over the summer to the Budget and Control Board's Office of State Budget (OSB) to be included in a master activities database which eventually included more than 1500 separate and distinct activities performed by the state. (Young et al. 2005) OSB budget analysts meet with executive branch staff and appropriate budget analysts from the House Ways and Means and Senate Finance Committees to evaluate the activity descriptions and outcome measures (South Carolina FY 2005-06 Executive Budget 2005).

Although the information on activities is presented in detail in the Executive Budget, a crosswalk between the Executive Budget and the existing appropriations bill program structure would be complex – some activities cut across the programs as defined in the appropriations bill or there are multiple activities in one program. Because the legislature has not accepted the activity designations as a basis for appropriations and the crosswalk is so complex, activity designations have not been incorporated into the appropriations process. There appears to be some question as to whether the Governor will continue to use the activity classifications in future budget years.

4) What are the restrictions imposed on agencies in terms of moving funds between departments/programs and/or line items?

After notifying the State Budget and Control Board, agencies can transfer up to 20 percent of funds across program designations. They cannot transfer more than $100,000 or 2 percent of funds between personal services and the other operating accounts. To transfer funds above these amounts, the agency must receive approval from the State Budget and Control Board.[23] South Carolina is different in its budget management structure from many other states because the primary budgetary staff under the State Budget and Control Board answer both to the Governor and to the legislature.[24]

5) Are agencies audited at the program level?

The Legislative Audit Counsel can conduct performance audits; otherwise financial audits are conducted to ensure that the agencies are complying with the law.

6) At what budget level are federal funds appropriated?

Federal funds and other non-general funds are "authorized" by the legislature, not actually appropriated. They are authorized at the program level as well as the object class level. Agencies submit projections of anticipated federal funds when they submit their initial budget to the Governor. The State Comptroller's office also makes projections about some fund sources. The Office of State Budget (OSB) then adds these projections to the appropriations bill and these funds are subject to the same budget controls as general funds. The OSB and agencies may "lowball" their estimates of federal funds to make sure that they are conservative in case anticipated funds are not received. The federal and other funds are grouped together in the bill and are not specifically identified.

[23] "Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and Comptroller General. No such transfer may exceed twenty percent of the program budget. Upon request, details of such transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personal service accounts to other operating accounts or from other operating accounts to personal service accounts may be restricted to any established standard level set by the Budget and Control Board upon formal approval by a majority of the members of the Budget and Control Board." From: General Appropriations Bill for FY2005-2006 (H. 4810) as ratified by the General Assembly, Part IB, Operation of State Government, Section *72.10.* (GP: Transfers of Appropriations);South Carolina General Assembly, 116th Session, 2005-2006. [http://www.scstatehouse.net/sess116_2005-2006/appropriations2006/tap1b.htm#s72].

[24] The South Carolina Budget and Control Board which oversees the operations of the Office of State Budget is composed of the Governor, the State Treasurer, the State Comptroller, the Chairman of the Senate Finance Committee and the Chairman of the Senate Ways and Means Committee.

7) Does the state allow a "program" designation for "administration" or overhead in each agency?

Some "overhead," such as the lead administrator's office in an agency (e.g., the Superintendent of Education), are reported in the appropriations bill as its own program. Otherwise, administration is allocated to each program by the agency and the OSB trusts the agencies to allocate it appropriately.

8) Can program designations be changed mid-year (outside the regular appropriations process)?

No, agencies submit requests to change program designations as part of the budget process. As noted earlier, the activities designations, which would represent a significant overhaul of existing budget practices, have not really affected the budget process in a serious way.

Pennsylvania

1) Does this state budget at the program level? At what level do they appropriate funds?

Pennsylvania began instituting a Planning, Programming and Budgeting System in 1968. The transition was intended to ensure that budgetary decisions were made based on program performance in relation to executive policy objectives and considered both the results achieved and the costs incurred. In 1978, a new budget law was enacted that required all budgeted programs to have stated objectives and quantifiable means to evaluate the results. The budget process was designed to answer the question: What is the result of a government program in terms of its effect on people and the environment? (Pennsylvania Office of the Budget 1999)

The distinguishing features of Pennsylvania's budget process can be summarized as follows:

- The use of programs within agencies to classify and explain activities and associated costs.
- The use of clearly stated objectives for each program.
- The use of performance measurements that gauge the progress toward an objective and which show the more direct result of the activities conducted.
- The use of total costs, regardless of source, associated with each program.
- The use of an extended time horizon (5 years) over which to project all data.
- The use of Budget Instructions and Program Policy Guidelines documents which explicitly guide agencies in the development of their budget requests. (Pennsylvania Office of the Budget 1999)

Most agencies in the 2006-07 General Fund Budget are appropriated at the program level. The Department of Community and Economic Development is separated into 76 different programs, such as:

- PennPORTS for the operating and administrative expenses of the Philadelphia Regional Port Authority.
- Increasing international trade.
- Marketing to attract tourists to this Commonwealth.

The Department of Health has 54 programs including:

- WIC - Administration and Operation.
- State health care centers.
- Breast and cervical cancer screenings.
- Bio-technology research.
- Regional poison control centers.

The Department of Public Welfare has 48 programs including:

- TANFBG – Statewide - Federal appropriation.
- Medical Assistance—Statewide—Federal appropriation.
- Statewide operations related to county administration of the public assistance and medical assistance programs.
- Child support enforcement.

