MANAGEMENT OBJECTIVE(S)

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To effectively identify, allocate and account for funds used to provide the necessary services and programs which support the entity's mission, goals, and objectives.

BACKGROUND

Budgets are statements of expected results expressed in monetary or numerical terms, and are often an integral part of the entity's planning process. During implementation of services, the budget provides an accountability tool for comparing anticipated to actual outcomes. Consequently, budgeting serves as an important link between the strategic planning process and performance measurement process.

Budgets mean different things to different people according to their points of view. For example, accountants emphasize the preparation of budgets, while managers focus on the implementation and use of budgets within the organizational context. Aside from obvious legal reasons, budgets are developed and implemented for various purposes, as follows (Senge, pp. 11-13):

> Planning: Budgets link goals, objectives, and strategies with resources.
>
> Motivation: Budgets establish parameters that guide work efforts toward accomplishment of organizational goals.
>
> Evaluation: Budgets are suitable tools for monitoring and verifying performance and providing feedback for planning.
>
> Coordination: The budget process requires input and alignment from various components of the organization..
>
> Communication: Budget formulation and reporting provides an opportunity for direct exchange of information both internal and external to the organization.
>
> Education: Budgeting requires management and staff to periodically analyze their departments and overall operating environment, contributing to enhanced learning.
>
> Ritual: Budgets are often prepared out of habit, usually resulting in benefits that are far below the costs of performing the task.

In 1993, the Governor and the Legislative Budget Board responded to shortcomings in the state budgeting process by adopting a new strategic planning and budgeting system to allocate state resources. The 1991 Texas Performance Review noted that the existing zero-based budgeting system did not successfully incorporate entity missions and goals into the budgeting process. Subsequently, a new process was developed to ensure that the entity's appropriations request provides the bridge between the strategic planning process and the General Appropriations Act.

The improved appropriations request builds a bridge between planning and funding by correlating fund allocations from the General Appropriations Act to specific state goals and objectives for which the entity is responsible. Performance measures for assessing achievement of goals are also incorporated into the appropriations request. Each entity is responsible for developing detailed plans and annual operating budgets to implement the goals and strategies funded through the Act. In governmental organizations, the appropriations process drives the budget process, which inherently addresses goal alignment, spending limits, stewardship and expenditure compliance issues.

In conjunction with the establishment of a new state planning and budgeting system, the Uniform Statewide Accounting System (USAS) was developed to provide a more compatible financial information system. This system sorts entity expenditures and revenues in accordance with state planning and funding structures. USAS is capable of producing entity operating budgets of several different types, including:

- Strategy or Program Budget
- Organizational Budget
- Fund Budget
- Grant Budgets

The increased flexibility in financial report format and content aids management in decision-making.

DEFINITIONS
(In alphabetical order)

Accrual accounting is a basis for accounting in which revenues and expenditures are recorded at the time they are incurred as opposed to when the cash is actually received or spent. For example, in accrual accounting, a revenue which was earned between April 1 and August 31, but for which payment was not received until September 10, is recorded as being received on August 31 rather than on September 10.

Achievement bonus refers to a one time bonus given to an employee for exemplary work and must be approved by the Executive Director with copies of the paperwork forwarded to the Governor's Office of Budget and Planning.

Allocation is the process of distributing resources to carry out entity programs and services.

Appropriation is an authorization by the State Legislature to spend funds in the State Treasury. Entities may not expend more funds than appropriated.

Appropriation Control Officers (ACOs) are analysts within the Office of the Comptroller of Public Accounts who specialize in the legal requirements and accounting procedures pertaining to appropriations and funding and provide the first line of control and accountability in state government.

Appropriation Year (AY) is the twelve-month period from September 1 to August 31 for which the appropriation is made. Obligation of the funds appropriated must be incurred within the specific appropriation year. Actual disbursement of the funds for the legal obligation normally extends up to two fiscal years past the appropriation year.

Authorized positions refers to personnel slots which are authorized in the adopted budget to be filled during the fiscal year.

Beginning fund balance is the remaining cash available in a fund from the prior fiscal year after payment of the prior year's expenses and deductions for prior year's encumbrances.

