A PLAN FOR
MORE EFFECTIVE FINANCIAL MANAGEMENT

STATE OF CONNECTICUT

GENGRAS COMMISSION
FINANCIAL MANAGEMENT TASK FORCE
MAY 1977
The Honorable Ella T. Grasso
Governor's Office
State Capitol Building
Hartford, Connecticut 06115

Dear Governor Grasso:

The Gengras Commission's Financial Management Task Force has completed its review of the State's organization structure, systems, policies and processes for managing its financial affairs. We have identified significant opportunities to improve upon the current approaches - particularly in the areas of accounting and control systems, strengthening the linkage between planning and budgeting, and in developing a longer range financial planning horizon.

It is clear, however, that there are no easy or quick solutions to the types of problems now confronting the State. We have made specific detailed recommendations in the areas of organization of staff resources, accounting and control systems, and management processes for planning and budgeting. Given the extent of the changes required, we envision implementation occurring in phases over a period of four or even five years.

The systems and improved management tools that we have recommended will provide you, the agency heads, and the legislature with more timely and factual quantitative information upon which to make policy and operating decisions. In the final analysis, however, people not systems run government - what we can hope for is better, more enlightened decision making with factual information and measurements providing a sound basis for policy formulation and political compromise.

It is evident to us that, given the magnitude of the State's nearly $2 billion resource base and the complexity inherent in managing its diverse mix of programs and services, the current systems and management tools are outmoded and inadequate. As with all proposals involving change, some uncertainties lie ahead. However, we cannot look backward, State fiscal management must be forward looking and equip itself to meet the challenges of the future. A greater risk in our view would be to fail to act now to meet these needs and methodically implement a time-phased plan for the development of the necessary management tools.
We look forward to working with Finance & Control Commissioner Tony Milano and Comptroller Ed Caldwell in the months ahead on the implementation of these projects. Your continued encouragement and support have made this a challenging and exciting project for us all.

Sincerely,

E. Clayton Gengras

TEW:mIm

c: Financial Management Task Force

Thomas E. Winter, Chairman
Albert G. Ginouves
Winfield L. Guilmette
Charles L. Miller
John A. Russo, Jr.
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State of Connecticut

GENGRAS COMMISSION
Financial Management Task Force

Thomas E. Winter, Chairman
Albert G. Ginouves
Winfield L. Guilmette
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Mary Mazzone, Secretary

E. CLAYTON GENGRAS

May 20, 1977
A PLAN FOR
MORE EFFECTIVE FINANCIAL MANAGEMENT
STATE OF CONNECTICUT

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Financial Management Task Force
May 1977
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FOREWORD

The Gengras Commission Financial Management Task Force was formed in January, 1977 at the request of Governor Ella T. Grasso to review the State's organization of resources, systems, and processes for financial management. The Task Force's assigned objectives were to develop recommendations for improved financial management in State government through better fiscal planning, budgeting processes, measurement techniques, management reports, and through a more effective organization structure and assignment of responsibilities.

The Task Force reviewed the statutes defining the responsibilities of the Finance and Control Department, the Comptroller's Office, and the Treasurer's Office. Members of the Task Force interviewed key officials, managers, and legislative leaders concerned with these operations in order to understand the environment, problems, and approach from their perspective and to solicit their insights and recommendations. The processes and systems used for financial planning and controlling were flowcharted and analyzed in terms of their effectiveness and economy. As a result of the review, improvement actions, projects, and programs were identified. All observations, opportunities, and recommendations were discussed with the officials and managers in the departments studied. It was necessary to limit the scope of the study in order to insure its timely completion, and as a result, the Task Force did not extend its review to include debt management, investment management, pension funding, tax structure or the audit process, except as related to municipalities.

Almost all of the recommendations of the Task Force were developed through the suggestions and contributions of officials, employees, and legislative leaders. We are deeply grateful for their assistance and enthusiasm for working with us often after hours and at some personal sacrifice. In particular we would like to recognize the following individuals as having made exceptional contributions to this report: State Senator Wayne Baker and Representative Patricia Hendel, Co-Chairpersons, Government Administration & Policy Committee; State Senator Audrey Beck and Representative Gardner Wright, Co-Chairpersons, Finance Committee; State Senator Robert Houley and Representative John Groppo, Co-Chairmen, Appropriations Committee; George Conkling; Anthony Milano, Commissioner, Finance and Control; Frank Reilly, Budget Director; and Nicholas Wayne, Chief Administrative Officer, Office of the State Comptroller.

In addition, the Gengras Commission would like to express its appreciation to the following organizations for lending us their most valuable resource - talented people: The Connecticut Public Expenditure Council, Inc.; The Hartford Insurance Group - Hartford; Price Waterhouse & Co. - Hartford; and Xerox Corporation - Stamford.
I. SUMMARY OF FINDINGS AND RECOMMENDATIONS

State government in Connecticut expanded rapidly during the last 25 years and now employs over 40,000 people and spends nearly $2 billion annually. Discounting the effects of inflation, the average compound growth rate in per capita expenditures for state government in Connecticut between 1950 and 1975 has been 2.8%, while the per capita level of bonded indebtedness has grown at an average compound rate of 5.1%. This contrasts sharply with the average compound State population growth rate of 1.8%. Demands for expansion of State government services are continuing to grow while at the same time, citizens are pressing for greater government accountability and a reduction in taxes or moratorium against further increases.

Trends in Connecticut State government total expenditures, debt service, and bonded debt levels are shown in the Exhibit 1 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (millions$)</th>
<th>State Budget Debt Service (millions$)</th>
<th>Bonded Debt (millions$)</th>
<th>Total Per Capita Expenditures</th>
<th>Bonded Per Capita Debt</th>
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<tbody>
<tr>
<td>1950</td>
<td>161.3</td>
<td>8.0</td>
<td>61.8</td>
<td>70.1</td>
<td>31</td>
</tr>
<tr>
<td>1955</td>
<td>178.6</td>
<td>11.2</td>
<td>80.9</td>
<td>77.7</td>
<td>35</td>
</tr>
<tr>
<td>1960</td>
<td>312.9</td>
<td>18.6</td>
<td>104.6</td>
<td>123.0</td>
<td>65</td>
</tr>
<tr>
<td>1965</td>
<td>434.9</td>
<td>30.9</td>
<td>202.7</td>
<td>152.2</td>
<td>102</td>
</tr>
<tr>
<td>1970</td>
<td>881.7</td>
<td>79.6</td>
<td>220.4</td>
<td>290.8</td>
<td>271</td>
</tr>
<tr>
<td>1975</td>
<td>1,616.2</td>
<td>201.5</td>
<td>1724.2</td>
<td>522.6</td>
<td>557</td>
</tr>
<tr>
<td>1978</td>
<td>1,942.7</td>
<td>266.6</td>
<td>2100.0</td>
<td>621.0</td>
<td>671</td>
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(Governor's Recommended)

1950 - 1975
Average Compounded
Growth Rates

<table>
<thead>
<tr>
<th>Period Dollars</th>
<th>10.4%</th>
<th>15.9%</th>
<th>15.2%</th>
<th>8.6%</th>
<th>13.2%</th>
</tr>
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<tr>
<td>Constant Dollars</td>
<td>3.7%</td>
<td>6.2%</td>
<td>5.9%</td>
<td>2.8%</td>
<td>5.1%</td>
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EXHIBIT 1

It is the central thesis of this report that the management tools needed by the State to understand, plan, and administer its operations have not been developed and improved to keep pace with the growth in its total resources. The organization of the central staff departments
and the current financial management systems and processes were designed and developed for a much smaller organization. The management task has also grown in complexity as well as size. Today, state government programs and services in health, education, welfare, regulation, protection, and transportation touch the daily lives of its citizens in dozens of ways. Management tools have not been developed to support an understanding of the effectiveness of these programs and the efficiency with which they are being carried out.

The recommendations which follow outline how the State can take phased steps to develop the management capability to cope with the planning, administrative, and financial control tasks inherent in managing a large, complex, and diverse organization. It is the view of the Task Force that the recommended systems, management processes, and central staff organization complement rather than replace the need for political judgment and compromise. These tools can make the decisions faced by the chief executive and the legislature more understandable but can never supplant the need for leadership and political courage to face hard decisions.

A. PROBLEMS AND RECOMMENDATIONS

A brief discussion of the major financial management problems facing the State and the Task Force's recommendations follow:

- Organization

The Task Force supports the concept of organization and description of functional duties for the Office of Policy & Management (OPM), Administrative Services, and Revenue Services recommended to the General Assembly by its Government Administration & Policy Committee. Currently, the assignment of responsibility for planning, analysis, and financial management is widely dispersed. As a result, the development of effective management planning and control processes has been inhibited and accountability for planning, policy analysis and program review is not sharply defined.

The recommended organization is an essential element which logically complements the management improvements proposed in systems, controls, planning, and budgeting. It serves as the implementation vehicle for the other recommendations of the Task Force.

- Accounting & Control Systems

The accounting system does not provide timely and understandable financial data to support the management planning and decision making process. The system is costly and labor
intensive. Agencies must maintain records which duplicate similar data maintained elsewhere in the agency, in the Comptroller's Office and in the Budget Division. The larger agencies are developing their own agency accounting systems to meet their internal management needs, resulting in duplication of costly systems investments. More importantly, the statewide accounting system is not capable of timely processing, reporting, and analysis of financial data on a detailed responsibility and program basis, thereby obscuring the relationship of operations and finances, making it impossible to analyze statewide revenues and expenditures across departments on a responsibility and program basis. In short, the present accounting system is expensive and inadequate preventing comprehensive presentation of financial information to the chief executive, the General Assembly, agencies, and the central staff.

In order to achieve the routine preparation of timely, comprehensive, and understandable financial data, the Task Force recommends initiation of three major systems projects:

1. Accounting/Reporting System
2. Personnel/Payroll System
3. Budgeting/Forecasting System

The recommended projects entail a multi-year development and implementation process, formalized project task force assignments with full-time project managers and analysts, participation by the agencies, and the formation of a policy steering committee and a legislative oversight committee. The Task Force recommends an initial FY '78 funding increment of $1.0 million followed by an annual commitment of approximately $1.0 million per year for each of the next three years for a total project cost estimate of $4.0 million. The funding will be used for personal services and other expenses associated with the projects, including consultants which may be required to supplement the technical expertise available within the State. The systems cost estimates presume the transfer and adaption of systems developments from other states. The exploration and systematic analysis of this transfer potential must be an integral part of the project management process for the recommended systems. The potential exists to reduce the total cost for all of the systems below the $4.0 million planning estimate through maximization of transfer opportunities.

- Financial Management Processes

The problems of the financial planning, budgeting and control processes were identified by the Task Force and categorized as follows:
1. The budget preparation process is not supported by early management guidance or direction. Hence, there is little time for planning and consideration of alternatives. Substantial waste of effort occurs.

2. Spending decisions and program evaluations are made without a clear picture of their impact on succeeding years, since financial planning is related primarily to one year, the budget year.

3. The financial and performance reporting systems are inadequate. Timely reports of expenditures on a responsibility and program basis are not available. Spending decisions, therefore, cannot be measured. The measurement of performance and productivity are minimal. Program and performance measures are not always related and have not been uniformly defined. Hence, program and productivity information cannot be related to performance.

4. The annual budget is developed primarily based on a review of requested increments. The lack of performance measurement for programs and activities combined with an inadequate accounting data base prevent incisive budget review.

5. The Budget Division must apply expensive, duplicative procedures to estimate agency expenditure requirements and lapses each month. In addition, due to lack of an exception control reporting system, the Budget Division reviews all detailed resource requests prepared by the agencies. This centralized responsibility for decision making, requiring clearance of details through the central staff, is an expensive process and results in the "second guessing" of agency spending requests.

The Task Force has developed the following recommendations to correct these deficiencies and improve the financial management process:

1. Expand the planning and budgeting horizon by developing a detailed two year budget followed by a forecast of two additional years, the latter prepared by the central staff. The two year detailed budget would be reviewed and appropriated annually, with the second year subject to update the next year. The staff financial forecast for two additional years would be included as background information to portray the impact of the programs in the two budget years on the succeeding years.
2. Establish a schedule for budget preparation which includes a planning cycle before budgeting, planning meetings to establish objectives, target zero base program reviews, and statewide planning guidelines for economic factors (e.g. inflation, demographics, cost of fuel, and services, etc.)

3. Define and identify statewide programs and measures of performance and productivity for programs.

4. Institute a selective program of zero base budgeting (ZBB) on a phased basis so that within a five year period all agencies and programs have been through a ZBB review.

5. Develop monthly budget control reports to be produced by the new accounting systems which will reflect a comparison of actual and budgeted results on a program and responsibility basis.

6. Implement a two year financial forecast and monthly update process to reflect the central staff's current assessment of the State's financial future based on current economic trends, expenditure trends, and recent policy decisions. This forecast will serve as the official financial planning base for all financial analyses and studies including the monthly projection of statewide revenues and expenditures published by the Comptroller's Office.

Collective Bargaining

The initial round of collective bargaining negotiations highlights the need for greater financial discipline and control over the bargaining process. These controls are necessary in order to understand the full financial impact of commitments made during the negotiations and to relate the results of the individual constituent unit negotiations to an overall financial plan. The Task Force recommends that a management process be developed by the Secretary - Office of Policy & Management requiring the Governor's approval of a set of financial planning guidelines at the outset of negotiations, any subsequent guideline changes, and finally approval of the financial impact of all proposed negotiating offers and contract settlements on a statewide basis. More disciplined management of the collective bargaining process will require statutory revision. This process will work only if all executive units are held accountable to the chief executive's planning guidelines, including the units of higher education which are currently outside of the chief executive's direct control.
Cash Flow Improvement

The opportunity exists to increase the State's income from interest on tax receipts by $2 to $4 million dollars annually through accelerated processing of taxpayer payments in the Tax Department on an interim basis and eventually through a lock box program with local banks permitting direct deposit and application of checks from taxpayers.

Accounting & Budgeting Policies

1. Accounting Policies - Currently, the State uses a modified cash method of accounting. Some revenues are accrued while all expenses are recognized at the time cash is disbursed for payment. As a result, the State's financial statements are not prepared using generally accepted accounting principles established by the National Committee on Governmental Accounting and the American Institute of Certified Public Accountants. In addition, financial information reported by this method could potentially be manipulated by varying the categories of revenues accrued as well as by deferring the payment of bills.

The Task Force recommends that the State adopt the modified accrual method of accounting, using accrual accounting for both revenues and expenditures. If this change in accounting policy were implemented, the State budget would be impacted by approximately $25 to $30 million of additional expenditures for accrual of payroll and other expenditures. Clearly, this large negative financial impact would not be digestible in a single year. We therefore, recommend that the Comptroller in consultation with the Secretary - OPM prepare a plan showing how the State can comply with generally accepted accounting principles and develop a phased implementation plan to spread the negative financial impact over a period of several years.

2. Budgeting Policies - The State's experience with the deterioration in its credit rating has resulted in consideration within the General Assembly of several proposals for statutory changes or constitutional amendments requiring balanced budgets and bonding guidelines. State statutes already impose similar requirements on local governments. The Task Force supports the principle that the state should be required to have annual balanced budgets and that it should borrow only for capital improvements. It is the Task Force's recommendation that these issues be referred to the Fiscal Statutes Revision Committee for action during the 1978 Session including determination of whether the most effective implementation vehicle is statutory change or a constitutional amendment.
B. IMPLEMENTATION PLANNING

• **Current Status** - The Task Force fully supports the organization structure and definition of responsibilities for the Office of Policy & Management, Administrative Services, and Revenue Services sent to the General Assembly by its Government Administration & Policy Committee in its government re-structure bill. Enactment this session will permit the recommended organization changes to be effective October 1, 1977.