However, one agency that is not appropriated at the program level is the Department of Corrections. The Department of Corrections only lists four budget categories in the appropriations bill: General Government Operations, Medical Care, Inmate Education and Training, and State Correctional Institutions. Budgets for personnel and operations that are general to the Department are combined into the General Government Operations category. Each correctional institution budgets for all programs and operating costs at each institution and those facility budgets are combined into a single line item in the appropriations. (Pennsylvania General Assembly 2005)

2) How does the state define "what is a program?"

Pennsylvania defines a program in a tiered structure, with each tier using the term "program." At the highest level of aggregation are seven broadly stated goals for state government termed "Commonwealth Programs." The Commonwealth Programs include the areas of:

Direction and Supportive Services;
Protection of Persons and Property;
Health and Human Services;
Education;
Economic Development;
Transportation and Communication;
Recreation and Cultural Enrichment.

The next level below Commonwealth Programs is Program Categories which define the goals in more specific terms, such as "clean air environment." Program Categories are then divided into subcategories, which are considered "programs" in the budget documents. Statements of purpose enumerate the objectives of these programs in terms of measurable outcomes. The focus of the Governor's Executive Budget is on the agency subcategory or program level of the program hierarchy. (Pennsylvania Office of the Budget 1999)

Within the context of the appropriations bill, programs are defined to produce a consistent relationship to appropriations; a single program is funded by one or more funding sources. This allows the total appropriated amounts to be associated with a single program. Prior to this change, a single appropriation could support several programs; however, this made it difficult to determine the total appropriation amount requested by reading any given program proposal. (Pennsylvania Office of the Budget 1999)

3) What was the process that the State used to determine program structure? In particular, how did the state coordinate between the agencies, executive budget office and legislative budget staff?

Although the current budget structure was developed approximately 30 years ago, the program structure has been adjusted to harmonize programs in the Executive budget with the appropriations bill. Fundamentally, the program structure is used to organize goals and objectives so that activities of different organizational units designed to accomplish similar results can be reviewed for decision purposes within the appropriate program context. The programs are also designed so that the distribution of funds such as The Preventive Health and Health Services Federal Block Grant Funds which are provided to accomplish several different goals can be monitored and evaluated. Program structure provides the means for determining what information is required for the management and evaluation of program operations. (Pennsylvania Office of the Budget 1999)

4) What are the restrictions imposed on agencies in terms of moving funds between departments/programs and/or line items?

Funds are appropriated to either central administration or for program costs. The Executive Budget Office monitors and controls how those funds are budgeted and spent. Once the appropriations have been made, proposed program budgets are reallocated based on the amounts appropriated and internally allocated to specific budget line items. Budget Office analysts ensure that funds are being allocated appropriately. The Comptrollers' office verifies that funds are actually spent from the correct cost codes and any discrepancies are resolved prior to payment.

Within a program, transfers can be made between the amounts budgeted for different operating costs such as utilities and supplies (which may include more than one appropriated line item), as well as between major categories such as salaries, operating expenses or fixed assets.

According to the Budget Office, because of adherence with legislative intent there is almost no flexibility for transferring funds between programs. Under limited circumstances, such as an emergency, funds could be transferred from one program to another if the purposes of the transfer remain consistent with the original legislative intent. An example given would be transferring funds from one Department of Agriculture program to another in the case of Avian Flu. Although the Department of Agriculture recognizes that there will be some years in which outbreaks of Avian Flu occur, it does not make sense to maintain an Avian Flu quarantine program at all times. If an outbreak did occur, funds could be transferred from another program for poultry safety to act as "seed" money for the Avian Flu quarantine and destruction program, but the Department of Agriculture would be required to request approval for the transfer, either from the Budget Office or through the legislature as an allocation amendment. Subsequent funding to operate an Avian Flu program would have to be requested through the legislature. (Donely & Zweiacher 2006)

5) Are agencies audited at the program level?

The program budgeting system established in 1968 includes provisions for the Office of the Budget, "to initiate and conduct evaluations of the effectiveness and management efficiency of programs supported by any agency under the Governor's jurisdiction, and to direct, coordinate, assist and/or advise any agency under the Governor's jurisdiction in the conduct of evaluations of its programs or of the programs it supports." Program evaluations test the relationships between outputs and impacts and identity ways to promote efficiency and provide information for budget decision making. The Secretary of the Budget prepares reports detailing the results of program evaluations for distribution to the Governor, the General Assembly, interested agencies, stakeholders and interest groups, and the public. (Pennsylvania Office of the Budget 1999)

In order to ensure that funds or expenses are not being misdirected within a program or to other programs, both pre-audits and post-audits are performed. Pre-audit activities are performed by the Office of the Budget, Comptroller Operations staff on a daily basis as transactions occur to ensure that the transactions are being charged to the appropriate cost codes within the appropriate programs. (Donely & Zweiacher 2006) Although financial in nature, pre-audit findings and issues may lead to further special audits or evaluations. Post-audit activities are conducted by three audit agencies:

1) Several larger Commonwealth agencies maintain their own audit units.

2) Each of the six Comptrollers Offices in the Office of the Budget has an audit staff.

3) The Fiscal Code provides for the Auditor General who conducts a majority of the financial audits. (Pennsylvania Office of the Budget 1999)

6) At what budget level are federal funds appropriated?