Budget amendment refers to any change to the budget (i.e. new grants, changes in revenue or expenditures) that affects the entity's budget document.

Budget types:

Line item (Object-of-Expenditure) **budgets** use a uniform classification system to identify the nature of the goods or services purchased by each segment of the organization.

Operating Budget is a detailed plan of proposed expenditures for a given period (typically a fiscal year) and the proposed methods of finance (e.g. revenue estimates). The term is usually a single fiscal year.

Performance budgets use categories expressed as activities, often presented with workload indicators. This format focuses on process rather than resource inputs.

Program budgets emphasize organizational impact on customers. These budgets delineate expenditures by program and the components of the program: subprogram and activity. Quantitative and qualitative performance measures are integrated into the budget document.

Zero-based budgets involve three alternative funding levels: base, minimum (75 - 90 percent of base) and enhanced (up to 110 percent of base). Prior year fiscal budgets are discarded annually, and new budget calculations begin at zero, showing why the incremental amounts are necessary.

Carry-forward are amounts of funds by budget category for multiple year programs to be budgeted in the following year's operating budget.

Encumbrance is an amount of funds reserved for goods or services that have been ordered but have not been received and paid.

Expenditure is the cost of goods or services rendered.

Fiscal Year (FY) is the twelve month period from September 1 to August 31 in which the transaction is recognized in the financial records. It is the State's legal business year for management and financial accounting and reporting purposes.

Goal is the general end toward which the entity directs its efforts. A goal addresses issues by stating policy intention. In the strategic planning system, goals are ranked by priority.

Grant is an authorized use of federal funds received and expended to administer federal infrastructure and programs.

Index is a number in USAS to infer to a unit in the organization.

LAR is the entity's legislative appropriations request - the budget request to the legislature for the upcoming biennium.

LBO is the Legislative Budget Office. This office reviews legislative appropriations requests and pending legislation to making funding recommendations to the Legislature.

Methods of Finance are sources of funds.

Objective is a clear target for specific action.

PCA refers to a program cost account - a single number which indicates the fund, appropriation number, grant number and phase, project number and phase, and program structure (strategy number) in USAS.

Pre-Encumbrance is used for biddable services in order to ensure that funds are reserved in advance when the bid process is initiated. When the selection is complete the pre-encumbrance is liquidated and an encumbrance is established. A pre-encumbrance is merely an "earmarking" of funds for financial planning purposes and is not legally binding.

Revenues are increases in fund financial resources other than from interfund transfers. Types of revenues include: application fees, permits fees, federal funds, etc.

Strategy is a specific course of action that will be undertaken by an entity to accomplish goals and objectives. A strategy is the means for transforming inputs into outputs, and ultimately outcomes, with the best use of resources.

Unencumbered Fund Balance is the amount of an appropriation that is neither expended or encumbered. It is essentially the amounts of money still available for future purposes.

USAS is the Uniform Statewide Accounting System, a new on-line automated accounting system used by all state agencies. Although some agencies only report accounting data to USAS, some also use it for their internal accounting system.

Unobligated Balance refers to funds that have not been obligated. This balance can be determined by deducting the cumulative obligations (expenditures, encumbrances) from the cumulative funds authorized.

Work plan is a summary description of all the work tasks a unit requests to be included in its budget. Entity programs/divisions often have work plans for each strategy it is involved in implementing.

OVERVIEW OF THE PROCESS

The basic phases of a budget process are:

- **Determine the budget format.**
- **Plan the budget process.**
- **Establish and communicate budget policies, direction, and assumptions.**
- **Obtain public input.**
- **Prepare budget documents/requests.**
- **Review and approval by appropriate authorities.**
- **Implement, monitor and adjust budget as needed.**

PROCEDURES

Suggested procedures, organized according to the elements of a finding, are listed below. They should be expanded or tailored to fit the specific entity being reviewed.

Note: The following procedures and the process described above are normative, rather than prescriptive. That is, they represent "average" or baseline thinking since they assemble information which repeatedly appeared in the various resources used to prepare this module. Do not be too hasty or literal in applying a given criterion or procedural step to a specific entity. While omissions or variations may be *obvious*, judgment must still be used to determine whether such omissions or variations are *material*.