The Finance Committee has sent the General Assembly a bill on municipal financial oversight. The Task Force considers this bill a responsible first step and supports its passage.

The Appropriation Committee has recommended earmarking $1.0 million in the FY '78 appropriation to support the accounting/control systems development recommended by the Task Force.

Draft legislation dealing with the statutory changes necessary to insure long term commitment to the financial management process changes have been completed and it is the Task Force's recommendation that they be reviewed by the General Assembly's Fiscal Statutes Revision Committee for action early in the 1978 session. The statutory revision drafts include Program Budgeting, Zero Base Budgeting, and Two Year Budget/Two Year Financial Planning and are included in Appendix A.

• **Key First Year Milestones** - Major milestones for the next twelve months and a detailed implementation timetable are presented in Chapter X. Accomplishment of the following near term objectives is of primary importance to the overall success of the recommended action plan:

1. Organization re-structure, Office of Policy & Management and Administrative Services...

   - Designate new departments heads 
     July 1, 1977
   
   - Complete detailed implementation plan 
     September 1, 1977
   
   - Implement the plan 
     October 1, 1977

7
   - Complete Personnel/Payroll System
definition
     December 1, 1977
   - Complete statewide structure definition for
     the Accounting/Reporting System
     December 15, 1977

3. Financial process changes . . . .
   - Develop rolling 24 month financial forecast
     and update procedures
     August 1, 1977
   - Present Governor with tentative FY '79 budget
     accompanied by three year staff financial
     projection
     November 15, 1977

The overall schedule for implementation of all of the changes and systems improvements
recommended by the Task Force is a four year plan as shown in Exhibit 2. Given the broad scope
of the recommendations and the fundamental nature of the systems development required, it is
not reasonable to expect that they could be digested and implemented on a more rapid schedule.
Slippage of one or two months in the development of the accounting/reporting system could delay
the implementation of the financial management process changes by one year because of the
timing of the annual budget cycle. Action must start immediately and implementation must be
closely coordinated and monitored throughout the four year period. Emphasis on achievement of
the near term milestones and commitment to the overall recommendations as longer term
objectives to be achieved on a phased basis over the succeeding several years is essential.

- Implementation Responsibility

The Task Force has recommended that the Comptroller assume responsibility for the
Accounting/Reporting and Personnel/Payroll Systems Projects and development of a time-
phased plan for the implementation of the recommended accounting policy changes. The
Secretary of the Office of Policy & Management should assume responsibility for the
Budgeting/Forecasting systems project. The project schedules have been outlined for a
four year period for planning purposes. The project milestones beyond the next 12 month
period, particularly, should be viewed as planning goals which must be confirmed by
detailed implementation planning. The project manager under the direction of the
Comptroller and with the guidance of the project steering committee, should prepare detailed work schedules for each project. The specific detailed project schedules for implementation may therefore encompass a period of years extending beyond the four year plan contained herein.

The Secretary of Office of Policy & Management should assume responsibility for the financial management process changes as well as the changes in collective bargaining, capital and facilities planning and the recommendations on other financial matters. In addition, the Secretary - OPM should also assume responsibility for working with the appropriate legislative committees on approval of the recommended statutory changes.

Full responsibility for implementation of the improvements recommended must of necessity be the responsibility of senior officials and managers within State government. However, the Task Force has agreed to assist in this process by being available on a monthly basis for one day follow-up and consultation meetings with the Secretary - OPM and the Comptroller.
II. ORGANIZING FOR EFFECTIVE MANAGEMENT

The Task Force reviewed the current organization structure and the assignment of responsibility for planning, analytical and financial management tasks. Fragmentation of these duties and responsibilities has inhibited the development of organizational accountability and the planning and control processes required for effective management of the State's resources. In the current organization, tasks such as planning, budgeting, and analysis are comingleg with general support functions such as Purchasing, Data Processing, and Central Collections to the detriment of both activities. The Chief Executive has no single source of staff advice in the executive policy formulation and decision making process. The agencies have no single source in central government accountable to provide them with the general support services required to perform their line agency functions effectively. Organization charts depicting the current organization for Finance and Control, the Comptroller's Office, Planning & Energy Policy, and the Treasurer's Office are shown in Appendix B.

The Task Force supports the concept of organization and descriptions of functional duties for the Office of Policy & Management (OPM), Administrative Services, and Revenue Services departments contained in the restructure legislation recommended to the General Assembly by its Government Administration & Policy Committee. This legislation and the Task Force recommendations also closely parallel the major conclusions of the Filer Committee regarding the need for a single staff supporting the Chief Executive in the areas of policy formulation, planning, and analysis and the need to separate this staff from the organization responsible for providing general support services to the agencies.

The organization and functional recommendations which follow should be viewed as a detailed implementation plan for the duties and responsibilities contained in the proposed restructure legislation. We do not, however, perceive organizational realignment as the sole solution to the financial management problems currently confronting the State. We believe that the organization changes the Task Force has recommended complement and support the systems and process recommendations outlined in subsequent chapters of this report. A brief functional description of the recommended organization structure and the major innovations in this organizational concept follows.

A. OFFICE OF POLICY & MANAGEMENT

The Office of Policy & Management should function as the principal source of staff planning, analysis and policy advice for the Governor in the formulation and coordination of
executive policy and decision making in the areas of management, budgeting and control, planning, energy policy, program analysis, and intergovernmental relations and policy. It will consolidate responsibilities for policy formulation dispersed throughout State government to provide the Chief Executive with a single source of high level staff analysis and planning advice. The recommended organization structure for OPM is shown below in Exhibit 3 followed by a description of the functions of its components.

OFFICE OF POLICY AND MANAGEMENT ORGANIZATION

EXHIBIT 3

1. Program Planning & Policy Analysis- This unit will provide central staff leadership for the definition of a statewide program structure and the development of a program review mechanism for the measurement of programs and objectives. Spending decisions in the State government are largely made on a program basis. However, the decisions cannot be related to measureable performance factors
because the current cost accounting systems collect costs on the basis of function or responsibility but not by program. The result is an inability to relate program policy and decision making to actual results. Program Planning and Policy Analysis will work with the Management Services staff of OPM and the Comptroller's Office to provide a consistent measurement basis between program planning and actual program costs in the new accounting and budgeting systems. In addition, this staff will perform special policy analyses as required - i.e., tax structure alternatives, welfare/education financing alternatives, and others. The economic forecast for the State will be developed by this staff in conjunction with the use of outside services such as Chase Econometrics and Data Resources. The economic forecasting function is placed in Program Planning & Policy Analysis rather than the Budget Division in order to enhance its objectivity and independence.

2. **Budgeting & Financial Management** - The Budgeting and Financial Management unit will assume all of the current functions of the Budget Division plus responsibility for developing and updating a statewide long range plan encompassing revenues, operating expenses, facility needs, and capital requirements.

3. **Management Services** - A Management Services unit will be formed from the current Management Division in Finance & Control to provide the personnel and leadership necessary to design management planning and control systems. Major systems efforts will be required to develop performance reporting and analysis systems, automate the budgeting process, develop a long range financial forecasting tool, and coordinate these requirements with the Accounting and Personnel/Payroll Systems Projects being implemented under the direction of the Comptroller's Office.

A key deficiency in the State's financial management process noted by the Task Force is the lack of up-to-date procedures manuals describing in detail key segments of the financial planning and control processes, i.e., budget preparation, capital budgeting, long range capital and facilities planning, management controls over manpower hiring, and contractual commitments. The Management Services unit will be assigned the responsibility for working with the Budgeting & Financial Management Unit, the Comptroller's Office, and Personnel to develop and publish the required procedures manuals.

The Management Services staff will act as internal management consultants for the Governor and State agencies in the areas of productivity and efficiency studies,
methods, and procedures. The objective is to provide the State with the internal resources and capabilities to provide on a continuous basis some of the functions performed by numerous ad hoc citizens groups over recent years.

4. Intergovernmental Relations & Policy - All functions related to coordination and formulation of policy and relations between the State and the federal government and the State and municipal governments will be consolidated in this staff. The current Municipal Audit function from the Tax Department is included in this unit. Its functions are broadened to include providing financial expertise and assistance to towns requesting such assistance in addition to its statutory audit review responsibilities. Another primary responsibility of the Intergovernmental Relations & Policy staff will be to act as a clearing house for all federal aid programs and to insure that all opportunities for the State to participate in federal revenue sharing and/or cost reimbursement programs are maximized.

5. Chief Administrative Officer - Currently, many subordinate organizations comprising both the Office of Policy & Management and the Administrative Services Department have administrative offices housing fiscal management, personnel support, and other general administrative functions. Under the recommended organizational concept for both OPM and the Administrative Services Department, these separate administrative units will be consolidated into a single administrative unit headed by a Chief Administrative Officer servicing the entire department. This consolidation should result in a substantial savings of redundant positions.

6. Energy Policy - This unit will be formed from the current Planning & Energy Policy Department and will have responsibility for energy policy formulation and analysis, federal programs coordination, and oversight of statewide implementation of energy policies. The remainder of the staff from the current Planning & Energy Policy Department will be transferred to the Program Planning & Policy Analysis unit of OPM.

B. ADMINISTRATIVE SERVICES DEPARTMENT

An Administrative Services Department should be formed to provide a single organization for the general support and other functions required by the line agencies. Previously, the management of these functions has been widely dispersed in State government. These functions include Personnel and Labor Relations, Purchasing, Data Processing, Central
Collections, and Public Works (less its regulatory functions and long range capital and facility planning). A major objective of the Commissioner of this new Department will be to promote maximum efficiency and economy in the delivery of these general support services to the agencies. Since these services lend themselves readily to direct comparison with the private sector, cost factors should be developed comparing internal costs to cost factors for similar services in private industry, i.e., data processing services. Productivity improvement objectives resulting in reduced service costs and greater efficiency should be a part of the budget development cycle for the Administrative Services Department. This will provide users of these services with assurance that they are cost competitive compared to outside sources. In situations where these services cannot be provided internally on a cost competitive basis, the State should re-evaluate its internal operations and consider the possibility of replacing these operations with vendor services provided on a contract basis at reduced cost. The recommended organization structure for Administrative Services is shown below in Exhibit 4 followed by a description of the functioning of the components.

**ADMINISTRATIVE SERVICES ORGANIZATION**

![Diagram of Administrative Services Organization]

- **Purchasing**
  - General support services - travel, office furniture, supplies, office equipment, stationery, etc.
  - Regional laundries
  - Surplus property administration
  - Procurement
  - Standards & inspection
  - Federal food programs

- **Data Processing**
  - Information systems & programming services
  - Central computer data, center operations
  - Advanced systems planning
  - Criminal Justice Information Systems Project
  - Systems standards and systems audit

- **Personnel and Labor Relations**
  - Personnel policy formulation and analysis
  - Labor relations and collective bargaining
  - Personnel services - affirmative action - classification and compensation - training and development - municipal services - psychometric - public service employment - employee suggestions

- **Central Collections**
  - Medical accounts
  - Public assistance accounts
  - Special investigations
  - Field collection operations

- **Facilities Property Management**
  - Property Management
  - Architectural & engineering services
  - Cost estimating
  - Buildings & grounds
  - Construction

**EXHIBIT 4**

15
1. **Purchasing** - Responsibility for providing general support services such as travel, relocation, office furniture, office supplies and equipment, stationery, etc. will be shifted from the Comptroller's Office to Purchasing.

2. **Data Processing** - The existing central State Data Processing Division in the Finance and Control Department will be transferred intact to Administrative Services. Management emphasis should be placed upon development of a long range systems plan which is agreed to by the agencies to capitalize on economies of scale and elimination of redundant systems/hardware where they are found to exist. Standard cost and service level factors should be developed comparing internal data processing operating factors to similar statistics from the private sector.

3. **Personnel** - Total responsibility for personnel policy formulation, administration, and labor relations collective bargaining will be vested in an integrated Personnel and Labor Relations Division reporting directly to the Commissioner, Administrative Services. From time to time, it may be advisable to supplement the expertise available in the personnel organization with outside talent through ad hoc citizens consulting groups or through OPM staff studies. However, the focus of these activities should be a problem identification and definition of alternatives and should in no way be construed as relieving the Personnel and Labor Relations Division of primary responsibility for personnel policy. Financial oversight over all proposed compensation policy actions will be provided by OPM.

4. **Central Collections** - The Central Collections organization will be consolidated into Administrative Services because its activities are at least half administrative in nature (i.e., providing central administrative and billing services for hospitals, etc.) and also because no co-location efficiencies (resource or facilities) could be identified as a result of consolidation with the Tax Department.

5. **Facilities & Property Management** - The Public Works organization less its current regulatory functions and its responsibility for long range capital and facilities planning will be consolidated into Administrative Services. Responsibility for long range capital and facilities planning will be assumed by OPM along with its responsibility for financial oversight of capital projects. The Administrative Services/Public Works organization will then be primarily responsible for the implementation actions (i.e., design and construction or leasing) necessary to implement a particular facility project which has been approved earlier as part of the
statewide facility plan. The Property Review Board will continue its oversight functions related to actual implementation of individual facility projects as it does currently. During the facility and capital planning process, Administrative Services/Public Works will be responsible for supporting OPM with project cost estimates and technical feasibility studies as necessary.

6. **Chief Administrative Officer** - A consolidated unit for the entire Administrative Services Department, similar to the unit created in OPM, will be established to provide fiscal management, personnel support, and other general administrative functions.

C. **IMPLEMENTATION APPROACH**

Statutory authority to implement the recommended changes will occur with passage of the government restructure legislation by the General Assembly. A detailed implementation plan for the restructured departments should be developed by the new department heads not later than September 1, 1977 in order to facilitate an orderly implementation process on October 1, 1977 as envisioned by the statutes. In order to meet these dates and to allow the detailed implementation plans to be developed by the people who will ultimately be responsible for their implementation, the new department heads should be designated by the Governor during July 1977.
III. ACCOUNTING AND CONTROL SYSTEMS

A. THE CURRENT SITUATION

1. Description of Systems

   The flowchart presented as Exhibit 5 reflects the general flow of information in the existing accounting system. The major systems which classify data and process transactions are the revenue, accounts payable, and payroll/personnel systems.

   a. Decentralized Accounting Systems. Agencies and departments have developed parallel accounting systems to provide management control. The data which flow from the revenue, payables and payroll systems into the accounting systems in the departments and agencies are initiated by document preparation procedures which are largely manual processes. The documents are audited and recorded and management reports are prepared in the agencies and departments. The management reports generally include appropriation, allotment, encumbrance, and expenditure status as well as selected revenue information. Since each department and agency has developed accounting systems for management control, the processes and reports may be manual, mechanical, or computerized.

   b. Centralized Accounting Systems. A central accounting system has been developed to provide appropriation control. Copies of the input documents from the decentralized systems are transmitted to the Comptroller's Office where the documents are audited and transactions are recorded in the centralized accounting system in a series of steps which involve mechanical, manual, and computer processing systems. The financial reports produced by the Comptroller's system are primarily to provide the status of appropriations, allotments, encumbrances, and expenditures. In addition, reports of revenue are also produced.