Within each agency's section of the appropriations bill, federal funds are appropriated as line items at the program level. An example in House Bill 2499, Part II, General Fund and Federal Appropriations for 2006-2007, where both Federal and State General Fund Appropriations are listed at the program level, would be the appropriations within the Department of Education (DOE) for the teacher development program (page 68):

	Federal	State
For teacher professional development.		
State appropriation…..		23,367,000
The following Federal amounts are appropriated for teacher professional development		
(1) "Teacher Recruitment."		
Federal appropriation......	192,000	
(2) "Teacher Quality Enhancement."		
Federal appropriation......	1,764,000	

Appropriated funds cannot be transferred from one program to another, except in very limited circumstances, such as an emergency. Any unused funds are required to be returned back to the general fund at the end of the fiscal year. The only exception would be under emergency circumstances in which funds could be redirected to a related purpose. (Donely & Zweiacher 2006)

7) Does the state allow a "program" designation for "administration" or overhead in each agency?

Each state agency has an appropriated category, "For the general government operations of….," that covers the central administration and overhead for the agency. Administration charges that are specific to a particular program are included in the appropriation for that program. (Pennsylvania General Assembly 2005)

8) Can program designations be changed mid-year (outside the regular appropriations process)?

Program designations are not allowed to be changed outside the regular appropriations process.

Iowa

1) Does this state budget at the program level? At what level do they appropriate funds?

The 2007 Executive Budget Report uses "functional" categories and a unique "purchasing results" format. The definition of "function" includes both "operating units" and "programs." For instance, functions in the Department of Corrections (DOC) are composed of "operating units" such as each correctional institution or community based corrections district as well as "programs" such as corrections education. The funds for these operating units and programs then are further divided into object classes in the budget report by agency (Iowa Department of Management 2006). For instance, the Ft. Madison Correctional Institution is an operating unit for which object classes are reported. Programs, also reported, may cut across operating units. For example, the corrections education program is embedded in each correctional institution but is reported as a separate budget item in the Budget Report. Examples of operating units and programs are illustrated below:

Operating Units:	Community Based Corrections Districts (8) Correctional Institutions (9)
Programs:	Corrections Education Iowa Corrections Offender Network, and (Central Office) Administration

The appropriations bill follows a similar format, appropriating funds either by operating unit or by program. Programs are designed to provide services throughout the agency rather than at a particular institution. The appropriations bill does not divide appropriated amounts into object classes, but does identify object classes as groups. So for instance, an appropriation for a correctional institution specifies that amounts are budgeted for "salaries, support, maintenance and miscellaneous purposes." In the appropriations bill, there is also language explaining that the "department may reallocate the funds appropriated and allocated as necessary to best fulfill the needs of the correctional institutions, administration of the department, and the judicial district departments of correctional services." (Iowa General Assembly, House Bill 2558 [2006])

The special purchasing results format used by the state also resembles a programmatic format. These "purchasing results programs" re-categorize agency funding in an attempt to cluster agency activities around major objectives that the public can easily understand. For instance, under the "safe communities" objective, the state has "purchasing results programs" such as "Homeland Security and Emergency Management" and "Department of Corrections Re-Entry Process." The purchasing results programs and process is used for formulating the Executive Budget Report but has not crossed over into the legislative budget process.

2) How does the state define "what is a program"?

The functional programs that are in the appropriations bill are long standing budget categories and would only be changed by legislative action.

The Purchasing Results process at the Executive Budget level creates programs by bundling related activities into a plan to accomplish certain results for a certain cost. These are called "purchasing results offers." These "offers" may require agencies to cross the traditional lines between programs, departments, or agencies. During the FY 06 budget process, six different departments each made proposals for early childhood development programs. The "buying team" in the Governor's office then instructed the six departments to prepare a proposal for one integrated program. These programs are established as a part of the Purchasing Results process described below.

3) What was the process that the State used to determine program structure? In particular, how did the state coordinate between the agencies, executive budget office and legislative budget staff?

Iowa began a new budgeting process termed "Purchasing Results" for FY06. The process started when the Governor and Lt. Governor set priorities and result criteria for the state. Given this directive, the state agencies acting as "sellers" proposing services/outcomes as "offers" that "buying teams" from the Governor's, Lt. Governor's and Department of Management's offices ranked and "purchased." These "purchased results" formed the basis for the Executive Budget. However, there was little legislative buy-in since the process was new and the "buying teams" crossed the legislative budget subcommittees' areas of responsibility. Based on lessons learned in FY06, in FY07 the "buying teams" were aligned by legislative subcommittee. In addition, "offers" were sent to only one buying team instead of multiple teams, although they could be transferred to a different buying team if the offer was determined to be more applicable to another team. (Chrisinger 2006)

In FY07, there still was very little legislative acceptance of the purchasing results format; however, the process within the agencies went much more smoothly. The Department of Management (DOM) developed budgeting software that allowed the agencies to input the information once and then run reports either in the traditional functional format or in the purchasing results format. (Chrisinger 2006)

Governor Vilsack is not running for reelection, and Jim Chrisinger, (Team Leader, Strategic Planning and Accountability Team, Iowa Department of Management) did not know whether either of the candidates for Governor would continue the "Purchasing Results" method of budgeting. (Chrisinger 2006)

4) What are the restrictions imposed on agencies in terms of moving funds between departments/programs and/or line items?