Review criteria:

General criteria

General criteria applicable to the budget process are as follows:

A properly designed budget should serve three important functions (Schick, pp. 243-258):

1. The expenditure control function curtails expenditures to the limits of available revenue and preserves the legality of transactions conducted by the entity. Expenditures must agree with appropriations and support the intent of the authorizing legislation. The control function helps develop budgetary request data and preserve prior year audit trails (Mikesell, p. 36).

2. The management control function improves managers' abilities to guide operating and program areas in an effective and efficient manner. The focus of this function is performance, specifically the relationship between the resources provided to and used by the entity and the services and programs provided by the entity.

3. The final budget function, planning for service requirements, entails a thorough analysis of the impact of budget actions on the community and vise versa. Various budgetary line-items may have implications for future long-range spending patterns. The planning orientation uses the budget as a decision tool concerning the continuation of activities, development of new programs, and allocations of resources between activities of government (Mikesell, p. 39).

An effective budget process and related budget should include these features:

- alignment with strategic plans
- formal, logical and integrated documentation
- quantified planned objectives and the means selected for achieving them
- consideration of all the events and activities needed to fulfill the goals of each entity function
- integration with the accounting system
- a basis for coordinating the operating plans of all entity sub-units
- a means for communicating detailed workplans or action plans throughout the organization and to relevant oversight and other interested groups, both internal and external to the entity
- input from lower level managers who have more detailed knowledge of actual program and service needs
- a basis for evaluation of performance by comparing actual to budgeted data. Such comparisons highlight variances between actual and planned results, and signal the need for possible managerial action.

Specific Criteria

The specific criteria related to the basic phases of the budget process are as follows:

Determine the budget format
A Texas state government entity should have two "budgets": an initial budget request document, known as a legislative appropriations request (LAR), and an annual operating budget. The operating budget, which includes capital expenditures, should represent and account for all approved entity programs and service expenditures and support the strategies included in the entity's strategic plan.

Plan the budget process
Review the entity's strategic and operational plans, enabling legislation, needs assessments, organizational structure/functions and other relevant assessments.

The entity should prepare a budget calendar to coordinate budget activities and identify key milestones in the budget process. Following are items to consider when reviewing the budget calendar:

- There should be a written chronological plan for developing the operating and/or capital budgets. This plan should address what is to be done, when, and who is responsible for implementation.
- The calendar should be developed and distributed in a timely manner to everyone involved in the budgeting process.
- The calendar should allow sufficient time for proper completion of all tasks.

The entity should designate a budget officer to direct and monitor the budget process. The budget officer is expected to be aware of and able to evaluate various budget types that may exist within the entity (object-of-expenditure, program, zero-base, etc.). The officer should have adequate help to carry out his/her duties. The officer’s authority should be commensurate with the responsibility of the position, and typically entails the authority to enforce the budget calendar. The assigned responsibilities of the budget officer include the following:

- planning and administering the budget process
- ensuring that the expenditure requests are in line with entity goals, objectives, and policies
- developing written procedures that explain how to complete the steps in the calendar
- assisting others in performing their assigned tasks
- ensuring that key assumptions are identified and used in developing revenue estimates
- verifying the appropriateness and adequacy of expenditure requests
- ensuring that functional areas of the entity do not duplicate activities
- compiling the initial budget for review by the entity
- compiling the final proposed budget for the public hearing
- monitoring the budget process

Establish and communicate budget policies, direction and assumptions. Develop budget policy, direction and assumptions and communicate to those preparing budgets.

To promote efficiency, the budget policy should be developed and documented in time for consistent application throughout the budget process. The policy should be distributed in a timely manner to all personnel involved in the process. The budget policy statement typically contains at least the following:

- explanations of budget philosophy of entity
- goals and objectives of entity
- explanations of changes from past goals, objectives, philosophies, policies
- expected economic conditions and their impact
- policy guidelines in the following areas:
  - salary actions
  - capital outlay
  - materials, supplies
  - contractual services
  - travel
  - conferences, training
  - leases
- discussion of how actual performance will be measured against the budget
- description of the budget approval process and the budget amendment process