2. Summary of Findings

   The existing systems are inadequate for classifying, processing, and reporting information to support the management process.

   a. Classifying. The central account structure is not adequate for all departments and agencies; expanded account structures have been developed in many depart-
FLOW OF INFORMATION

EXISTING

ACCOUNTING

MANUAL/Mechanical/Computer Reporting

Management Reporting

- Appropriation
- Allotment
- Encumbrance
- Expenditure

FINANCIAL REPORTING

- Estimated Revenues
- Revenue

LEGISLATIVE

EXHIBIT 5
ments and agencies. The responsibility and program account classifications are not coordinated centrally; statewide program summarizations and comparisons can not be prepared.

b. **Processing.** The information systems are manual. Payroll, payables, and revenues are processed centrally, and centralized systems must be maintained for appropriation control. Management information is not available centrally; decentralized systems must be maintained for management control. Duplicate forms are required for data entry. Data are entered in each location needing timely information. Data are edited manually each time data are entered in each location. Data are recorded manually in each location needing timely information. Records are duplicated in each location needing timely information; duplicate records are reconciled.

c. **Reporting.** Central accounting prepares fund and appropriation accounting reports manually. Reports for management control are prepared in each location needing management information but are not prepared centrally; comparisons between planned and actual data are not provided for program and responsibility. Key items are not emphasized, and exceptions are not highlighted. Performance reports are not prepared; efficiency and effectiveness are not evaluated systematically. Analysis and evaluation of vendor, personnel and revenue data are impractical.

3. **Definition of Key Problems**

The key problems inherent in the present systems are:

a. The structure of the central account codes for classifying data does not coordinate program definition and reporting for the State. In addition, the account structure has not been designed to provide adequate definition for classifying data for management control and performance evaluation in the departments and agencies.

b. Processing and reporting are essentially manual. Bookkeeping machines are used in the Comptroller's Office to post the appropriation ledger and the general ledger and to prepare the check and warrant registers. Since these manual systems do not provide timely information, agencies and various levels
within agencies must also account for each transaction in order to maintain information for management control. Numerous accounting systems have been developed in the State.

c. The central accounting system does not record the details of transactions. Commitments and expenditures are reported only at the appropriation level. Each transaction is also keypunched to provide detailed analysis of revenues and expenditures monthly, but the information is not timely.

d. Forecasts can not be prepared effectively within the framework of the account structure and the manual methods of processing and reporting data.

e. Exception and key item reports as well as performance reports are not prepared. Analysis of vendors, revenues, and personnel are impractical.

f. The manual processes which necessitate the duplication of systems to provide timely information are expensive. Our estimate is that these systems cost the State about $19.5 million each year to operate.

B. RECOMMENDATIONS

An information system is the mechanism for classifying data, processing data, and reporting information which supports analysis, evaluation, and decisions as an integral part of the management process. The system operation should be efficient, and the information produced should be timely, accurate, and useful.

1. Definition of Key Objectives

The key objectives of our systems recommendations are:

a. Design an account structure to coordinate the classification of data for programs and responsibilities and provide the detailed data required for management decisions.

b. Provide a single point of data entry for accounting transactions to eliminate duplication and minimize manual processing.

c. Develop computerized systems to automate the processing of revenues, payables, and payroll and the preparation of transaction documents.
d. Develop a computer data base which includes financial and statistical data as well as accounting and budgeting data.

e. Develop computerized reporting systems to provide information for management control, performance evaluation, cash management, and special analysis as well as financial reports.

2. Outline of System Requirements

The general flow of information in the recommended accounting system is shown in Exhibit 6. An important characteristic of the general structure of the system is the single point of entry for processing all transaction documents; duplication and manual document processing are eliminated. The processing of input data through the three main accounting support systems of revenue, accounts payable, and payroll/personnel is computerized.

The accounting data is recorded in an account data base established to support reporting and analysis for responsibility reporting as well as for program and project reporting. The account structure also provides a data base for the accounting processes involving auditing and paying invoices, classifying and identifying revenues, processing payroll, and other essential functions. The system is designed to accept appropriation and budget data as input and to report comparisons of actual data and budget data monthly for both responsibility and program levels.

a. Reporting. The flowchart also illustrates a capacity for automated reporting. The key characteristics of the automated reporting capability of the system are:

Management Reporting. The systems provide management reporting both at the responsibility level and the program level. Budgeted amounts for the period are compared with actual amounts for the period and differences are reported to identify exceptions. Summaries of the detail reports are prepared for different levels of management. Key items can be monitored.

Performance Reporting. The system provides the capability of developing performance reporting to measure efficiency and effectiveness in organizations and programs. Efficiency can be measured by comparing the ratios of planned results and planned costs with actual results and actual costs. Effectiveness
can be measured by comparing planned results and actual results. The account
data base will accumulate statistical as well as financial data to provide
information for measurements of performance and productivity.

Analytical Reporting. Analytical reporting provides the capability for using
information accumulated in the account data base in a manner which may not
have been provided for in the development of routine management and
performance reports. Special reports for analyzing the distribution of business
to vendors, the distribution of personnel by types of positions, and trends of
costs by vendor and by personnel categories are examples of types of analytical
reports. Special revenue reports could be important to support financial analy-
sis and forecasting capability.

Cash Reporting. Reporting of cash status and activity improves the capability
of the Treasurer to manage the State's cash position and cash flow.

Account Status Inquiry. Authorized individuals may inquire about the status of
any account and receive immediate responses as to the status of the account
balances.

Financial Reporting. The system reports estimated revenue and actual revenue,
as well as the appropriation, allotment, encumbrance, and expenditure infor-
mation expected in a government financial system.

b. Functions and Features. The following system functions and features are char-
acteristics of the recommended accounting system:

Central Accounting

Functions -
Recording Data
Accounting for Appropriations
  Appropriations
  Allotment
  Encumbrance
  Expenditures
Accounting for Revenue
Reporting Information
Management
Performance
Financial

Features -
Automatic Update of Balances Daily
Online Inquiry of Balances
Daily Transaction Reports
Daily Cash Reports
Automatic Monthly and Year-End Closing
Periodic Status Reports
Automated Audit Reports

Accounts Payable

Functions -
Determining Fund Availability
Processing Claims
Auditing Claims

Features -
Twenty-Four Hour Turn-Around of Transactions
Automatic Update of Accounts
Computerized Auditing
Statistical Sampling

Payroll/Personnel

Functions -
Processing Personnel and Position Changes
Maintaining Personnel and Position Status
Reporting Personnel and Position Status
Reporting to Government Agencies
Determining Unfilled Positions
Forecasting Payroll Expenses

Features -
Daily Update of Personnel/Position Status
Automatic Update of Account Status
Automatic Preparation of Payroll Reports
Automatic Preparation of Payroll Checks
Computerized Auditing of Transactions

Budgeting/Forecasting

Functions -
Preparing Budget Requests
Developing a Recommended Budget
Developing the Appropriation Act
Controlling Changes to the Appropriation Act

Features -
Historical and Requested Information
Online Update of Changes
Automatic Update of Accounting Records
Development of Monthly Budget Amounts

The features of the system outlined are essential for providing a satisfactory flow of accurate, useful, and timely information to the legislature, the executive, and the departmental management.

C. IMPLEMENTATION APPROACH

In order to develop a successful approach to implementation and to achieve the objectives and functions identified in the outline of system requirements, we are proposing the following three major systems projects:

- Accounting/Reporting System
- Payroll/Personnel System
- Budgeting/Forecasting System

The accounting/reporting system will provide information which can be used to analyze revenue, manage cash, analyze vendor purchases, control commitments, pay bills on a timely basis and report for management control, performance evaluation, and appropriation control.
The payroll/personnel system will be used for processing personnel and position changes, analyzing personnel costs, paying employees and retirees, monitoring attendance, reporting to various government agencies, and providing forecasts and estimates which can be used for management planning, cost analysis, and bargaining with employee unions.

The management uses of the budgeting/forecasting system include analysis of the impact of budget decisions, preparation of budgets, modification of budget requests, and control of changes to the budget and appropriation act.

1. **Project Organization**

   Our suggestions for a project organization are illustrated in Exhibits 7, 8, and 9. The organizational characteristics of each of the project task forces are as follows:

   a. A task force comprised of a full-time project manager and project analysts is established;

   b. The project managers responsible for the accounting/reporting and the payroll/personnel projects report to the Comptroller; the project manager for the budgeting/forecasting project reports to the Commissioner of Finance and Control;

   c. The project task force is augmented by representatives of interested and involved departments as required during the course of the project.

   The Comptroller, for purposes of these projects, will report to a Steering Committee composed of representatives of the Comptroller, the Treasurer, Department of Finance and Control, Personnel, and Data Processing. The major functions of the Steering Committee will be to review and examine the progress of each project to determine that the needs of all interested agencies are provided for in the execution of the design and implementation processes and that implementation is completed.

   In addition, we suggest the formation of a Legislative Oversight Committee comprised of representatives of certain key functions such as Finance, Appropriations, Legislative Management, Office of Fiscal Analysis, and the State Auditors. The principal function of the Legislative Oversight Committee will be to determine that the needs of the legislature are provided for in the design and implementation of the proposed systems and further to insure that the systems provide for implementation
ACCOUNTING/REPORTING SYSTEMS ORGANIZATION

COMPTROLLER

STEERING COMMITTEE
- COMPTROLLER
- TREASURER
- FINANCE AND CONTROL
- DATA PROCESSING

TASK FORCE
- PROJECT MANAGER
  - OPERATIONS ANALYST
  - ACCOUNTING ANALYST
  - DATA PROCESSING ANALYST
  - REPRESENTATIVES (AS REQUIRED)
    - COMPTROLLER'S DEPARTMENT
    - FINANCE AND CONTROL DEPARTMENT
    - TREASURER'S DEPARTMENT
    - PERSONNEL DEPARTMENT
    - AGENCIES

LEGISLATIVE OVERSIGHT COMMITTEE
- FINANCE
- APPROPRIATIONS
- LEGISLATIVE MANAGEMENT
- OFFICE OF FISCAL ANALYSIS
- STATE AUDITORS

EXHIBIT 7
PERSONNEL/PAYROLL SYSTEMS ORGANIZATION

COMPTROLLER

STEERING COMMITTEE

TASK FORCE

PROJECT MANAGER

LEGISLATIVE OVERSIGHT COMMITTEE

COMPTROLLER

PERSONNEL

DATA PROCESSING

FINANCE AND CONTROL

ANALYST

ANALYST

REPRESENTATIVES (AS REQUIRED)

COMPTROLLER'S DEPARTMENT

PERSONNEL DEPARTMENT

FINANCE AND CONTROL DEPARTMENT

TREASURER'S DEPARTMENT

AGENCIES

FINANCE

APPROPRIATIONS

LEGISLATIVE MANAGEMENT

OFFICE OF FISCAL ANALYSIS

STATE AUDITORS

EXHIBIT 8
of appropriation controls and other reporting capabilities as deemed necessary by members of the committee.

2. **Project Tasks**

The tasks required to make an information system operational can be grouped into three steps: System Definition, System Development, and System Implementation.

a. **System Definition.** System definition is based on an analysis of the operations in order to define the objectives, activities, and organization of the departments and agencies and an analysis of the systems of collecting and processing data as well as reporting information.

From the operations and system analyses, the project task force will define the requirements of the system in terms of the operations to be performed by the system and in terms of the structure of the system including data flow, file structure, reports and documents, and other technical requirements such as file-size, data transmission capability and data handling capability.

The definition of requirements of the system provides a standard for analyzing and evaluating alternatives to satisfy the system requirements in order to minimize the cost and time required to implement the proposed new systems.

In addition, we expect the project task force to define the organizational impact of alternative methods of implementing and operating the proposed system. This will include the effect on department and agencies as well as the central organizations such as the Department of Finance and Control, the Comptroller's Office, and the Treasurer's Office.

Another major output of the system definition step is to define the system development and implementation plan. We expect the system development and implementation plan to include details of the tasks, schedules, resources, responsibilities, and other requirements to achieve the next step in the program which would involve the system development program.

b. **System Development and Implementation.** The tasks included in the system development will involve detail design, programming, testing, forms design and other matters required for preparation for a successful implementation
program. This might include, for example, analysis of the sequence of implementation by agency, analysis of the sequence of modular implementation of various segments of the system and so forth. In addition, we would expect that during this process the original development and implementation plan would require modification based on additional knowledge of the details of the system and requirements for operation, hence we would expect a more detailed system implementation plan.

System implementation will involve all the steps necessary to install the system and provide for future operation and maintenance on a satisfactory basis.

3. Project Timetable

The recommended timetable for each major step in the three projects is illustrated as Exhibit 10:

RECOMMENDED TIMETABLE FOR SYSTEMS PROJECTS

MILESTONES

1. DEFINE
2. DEVELOP
3. IMPLEMENT

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EXHIBIT 10

32
We have planned the start of the accounting/reporting project in July 1977. It is imperative that the design of the account code structure for the account data base be made available in late 1977 in order that it may be considered as an integral part of the development of the personnel/payroll system. We have planned that system development will start in July 1978 and continue into 1979 and 1980. Implementation of selected portions of the system should begin in July of 1979. The reporting capability of the system should be implemented by July 1979.

System definition of the payroll/personnel system has already begun, and we suggest that a project task force be formally organized. The payroll/personnel system project should enter the development process during 1977 and proceed into the implementation phase in 1978 and 1979.

The design steps of the budgeting/forecasting system would begin early in 1978 with implementation in 1979.

The project schedules have been outlined for a four year period for planning purposes. The project milestones beyond the next 12 month period, particularly, should be viewed as planning goals which must be confirmed by detailed implementation planning. The project manager under the direction of the Comptroller and with the guidance of the project steering committee, should prepare detailed work schedules for each project. The specific detailed project schedules for implementation may therefore encompass a period of years extending beyond the four year plan contained herein.

We have estimated project funding needs for the fiscal year 1978, and we have indicated likely funding requirements for 1979, 1980, 1981. These estimated needs are shown as Exhibit 11.

We recommend the preparation of an appropriation request for an amount of approximately $1 million for fiscal year 1978 in order to support the three recommended system projects. The funding will be used for personal services and other expenses associated with the projects, including consulting services as required. It is likely that project funding requirements for the three projects will total about $1 million a year for three additional years. These estimates assume that systems development costs can be reduced by transferring applications developed in other states. The estimates of development and implementation costs will be refined after the system definition steps are completed. The total project costs then may amount to about $4 million over a period of four (4) years. Lesser amounts may suffice, depending on the extent to which existing systems in other states can be transferred hence reducing development costs.
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APPROPRIATION REQUEST  LIKELY PROJECT FUNDING REQUIREMENTS

EXHIBIT 11
4. Potential Benefits and Conclusions

We are convinced that the recommended project expenditure levels are justified in terms of management needs and specific future benefits which can be achieved through the use of the recommended systems. The State's budget of approximately $1.8 billion includes committed costs amounting to about 60% of the $1.8 billion and managed costs comprising about 40% of the $1.8 billion or $700 million. Committed costs represent resource uses determined by past decisions and are more difficult to change in the short run. Such costs include debt service, welfare, retirement costs, and subsidies to towns and cities. Managed costs, on the other hand, represent resource uses determined by current decisions and are generally controllable in the budgetary process. Such costs include personnel, services, materials, and other items.

Management can improve the use of resources in three major ways:

- cost avoidance
- cost reduction
- cost reallocation

These management capabilities can be enhanced significantly through the use of the systems recommended in this report. We believe that the management of the various departments of the State will be able to improve the use of resources over a period of several years so that 10-20% of the managed cost base or $70 million to $140 million can be redeployed.