Agencies may transfer funds within an appropriation without restriction; however, if an agency wants to transfer funds between appropriations, the Department of Management (DOM) must initiate an appropriation transfer and notify the legislature. Appropriations are made at the functional unit or program level and include for example "salaries, support, maintenance, and miscellaneous purposes." As an example the Department of Education (DOE) would be allowed to transfer between budget items for supplies and utilities within an appropriation; however, if a transfer was necessary between elementary and secondary education or between institutions of higher learning, the DOE would request an appropriations transfer from the DOM with notification to the legislature. (McMahon 2006)

The Department of Corrections is different. As a "charter agency," the Department may reallocate appropriated funds as necessary across functional categories (which include programs and operating units) to best fulfill the agency's mission. The DOC is required to notify the Legislative Services Agency and the Department of Management prior to the effective date of the reallocation and may not reallocate an appropriation that would eliminate a program. Other than the prohibition on eliminating a program, there is no monetary limit to the amount that can be reallocated. (Iowa General Assembly, House Bill 2558 [2006])

5) Are agencies audited at the program level?

The State Auditor's Office is responsible for performing financial audits for all agencies annually. In addition, they audit the CAFR, perform single audits of federal grants, and perform departmental audits. The Legislative Oversight Committee can request audits of any agency, department or program, and on rare occasions the legislature as a whole requests an audit.

Continuing with the DOC as an example, the State Auditor audits each correctional institution yearly. This audit would review all programs at that particular prison. They would not examine programs on a DOC-wide basis. For instance, they would not audit Corrections Education as a whole, but would audit this program as a part of the review of each correctional institution.

Efficiency and effectiveness audits are also performed to determine if the departments/ programs are operating in an appropriate manner.

6) At what budget level are federal funds appropriated?

Some federal funds are appropriated in a separate budget bill and are allocated specifically to departments, agencies, or programs. For instance, in FY07, $13 million in federal grants for substance abuse were specifically appropriated to the Department of Public Health. Other federal funds are appropriated specifically to programs and agencies. In a separate section, departments and agencies are given a blanket authorization to receive and spend other non-specific federal funds "for the purposes set forth in the grants, receipts, or conditions accompanying the receipt of the funds, unless otherwise provided by law." (Iowa General Assembly, House Bill 2238 [2006])

7) Does the state allow a "program" designation for "administration" or overhead in each agency?

Yes, but different agencies do it differently. Some agencies allocate overhead across the functions (i.e., operating units and programs) and some have a lump sum category for administration for the department as a whole. The Department of Management encourages agencies to allocate the overhead to operating units and programs because DOM wants the budget offers to reflect the full cost of the program and because the legislative budget subcommittees often view "administration" as an easy place to make cuts. (Chrisinger 2006)

8) Can program designations be changed mid-year (outside the regular appropriations process)?

Purchasing results programs have not yet been incorporated into the legislative budget process. Agencies cannot eliminate regular functional program categories or add new functional programs without legislative approval.

Texas

1) Does this state budget at the program level? At what level do they appropriate funds?

Texas budgets at the "strategy" level, which corresponds to the program level in other states. Strategies are the actions the agency plans to take to achieve its goals. There may be multiple strategies under each goal**.** Strategy requests are prepared by agencies to provide justification for funding, and these requests link the budget to statewide goals, benchmarks, and service categories. An example of the budget from the Department of Criminal Justice would be:

Goal A: Provide Prison Diversions
- A.1.1. Strategy: Basic Supervision
- A.1.2. Strategy: Diversion Programs
- A.1.3. Strategy: Community Corrections
- A.1.4. Strategy: Treatment Alternatives to Incarceration

Goal B: Special Needs Offenders
Goal C: Incarcerate Felons
Goal D: Facilities Construction
Goal E: Operate Parole System
Goal F: Indirect Administration

The goal "Incarcerate Felons" includes 16 strategies including correctional security, health services, correctional industries and contracts with privately owned prisons. (Texas Legislature (79th) 2005)

2) How does the state define "what is a program"?

Strategies (programs) are the actions or group of actions that will be implemented to help an agency achieve its goals and objectives. Strategies are the point at which performance expectations are introduced to the appropriations process. Strategies include the means of transforming inputs into outputs, and ultimately outcomes, with the best use of resources (Legislative Budget Board, and Planning and Policy Governor's Office of Budget 2006). Agencies are required to develop five year strategic plans, updated every two years, which outline the goals, strategies and performance measures the agency plans to accomplish. The Legislative Budget Board (LBB) converts the budget elements laid out in the strategic plan into the budget recommendation presented to the legislature for action as the appropriations bill. Funds are appropriated at the Strategy level. (Governor's Office of Budget, Planning and Policy 2006)

Agencies are required to provide a narrative description of each strategy, which must include each of the following items:

- Specific statutory and/or constitutional provisions authorizing each strategy.

- Functional activities associated with the strategy.
- Efforts to respond to court orders and/or federal mandates.
- Relationship with other agency strategies and associated funding requirements.
- Other factors justifying implementation of the strategy.
- New initiatives not currently funded or authorized and
- Means by which the strategy contributes to meeting primary agency goals and objectives as well as priority goals and benchmarks. (Texas Legislative Budget Board 2006)

3) What was the process that the State used to determine program structure? In particular, how did the state coordinate between the agencies, executive budget office and legislative budget staff?