The determination of budget assumptions by the governing body of the entity is an instrumental part of the budget process in that it sets forth certain parameters, criteria, and direction that the entity will use to develop the budget. To some degree, these assumptions are determined by the entity's strategic and operational plans. Budget assumptions may also be derived from impending legislative budget reductions or from related entity budget policy statements. Additionally, in some cases, the governing body of the entity may formally develop and adopt specific assumptions which are linked to various economic conditions. Examples of budget assumptions are as follows:

- Budget requests will contain a specific salary increase for entity personnel.
- Budget requests for utility expenditures will utilize common calculation formulas.
- Budget requests for computer software and/or hardware will be in compliance with standards set by the entity's information resources functional area.

Generally, a budget preparation manual is developed and distributed to communicate budgetary assumptions. This document contains detailed instructions on budget preparation, various budget request forms, budget calendar or time line, and detail information to be used when calculating budget requests for salaries, fringe benefits, training, travel, capital outlay, professional fees, supplies or contracts.

Obtain public input.
The entity should provide information to and receive input from the public and other parties who are interested in or affected by the entity's budget and its development process. For governmental entities, the public input process is sometimes a legal requirement. The timing of this phase in the budget process varies. The public input phase of the budget process should be:

- in compliance with all legislation relating to the public input process
- adequately documented
- planned so as to obtain the input either prior to the actual budget document preparation and/or prior to the budget adoption phase

Prepare budget documents/requests.
This phase of the budget process involves the actual preparation of the budget requests, particularly the calculation of expenditure estimates and revenue projections.

The entity should keep a "catalog" of expenditure categories, to be updated annually. The development of expenditure amounts includes:

- description of the expenditure
- identification of funding sources
- identification of functional area in which the expenditure is incurred
- a several year history of expenditure figures
- explanations of trends and significant annual variations in expenditure levels
- projections of future years' expenditures
- methods of estimating the expenditures
- key assumptions, formulas and economic conditions affecting the expenditure (e.g. inflation, level of usage).

Feedback on expenditure estimates can be obtained from several sources. The expenditure calculations should be made in close consultation with entity officials responsible for adhering to the estimates. Appropriate external parties, such as product or service vendors, should be consulted for their views on certain expenditure trends. For assessment of reasonableness, expenditure estimates can be compared to previous actual expenditures.

Expenditure estimates should take into account the following:

- interest expense (if applicable)
- expenditures expected to start or end during the year
- effects of impending legislation
- interfund transfers and charges

When requesting funding, the entity is required to justify current spending, not just new spending. The entity’'s request forms should provide the following information:

- justification of increases

- explanation of decreases
- requests at more than one possible level of funding (90%, 100%, and 110% of current funding)

Revenue projections involve processes and documentation requirements that are similar to the those for expenditure estimates. Revenue estimates should be made early in the budget process to ensure a timely identification of any need for alternative revenue sources. Timely and accurate revenue estimates require early identification and communication of budget assumptions, as well as early determination of appropriate formulas and data. Feedback on estimates can be obtained from those responsible for collecting the revenues and from relevant external parties having information on federal grants, other revenue sources or future economic conditions.

The entity should maintain a catalog of current and potential revenue sources, to be updated annually. Maintaining the catalog requires documented procedures for identifying and incorporating new revenue sources into the catalog. Catalog contents include for each revenue item:

- description of the revenue and its source
- designation of whether it is restricted use or general resource revenue
- the functional area responsible for the collection of the revenue
- a several year history of collection figures
- explanation of trends and significant year to year variations in collections
- projections of future years' collections
- methods of collecting revenues
- key assumptions and economic conditions affecting revenues

Components of revenue estimates that should not be overlooked include:

- interest earnings (if applicable)
- interfund transfers and charges
- delinquent payments
- penalties and interest
- timing of grant funding
- reimbursements
- revenue sources anticipated to end or begin during the fiscal period
- effects of pending legislation

Review and approval by appropriate authorities

The budget should be reviewed by appropriate internal and external authorities. Timely submission of the initial proposed budget allows for a thorough review by governing authorities.