Improved financial information provided in the revenue system will provide enhanced capability for reimbursement of costs from the federal government. One agency estimates that approximately $5 million per year reimbursement can be captured by providing more detailed and more accurate cost information to the federal government for reimbursement purposes. Therefore, it is our belief that something in excess of $5 million per year in federal reimbursements can be anticipated.

The present accounting information systems are expensive. Estimates of the costs of operating the systems total approximately $19.5 million per year. We believe that implementation of the proposed automated systems will over a period of time reduce
the operating costs of the information systems, perhaps as much as $5-$6 million per year.

The implementation of these new management tools will provide information to the legislature, the executive, and the departments and agencies to enhance their ability to achieve lower costs of operations, to achieve higher levels of revenue and, most importantly, to achieve more effective use of the financial resources of the State through knowledge and insight into the financial operations of the State. The systems will provide timely information narrowing the range of uncertainty to provide a basis for judgment.
IV. THE FINANCIAL MANAGEMENT PROCESS

A. INTRODUCTION

Budgeting is a key management process for effective financial management. A basic requirement of a budgeting process is the creation of a well-defined plan of operations and the ability to measure the expenditure of funds compared with accomplishments. This measurement is achieved as an integral part of the budgeting process.

The management process itself may be visualized as three basic elements - planning, operations, and control.

- **Planning** entails the definition of goals and objectives, the evaluation of alternatives, development of implementation strategies and tactics, and identification of specific programs.

- **Operations** is the process of organizing resources and carrying out programs.

- **Control** is the process of monitoring line operations against a specific plan using exception reporting and performance analysis techniques to provide feedback to operating managers, and provide a mechanism for executive initiatives.

The **planning process** asks the question: What are our goals, objectives, and policies and how are they related to needs? What criteria should be used to judge agency program requests and decide which programs should be expanded or curtailed, and which approved or eliminated? The **operations process** asks: What is the optimal way of organizing and staffing to accomplish the defined objectives? The **control process** asks: Are actual results consistent with the plan? Each of these management processes have different informational requirements. A successful budgeting process is one that serves the multiple information needs of these three management processes.

1. **Key Problems - Planning, Budgeting, and Control**

The State's budget formulation cycle extends over a twelve month period, beginning in June and ending in May of the following year with legislative approval of the appropriation act. From June through January, the chief executive formulates the recommended budget for submission to the legislature in February. The legislature
decides the final appropriation act which is usually adopted during the last four weeks of each session. Therefore, the executive budget formulation process generally consumes about eight months of this cycle and the General Assembly appropriation process consumes about four months. There are a number of serious problems in the State's current budget formulation process:

a. **Planning/Goal Setting Do Not Precede Budgeting**

The budget formulation process begins without program planning and goal setting by top management. Instead, planning, goal setting, and prioritizing by top management occur in November and December after the agencies have expended substantial efforts developing budget requests without benefit of guidelines from top management. This procedure leaves too little time for adequate program planning and formulation of alternative resource allocation policies. When planning decisions are made, major revisions and rework of the agency budget requests are often required.

b. **Short Term Planning Emphasis**

Financial planning is tied closely to the State's practice of developing a one year budget annually. The current budgetary planning process does not show the impact of spending decisions approved in the one-year budget upon the second and subsequent years. As a result, spending decisions on programs can be made without a clear picture of their impact in succeeding years, leaving executive and legislative officials with potential unresolved budget gaps and undefined long term commitments in future years. In fact, during the past decade (see Exhibit 12 ) the State has experienced three budget deficits all of which have been bonded.

Earlier recognition and anticipation of these problems would enable the State to avoid a financial crisis and have the benefit of more time to resolve the problems. Furthermore, with the advent of two-year statewide collective bargaining, it is essential that the State have a clear understanding of its financial status in the second and third years in order to gauge the affordability of proposed collective bargaining settlements. A longer range financial planning base would also serve as a backdrop for forward planning on tax structure policy alternatives and other staff work necessitated by the recent Horton vs. Meskill decision rendered by the State Supreme Court.
STATE OF CONNECTICUT
SUMMARY OF GENERAL FUND SURPLUS/(DEFICIT)

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Position (Millions $)</th>
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<tbody>
<tr>
<td>1967 Biennium</td>
<td>45</td>
</tr>
<tr>
<td>1969 Biennium</td>
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<tr>
<td>1971 Biennium</td>
<td>(94) *</td>
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<tr>
<td>1972</td>
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<td>1974</td>
<td>49</td>
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<td>1975</td>
<td>(71) *</td>
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EXHIBIT 12

c. Inadequate Information to Support the Decision Process

The management decision making process is not supported by a structured program performance reporting system which measures actual results. Planning and policy decisions made during budget formulation are, for the most part, based upon programs. However, the existing accounting system, as discussed in Chapter III, measures expenditures by appropriations, agency, function or activity and not by program. Programmatic spending decisions, therefore, cannot be measured for performance because the basic accounting system measures spending by units other than program.

A program budget is submitted by the executive agencies to the Governor each year. However, the line item historical program financial detail are estimates derived from an analytical allocation of costs. Similarly, the several State

* Represents bonding for operating deficits totaling $315 million. Additionally operating expenditures totaling $145 million ordinarily financed from operating revenues were spent from bond funds between 1968 and 1972, which is not shown here. Total bonding for current expenses was $460 million over the ten year period. End of year position is before statutory transfers to the State Employee's Retirement Fund, Bond Retirement Fund, and carry forwards.

program budgets which were produced in prior years were based upon allocated or estimated historical line item costs.

d. Performance and Productivity Measurement Lacking

Government productivity has drawn increasing attention in recent years at all levels of government. The term productivity is defined to be the amount of output obtained for given levels of input. However, in the public sector, measuring productivity is complex and difficult. State governments have become increasingly concerned with the adequacy of performance measurements for their services. There is general agreement that both effectiveness (the success of government programs and activities in accomplishing public goals and objectives) and efficiency (performing the works as inexpensively as possible - typically expressed in the form of a ratio of output divided by input) need to be measured to provide an adequate perspective on government productivity.

In our survey of the State of Connecticut, we found that a significant effort is expended by agencies to produce statistics which relate to the activities and services performed. Most of the statistics relate to productivity measures with very few involving measures of performance. Examples of performance and productivity statistics for the mental health area are given in Exhibit 13.

Although a number of State agencies reported some performance/productivity measures, these measures or statistics are not widely and/or effectively used in the budget decision making process. Performance reporting is sparse and is not uniform throughout each State agency. The quality of the measures and relationships between the measures and programs vary markedly from agency to agency. In most instances no systematic effort has been made to relate performance indicators to program objectives. In some cases, there are too many statistics to use meaningfully. In others, little or none were available. This results in unnecessary data transmission, where, in some instances, a few key performance measures probably would be adequate. Programs and/or program areas have not been adequately defined making programs and performance/productivity information almost impossible to relate.
PERFORMANCE/PRODUCTIVITY MEASURES

MENTAL HEALTH

Performance Measures

1. Number of Persons Served Who Are Restored To Independence

2. Number of Clients Exceeding Treatment Goals

3. Number of Clients Placed In Employment

4. Re-Admission Rate

Productivity Measures

1. Cost Per Patient

2. Per Capita Food Cost

3. Institution Employees Per Patient By Type Of Employee

EXHIBIT 13
e. **Budget Review Process is Largely Incremental**

Annual budget preparation and review is based on an examination of the requested increments with no formal examination and justification of the entire spending base for agency programs. This approach provides for examination of only a small portion of agency spending. A more comprehensive approach to budget review and formulation would enable key decision makers to focus more sharply on overall program objectives, better relate specific projects and activities to program objectives as well as formulate alternative choices of organization and staffing for achieving defined objectives.

The State has not been able to utilize more comprehensive budget analysis and review approaches such as zero base budgeting (ZBB) for the following reasons:

1. The current accounting system does not provide cost data by program and in sufficient detail required to support the ZBB process.

2. Agency and program output performance measures have not been developed on a consistent statewide basis, negating the ability to relate and prioritize output services vs. the cost of producing them.

f. **Financial Reporting and Budget Control Is Manual and Untimely**

One of the principal tasks of the Budget Division is to estimate accurately each month, agency expenditures and lapsing (unspent) appropriations by year's end. The source documents used by the Budget Division for controlling spending are the State Comptroller's monthly Trial Balance and Analytical Report. As highlighted in Chapter III, preparation of these reports entails a number of manual processing steps, resulting in significant time delays. These basic accounting reports are not formatted for ready management use: no exception reporting is shown and summaries are not totaled by agency or category of expenditure. In addition, detailed reporting at a responsibility level by major and minor objects is not available showing the flow from allotments through encumbrances and expenditures thus facilitating accurate forecasting of expenditures. The Budget Division restates the Analytical Report into more usable expenditure control reports, summarizing actual expenditures by agency and by category of expenditure.
In an attempt to overcome the late timing of the accounting reports, the Budget Division also receives monthly expenditure reports directly from the agencies. The larger agencies produce automated monthly expenditure reports, but for the most part, these reports are also prepared manually with different cut off procedures for processing the individual expenditure transactions. The agency prepared control reports generally reflect a more current expenditure status and are essential for agency and Budget Division expenditure monitoring, but create large volumes of data which must be manually consolidated to produce meaningful statewide reports.

One result of the multiple sources of expenditure reporting is the substantial flow of paper through the Budget Division and a large investment of staff time in reconciling the data from the different reports. This plethora of paper flow and large volume of data does not lend itself to a management by exception process of budget control because the accounting system and the existing reports do not contain budget data and a comparison to actual expenditure results.

2. **Summary of Findings**

The inefficient budget control system combined with the absence of a program budget format and a program performance reporting system result in inadequate information to support management decision making. This handicaps the central staff in understanding how efficiently and economically resources are being used to achieve goals and objectives. The budget is not used as an operational plan, setting a performance standard for subsequent measurement and evaluation in the budget control process. Consequently, the responsibility for decision making tends to become centralized in that all spending requests, whether budgeted or not, require clearance through the central budget agency, even though the staff is not equipped with sufficient information to effectively pass judgement on such requests. Central staff is then put in the position of "second guessing" agency spending requests which creates resentment in the agencies and an inefficient use of staff time. There is inadequate information for management decision making because there is no reporting system to bridge the gap between program objectives and the measurement of activities undertaken to pursue those objectives.
B. RECOMMENDATIONS

The Task Force has developed seven recommendations to strengthen the planning, management, and control processes of the budget function. Several of the Task Force recommendations are not new to Connecticut but have been introduced into the General Assembly as proposed legislation during the past several years. It would be difficult to implement every recommendation immediately because of the magnitude of change which would be brought about by the new process. A phased implementation over several years is envisioned by the Task Force to facilitate orderly and thoughtful implementation.

The Task Force is aware that the General Assembly's Commission to Revise the State's Fiscal Statutes (S.A. 76 - 42) is currently studying many of these recommendations, and will issue a report to the General Assembly on March 1, 1978. Suggested legislation for implementing Task Force recommendations has been included for consideration by the General Assembly and the Fiscal Statute Revision Commission. A discussion of our recommendations follows:

1. **Extend the Planning & Budgeting Horizon**

   A number of alternatives were considered to increase the planning horizon of the State's one year budget. The Task Force believes that a two year appropriated budget plus a two year financial forecast (not appropriated) would introduce needed longer range financial planning and discipline into the State's budget process. The two year budget, although appropriated for both years, would be a separate appropriation for each year and updated annually. The second year would become the planning base for the next year's budget preparation process after the two year appropriation act is adopted. The first year of the financial forecast would then become the second year of the detailed budget and a new year added to the two year forecast. Exhibit 14 illustrates the operation of this process.

   The two year budget plus two year forecast would be presented annually in the Governor's Recommended Budget to the General Assembly. After the General Assembly adopts the two year appropriation act, an update of the two year forecast would be prepared based on the adopted spending levels and revenue program in the final appropriation act. The two year forecast would be a summary presentation of revenues and expenditures supported by schedules and charts. The projection of expenditures would be at the service levels in the two year budget. The agencies would prepare the two year detailed budget, but central staff in the Budget Division would prepare the summary two year forecast.
TWO YEAR BUDGET PLUS TWO YEAR FORECAST
UPDATED ANNUALLY

EXHIBIT 14

The two year budget plus two year forecast has the benefit of formally extending financial planning out over a multi-year time horizon. A detailed second year budget shows the impact of agency spending over two years, especially for programs only partially funded in the first year. The rationale for appropriating the second year as well as the first is that agencies would introduce more thought and rigor into the second year data with the knowledge that both years would be reviewed and appropriated.

One of the alternatives considered by the Task Force was the same plan as outlined above but appropriating only the first year. Another alternative is a biennial budget plus a two year forecast. Realizing that annual budgets were meant to complement annual sessions of the General Assembly, it seemed unreasonable to expect members of the General Assembly not to participate each year in such an important matter as setting priorities and allocating resources within the State's two billion dollar budget. Many states with annual sessions and biennial budgets do not have biennial budgets in
the true sense, because the Governor and General Assembly participate in an update review in the second year. These second year reviews range from limited budget reviews to a complete recommended Governor's Budget and full scale hearings by the legislature. Also, it would seem that an organization with an annual two billion dollar budget would need and want an annual review of progress made toward achievement of program goals and objectives.

The importance of the State's budget plus the added burden of responding to important matters such as education equalization as recently decided in *Horton vs. Meskill* makes it improbable that the State's legislature would not become involved in the State budget on an annual basis. Hence, we do not recommend a biennial budget.

2. Planning & Goal Setting Preceding Budgeting

The annual budget formulation process should be preceded by a planning and goal setting review within each of the agencies. This planning process would occur at two levels and is discussed below. See exhibit 15.

**EXECUTIVE PLANNING & BUDGET FORMULATION**

**PROCESS**

- **Governor Meets With Commissioners**
- **Tentative Budget**
  - Two Year Budget Plus Two Year Forecast
  - Review with Commissioners, General Assembly Leadership, Constituents, Local Officials - As Appropriate
- **Governor's Planning Guidelines To Agency Heads**
  - Alternative Choices for Spending
  - Base Spending Defined - Two Years
  - 10 - 20% Reduction Opportunity List
  - New Programs/Enhancements
  - ZBB Targets
- **Executive Policy Decisions Made**
  - Program & Spending levels selected.
- **Legislative Review of Governor's Budget**
  - Legislative Review
  - Alternative Levels of Choice
- **Appropriations Act**

**EXHIBIT 15**
The major steps and description of the process are summarized below:

a. **Governor's Planning Meeting With Commissioners (June)** - In June of each year, the Governor and the Secretary - OPM would hold qualitative planning meetings with each commissioner to establish program objectives and accomplishment targets for the coming year. Programs for zero base review would also be targeted. Prior to these planning sessions, preliminary revenue estimates and financial planning data from the previous two year budget plus an updated two year forecast would be made available to the Governor so that affordability parameters would be known. At these planning sessions the commissioners should also share their views on needs, priorities, and requirements with the Governor.

The central budget staff would simultaneously prepare quantitative cost guidelines for central service charges to the agencies for data processing, the motor pool, medical charges, central laundry, telecommunications as well as common economic assumptions for fuel, utilities, inflation, and demographic factors. These guidelines would enable each agency to complete its budget request using common cost guidelines and economic assumptions. This process would also force the central budget staff to plan service charges for the forward years and address any need for changes in the various revolving funds.

b. **Governor's Planning Guidelines Issued to Commissioners (July)** - In July the budget instructions forwarded to each agency would contain the detailed quantitative cost guidelines and common economic assumptions as well as a letter from the Governor summarizing the program planning objectives discussed at the planning meeting. Budget requests would then be completed by each agency based on these qualitative and quantitative criteria.