"In 1991, Texas revised its budget process. Previously, budgeting had been based on zero-based budgeting concepts. The 1991 budget reform required agencies to engage in a strategic planning process for a five year time horizon and to identify programs and performance measures in conjunction with this process. Programs and performance measures then link to budgeting and evaluation. The focus of this reform was to better integrate agency planning and decision-making with budget decisions. Key elements of the reform include:

- Agency development of six year strategic plans, in which they identify programs and program outcome, output, and explanatory measures.
- Integration of agency goals, objectives, and selected outcome, output and explanatory measures into the legislative appropriations requests (LARs).
- Reporting agency goals, objectives and selected performance measures in the budget documents.
- Program level appropriations.
- Legislative determination of performance targets as part of the budget process.
- Legislative Budget Board (LBB) assessments of agency progress towards performance targets.
- Department of Audits certification of performance measures." (Bourdeaux 2006a)

According to John Barton, LLB,the number of strategies an agency can have depends on the size and complexity of the agency. The LBB has imposed a basic structure on most licensing agencies, such as the Medical Board, limiting the number of strategies allowed; however, agencies with larger budgets may have numerous strategies. Agencies are encouraged by the Governor (Executive Branch) to have more rather than fewer strategies because it allows maximum flexibility in conjunction with the line-item veto. The determination of the appropriate number of strategies within agencies took three to four years to accomplish by the LBB. Because Texas has a weak-governor form of government, the LBB's recommendations to the legislature carry more weight than the executive budget. (Barton 2007)

4) What are the restrictions imposed on agencies in terms of moving funds between departments/programs and/or line items?

Agencies are allowed to transfer appropriated funds between strategies within a goal or up to 20 percent of funds between goals within an agency.[25] Any transfers that exceed the amount or percentage allowed in the appropriations bill must be approved by the Governor and the LBB. In addition, agencies are allowed to transfer limited funds from the second year of the biennium to the first year with the prior approval of the Governor and LBB. Due to the biennial budget, the legislature is only in session for five months every other year.

In the legislature's absence, the LBB and the Governor can use a constitutional authority called a "budget execution" to oversee transfer funds between agencies or programs within an agency that are outside of the amounts normally allowed. Either the LBB or the governor may initiate a transfer to move money from one state agency to another, to spend money within an agency for a purpose different than the one for which the money was appropriated, to change the timing of an appropriation or to prohibit a state agency from spending money; however, both the LBB and the Governor must agree on the proposal for the budget execution to be adopted. (Barton 2007) Public hearings may be held by the party (Governor or LBB) who did not initiate the proposed change. The proposal may then be accepted, rejected, or the Governor and LBB may make changes in the proposal (Legislative Budget Board). An example would be the actions taken by the LBB and the Governor after Hurricane Rita. Because the legislature was not in session, the LBB and Governor transferred funds between agencies to remediate the effects of the disaster. (Barton 2007)

[25] Within an agency, "[f]unds may be transferred between goals (and strategies); provided, that before any transfer between goals which will have the cumulative effect of changing the expenditures for any goal by more than 20 percent of the amount appropriated for that goal for the fiscal year, written notification of intent to transfer be provided the Governor, the Legislative Budget Board, the Senate Finance Committee, and the House Appropriations Committee." (Texas Legislature 2005)

5) Are agencies audited at the program level?

The Texas State Auditor's Office performs both strategy (program) and financial audits. Recent examples of each type of audit would be "An Audit Report on Performance Measures at Five State Agencies," Report 07-005 released December 4, 2006 which is at the strategy level and "An Audit Report on the Financial Management Practices at the Texas Medical Board," Report 07-012 released February 8, 2007.

The State Comptroller's office maintains control over agency spending by reviewing all expenditures. An Appropriations Control Officer is assigned to oversee and approve the expenditures of each agency. Each quarter a reconciliation report is issued for each agency that details year-to-date spending at the strategy level. (Barton 2007)

6) At what budget level are federal funds appropriated?

All funds including federal funds and other non-general funds are bundled together with state general funds in the appropriation for each strategy. However, at the beginning of each *agency's* section in the appropriations bill, there is a Method of Financing (MOF) section that breaks out all the funding sources at the agency level including: General Revenue Fund, General Revenue Fund—Dedicated, Federal Funds, and Other Funds.

7) Does the state allow a "program" designation for "administration" or overhead in each agency?

Each agency includes "Indirect Administration" as one of the goals in the appropriations bill. The Indirect Administration Goal may be a single line item amount or may be subdivided into strategies (programs). The Indirect Administration goal for the Department of Criminal Justice includes the following as strategies:

- Central Administration.
- Correctional Training.
- Inspector General.
- Victim Services.
- Information Resources.
- Other Support Services.

8) Can program designations be changed mid-year (outside the regular appropriations process)?

Changes to the existing budget structure must be approved by the Governor's Office of Budget, Planning, and Policy (GOBPP) and the LBB and cannot be changed outside the regular appropriations process. Changes are reviewed by both budget offices to ensure that the structure will provide an appropriated basis for budgetary analysis. Agencies wishing to make changes in a previously approved budget structure must submit a written request to the two budget offices by an April deadline. (Texas Legislative Budget Board 2006)

New Mexico

1) Does this state budget at the program level? At what level do they appropriate funds?

The state appropriates at the program level. For instance, the Department of Corrections has six programs including: Inmate Management and Control, Inmate Programming, Corrections Industries, Community Offender Management, Community Corrections – vendor run, and Program Support. It also appropriates at several object class levels under each program. These are: Personal Services and Employee Benefits, Contractual Services, Other, and Other Financing Uses (which captures transfers of funds between agencies).