Internal budget review is a process through which various functional areas of the entity present their budget proposals to the appropriate level of management. The process should require:

- attendance by relevant governing officials and the entity’s budget officer

- feedback from the entity’s board or commission
- opportunity for explanations from those responsible for preparing and adhering to budget requests
- approval from entity director

The Legislative Budget Board is the oversight entity tasked with evaluating entity operations and recommending the comprehensive budget for all state agencies. The Board is served by staff in the Legislative Budget Office. Office staff receive entity budget requests in the fall, and meetings are held to allow staff and entity administrators to discuss detailed issues and concerns. After reviews for content, format and consistency with Board guidelines, the staff submits the statewide budget to the Board. Pending its approval, the Board recommends the appropriation bill to the Legislature at the start of the Regular Legislative Session.

The Board also participates in the budget execution process, which allows interim adjustments of state entity budgets without convening a special legislative session. A budget execution order is implemented only if the Board and the Governor concur. Budget execution orders involve actions such as:

- prohibiting expenditure of funds already appropriated to an entity
- transferring appropriated funds from one entity to another
- requiring that appropriated funds be retained by an entity to be used for a different purpose

Implement, monitor and adjust budget as needed.
This phase of the budget process could be viewed as the "operational" phase in the process. The primary elements of this phase include managing and administering the budget, establishing policies for activities such as transfers and amendments to the budget, and establishing a control system to monitor expenditures and revenue collections.

Effective management of entity funds requires periodic evaluation of the operational budget. Evaluations center on identifying and measuring deviations between budgeted and actual expenditures, but can also involve an analysis of other categories, such as estimated and actual workloads or revenues. The amount of the deviation and the risk related to a particular budget item dictate the extent of follow-up measures that management should initiate. Common questions for identifying red flags in budget analysis include:

- Spending levels that are significantly below budget. This may indicate that certain program services are not being provided.
- Substantial deviations from caseload estimates. These deviations could signal problems with the forecasting methodology or gaps in environmental scanning.
- Frequent transfers into a program from other sources. Encumbrance systems that are inaccurate or untimely could contribute to excessive transfers.

- Material differences between budget and actual activity. Budget crises are often an indication that all levels of management have not been receiving periodic and timely budget status reports.

With respect to budget amendments, policies should be established concerning justification, fiscal impact, appropriate approval(s) and duration of amendment. Thresholds for board or commission approvals are usually found in associated by-laws.

Particular control mechanisms that pertain to the implementation and adjustment phase of the process include:

- Periodic budget reports - Generally, functional units of the entity receive monthly budget reports which allow for monitoring of expenditures and revenues. These reports provide the financial data required by the entity to control and monitor its operations, to ensure compliance with legal and financial limitations, and to anticipate changes in financial resources and requirements because of factors which may have been unknown or unforeseen at the time of budget preparation.

- Budget amendment process - This process also acts as a control mechanism in the budget process by ensuring that adequate fund levels exist within the various budget categories to support appropriate expenditures. The process includes not only reviews of expenditures but also approvals for transfers of funds.

Assess Condition:
Determine the actual process used

Conduct interviews, observe operations, and identify and collect available documentation in order to gain an understanding of the entity's actual budget process and controls. Included in the actual process are both official and unofficial processes and controls which can be assessed as outlined below.

Determine where the budget process resides in the entity, who participates in the process, and how the participants are selected.

- Obtain and review the entity's current organizational chart. In many entity's, the actual budget office and function resides within a larger organizational "cluster" such as financial services, management, or administration.
- Review job descriptions of positions assigned to the budget office or related departments.

Obtain and review any manuals, policies, and forms that could document any phase of the budget process, including its relationship to entity goals, objectives, strategies, and plans.

- LAR instructions from the LBB
- the entity’s operating budget preparation instructions or manual
- financial management or administration policy manual relating to the budgetary process

- current operating budget document and the entity's current strategic plan

Determine if and how management consciously selects and employs the assumptions, criteria, methods, processes, and techniques used in the budget process.

- Obtain ranking criteria used by the entity to prioritize their strategies as required in the legislative appropriations request instructions.
- Obtain cost-benefit and risk assessments prepared by the entity.
- Interview key players in the budget process.