An important management feature of budgetary planning is to provide alternative policy choices for achieving goals and objectives. A strategy for introducing a greater range of alternatives into the budgetary planning process is to request agency heads to prepare an updated base spending projection for the next two years, as part of their budget request submissions. The base spending projection would show the cost of continuing current approved programs based on the cost guidelines and economic assumptions. From this base spending projection the agency heads would be directed to prepare
spending reduction opportunity lists outlining how spending reductions totaling 10% to 20% of the base spending projection could be achieved, the policy decisions required to implement each reduction action, a priority array of the reduction actions, and the agency head's assessment of the service level, constituent and political implications of the reduction actions, including which of the reduction actions the agency head would recommend for implementation. New programs and enhancements to existing programs would be specified in the Governor's planning guidelines based upon the agreements reached at the planning meetings in June. These program additions would be shown separately in the budget request packages prepared by the agencies. The program areas targeted for zero base budget review would be confirmed and special forms included in the budget request preparation instructions to cover a total spending review for these target areas.

This concept of structuring agency budget requests will open up for management a whole new range of policy choices for spending levels and program mix. It is an important feature in the proposed planning process.

c. **Executive Policy & Decision Making (September-November)** - Upon receipt of the completed budget request packages from the agencies a consolidated review would be prepared for the Governor by the Secretary - OPM and decisions made on base spending reduction actions, program mix, and overall spending levels based upon the alternative choices identified by the agencies and the OPM staff. A two year spending forecast based upon the Governor's recommended and the agency requested budget would be prepared by central staff. This forecast in addition to the two year budget would serve as a key planning tool for executive and legislature decision making on the budget.

d. **Tentative Budget Preparation & Discussion** - The Governor's Tentative Budget should serve as a discussion document for the Governor with the agency heads on the specifics of each agency's budget and how well each agency head responded to the planning and goal setting direction established back in June. As appropriate, a Governor might also want to discuss goals and preliminary spending levels with key members of the General Assembly and other constituents. Firm revenue estimates would be available at this time to establish spending ceilings and finalize the recommended budget.
e. **Legislative review of Governor's Recommended Budget (February - May)** - The Governor's Recommended Budget to the General Assembly would contain a two year detailed budget plus two year forecast. The heavy emphasis placed on the executive side of budget planning and formulation would now benefit legislative review. The legislature would have a longer term planning horizon detailed in the budget. In addition, the alternative choices of spending levels for consideration during executive formulation would also receive legislative evaluation and should facilitate legislative review.

f. **Finalize Appropriations Act (May)** - The appropriation act, when adopted annually would be for a two year period. A two year forecast based on the spending levels in the appropriation act would be prepared by central staff in the Budget Division.

g. **Opportunity to Condense Budget Cycle** - The budget formulation process now spans a twelve month period each year. Executive formulation covers approximately eight months and legislative review about four months. The planning process and accounting systems recommendations should serve to sharpen the focus on key policy issues and the available alternative choices. These improvements in the budget formulation process should ultimately require less time for review and decision making. With the recommendations in place, it is likely that the entire budget formulation process can be shortened by starting later and ending sooner. A more efficient budget review would give executive and legislative officials more time for evaluation of other important policy issues.

3. **Implement Program Budgeting**

It is recommended that the State phase in program budgeting into the budget formulation process. Program budgeting implies a budget format on a program basis including program objectives, program description, financial information, and performance/productivity information relating to the specific agency/department programs and activities. This allows for review, evaluation and analysis of expenditures at all levels of government (constituent, agency) by the Governor and the General Assembly.

In addition to budget information on a program basis, budget information in the conventional line-item responsibility level basis (e.g., agency, major/minor object) should also be readily available for those requiring it.
The significant features of defining and developing a program budget are:

a. Definition of a uniform program structure for use by all agencies.

b. Identification and definition of agency program objectives.

c. Definition of activities to accomplish program objectives.

d. Construction of a performance/productivity measurement system to measure program accomplishments.

e. Development of a statewide account code structure to accommodate all defined programs.

f. Implementation of the program structure.

The significant features of the program budget approach are:

a. Agency submission of budget information on a program/activity basis with financial information (major/minor object) and performance/productivity information relating to agency programs.

b. Evaluation of each program and activity by the central staff according to pre-specified program performance/productivity measure, cost effectiveness and affordability criteria.

c. Development of the Governor's Recommended Budget to reflect the programmatic/financial/productivity/performance measurement information for all agencies.

d. Legislative review, evaluation, and appropriation on both the program and functional line-item responsibility level basis.

e. Budgetary control on both the program and functional line-item and responsibility level basis.
4. Implement Program Performance And Productivity Measurement

It is recommended that the State of Connecticut apply performance/productivity measurement to agency programs in their budgetary formulation and execution process. Application of performance/productivity measurement in the budgetary process requires the initial identification and definition of program objectives since performance measurement should be directly related to objectives. Performance/productivity measurement implies that for defined program objectives and activities a subset of significant measures would be established for use by the Budget Division, Secretary - OPM, Governor, General Assembly, and the agencies. In this way, dollar expenditures can be related to performance goals and outputs.

The significant features of defining and developing a program performance/productivity measurement process in state government should include:

a. Establishment and definition of program objectives and activities.

b. Establishment of goals and objectives for each agency.

c. Establishment of performance/productivity measures which directly relate to the goals and objectives with the emphasis on least cost attainment of the objectives.

The basic approach for performance/productivity measurement is:

a. Agency submission of the budget request on a program basis including performance/productivity measures.

b. Central staff and executive evaluation of budget requests based on accomplishments measured by program performance/productivity indicators.

c. General Assembly review of agency requests based on program performance/productivity levels.

d. Central staff monitoring of expenditures using exception reporting of performance/productivity measures as a major evaluative tool.
5. Implement A Selective Zero Base Budget Review

The Task Force recommends implementation of zero base budgeting in the annual budget formulation process. Zero base budgeting will be instituted each budget review cycle on a selective basis. The agencies and programs targeted for zero base budgeting would be identified during the planning phase that precedes the budget formulation cycle. The incremental approach now used does not provide decision makers with a full perspective on agency and program direction; too much attention is spent on small fractions of agency budgets and not enough evaluation of total spending commitments. Zero base budgeting is a budget format that reviews total spending of agencies and programs selected for evaluation.

Tools of zero base budgeting review are program budgeting and a performance/productivity evaluation system. A program format provides a common thread of work measurement through the planning, budgeting, and accounting processes. A performance measurement system provides management with a capability to evaluate the effectiveness of programs and how efficiently and economically work is accomplished. Zero base budgeting combines program budgeting and performance measurement to evaluate overall effectiveness and policy direction. A performance measurement system is instrumental in signaling for management areas in need of review and evaluation by reporting for programs not accomplishing their objectives or which are not operating efficiently.

The prerequisites for an effective zero base budgeting process are:

a. Implementation of a program format.

b. Implementation of a performance measurement system directly related to program objectives.

c. An account structure that captures expenditure data by program and activity.

The zero base budgeting process, once in place, will function along the following guidelines:

a. During the Governor's planning and goal setting phase in June, identification of programs targeted for zero base budgeting review.
b. Evaluation of each program and activity in terms of the prespecified performance/productivity measures and total expenditures required. This includes evaluation of existing as well as new programs. This phase is generally accomplished on an exception basis rather than attempting to review every program on a zero basis every year.

c. Ranking of each program or activity within each agency and statewide in order of its overall priority and including justification for establishing or continuing each such program or activity.

d. Allocation of resources according to the priorities established.

The substantial reorientation in budget formulation brought about by zero base budgeting requires a carefully planned implementation. This implementation is covered in our discussion of implementation.

6. Implement A Monthly Budget Control & Reporting Process

The Task Force recommended that the State develop and implement a monthly budget control and reporting process as an output feature of the new accounting system described in Chapter III. This system would provide both agency and central staff on a statewide basis with a comparison of actual vs. budgeted expenditures by responsibility level and program each month. This reporting would highlight significant variances from planned spending patterns as exceptions for further management review. The need for large volumes of paper and data presently flowing through the agencies and central staff would be eliminated.

An example showing how an exception report from this system might appear is shown in Exhibit 16.

Managers and central staff would quickly see encumbered funds cumulative to date (May 31, as shown in our example) in the first two columns ($180 million) compared to planned expenditures ($185 million), creating a cumulative variance of $5 million. Expenditures forecast for the end-of-year (E.O.Y.) are estimated at $185 million which tells decision makers that $5 million additional will be spent in June from unencumbered funds. A lapse estimate for the twelve month budget cycle would then be $15 million. A budget control system of this kind would provide information to central budget staff for the two most important areas needed for expenditure control: estimated expenditures and lapping appropriations.
MONTHLY BUDGET CONTROL SYSTEM REPORT

(Example)

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EXHIBIT 16

The importance of this exception reporting control capability is so great, that the Task Force recommends an interim budget control approach be implemented in 1977 and serving until the new accounting system is on-line in July 1979.

The Budget Division has already begun development of this interim budget control system which will be implemented by August 1977. This budget control reporting system will provide agencies with some of the data they need in order to manage their operations efficiently and economically, and provide central budget staff with data necessary to monitor spending trends and develop accurate forecasts.
7. Implement A Two Year Financial Forecast And Monthly Update Process

The Task Force recommends that the State must have an official two year financial forecast which is developed by the central staff and updated on a monthly basis for expenditure trends, economic developments, and policy decisions. This forecast would contain a documented list of assumptions and would be prepared by the central staff and reviewed with the Governor on a monthly basis. It would serve to tell the executive, given current trends and the impact of recent policy decisions, what the financial future of the State appears to be the next two years. This forecast would serve as the official financial planning base for all financial analyses, studies, and "what if" projections i.e., the impact of a proposed collective bargaining settlement, potential higher energy and fuel costs, alternative tax structures, etc. The monthly forecast and update process is an essential financial discipline which the State must have in order to produce credible lapse estimates and be able to knowledgeably gauge the affordability of proposed policy actions during the year.

C. IMPLEMENTATION APPROACH

The management process changes recommended by the Task Force in the areas of planning and budget formulation, monthly budget control reporting, and financial forecasting entail major changes to the State's current financial management approaches which could not be effectively implemented and absorbed simultaneously. In light of this fact and considering the time phased implementation process envisioned for the new accounting and control systems, we recommend a phased implementation process for the planning and budgeting process reforms which will allow the State to gain early experience with these techniques without having to cope with the problems associated with implementing all of the changes at once.

A summary of the implementation sequence recommended by the Task Force is shown in Exhibit 17. The rationale for this approach is described in further detail below.

1. Planning Process - Staff work to support a series of planning and goal setting meetings between the Governor and the individual agency heads should begin as soon as the FY '79 executive budget formulation process is completed in early 1978. The initial series of meetings will occur during June 1978, by which time implementation of the executive branch restructure legislation reducing the number of departments reporting to the Governor should be completed, thus simplifying the task of planning and preparing for the meetings. The staff work for these meetings should be
IMPLEMENTING THE FINANCIAL MANAGEMENT PROCESS

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**PLANNING PROCESS**
- Implement Executive Planning/Goal Setting Process
- Implement Extended Financial Planning Horizon
  - FY '79 One Year Budget/Three Year Forecast
  - FY '80 - '81 Two Year Budget/Two Year Forecast

**BUDGETING PROCESS**
- Institutionalize Budgeting Process Reforms With Statutory Changes - Program Budgeting, Zero Base Budget Review, and Two Year Budgeting
- Develop Zero Base Budgeting Phased Implementation Plan
- Implement Program Budgeting
- Implement Performance/Productivity Measurement and Zero Base Budgeting

**CONTROL PROCESS**
- Interim Monthly Budget Control Reporting Process
- Implement Financial Planning Base & Monthly Update Process
- Monthly Budget Control Reporting System Implemented Statewide

EXHIBIT 17
developed for the Governor by the Secretary – OPM and should address a review of each agency plan from the immediate preceding budget cycle including program performance against objectives, the agency measurement criteria, key planning issues, and suggested ZBB targets. It will take several years for these meetings to become fully effective and focus on issues as key part of the State's planning process. Their development should, therefore, be viewed as an evolutionary process with refinements taking place each year.

It is already too late in the planning calendar for the FY '79 budget to require the agencies to develop a two year budget for FY '79. However, it should be possible to continue preparation of the detailed budget on a one year basis and have the central staff develop a summary financial forecast for three additional years based upon the Governor's recommended budget. The one year budget plus the three year forecast would be submitted to the General Assembly in February 1978 with the Governor's recommended FY '79 budget, thus providing both the executive and legislature with a clear, explicit view of the State's financial future based upon a set of documented assumptions. Upon adoption of the appropriation act, a final three year forecast would be prepared and used as the base for the next budget formulation cycle.

During the spring of 1978, the detailed staff work and budget request forms redesign could be completed permitting the agencies to submit a detailed two year budget request package for FY '80 and '81. The Governor, in turn, would submit a detailed two year budget recommendation plus a staff forecast for two additional years to the General Assembly in February 1979, which would be followed by a forecast update following adoption of the appropriations act.

2. **Budgeting Process** - Zero base budgeting (ZBB), program budgeting, performance/productivity measurement are important refinements to the current budget formulation process which will enable the State, in time, to do a much better job in the resource allocation process and make program decisions more effectively. However, the State's practical ability to implement these changes smoothly and realize their benefits will depend upon the quality of the staff work done in preparation for launching these initiatives. This work includes the implementation of a standard statewide program definition structure and the new accounting system to provide the required cost detail to support the budgeting process.
Experience in the federal government and Georgia with ZBB dramatically emphasize the importance of pre-planning and a phased implementation process. The major ZBB objective in 1977 should therefore be the development of a well thought out implementation plan which could be implemented on a pilot basis within selected agencies/programs for the FY '80 executive budget submitted to the General Assembly in February 1979. The pilot approach would be expanded to additional agencies in the FY '81 budget cycle and broadened to full scale implementation in the FY '82 budget. The full scale implementation process for zero base budgeting envisioned by the Task Force would be structured so that all agencies and programs would be subjected to a zero base budget review within a five year time frame. The Task Force does not believe it is practical nor necessary for the State to attempt a zero base budget review of all agencies and programs each year. This approach should allow the State to avoid wasted motion and frustrating false starts while learning and gaining experience on a gradual basis.

Program budgeting implementation statewide is also dependent upon development of a uniform program accounting structure and implementation of the new accounting systems. However, in view of the fact that the State has experimented from time to time in past years with program budgeting, and has some depth this process, it is recommended that the State proceed with implementation of a pilot program budgeting project immediately for the FY '79 budget cycle beginning in two pilot agencies with relatively well developed program definition structures and good detailed cost collection systems (UConn and Department of Transportation might be two likely candidates). The pilot program should be expanded for the FY '80 budget cycle and implemented statewide for the FY '81 cycle.

The performance/productivity measurement process implementation should follow implementation of program budgeting by one year to allow time for development of an agreed upon standard set of measures for each of the State's programs. Again, a pilot approach should be followed to facilitate the learning process and keep implementation on a phased schedule.

The Task Force believes it important that the above budget process reforms be institutionalized in the State's fiscal management processes through statutes. This step will also facilitate agreement between the executive and legislative branches of government concerning the objectives of these reforms and the implementation steps. The Task Force has prepared drafts of suggested language covering these topics (See Appendix A) and it is our recommendation that they be reviewed by the General
Assembly's Fiscal Statute Revision Commission for action early in the 1978 legislative session.