Both the Governor's Budget Report and other Legislative Finance Office recommendations on the budget follow the same format as the appropriations bill. One interesting variation on program allocations is that full time equivalents (FTEs) are authorized by the legislature by program. The Governor regularly line item vetoes the provisions in the appropriations bill that would provide legal enforcement for this authorization; the legislature, however, continues to hold the agencies to this requirement.

2) How does the state define "what is a program?"

> *Program* means a "set of activities undertaken in accordance with a plan of action organized to realize identifiable goals and objectives based on legislative authorization."
>
> *Program Structure* is an "orderly, logical array of programs at the agency level. Program structure will not necessarily correspond to functional, organizational or geographical divisions since different functional, organizational, or geographic divisions may serve the same basic purpose or end."
>
> *Program Budgeting* is a "budget system that focuses on program objectives, program achievements and program cost effectiveness, basing decision making on outcomes rather than inputs. A program budget organizes the expenditure budget in terms of total cost of programs to be implemented." (New Mexico Legislative Finance Committee 2006b)

Although these are the technical definitions of programs, programs are based on agreements with the agencies that were worked out over the course of several years. According to the "Accountability in Government Act," the executive approves or disproves the program structure in consultation with the legislature. Most of the programs took previous "activities" and rolled them up into larger program structures.

The agency also budgets across four "fund" types: general fund, other state funds, internal service funds/interagency transfers and federal funds.

3) What was the process that the State used to determine program structure? In particular, how did the state coordinate between the agencies, executive budget office and legislative budget staff?

This process began in the early 1990s, so it has been underway for some time. Initially the state started with pilot agencies that were willing to do it. These agencies were mostly "regulatory agencies" that volunteered – such as the Commission on Higher Education and the Division of Vocational Rehabilitation. Also these agencies tended to have significant federal funds so they were already required by the federal government to produce performance measures.

Although there was substantial disagreement over the program initially, now they tend to agree on the programs and know it is better to have common ground. The initial process required the agencies to start out with a strategic plan, to do an internal/external assessment and develop a mission statement, vision and goals. Once these had been developed then the agencies identified programs. In this process the state used documents from the National Conference of State Legislatures (NCSL) and looked at other states – particularly Texas, Louisiana, and North Carolina. They also used the American Society for Public Administration guide: Performance Measurement Concepts and Techniques.

The legislature bought off on having larger programs because the entire reform was sold to the agencies as giving them increased flexibility in return for producing results. Most agencies caught on quickly that they would be better off with large programs. A few had to do major restructurings – the Department of Health for instance said that its programs were not organized correctly and so did a big restructure.

The agencies do have a set of "activities" and additional subclasses that they track below the program level, but these are not tracked by the executive state budget division (SBD) in the Department of Finance and Administration (DFA) or the Legislative Finance Committee (LFC). Both of these entities may request information at a lower level of aggregation but they don't actually see it on a regular basis (Fernandes 2006).

4) What are the restrictions imposed on agencies in terms of moving funds between departments/programs and/or line items?

In the appropriations bill, there are often detailed provisions that are agency specific about how funds can be transferred or "amended in." In general, agencies can move money between object classes by making a Budget Adjustment Request (BAR) but cannot move money between programs unless given specific permission in the appropriations bill. To make a BAR, the agency submits the request to the executive SBD who approves or disproves the request. If the SBD approves the request then it goes to the LFC and the LFC has 10 days to approve or object (if there is no response from the LFC, the request is considered to be approved). If the LFC objects, this stops the transfer until a hearing is held by the legislature, which must occur within 35 days, starting with the receipt of the request. The legislature can delay but cannot legally stop the transfer; however, in so far as an agency does not want to alienate the legislature, then the agency is likely to respond to the objection.

In some years, the legislature has taken away the flexibility to move funds between personal services and contractual services because of a concern that too many state activities were being contracted out.

Agencies can also “amend in” federal funds, other state funds or internal service funds/agency transfers throughout the year using the BAR process. However, in the appropriations bill they are typically restricted so that they cannot amend in more than 5 percent of the budgeted amount for internal service funds/interagency transfer or other state funds at the program level. They can amend in as much as they want in federal funds; however, the legislative staff will do projections prior to the appropriations process to try to make sure that the projections for federal funds are reflected as accurately as possible in the appropriations bill.

Agencies cannot move money between programs except under circumstances specifically described in the appropriations bill. For instance, the Department of Corrections is allowed up to a 5 percent transfer because of problems of cost overruns at private facilities (Fernandes 2006; New Mexico Legislative Finance Committee 2005a).

5) Are agencies audited at the program level?

No, only by object class. Compliance with the appropriations bills are treated as compliance with the law but are not part of the financial audits. The state is relying to some degree on performance audits to assess agency accuracy in classifying funds by program. However, this system is in its beginning stages (Fernandes 2006; Williams 2006).

If so, is there some document or guide that explains which expenses should be allocated to each program?

The appropriations bill gives a detailed description of the purposes of each program; however, the auditor only tracks expenditures by object code. Agencies track and account for fund uses and the appropriate classification of expenditures by program. If the state did audit to programs, it may not be a significant problem because programs are designated at a high level of aggregation and the programs are clusters of previously defined activities so there is a history of expenditures within each program.

6) At what budget level are federal funds appropriated?