In addition to gaining an understanding of the actual budget process, also try to identify potential barriers to the process by determining:

- how participants view the actual process
- what parts of the process they see as successful or unsuccessful, and why
- what they think is important about the process, and why

Determine the strengths and weaknesses of the actual process

Using the tailored criteria, the understanding of the entity's process gained above, and the procedures in this section, analyze the actual process to determine if it:

- is designed to accomplish the management objective(s) (this module, page 1)
- has controls that provide reasonable assurance that the process will work as intended
- is implemented and functioning as designed
- is actually achieving the desired management objective(s)

Suggested procedures for each of these four analysis steps are detailed below. In executing these procedures, remember to identify and analyze both strengths and weaknesses.

Identify and review the steps in the actual process to determine if the process is designed to accomplish management objective(s). Possible procedures include, but are not limited to:

- Determine if all major steps in the criteria (this module, page 6) are included in the actual process. If steps are missing, determine if their absence is likely to have a materially negative effect on the budget process at the entity you are reviewing.
- Determine if all the steps in the process appear to add value. If there are steps that do not appear to add value, try to get additional information on why they are included in the process.
- Review the order of the steps in the process to determine if it promotes productivity.

- Review the level of technology used in the process to determine if it is up-to-date and appropriate to the task. Besides computer, electronic, communications, and other mechanical technology, you should also consider what kinds of management technology are used (Gantt charts, process maps, decision matrices, etc.). See the appendix to the module on problem-solving and decision-making for more information.

Identify the controls over the process to determine if they provide reasonable assurance that the process will work as intended. These controls should be appropriate, placed at the right point(s) in the process, timely, and cost effective. Examples of various controls in the budget process include:

- Budget process timeline is a control device used to schedule and monitor the activities involved in the budget process.
- Budget amendment procedures are the entity’s means for modifying its operating budget through fund transfers, and to account for additions or deletion in fund levels.
- Budget preparation instructions, usually in the form of a manual, serve as a control device in that it contains information used to prepare the actual budget requests (standard calculation information for items such as commodities, rents, utilities, personnel expenditures, fleet expenditures, etc.)
- Financial reports produced from the entity's budget structure serve as an effective monitoring device. Examples of these reports would be the monthly operating expenditure and revenue reports and the annual financial report for the entity.

Possible procedures for evaluating these and other controls are indicated below:

- Draw a picture of the process, the controls, and the control objectives (see the graphic of the procurement process in the Introduction for an example). Flowcharts of the budget process can help identify inputs, processes, and outputs.
- Determine if the control objectives are in alignment with the overall management objective(s) (this module, page 1).
- Identify the critical points of the process, those parts of the process most likely to determine its success or failure or expose the entity to high levels of risk (i.e. budget forecasting , monitoring, adjustments, legal requirements).Identify the controls related to critical points and determine whether the controls are:
  - in the right location within the process (input, operations, output)
  - timely (real time, same day, weekly, etc.)
- Compare the cost of the control(s) to the risk being controlled to determine if the cost is worth the benefit.
- Determine what controls are in place for monitoring and evaluating the overall effectiveness of the budget process and making sure that changes are made in the process if it does not yield the desired results.

- Identify, describe, and assess the process used to gather input from employees who might reasonably discover flaws in the process.

Review observations, interviews, documentation, and other evidence and design specific audit procedures as needed to determine if the process and/or the controls have been implemented and are functioning as designed. Depending on the objectives of the project, these procedures may include tests of controls and substantive tests. Possible procedures include, but are not limited to:

- Determine if any evidence of management override exists.
- Walk through the actual process, i.e., follow a transaction through the people and documents involved, and compare to the official process.

Review and analyze any reports used by the entity to monitor the outcome(s) of the budget process and/or any other information available to determine if the process is actually achieving the desired management objective(s) (this module, page 1). Possible procedures include, but are not limited to:

- Analyze these process reports over time for trends.
- Discuss any apparently material negative or positive trends with management.
- Determine if and how management acts upon these trend reports and what changes, if any, were made in the process or controls as a result. Some process refinements, especially those affecting entity mission, goals, and outcome measures, may need to wait until the next appropriation cycle.