3. **Control Process** - The interim monthly budget control enhancements should proceed immediately for implementation during the 3rd quarter of 1977. We believe this is a worthwhile step for the State to take provided total implementation costs do not exceed $50,000. It is worthwhile because it will eliminate some manual reporting workload and provide the central staff and the agencies with more concise and useful information than is presently available. It will also serve to begin conditioning senior state managers to monitor expenditure performance monthly compared with budgets and to be prepared to explain spending variances. Full scale implementation of the **fully automated monthly budget control reporting system** should be achieved on a statewide basis in July 1979 with implementation of the new accounting system.

Steps should be taken immediately to implement a formal **two year financial planning base forecast** with monthly updates for changes in trends and policy decisions. This forecasting process should begin immediately using the tools and forecasting techniques currently available within the Budget Division. Its accuracy and usefulness will improve with management review and as the new accounting systems come on line. It is vital that the new Secretary - OPM emphasize the importance of this monthly forecast as a management tool which should become an integral part of the State's financial management and decision making process. The larger agencies with fiscal staff should be brought into the process very early and be required each month to submit to the Budget Division a full year forecast of their expenditures. It is important that accountability for the accuracy of the agency spending forecasts be placed upon the agency head at the outset and that appropriate follow-up action be taken when forecasts are inaccurate. The result of this process will be much more credible and accurate statewide financial forecasts and the existence of a solid financial base for use in measuring the potential impact of executive and legislative policy decisions before the fact - thus avoiding future unpleasant "surprises" later on when the full financial impact of major decisions and proposals is fully understood.

An exception reporting system for revenue reporting and forecasting to support the financial planning base is already implemented in the Budget Division. While only in the second year of operation, the system projected FY '75-76 revenues with only a 0.45 percent variance between estimated and actual revenues. Variances between estimated and actual revenues between FY '65 and FY '75 ranged between 1.0 and 12.0 percent. The new forecasting system is under continual development to improve the accuracy of forecasts.
A monthly exception reporting system for revenue estimates operates by defining monthly targets for every tax source by using moving averages adjusted to a comparable base. Mean deviations and ranges are calculated and used as guides as to how much variation from the target can be allowed in tax receipts before a revision of the estimate is required. Each month, only taxes that show such variations are reviewed. The review by exception allows a more detailed monthly analysis of only those taxes that are not conforming to a normal pattern. The Budget Division utilizes econometric modeling services as partial support back-up for broad economic assumptions and forecasting.
V. MANAGING COLLECTIVE BARGAINING

A. BACKGROUND AND PROBLEM DEFINITION

A well defined management process does not exist for managing the financial impact of the State's collective bargaining negotiations and coordinating the financial and policy trade-offs which are involved. The State's recent collective bargaining negotiations have resulted in proposed two year contract agreements which exceed the original financial planning guidelines by $40 million. See Exhibit 18 below.

FINANCIAL IMPACT OF PROPOSED COLLECTIVE BARGAINING AGREEMENTS

($ MILLION)

<table>
<thead>
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<th></th>
<th>FY '78</th>
<th>FY '79</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Financial Plan</td>
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<td>$ 70</td>
<td>$ 105</td>
</tr>
<tr>
<td>Proposed Contracts</td>
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<td>95</td>
<td>145</td>
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<tr>
<td>Proposed under/(over) Financial Plan</td>
<td>$(15)</td>
<td>$(25)</td>
<td>$(40)</td>
</tr>
</tbody>
</table>

EXHIBIT 18

Effective management of the collective bargaining process necessitates that all executive units be held accountable to bargaining guidelines. Because of the need to relate higher education contract settlement proposals to the guidelines issued by the Governor, higher education agreements should be subject to the Governor's guidelines and approval before submission to the legislature.

The State of Massachusetts has experienced similar problems in managing the statewide collective bargaining process and has enacted legislation giving the Governor additional control along the lines of the Task Force recommendations.
B. RECOMMENDATIONS

The financial impact of collective bargaining negotiations is sufficiently large to require a rigorous financial planning and control process including the review and approval of the Chief Executive in setting the original financial planning ceilings, approval of any subsequent changes to the ceilings and approval of the financial impacts of any proposed negotiating offers and contract agreements.

The Task Force recommends the following actions (See Exhibit 19) for implementation:

1. Financial Planning Base Forecast - A two year financial planning base forecast should be developed and updated monthly as recommended in Chapter IV. This financial forecast will serve as the official base from which all financial planning ceilings and collective bargaining financial planning impact analyses will be measured. It will be the responsibility of the Secretary - OPM to implement this process.

2. Financial Planning Ceilings - Prior to the start of collective bargaining negotiations, it would be the responsibility of the Secretary - OPM in consultation with the Commissioner - Administrative Services and the Director - Personnel and Labor Relations to develop for the Governor's review and approval, a set of two year financial planning ceilings for the State and each major bargaining unit. All financial assumptions underlying the ceiling numbers must be fully documented by the Secretary - OPM. Following the review and approval of the Governor, these ceilings would be transmitted confidentially in writing under the Governor's signature to the employers designated representatives in collective bargaining with the direction that no negotiating offers or proposed contract agreements may be presented which exceed the ceilings. Prior to the finalization of any proposed contract settlement, it would be the responsibility of the Secretary - OPM to review each agreement and certify that it is within the ceilings.

3. Amendments to Ceilings - A constituent unit head or the Commissioner - Administrative Services/Director - Personnel and Labor Relations may during the course of negotiations seek approval of an amendment to the ceilings. The process for amendments must require that the proposed change be documented including the rationale for the change and the estimated financial impact. The constituent unit head should transmit such requests in a confidential letter to the Governor with copies to the Secretary - OPM, the Commissioner - Administrative Services/Director - Personnel and Labor Relations. Within one (1) week the Secretary - OPM in
consultation with the Commissioner - Administrative Services and the Director - Personnel and Labor Relations should review the amendment and develop a recommendation for the Governor. The Governor's final decision on the proposed amendment should be binding and transmitted back to the constituent unit head by confidential letter.

4. **Statutory Revision** - The Task Force recommends that this process be codified officially in the statutes and has included draft language effecting this change in Appendix C of this report. It is recommended that this proposed statutory revision be referred to the General Assembly's Public Personnel Committee for adoption early in the 1978 session.
VI. CAPITAL AND FACILITIES PLANNING

A. BACKGROUND & PROBLEM DEFINITION

Long range capital and facilities planning, construction, architectural and engineering design services, construction management and property management are currently responsibilities of the State's Public Works Department. The long range capital and facilities planning responsibility was transferred from Finance & Control to Public Works in 1975, with the requirement that a statewide five year capital and facilities plan be prepared based upon agency input concerning their needs.

Responsibility for preparing the annual capital budget and review/approval of agency programs requiring capital expenditures for the upcoming year has remained with the Finance & Control Department.

A State Property Review Board comprised of construction, architectural and real estate experts from the public sector was formed in 1975. This review board is responsible for approving projects, the selection of contractors and/or lessors and the individual contract awards before any capital project can be initiated.

A number of significant problems havesurfaced with this mode of operation:

1. **No Long Range Plan Exists Defining the State's Capital and Facility Needs** - The current statutes in Title IV require the Public Works Department to prepare a five year facility and capital plan for the State and to make judgements concerning the need for individual facility actions requested by the agencies. Since the Public Works Department is fundamentally an implementation organization as contrasted with a planning/analytical staff, it is incapable of making a judgement on facility need (i.e. facilities needs arise as a result of program policy decisions and manpower hiring approved in the budgeting process). No approved long range plan has been developed. The short term (1 year) focus of the State's current financial planning and budgeting process has also been a contributing factor since no "official" manpower data exists beyond one year in the future.

As a result of having no approved long range facility and capital plan, the State reacts to short term facilities needs on a crisis basis, fails to comprehend the extent of its long term needs, continually acquires small blocks of space, and misses the economies available through facilities consolidation.
2. **Plans Are Not Integrated** - The responsibilities for operating and manpower budgeting, capital budgeting, and long range capital planning are fragmented across two organizations. Consequently, manpower plans, operating budgets, program plans, and facilities needs are not integrated. The possibility exists that the State could be asked by an agency to approve facility actions to support a program and manpower level which will never become part of an approved operating budget.

3. **Redundant Staff Planning Activities Exist** - Since confusion exists between Public Works and Finance & Control over the distribution of responsibility for the capital and facilities planning process, redundant activities exist creating an ineffective use of staff time.

**B. RECOMMENDATIONS**

The Task Force recommends that the division of responsibilities between the Administrative Services Department/Public Works and the Office of Policy and Management be re-structured as shown in Exhibit 20. In summary, the following steps are recommended:

1. OPM should be responsible for capital and facility long range planning, including developing an integrated statewide plan. On the basis of this plan, the State can effectively evaluate consolidation efficiencies, the economics of construction vs. buying or leasing existing buildings, and plans to renovate existing facilities. This plan would be based upon agency input defining needs and Administrative Services/Public Works input on cost estimates and technical feasibility. OPM would integrate operating budgets, program plans, and capital/facilities plans consistent with its overall responsibilities for statewide planning.

2. The Administrative Services/Public Works Department with the review and approval of the Property Review Board should be primarily concerned with the efficient implementation of the individual facilities actions contained in the plan and meeting agency needs on a timely basis.

3. Approval of the plan and any substantive changes should be the responsibility of the Governor based upon the recommendations of the Secretary - OPM.

4. Agencies would continue to have responsibility for defining their capital and facilities needs and for submitting this information to OPM in the required format on a timely basis.
RECOMMENDED CAPITAL AND FACILITIES PLANNING PROCESS

AGENCIES/DEPARTMENTS

ANALYSIS, EVALUATION & PLANS INTEGRATION

IMPLEMENTATION

AGENCIES DETERMINE NEEDS & PREPARE PLANS

AS/PUBLIC WORKS PREPARES COST ESTIMATES & REVIEWS AGENCY PLANS FOR FEASIBILITY (TECHNICAL)

APPROVED FACILITY & CAPITAL PLANS

GOVERNOR

PROPERTY REVIEW BOARD

- REVIEWS & APPROVES PLAN WITH MODIFICATIONS

- OVERSEES PLAN IMPLEMENTATION

IN CONJUNCTION WITH PREPARING OPERATING BUDGET REQUESTS & MANPOWER PLANS, AGENCIES DEVELOP FACILITIES PLANS OUTLINING THEIR NEEDS.

PREPARES CONSOLIDATED STATEWIDE FACILITY PLAN - REVIEWS & CRITIQUES AGENCY PLANS.

INTEGRATES FACILITIES, CAPITAL PLANS WITH OPERATING BUDGETS & MANPOWER PLANS STATEWIDE.

DEVELOPS CAPITAL BUDGET & LONG RANGE CAPITAL PLAN.

REVIEWS STATEWIDE FACILITY PLAN WITH GOVERNOR & DEVELOPS RECOMMENDATIONS BASED ON FINANCIAL & PUBLIC WORKS REVIEWS.

PUBLISHES/MAINTAINS APPROVED STATEWIDE FACILITY & CAPITAL PLAN.

REVIEWS AGENCY FACILITY PLAN & ADVISES OPM OF FEASIBILITY & SOUNDNESS.

PREPARES COST ESTIMATES & DESIGN FEASIBILITY STUDIES AS NECESSARY TO SUPPORT STATEWIDE FACILITY PLANS.

IMPLEMENTS APPROVED PLANS IN ACCORD WITH CURRENT STATUTES WITH INVOLVEMENT & REVIEW OF PROPERTY REVIEW BOARD.

PERFORMS DESIGN & CONSTRUCTION AND PROPERTY MANAGEMENT FUNCTIONS AS CURRENTLY.

EXHIBIT 20
5. The monitoring and control functions of the Property Review Board related to implementation of individual facility actions would continue as described by existing statutes. In addition, the Property Review Board would be required to review the proposed long range capital and facility plan and give the Governor its recommendations through the Secretary - OPM.

C. IMPLEMENTATION

The Task Force supports the revision of Section 4 - 26b proposed by the General Assembly's Government Administration & Policy Committee in its government organization restructure legislation. In addition, it is recommended that the Secretary - OPM assume responsibility for the following tasks:

1. Completion of an initial statewide long range capital and facilities plan by July 1, 1978.

2. Development of a detailed procedures manual describing how the revised capital and facilities process will work for use by all agencies and the Administrative Services/Public Works Department by January 1, 1978.
VII. CASH FLOW IMPROVEMENT

A. KEY PROBLEMS

1. Description of the System

a. Cash Forecasting. The Treasurer's Office uses the annual projection of revenue receipts for the next fiscal year from the Governor’s Budget to develop a weekly cash flow forecast. These cash projections are developed from a history of actual cash receipts and an analysis of due dates for tax receipts. The Treasurer also analyzes debt service, payroll, and vendor payments to time-phase the annual expense projections in order to develop the weekly cash projection.

b. Cash Concentration - Treasurer. The State maintains 65 checking accounts throughout the State. All deposits are concentrated in the Connecticut Bank & Trust Company (CBT). The sixteen larger banks call in the account balances to the Treasurer's Office each morning. The Treasurer then makes a decision to wire transfer funds available. The smaller banks are required to mail checks to CBT for the amount in the account which exceeds $15,000. The short-term cash position is monitored daily and excess cash is invested in a short-term investment fund by the Treasurer's Office.

c. Cash Receipts - Tax Department. Tax returns and payments are received in the Tax Department in Hartford. The remittances are attached to the returns and are audited and recorded. The checks are then deposited in the Connecticut Bank & Trust Company. When the audit process reveals exceptions in either the remittance or the return, both the remittance and the return are held until the problems are resolved.

2. Definition of Problem

a. The procedure of keeping remittances and returns together until the amounts remitted are recorded causes a delay in depositing funds in the bank. The length of the delay depends upon the number of returns received and the manpower levels required for processing and recording remittances. Since
taxpayers tend to mail remittances shortly before the due date, large numbers of returns are received when the taxes are due. The cyclical nature of cash receipts creates staffing difficulties for the Tax Department and also results in backlogs of unprocessed returns and remittances. The unprocessed remittances represents cash which is not deposited and, therefore, is not available for investment by the Treasurer; consequently, interest revenue is lost.

b. The Treasurer develops a weekly cash forecast based upon the annual budget. The monthly revenue forecasts prepared each month in the Finance and Control Department would be useful information for the Treasurer in cash planning.

B. RECOMMENDATIONS

1. The Task Force has recommended that the Tax Department request cash management studies from two or more banks in the State. The purpose of these studies should be to identify methods of improving the cash concentration process including consideration of the use of a lock box system.

   Lock boxes are post office boxes controlled by a bank. The State would instruct taxpayers to make payments to its box number. The bank makes frequent collections of mail in the box, including weekend collections. The bank processes the payments, deposits the money, and sends the returns to the Tax Department. A lock box system could reduce the amount of time money is delayed in the mail and in the receiving process. The investment of these funds could produce a substantial return for the State.

2. As an interim step, the Task Force recommends that the Tax Department immediately change its procedure for processing returns and remittances. Remittances over $1000 should be photocopied and deposited immediately. The photocopy of the remittance should be retained with the tax return until the receipt is recorded. Implementation of this procedural change could result in significant additional funds available for investment; the return on the investment may be $1 to $3 million dollars each year. The only cost associated with the change in procedure is the cost of a photocopied check.

3. Additional revenues may be achieved through the introduction of the lock box system. The Tax Department has initiated cash management studies with the Connecticut Bank & Trust Company and the Hartford National Bank & Trust Company. Estimates
of the savings from a lock box system will be included in their proposals. We estimate that the potential additional revenue from a lock box system will be about $1 million each year. Thus, we estimate the total potential return from accelerated cash flow to be $2 to $4 million per year.