Federal funds are appropriated by program, but are not specifically identified. New Mexico has three categories for non-general funds: other state funds, internal service funds/internal agency transfers, and federal funds. The Governor's Budget Report breaks down the fund sources in slightly more detail. The federal and other fund sources are allocated within each program under each of the three object classes.

If federal funds are appropriated by program or line item, what restrictions are imposed on their transfer between programs and/or line items?

The transfer of federal funds has been interpreted liberally by the executive branch. Also, federal funds are not restricted by the 5 percent rule described earlier. The legislative staff responsible for overseeing budget requests report few shifts in federal funds *across* programs, although there are often significant amendments to federal funds within a program category (Fernandes 2006). It is likely that there are few shifts in part because of the ability of the agency to "amend in" funds wherever needed and in part because the program categories are broad and inclusive.

How does the state handle the problem of agencies not knowing how much they will receive in federal funds during the year and therefore not having an accurate accounting of funds prior to appropriations?

Agencies "low ball" their federal fund estimates and then amend in funds during the year. However, the LFC also makes projections based on previous years' funds and based on the Federal Funds Information Service (FFIS) about how much in federal funds an agency can expect and may adjust these estimates. The LFC estimates serve as a guide for general fund allocations as well (Fernandes 2006).

7) Does the state allow a "program" designation for "administration" or overhead in each agency?

The Department of Corrections has a program for "Program Support." The appropriations bill specifies that expenses relate to "a clean audit, effective budget, personnel management, and cost-effective information system services." (New Mexico Legislative Finance Committee 2005a)

The Department of Public Education does not have a program for administration, but other agencies do have "program support" like the Dept. of Corrections.

There does not appear to be any written guidance on how to define administration, but there may have been in the early days of the reform. According to the staff, the state has tried to be consistent across agencies about what the administration program includes and to limit it to central office functions. Also, there was initially substantial movement to adjust this category.

8) Can program designations be changed mid-year (outside the regular appropriations process)?

Yes. The state has a formal process for shifting program designations or performance measures. The agency must submit their request by July 15th and the program change is reviewed by the legislature and executive prior to budget consideration. The executive approves program changes in consultation with the legislature. However, it is ultimately an executive responsibility.

9) How does the state handle cost-allocation problems between programs? Do they have any guidance for agencies on this?

Not really since programs are broad and they used previous activity categories as a foundation for the development of programs.

Oregon

1) Does this state budget at the program level? At what level do they appropriate funds?

Agency budgets are organized into "program units" some of which are policy-related and some of which are functional. For instance, the Department of Corrections (DOC) budget is broken out into broad functional areas such as "Administration, General Services, and Human Resources," "Debt Service" and "Capital Improvements." The Department also has more policy oriented programs such as the "Transitional Services" program as well as an "Operations" program (related to running correctional institutions). (Oregon Legislative Assembly 2005b)

Similarly, the Department of Human Services' (DHS) appropriated budget has a mix of program units, including "Department-Wide Support Services," "Capital Improvement," and "Debt Service," as well as "Children, Adults, and Families," "Health Services," and "Seniors and People with Disabilities." (Oregon Legislative Assembly 2005a)

In neither example is the budget appropriated at a more detailed level than the "program unit."

2) How does the state define "what is a program?"

A "program unit" is the term used in the Oregon "Budget and Legislative Concepts" instructions to describe the budget structure for an agency. Program units are large in scope and the number of program units within an agency varies with the size of the agency. Some small agencies may have only one program unit; however, most will have several which include programs related to a particular agency services and overhead programs that apply to the agency as a whole such as Administration, Capital Improvement, Capital Construction and Debt Service. (Byerly 2006)

3) What was the process that the State used to determine program structure? In particular, how did the state coordinate between the agencies, executive budget office and legislative budget staff?

Governor Ted Kulongoski took office in January 2003, a time when the Oregon state budget deficit was $3 billion. Governor Kulongoski's first executive budget was for the 2005-2007 biennium. In this budget, Gov. Kulongoski introduced a "new" way of budgeting based on six core "Oregon Principles." Those principles were:

- Education and Workforce Development.
- Health and Basic Needs.

- Economic Development.
- Livability and the Environment.
- Public Safety.
- Government Efficiency & Accountability.

Each state agency was instructed by the governor to identify all programs within their purview and to indicate:

- Whether the program was mandatory and outside of the Executive or the Legislature's control through the regular budgetary process.
- The number of Oregonians served by the program.
- What the program would accomplish for Oregon citizens, and
- How the program would measure progress towards its objectives.

In the past, each agency submitted budget requests organized by agency to the Governor's office reflecting incremental increases. For the 2005-2007 budget, agencies were required to categorize each program unit according to the Oregon Principle that it supported. Agencies also had to provide details of the outcomes each was expected to produce. Although the "Oregon Principles" is the current executive budget outline instituted for the 2005-07 biennium, more than 90 percent of the budget is driven by the state constitution, statute, judicial decisions, and federal mandates according to Doug Wilson, Principal Legislative Analyst in the Legislative Fiscal Office (LFO).