Review and analyze the process used by the entity to review budget requests. Possible procedures include, but are not limited to (Mikesell, pp. 506-513):

- Contact the entity head first. He/she is responsible for all items in the budget and may have the best understanding of how the components interrelate. The following items should be discussed during this first meeting:
  - -- What approach does the administrator prefer
    Are you free to meet individually with subordinates on matters in their areas, or does the administrator want to participate in all budget discussions?
  - -- What is the role of the entity's boards or commissions?
    Are they involved in the budget process?
  - -- Solicit the administrator's description of the program achievements proposed in the budget request. He or she may have goals or accomplishments proposed in the budget that might have been missed during preliminary review.

- Review previous approved budgets and LBO reports and, if possible, speak to LBO analysts assigned to the entity. This will acquaint you with past analytical approaches and will highlight executive and legislative decisions of the previous fiscal periods.

- Divide the budget into manageable segments. The request may be divided into program/strategy or organizational lines. Select one segment for analysis.
- Don't analyze dollars - analyze programs and decision packages. Dollars are an important item in budgeting. However, it is the program/strategy achievements that are budgeted, and the dollars merely provide a common denominator in expressing resources necessary to provide the programs/strategies or services. Gain an understanding of the programs and decision packages first, and the dollar levels will follow.
- When comparing proposed program levels, your base for comparison should be the latest legislatively approved level, not the entity's appropriation request. Review the performance of the entity during the first year of the biennium and compare it with the levels approved by the previous Legislature. You may find areas where the entity is spending more and accomplishing less.
- In reviewing budget request information, use a zero-based conceptual attitude and consider the following:
  - -- Is the base budget consistent with the existing approved level?
  - -- Does the base budget include expenditures which were originally approved on a "one time only" nonrecurring basis?
  - -- Are there activities in the base budget which are of lower priority than some proposed expansions, new programs, or decision packages?

- In reviewing decision packages based on increased workload, consider the following:
  - -- Is the projected workload self-generated? That is, does it represent activity levels controllable by the entity; or does it truly reflect increased demands for service by the public or other customers?
  - -- Is the proposed volume of increased workload consistent with workload patterns of previous years and supported by adequate justification?
  - -- Are the requested levels of staff, support costs, and facilities properly related to the volume of increased workload? Ratios, economies of scale, seasonal peaks and valleys of activities, and the existing capacity to absorb increased workload should be considered.
  - -- What is the true program impact of not providing the requested increased volume of service in a particular program?

- In reviewing budget amendments/adjustments which have taken place in the interim, consider the following:

- -- Were the amendments approved in the manner and at the level described? (Review board/commission minutes and other relevant documents.)
- -- Were the amendments intended for continuation into future fiscal years?
- -- Do the amendments retain sufficient priority for continuation or were they provided to meet an emergency need which is no longer critical to the entity's program(s)?

• In reviewing requests for operation of new facilities, consider the following:
  - -- Has the capital project already been approved, or is it contingent upon future executive or legislative action?
  - -- What is the latest estimate for the facility to come on-line and require operational support?
  - -- What standards or other empirical justification are available to support the estimated costs to operate the new facilities?
  - -- What offsetting savings, such as vacation of rental space, are available, and have they been reflected in the request?
  - -- What effect will the new facilities have on basic programs? Could the entity be using the new facility to go into new programs not fully analyzed? What are the future costs and benefits of these new programs?
  - -- Have the operating costs associated with the new facility been adequately budgeted for in the request?

• In reviewing decision packages which constitute program improvements, consider the following:
  - -- What is the true effect or product of the improvement?
  - -- What is the basis of the request for the improvement - who originated the demand for expanded or improved services?
  - -- What is the impact of the improvement on existing programs?
  - -- What criteria were used to develop the staff and related support costs of the improvement?
  - -- Has the improvement been previously requested and denied? If so, on what grounds?
  - -- Is the improvement consistent with entity goals, objectives, and strategies?
  - -- Is the improvement of a higher priority than an existing program or activity?
  - -- What are the future costs and benefits of the requested improvement?

• In reviewing requests for new programs, all items listed for program improvements should be considered. Determine if any revenue sources, such as special fees, are available to offset the cost of implementing the program.