4. The Task Force recommends that the Finance and Control Department send a copy of the monthly revenue forecast to the Treasurer's Office for use in cash planning. In addition, a copy of the two year financial planning base forecast should be sent to the Treasurer on a monthly basis when it is available after August. This monthly forecast should also be converted into a weekly cash forecast by the Office of Policy and Management when the resources are available after reorganization.
1. **Background**

Accounting policy establishes the rules by which financial results and costs are measured and evaluated. A consistently applied and well-defined accounting policy is essential for the executive, the legislature, the departments and agencies, and the creditors and citizens of the State to understand the impact of financial decisions and the meaning of financial reports and data.

The method of accounting determines when economic events are recognized. In the cash basis of accounting, revenues are recorded when cash is received and expenses are recorded when cash is disbursed. Financial information reported on the cash basis of accounting can be misleading due to differences between the time goods and services are used and the time bills are paid and due to differences between the time cash is received and the time revenue is available.

From time to time since the 1940's, the State has accrued some portion of its revenues. The State calls this method a modified cash basis of accounting. During the year, General Fund revenues are recorded when cash is received; however, at the end of the fiscal year (June 30), portions of certain categories of revenues which are received during July are accrued to the preceding year. At June 30, 1976 $105 million of revenues earned and taxes levied during the fiscal year but received during July, 1976 were accrued:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions</th>
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<tbody>
<tr>
<td>Sales and Use Tax</td>
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<tr>
<td>Gasoline</td>
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<tr>
<td>Cigarette Tax Stamp</td>
<td>4.9</td>
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<tr>
<td>Alcoholic Beverage Tax</td>
<td>2.3</td>
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<tr>
<td>Special Motor Fuel</td>
<td>.8</td>
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<tr>
<td>Motor Carrier Road Taxes</td>
<td>.3</td>
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<tr>
<td>Federal Revenue Sharing Funds</td>
<td>7.1</td>
</tr>
</tbody>
</table>

**Total** $105.4
Although portions of certain revenues are accrued in the State's modified cash basis of accounting, expenditures have remained on a cash basis of accounting. The acquisition of resources authorized by an appropriation is recorded in two stages: encumbrances and expenditures. Encumbrances, representing commitments established by purchase orders, contracts and leases, are recorded when the order is placed. Expenditures recognizing the use of the appropriation are recorded when the cash is disbursed for payment. Since expenditures are charged against the appropriations in the year that the cash is disbursed, appropriations with unliquidated encumbrances lapse or terminate at June 30 unless the appropriation amount will not be renewed in the next fiscal year, and unliquidated encumbrances are reestablished against the new appropriation in the next fiscal year.

2. **Key Problems**

The modified cash accounting method does not treat revenues and expenses consistently; the method of recognizing revenue may not be applied consistently to all categories of revenue; logical foundations have not been established to support the method; and the method has not been documented in accounting literature and has not received authoritative support. As a result, standards are not available to permit an evaluation of the fairness of the presentation of financial information reported on this basis. Financial information can be misleading due to timing differences between accounting events and the receipt or disbursement of cash. In addition, financial information reported by this method can be manipulated by varying the categories of revenue accrued as well as by deferring the payment of bills.

At the end of the fiscal year, encumbrances which are not liquidated by the payment of bills are charged against the appropriation of the next fiscal year; consequently, agencies and departments must make purchases early in the fiscal year in order to use the funds appropriated. This results in an aberration in the procurement cycle which is unnecessary and unproductive.

3. **Recommendations**

The financial statements of the State of Connecticut should be prepared in accordance with consistently applied generally accepted accounting principles for governmental units. These principles are outlined in *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR) published by the National Committee on Governmental Accounting and in *Audits of State and Local Governmental Units* published by the American Institute of Certified Public Accountants.
The generally accepted method of accounting for state governments is the modified accrual method. Under this method, revenues are generally recorded when cash is received; however, revenues available to finance government operations may be accrued when taxes are levied or when grants are expended. Revenues of a material amount may also be accrued if receipt is delayed beyond the normal time of receipt.

In the modified accrual method, encumbrances are recorded when commitments are made, and expenditures are charged against an appropriation when the goods are received and services are rendered. An obligation is recorded as a reserve for encumbrances when the commitment is established, and a liability is recorded when the goods are received or the services are rendered.

The differences among the cash basis, the modified cash basis, and the modified accrual basis of accounting result from the timing of recording revenues and expenditures.

4. Implementation

The modified cash accounting method used in the State accrues revenues and defers expenditures; the modified accrual method recommended requires that expenditures as well as revenues are accrued; consequently, a shift to the modified accrual method will have a substantial impact on expenditures reported by the State. The financial impact of the recommended changes in accounting method must be analyzed in detail; however, initial estimates of the financial impact indicate that about $25 to $30 million of payroll and other expenses would have to be accrued. These accruals will increase expenditures and will have to be planned in the State budget. Because of the substantial financial impact, implementation of the modified accrual method will have to be scheduled over three or more years to spread the cost effect of absorbing these policy changes over several budget years.

We recommend that the Comptroller's Office prepare a plan for the State to use generally accepted accounting principles and develop a time phased plan for converting from the present accounting policies to generally accepted accounting policies, absorbing the negative financial impact over several years.
B. BUDGETARY POLICY

1. Key Problems

Recent budget policy history demonstrates the need for balanced annual budgets in Connecticut. Over the past decade, the State has incurred three operating deficits totaling $315 million. In addition, $145 million in current expenses, normally financed from operating revenue, was financed from bond proceeds during the same period. This represents a total of $460 million in current operating expenses which have been bonded over the past decade. These practices contributed, in part, to the reduction of the State's AAA credit rating in 1975. In addition, since tax supported State debt totals almost $2 billion, debt service consumes 15 percent of the State's operating budget. The high level of charges for debt service greatly reduces flexibility of decision makers in setting budget priorities.

2. Recommendation

The Task Force supports the principle that the State should be required to have annual balanced budgets and that it should borrow only for capital improvements. It is the Task Force's recommendation that these issues be referred to the Fiscal Statutes Revision Commission for action during the 1978 Session including determination of whether the most effective implementation vehicle is statutory change or a constitutional amendment.
IX. MUNICIPAL FINANCIAL OVERSIGHT

A. BACKGROUND AND PROBLEM DEFINITION

Many municipalities in the State of Connecticut have experienced financial difficulty in recent years. The financial statements of the municipalities have not always provided full disclosure of the magnitude of the problems and early warning of impending difficulties. Although municipalities are required by statute to be audited each year, municipal financial reports do not always conform to generally accepted accounting principles, and municipal audits are not always conducted in accordance with generally accepted auditing standards. The State Tax Department reviews audit reports; however, by current statutes, the State cannot act except in the case of fraud or embezzlement. In addition, the staffing currently provided for monitoring municipal financial reports is inadequate, and as a result, municipal reports are reviewed only once every three years.

B. RECOMMENDATIONS

1. Generally Accepted Accounting Principles

The financial statements of all municipalities should be prepared in accordance with consistently applied generally accepted accounting principles for governmental units. These principles are outlined in Governmental Accounting, Auditing, and Financial Reporting (GAAFR) published by the National Committee on Governmental Accounting and in Audits of State and Local Governmental Units published by the American Institute of Certified Public Accountants. Compliance with generally accepted accounting principles should be required for the financial statements prepared by the 169 towns, consolidated towns and cities, and consolidated towns and boroughs as well as the three cities and 11 boroughs not consolidated with towns.

2. Generally Accepted Auditing Standards

Municipalities should be required to engage independent accountants licensed by the State to perform an examination of the financial statements in accordance with generally accepted auditing standards. These financial auditing standards are outlined in the industry audit guide entitled Audits of State and Local Governmental Units prepared by the Committee on Governmental Accounting and Auditing of the American Institute of Certified Public Accountants. Submission of the audit program and questionnaire published by the Tax Department should not be required for independent auditors.
3. **Municipal Finance Commission**

A Municipal Finance Commission should be established to monitor the financial reporting of the municipalities, to investigate existing or potential financial problems, to provide financial consulting services to municipalities when requested, to conduct hearings when necessary, to report violations of the law, and to recommend actions to address financial problems.

a. **Organization.** The size and composition of the Commission should be determined as a result of discussions with representatives of the municipalities, State officials, the Connecticut Society of Certified Public Accountants, the Municipal Finance Officers Association, and the Connecticut Bar Association.

The staff work for the Commission should be performed by the Intergovernmental Affairs and Policy Division of the Office of Policy and Management and the director should serve as Secretary to the Commission. Two staff people should be assigned to insure that all municipal audit reports are reviewed annually and to provide a source of financial management assistance. The personnel should be experienced in interpreting municipal audit reports and assessing municipal financial management practices.

The Commission should be required to meet only to review problems identified by the staff, to conduct hearings when necessary, and to direct the preparation of reports recommending action.

b. **Tasks.** The Commission should establish quantitative financial standards as guidelines for fiscal management in the municipalities. The financial standards should define acceptable ranges of financial statistics as well as statistics which indicate financially troubled municipalities. These standards should be published annually and discussed at public hearings. The independent auditors should report the performance of the municipality against the standards. The Commission should prepare a report comparing statistical and financial information from municipalities.

The Commission should have the authority to require special financial reporting when the municipalities are in financial jeopardy. The Commission should review the budgets of financially troubled municipalities and provide financial
consulting assistance if requested. The Commission should conduct hearings when necessary to insure that the electorate is informed of the financial affairs of the municipality. The Commission should report violations of the law to the appropriate judiciary body and recommend actions to the appropriate executive and legislative bodies in the State.

C. IMPLEMENTATION

The General Assembly's Finance Committee has introduced an act providing for improved review of municipal financial reports and early warning of unsound financial condition (Committee Bill No. 1378). The Task Force considers this bill a responsible first step and supports its passage.
X. IMPLEMENTATION STRATEGY

A. SCHEDULES

The Task Force has prepared schedules of recommended timetables for the first year of implementation for the organization and process changes and the system projects. These schedules are shown in Exhibits 21, 22, and 23.

The scheduled milestones outlined will be used to monitor progress during fiscal year 1978. Significant schedule slippages will be identified; the impact of the slippages will be assessed, facilitating corrective action to insure that critical milestones are achieved.

The project schedules have been outlined for a four year period for planning purposes. The project mileposts beyond the next 12 month period, particularly, should be viewed as planning goals which must be confirmed by detailed implementation planning. The project manager under the direction of the Comptroller and with the guidance of the project steering committee, should prepare detailed work schedules for each project. The specific detailed project schedules for implementation may therefore encompass a period of years extending beyond the four year plan.

The schedule for financial management process changes should be updated each year to reflect the effect of legislation passed by the General Assembly.

B. OVERVIEW

The diagram in Exhibit 24 illustrates the relationships among the financial management processes and organizations outlined in this report. The budgeting/forecasting system project will provide computer assistance in the planning, programming, and budgeting processes. The accounting/reporting and payroll/personnel system projects will support data collection and processing as well as information reporting for all of the financial management processes.
RECOMMENDED TIMETABLE FOR ORGANIZATION CHANGES

MAJOR MILESTONES

Passage of Restructure Legislation
Designation of Department Heads
Establishment of Steering Committee and Task Force
Development of Coordinated Manpower Plan
Development of Departmental Manpower Plans
Development of Coordinated Facilities Plan
Development of Departmental Facilities Plans
Restatement of Appropriation Act
Restatement of Departmental Budgets
Development of Detailed Implementation Plan
Implementation of Facilities Changes
Implementation of Staffing Changes

EXHIBIT 21
### SYSTEMS PROJECTS TIMETABLE

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An additional note: Development Milestones will be identified when the plan is complete. Project management systems will be implemented to control the projects in terms of cost, schedule, and quality.

EXHIBIT 22
MANAGEMENT PROCESS CHANGES TIMETABLE

MAJOR MILESTONES

Governor's Goals for FY '80 Discussed with Commissioners

4 Year Forecast Completed

1 Year Budget + 3 Year Forecast Submitted

Procedures for Development of 2 Year Budget Issued

24 Month Financial Forecast Prepared

Pilot Program Budget Accounting Implemented

Program Budgets for Expanded Pilot Submitted

Statewide Program Structure Defined

Departmental Program Structure Defined

Phased Zero Base Budgeting Plan Completed

Budget Control Implemented

EXHIBIT 23
CONCLUSION

A disciplined financial management process and well structured, responsive information systems are essential ingredients to effective management. The State of Connecticut does not presently have the necessary accounting systems and financial planning and control tools to effectively manage its nearly $2 billion in expenditures and 40,000 employees. These systems and management tools are necessary for the chief executive, the legislature, and the citizens to be assured that the State's resources are managed efficiently and its services are performed effectively. These management tools will enable the State to focus analysis on the actual results of government programs and activities and ultimately to better understand which programs are effective and which are not as well as which agencies are productive and which are not. Major efforts of this type to better understand and utilize the resources presently available to support State government should be well received by citizens concerned with the effectiveness of state government management.

The plan we have recommended is an ambitious one. Its implementation will span a four year period and will require determination and tenacity to see them through to fruition. These steps are required if the State is to address the basic issues involved and not simply react to symptoms. We are optimistic and hopeful for the outcome. In this connection, the words of Daniel Hudson Burnham seem to us a particularly fitting conclusion for this report...

"Make no little plans; they have no magic to stir men's blood and probably in themselves will not be realized. Make big plans; aim high in hope and work, remembering that a noble, logical diagram once recorded will never die, but long after we are gone will be a living thing, asserting itself with ever-growing intensity."
APPENDIX

A. Drafts of Statute Changes Required for the Introduction of Selected Planning and Budgeting Recommendations

1. Two Year Budget/Two Year Financial Plan
2. Program Budgeting
3. Zero Base Budgeting

B. Current Organization Structure

1. Finance and Control Department
2. Planning and Energy Policy Department
3. State Comptroller
4. State Treasurer

C. Drafts of Statutory Modifications for Collective Bargaining
DRAFT OF STATUTE CHANGES REQUIRED FOR THE INTRODUCTION OF SELECTED PLANNING AND BUDGETING RECOMMENDATIONS

Three of the recommendations discussed in Section IV require modifications to existing statutes. These are:

1. Two Year Budget/Two Year Financial Plan
2. Program Budgeting
3. Zero Base Budgeting

Drafts of the required modifications follow.
Be it enacted by the Senate and House of Representatives in General Assembly convened that the State of Connecticut adopt a two year budget with a separate budget for each year, plus a projected financial forecast for two additional years.

Section 1. The Governor's recommended budget and the General Assembly's appropriation act shall be for a two year fiscal period with a separate budget for each of the two years. In addition, the Governor's recommended budget and the General Assembly's appropriation act shall have a financial forecast for two additional years beyond the two year budget period. The two year financial forecast shall be based on the programs and services levels in each budget of the two year period. The Governor shall recommend a budget for each year in the two year period plus a two year forecast and the General Assembly shall appropriate a two year budget for each year in the two year period beginning FY 1980. The General Assembly shall provide a two year forecast beginning in FY 1980.

Section 2. The Governor's recommended budget for FY 1979 shall include a three year financial forecast based on the programs and spending levels in the FY 1979 budget. The General Assembly shall provide a three year financial forecast based on the FY 1979 appropriation act.

Section 3. This act shall take effect from its passage.
APPENDIX A - 2

AN ACT REQUIRING THE INTRODUCTION OF PROGRAM BUDGETING

Be it enacted by the Senate and House of Representatives in General Assembly convened that Program Budgeting procedures become introduced and phased into Connecticut budgeting procedures in the following manner.