In 2003, the Ways and Means Committee directed agencies to align the accounting and budgetary structures no later than the 2005-07 biennium budget by converting to the newly implemented Oregon Budget Information Tracking System (ORBITS) that had been in development for more than a decade as a replacement for an older system. The Budget and Management Division (BAM) of the Administrative Services Department works with the Legislative Fiscal Office (LFO) and agencies to "ensure that program units adequately present the major policy issues and budget data" in the budget process. The Oregon Budget Information Tracking System (ORBITS) used by BAM and the R*Stars accounting program used by the agencies are now aligned to allow a direct link between the two systems. (Oregon Budget and Management Office and Legislative Fiscal Office 2003)

4) What are the restrictions imposed on agencies in terms of moving funds between departments/programs and/or line items?

The biennial appropriations bills provide funding at the section or subsection level. An example of funding at the subsection level from the DOC appropriations bill would be:

> Section 1. There are appropriated to the Department of Corrections, for the biennium beginning July 1, 2005, out of the General Fund, the following amounts for the following purposes:
>
> (1) Operations $623,620,310
>
> (2) Administration, general services and human resources $85,071,880
>
> (3) Transitional services $224,696,574
>
> (4) Debt service $101,640,940
>
> (5) Capital improvements $1,078,999.

Transfers may be made between program units funded by the same subsection of the appropriations bill. Using the DOC example, if it were necessary to move funds within the program unit of "Administration, General Services, and Human Resources," the transfers could be done internally because they were all funded by the same subsection of the appropriations bill. However, transfers of any amount, between the Operations program unit and any other program unit would require prior approval from the Oregon Emergency Board because the transfer would be across subsections.

The Emergency Board meets approximately every other month during the biennium to facilitate the transfer of funds appropriated to the Emergency Board to agencies that require additional funds, to approve grant applications, and to approve transfers between program units within agencies. These rules also apply to federal, lottery, and other funds.

Also, positions are tied to each appropriation through a database with specific codes for each position classification. The Department of Administrative Services (DAS) maintains the database and agencies do not have "live" access to the database. In order to transfer a position from one program unit to another, the agency must seek formal written approval from the DAS, which requires appropriate justification.

According to Martha McDaniel, Budget Manager, DOC Budget Office, requests to the Emergency Board to transfer funds between different sections or subsections of the appropriations bill are infrequent. A review of the minutes of several Emergency Board meetings did not reveal any requests for transfers between program units; however, agencies did request additional funding from the Emergency Board.

5) Are agencies audited at the program level?

Financial-related examinations are conducted to determine whether state agencies comply with finance-related legal requirements and special studies and investigations are conducted in response to allegations of misuse of state resources or inefficient management practices.

Performance audits are conducted at the program unit or subunit level. An example would be the recent audit of payments made to in-home care providers which is a program within the larger Medicaid program, which is itself one of many program units within the Department of Human Services. Other examples of performance audits include the Review of the Small Scale Energy Loan Program in the Department of Energy and the Review of Statewide Facilities Maintenance Processes within the Department of Administrative Services. (Oregon Secretary of State Audits Division 2006)

Factors that are considered in determining what agencies or what programs to audit include: how much money is involved; whether there is legislative or public interest in the audit; and is there a "clean-cut" methodology that will allow an audit to be done successfully. Once or twice a year a list of possible audits is compiled and then ranked to determine which audits will be performed. The state does not audit federal programs outside of the federally mandated audit requirements: however, it does audit programs such as Medicaid that are implemented by the state, but partially funded by federal funds. (Garber 2006)

6) At what budget level are federal funds appropriated?

Within each agency's appropriations bill, federal funds and other non-general funds may be appropriated in different ways. For instance, in the DOC appropriations bill, the first section appropriates general funds to each program unit; the second section appropriates "fees, moneys or other revenues, including Miscellaneous Receipts" to each program unit, and the third section appropriates federal funds to the entire agency by setting a cap on the amount of federal funds that can be used to cover agency expenses. In the DHS appropriations bill, the first sections allocates general fund monies by program unit; the second section allocates "fees, moneys or other revenues, including Miscellaneous Receipts and including federal funds for indirect cost recovery" for a variety of specific federal programs such as WIC food rebates, the Coordinated School Health Program, homeland security, and emergency preparedness and response services. The third section allocates lottery funds for specific purposes, and the fourth section allocates all federal funds not otherwise specified in the second section to the agency as a whole (again, setting a cap on federal funds).

7) Does the state allow a program designation for "administration" or overhead in each agency?

Administration or "Department-wide support services" are separate line items in many agencies' appropriations. However, there is no formal definition of "administration" for budget purposes. According to Laurie Byerly, Manager of the State Audit and Budget Reporting Section, most agencies capture the administrative costs associated with department-wide management, but other costs included in the program unit may vary by agency. Agency appropriations are at varying levels of specificity too, so one agency might have a General Fund appropriation specifically for administration, while another agency could have a General Fund appropriation for the entire agency. Examples of agencies who receive "lump sum" appropriations would be the Department of Revenue, Department of Justice, Department of Veterans' Affairs, and the Licensing Office. All of these agencies received an amount "for payment of expenses" as a lump sum without delineation as to what expenses were covered.

8) Can program designations be changed mid-year (outside the regular appropriations process)?

No, program designations cannot be changed or eliminated outside of the regular legislative appropriations process. Because Oregon is on a biennial budget, an interim legislative budget committee, the Emergency Board, made up of key legislators meets bimonthly to approve limited additional funding to agencies from the state Emergency Fund appropriation. If additional monies become available during the biennium through outside sources, such as federal grants, the Emergency Board can either approve an increase to the appropriated funds in an existing program unit or establish limitations for a new program unit.

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