Determine causes

Determine what circumstances, if any, caused the identified weaknesses in the budget process. Possible procedures include, but are not limited to:

- Determine if the participants in the budget process understand the entity's mission, goals, and values and support them through their management of the budget process.
- Determine if the participants understand both the purpose of and their role in the budget process.
- Determine if the relationship between the budget process and other entity processes is clear.
- If the process occurs at multiple locations, determine the nature and scope of the communication and coordination among them.
- Determine if the budget process has adequate human, dollar, time, information, and asset resources. If they appear inadequate, determine if entity resources have been allocated according to the importance of the budget process relative to other entity processes.
- Determine if the entity has considered using alternative resources such as industry associations, non-profit organizations, academic institutions, or other governmental entities to meet its resource needs.
- Determine if resources available to the budget process have been allocated and used in a manner consistent with the importance of that resource to the budget process.
- If there are negative trends in the reports used to monitor the outcome(s) of the budget process, determine if these reports are communicated to and used by the appropriate parties to modify the process.

Determine what internal or external constraints or barriers, if any, must be removed in order to overcome these identified weaknesses. Possible procedures include, but are not limited to:

- Review the applicable entity, state, or federal laws or regulations to determine if any prevent the necessary changes from being made in the budget process.
- Determine if any key employees are unwilling to change the process and why they are unwilling.

Determine effect

Compare the actual entity process to a recommended alternative process(es) and determine if each weakness in the entity process is material. Alternatives can be developed by using the criteria contained in this module, applying general management principles to the process, using the processes at comparable entities, etc. Materiality can be measured by comparing the dollar cost, impact on services (either quantity or quality), impact on citizens, impact on the economy, risks, etc., of the actual process to the recommended alternative process(es). Measurements can be quantitative, qualitative, or both. Possible procedures include, but are not limited to:

- Identify performance benchmarks (industry standards, historical internal data, other comparable entities, etc.) for the process in question and compare to actual performance. Measure the difference, if possible. Include the cost of the additional controls or changes in the process.
- Estimate the cost of the actual process and the alternative process(es) and compare.
- Estimate the quantity and/or quality of services provided by the actual process and by the alternative process(es) and compare.
- Identify the risks associated with the actual process and with the alternative process(es). Measure and compare the risks.

Develop recommendations

Develop specific recommendations to correct the weaknesses identified as material in the previous section. In developing these recommendations, consider the tailored criteria, kind of process and control weaknesses identified, causes and barriers, effects, and additional resources listed at the end of this module. Possible procedures include, but are not limited to:

- Identify alternative solutions used by other entities.
- Identify solutions for removing barriers.
- Provide general guidelines as to the objectives each solution should meet; then the entity can tailor the solution to its specific situation.
- Provide specific information, if available, on how each recommendation can be implemented.

RESOURCES

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Data Bases

ABEST (Automated Budget Evaluation System for Texas)
USAS (Uniform Statewide Accounting System)
USPS (Uniform Statewide Payroll/Personnel System)
HRIS (Human Resource Information System)
SPA (Statewide Property Accounting System)
State Auditor’s Office CAFE System

Human Resources

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Location: The University of Texas, Perry-Castaneda and the Public Affairs Libraries (HJ 9103 G57).

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Location: The Public Affairs Library at the University of Texas.

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Location: The University of Texas, Perry-Castaneda and the Public Affairs Libraries (HJ 2052 AZ P8).

Public Finance Quarterly
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Professional Associations

American Finance Association
New York, New York
(212) 285-8915

American Institute of Certified Public Accountants
New York, New York
(212) 596-6200

American Management Institute
New York, New York
(212) 586-8100

American Society for Public Administration
Washington, D. C.
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Association of Government Accountants
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Financial Management Association
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Government Finance Officers Association
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Washington, D. C.
(202) 289-ICMA

National Conference of State Legislature
Washington D. C.
(202) 624-5400

National Society of Public Accountants
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(203) 549-6400

Texas Association of Certified Public Accountants
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(214) 689-6000

Texas Association of Certified Public Accountants
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United States General Accounting Office
Washington, D. C.
(202) 512-6000

Related Modules and Reports

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