Section 1(a) Commencing with the fiscal year beginning July 1, 1977 both a conventional line-item budget and a program budget submission shall be submitted by the Governor. Until such time as the statewide accounting system can assign costs to programs (July, 1979), the submitted program costs will be considered estimates. In addition to the estimated program budgets to be submitted by all agencies, full-scale "Program Budgeting" shall be established for a limited number of state agencies (on a pilot basis); such agencies to be determined by the Governor, the Commissioner of Finance and Control and the co-chairmen of the joint standing committee on appropriations. As used in this Section, program budgeting implies a budget format on a program basis with pertinent financial information and performance/productivity measures relating to specific agency/department programs, and activities. This allows for review, evaluation and analysis of expenditures at all levels of Government (constituent, agency, state) by the Governor and the legislature. Budget information on the conventional responsibility level basis (e.g. agency, major/minor object) will also be readily available for those requiring it for the control of expenditures.

The significant features of defining and developing a program budget are:

a. Define a uniform program structure for use by all agencies.

b. Identification and definition of agency program objectives.

c. Definition of activities to accomplish program objectives.

d. Construction of a performance/productivity measurement system to measure program accomplishments.

e. Development of a statewide account code structure to accommodate all defined programs.

f. Implementation of the program structure.
The significant features of the program budget approach are:

a. Agency submission of budget information on a program/activity basis with financial information (major/minor object) performance/productivity information relating to agency programs.

b. Evaluation of each program and activity by the central staff according to pre-specified program performance/productivity measures, cost effectiveness and affordability criteria.

c. Development of the Governor's recommended budget to reflect the programmatic/financial/productivity/performance measurement information for all agencies.

d. Legislative review, evaluation, and appropriation on both the program and functional line-item responsibility level basis.

e. Budgetary control on both the program and functional line-item and responsibility level basis.

Section 1(b) The determination of the agencies to which program budgeting shall apply be made not later than July 1, 1977.

Section 1(c) The identification and description of the specific programs for the pilot agencies shall be approved by the Commissioner of Finance and Control not later than July 1, 1977.

Section 1(d) The Commissioner of Finance and Control has the responsibility of defining in detail, developing and implementing program budgeting in the state of Connecticut.

Section 1(e) Commencing with the fiscal year beginning July 1, 1978 and becoming effective in the 1979 - 1980 budget cycle program budgeting shall be established for all state agencies. To accomplish this the following should be enacted:

1. The program budget features described in Section 1(a) will be introduced on a statewide basis. Additionally Section 4-71 of the general statutes is repealed and the following is substituted in lieu thereof:
2. Not later than the first session day following the third day of February in each odd-numbered year, the governor shall transmit to the general assembly a budget document ON AN AGENCY PROGRAM BASIS, setting forth his financial program for the ensuing fiscal year and having the character and scope hereinafter set forth, provided, if the governor has been elected or succeeded to the office of governor since the submission of the last-preceding budget document, he shall transmit such document to the general assembly not later than the first session day following the fourteenth day of February. In the even-numbered years, the governor shall transmit such budget document on the day on which the general assembly first convenes. The budget document shall consist of four parts, the nature and contents of which are set forth in sections 4-72, 4-73, 4-74 and section 4-74a. THE LIST OF AGENCY PROGRAMS TO BE USED AS A BASIS FOR THE STATE BUDGET SHALL BE DEVELOPED BY THE GOVERNOR AND THE COMMISSIONER OF FINANCE AND CONTROL WITH THE ADVICE OF THE CO-CHAIRMEN OF JOINT STANDING COMMITTEE ON APPROPRIATIONS.

3. Section 4-72 of the general statutes is repealed and the following is substituted in lieu thereof:

Part I of the budget document shall consist of the governor's budget message in which he shall set forth as follows: (1) His program for meeting all the expenditure needs of the government for the fiscal year to which the budget relates, indicating the classes of funds, general or special, from which such appropriations are to be made and the means through which such expenditure shall be financed; (2) financial statements given in summary form: (a) The financial position of all major state operating funds including revolving funds at the end of the last-completed fiscal year in a form consistent with accepted accounting practice. He shall also set forth in similar form the estimated position of each such fund at the end of the year in progress and the estimated position of each such fund at the end of the year to which the budget relates if his proposals are put into effect; (b) statements showing as of the close of the last-completed fiscal year and as of January first of the fiscal year in progress the bonded indebtedness of the state, the debt authorized and unissued, the debt temporarily incurred and the condition of the sinking funds and statements showing for the last-completed fiscal year the actual interest requirements on state indebtedness and any debt redemption and for the year in progress the estimated interest requirements and debt redemption; (c) a summary of appropriations recommended for the year to which the budget relates for each budgeted agency and for the state as a whole in comparison with actual expenditures of the last-completed fiscal year and estimated expenditures for the year in progress; (d) a summary of the revenue estimated to be received by the state during the year to which the budget relates classified according to sources in comparison with the actual revenue received by the state during the last-completed fiscal year and estimated revenue during the year in progress, (e) A STATEMENT
OF RECOMMENDED AGENCY PROGRAM APPROPRIATIONS FOR THE ENSUING FISCAL YEAR AND EXPENDITURES FOR THE LAST COMPLETED AND CURRENT FISCAL YEARS, ARRANGED ACCORDING TO SPECIFIC STATE GOALS AND OBJECTIVES NOT BY AGENCY, AND INCLUDING A DESCRIPTION OF EACH PROGRAM, ITS EFFECTIVENESS AND POSSIBLE FUTURE COST; AND (f) such other financial statements, data and comments as in his opinion are necessary or desirable in order to make known in all practicable detail the financial condition and operations of the government and the effect that the budget as proposed by him will have on such condition and operations. If the estimated revenue of the state for the ensuing year as set forth in the budget on the basis of existing statutes, plus the estimated unappropriated surplus at the close of the year in progress available for expenditure in the ensuing fiscal year, is less than the aggregate appropriations recommended for the ensuing fiscal year as contained in the budget, the governor shall make recommendations to the general assembly in respect to the manner in which such deficit shall be met, whether by an increase in the indebtedness of the state, by the imposition of new taxes, by increased rates on existing taxes or otherwise. If the aggregate of such estimated revenue plus such estimated unappropriated surplus is greater than such recommended appropriations for the ensuing fiscal year, he shall make such recommendations for the use of such surplus for the reduction of indebtedness, for the reduction in taxation or for other purposes as in his opinion are in the best interest of the public welfare.

4. Section 4-73 of the general statutes is repealed and the following is substituted in lieu thereof:

Part II of the budget document shall present in detail for the ensuing fiscal year the governor's recommendation for appropriations to meet the expenditure needs of the state from the general fund and from all special and agency funds classified by budgeted agencies and showing for each budgeted agency (and its subdivisions) the appropriation recommended for meeting the cost of (each major function and activity) project or program to be achieved in the budgeted year. Detailed statements shall be prepared which shall show in proper terms the work to be accomplished, expressed in work units to be done, services to be rendered, caseload to be carried or other descriptive terms or combination thereof. In addition (functions and activities), and projects or programs shall be supported by a detail of the cost of (a) personal services, (b) contractual services, (c) commodities, (d) revenue refunds, (e) sundry charges, (f) debt service, (g) state aid grants and (h) equipment, showing the actual and estimated expenditures and requested and recommended appropriations, classified by objects according to a standard plan of classification. It shall also set forth the budget recommendations for the capital program, to be supported by statements listing the agency's requests and the governor's recommendations. All federal funds received for any purpose shall be accounted for in the budget. AGENCY PROGRAMS WHICH ARE OPERATING TO MEET PUBLIC NEEDS - FOR EACH AGENCY THERE SHALL BE A NARRATIVE SUMMARY DESCRIBING THE AGENCY

6. Section 2-35 of the general statutes is repealed and the following is substituted in lieu thereof:
At each regular session of the general assembly, there shall be a joint standing committee on appropriation appointed in accordance with the rules adopted for such session. All bills carrying or requiring appropriations and favorably reported by any other committee, except for payment of claims against the state, shall, before passage, be referred to said committee, unless such reference is dispensed with by a vote of at least two-thirds of each branch of the general assembly. Resolutions paying the contingent expenses of the senate and house of representatives shall be referred to said committee. Said committee may originate and report any bill which it deems necessary and shall, from time to time, report such appropriation bills as it deems necessary for carrying on the departments of the state government and for providing for such institutions or persons as are proper subjects for state aid under the provisions of the statutes, for one year from the following thirtieth day of June. Each appropriation bill shall specify the particular purpose for which appropriation is made and shall be itemized as far as practical BY PROGRAM. No general legislation shall be made a part of such appropriation bill. The appropriations act passed by the legislature for funding the expenses of operations of the state government in the ensuing fiscal year shall contain a statement of estimated revenue, itemized by major source, for each appropriated fund. Such statement of estimated revenue shall be supplied by the joint standing committee on finance of the general assembly. The total estimated revenue for each fund shall not be less than the total net appropriations made from each fund. ALL APPROPRIATIONS SHALL BE ITEMIZED BY PROGRAM.

7. This act shall take effect from its passage.
AN ACT REQUIRING THE PHASING IN OF ZERO BASE BUDGETING

Be it enacted by the State and House of Representatives in General Assembly convened that zero base budgeting procedures become phased into Connecticut budgeting procedures in the following manner.

Section 1(a) Commencing with the fiscal year beginning July 1, 1977 and becoming effective in the 1978 - 1979 budget cycle, zero base budgeting shall be established for a limited number of state agencies to be determined by the Governor, the Commissioner of Finance and Control and the Co-Chairmen of the Joint Standing Committee on appropriation. As used in this section, "zero-base budgeting" implies a budget format on a program basis requiring review, evaluation and analysis of proposed expenditures through 1. identification of all existing programs and activities; 2. evaluation of each program and activity in terms of pre-specified performance/productivity measures and total expenditures required, whether for an existing or a new program; 3. the ranking of each such program or activity, within each agency in order of its overall priority and including justification for establishing or continuing each such program or activity; 4. the provision of a cost reduction opportunity list of least productive or outmoded programs; 5. a description and financial requirements for all new programs and enhancements; and 6. allocation of resources according to the priorities established for each agency in 3 above.

Section 1(b) The determination of the agencies to which zero-based budgeting shall apply shall be made not later than July 1, 1977.

Section 1(c) Commencing with the fiscal year beginning July 1, 1978 and becoming effective in the 1979 - 1980 budget cycle, the zero based budgeting pilot shall be expanded to include more state agencies. The agencies will be selected by July 1, 1978.

Section 1(d) Commencing with the fiscal year beginning July 1, 1979 and becoming effective in the 1980 - 81 budget cycle, zero based budgeting shall be established for all State agencies.
APPENDIX B

CURRENT ORGANIZATION STRUCTURE

1. Finance and Control Department

2. Planning and Energy Policy Department

3. State Comptroller

4. State Treasurer
FINANCE AND CONTROL DEPARTMENT

CURRENT ORGANIZATION

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APPENDIX B - 1

PLANNING AND ENERGY POLICY DEPARTMENT

CURRENT ORGANIZATION

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APPENDIX B - 2

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STATE COMPTROLLER
CURRENT ORGANIZATION

Administrative Division
Central Accounting Division
Central Payroll Division
Data Processing Division
Accounting Systems Division
Retirement Division
Special Services Division
Central Accounts Payable Division

APPENDIX B - 3

STATE TREASURER
CURRENT ORGANIZATION

Debt Management Deputy Treasurer
Investments Deputy Treasurer
Accounting Division
Veterans Bonus Division
  - Bookkeeping and Bank Deposit Control
  - Bank Reconciliation
  - Special Funds

APPENDIX B - 4
Sec. 5 - 278. Determination of employer representative. Negotiations and agreements with employee representative. Conflicts with statutes, acts of agency regulations. (a) When an employee organization has been designated, in accordance with the provisions of sections 5 - 270 to 5 - 280, inclusive, as the exclusive representative of employee in an appropriate unit, the employer shall be represented in collective bargaining with such employee organization in the following manner: (1) In the case of an executive branch employer, by the chief executive officer whether elected or appointed, or his designated representative; who shall maintain a close liaison with the legislature relative to the negotiations and the potential fiscal ramifications of any proposed settlement; (2) in the case of a judicial branch employer, by the chief administrative officer or his designated representative; (3) in the case of a legislative branch employer, by the chief administrative officer or his designated representative.

(b) THE GOVERNOR SHALL DETERMINE THE COST GUIDELINE FOR EACH COLLECTIVE BARGAINING NEGOTIATION AND SHALL FURNISH SUCH COST GUIDELINE ONLY TO THE SECRETARY OF OPM, THE COMMISSIONER OF ADMINISTRATIVE SERVICES, THE DIRECTOR-PERSONNEL AND LABOR RELATIONS, OR THEIR DESIGNATED REPRESENTATIVES. ANY AGREEMENT REACHED BY THE NEGOTIATORS, SHALL NOT EXCEED THE COST GUIDELINE FURNISHED BY THE GOVERNOR. ANY AGREEMENT REACHED BY THE NEGOTIATORS SHALL BE REDUCED TO WRITING AND BEFORE IT IS SIGNED, A COPY OF EACH WRITTEN AGREEMENT SHALL BE TRANSMITTED WITHIN FIVE DAYS TO THE SECRETARY OF OPM FOR THE PURPOSE OF DETERMINING ITS COST. WITHIN FOURTEEN DAYS THE SECRETARY OF OPM SHALL TRANSMIT TO THE BARGAINING REPRESENTATIVE OF THE EMPLOYER A COPY OF THE COST OF SUCH AGREEMENT. AGREEMENTS WITHIN THE COST GUIDELINES SHALL BE SIGNED. AGREEMENTS IN EXCESS OF THE COST GUIDELINES SHALL BE RENEGOTIATED WITHIN THE COST GUIDELINE. UPWARD REVISIONS OF COST GUIDELINES MAY BE APPROVED BY THE GOVERNOR. A request for funds necessary to implement such written agreement and for approval of any provision of the agreement which are in conflict with any statute or any regulation such as those of the personnel board shall be submitted by the bargaining representative of the employer within FIVE days of the date AFTER THE RECEIPT OF THE COST OF SUCH AGREEMENT, WHICH IS WITHIN THE OPM COST GUIDELINE AS DETERMINED BY SECRETARY OF OPM, to the legislature which may approve or reject such
request as a whole by a majority vote of those present and voting on the matter; but, if rejected, the matter shall be returned to the parties for further bargaining. Failure by the bargaining representative of the employer to submit such AGREEMENT OR request to the SECRETARY OF OPM WITHIN SUCH FIVE DAY PERIOD, OR TO THE legislature within such FIVE day period, OR BY THE SECRETARY OF OPM TO RETURN THE COST OF SUCH AGREEMENT TO THE NEGOTIATOR WITHIN FOURTEEN DAYS, shall be considered to be a prohibited practice committed by the employer. If the legislature is in session, it shall vote to approve or reject such request within thirty days of the end of the fourteen-day period for submission to said body. If the legislature is not in session when such request is received, such request shall be submitted to the legislature within ten days of the first day of the next regular session or special session called for such purpose and shall be deemed approved if the legislature fails to vote to approve or reject within thirty days after such submission. The thirty-day period shall not begin or expire unless the legislature is in regular session.
BIBLIOGRAPHY


Minmier, George Samuel, An Evaluation of the Zero-Base Budgeting System in Governmental Institutions, (Georgia State University: Atlanta, Georgia, 1975).


