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STATE OF WASHINGTON
LEGISLATIVE BUDGET COMMITTEE
LEGISLATIVE BUILDING
OLYMPIA

PAUL W. ELLIS
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January 16, 1961

REPORT TO THE LEGISLATURE NO. 19 (1959-1961)

IMPLEMENTATION OF THE STATE BUDGET AND ACCOUNTING ACT

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IMPLEMENTATION OF THE STATE BUDGET AND ACCOUNTING ACT

To: The Members of the Washington State Legislature
From: The Legislative Budget Committee

The Legislative Budget Committee has been studying the operation of the revised budget, accounting, and auditing procedures provided for under the state Budget and Accounting Act, Chapter 328, Laws of 1959. While it is still too soon to evaluate the new system fully, we are able to report to you the progress made to date in installing the new procedures.

SUMMARY

The framework of a considerably improved budget and accounting system has been installed. When fully implemented, this system should improve the management of state government by providing uniform accounting standards, complete revenue and obligation reporting for all funds, improved disbursement procedures, greater budget and allotment control, and reporting of agency performance of agency programs.

It is difficult to generalize about the improvements made to date. Progress has been excellent in many agencies and disappointing in others. We believe that the fiscal operations of the State have generally been improved, but control of expenditures based on agency performance has been slower in reaching fulfillment than had been hoped. There is considerably more adequate information now available in the Central Budget Agency on the status of revenues and obligations, but because some agency reports are incomplete and sometimes late, the reports of the Central Budget Agency must necessarily be defective in these respects. The advantages of a program budget in being able to measure the cost and effectiveness of programs have been lost in some agencies because their programs are not designed so that results can be measured effectively.

The Central Budget Agency has plans for a number of other improvements in the budget and accounting system. Hopefully, these will have the effect of fully implementing the revised system during the next biennium.

REVISED ACCOUNTING AND REPORTING

When fully implemented, the new budget and accounting system will apply to all agencies which receive appropriations, and all funds including both appropriated and non-appropriated funds, providing comprehensive financial data such as fund revenue, actual and estimated; fund expenditures and obligations, estimated and actual; agency appropriation and allotment balances, and other fiscal data. Under this reporting system, agency heads, the governor and the legislature could take timely action in the light of current facts and trends. The degree to which the system has been implemented is discussed below.

Revenue Reporting

A uniform system, including standard account classification for reporting all receipts for each fund deposited with the State Treasurer, has been installed. A report is made monthly by the Central Budget Agency which shows the amount of revenue collected from each source and compares actual revenues against the budget estimate of revenues. Prior to the installation of the new system, the source of some general fund receipts was not reported and no comprehensive comparison of revenues with estimates was made.

At the present time, there is no one report showing all revenues deposited in funds which are not subject to appropriation. However, the Central Budget Agency states that a uniform system for reporting all local funds should be in operation by April, 1961.

Expenditure Reporting

A monthly report showing all expenditures, including disbursements and accruals, as well as encumbered obligations, is supposed to be made by each agency to the Central Budget Agency. These reports are reviewed by the Central Budget Agency and a monthly summary prepared showing expenditures for each agency by program, appropriation, and fund. Formerly, reports of the Director of Budget included only actual disbursements (excluding agency accruals) and did not compare actual expenditures with any rational plan for distributing these expenditures over the biennium.

Initially, there were a number of problems in obtaining reports of all obligations, in achieving uniformity of accounting, and in receiving up-to-date reports. Many of these problems have been partially or completely solved, but a number of problem areas still exist, primarily in the Department of

Institutions. Reports of expenditures from some institutions still do not show all obligations, are not in compliance with regulations, and have been from four to six weeks late. As a result, the reports of the Central Budget Agency on expenditures are not as timely or complete as the Legislative Budget Committee would find desirable or as the Central Budget Agency would want them to be.

The Department of Institutions is also not satisfied with the existing accounting and reporting system and has initiated a detailed program to centralize accounting and reporting in the central office during the next biennium. This plan, when implemented, should provide for more uniform and timely fiscal information.

REVISED DISBURSEMENT PROCEDURE

The disbursement procedures have been considerably revised under the new accounting system. Formerly the agencies subject to control of the budget office sent all invoices to the central budget office where the encumbrance was liquidated [an encumbrance is an amount of money set aside in the ledger when an order is placed to assure that funds will be available to meet the actual liability when it occurs], and the amount of the invoice recorded against allotments. The invoices were then sent to the office of the State Auditor, where they were preaudited and appropriate warrants written. [The State Auditor was also responsible for post-auditing these same vouchers.] Warrants were then returned to the department for payment.

Under the new accounting system, the invoices are pre-audited, recorded against allotments, and encumbrances liquidated by each agency. Warrants are prepared by agencies with punched card machine equipment, or by the Central Budget Agency as a service function, and sent to the State Treasurer for signature. Warrants are returned to the agency for distribution.

Under this system, the time necessary for processing the invoices can be as short as one day and seldom takes longer than one week. Under the accelerated vendor payment system, state agencies should be in a position to take cash discounts offered by the vendors in return for prompt payment and may eliminate the reasons for some local funds.

One other improvement in disbursement procedures is that now a receiver's report must be prepared and signed showing the receipt of all supplies before payment is authorized. Formerly the requirements were a sworn statement from the vendor stating that the supplies were delivered and a certificate of the agency that the account was correct and properly chargeable to the appropriation. The State Treasurer is now maintaining an outstanding warrant register and reports are sent quarterly to each agency as to warrants outstanding. Formerly a warrant register was kept but no separate report of outstanding warrants was prepared.

PROGRAM BUDGETING AND CONTROLS

One reason for the existence of the State Budget and Accounting Act was "the development and adoption of a . . . program type budget." (Chapter 300, Laws of 1957)

The advantages of a program budget are that it gives the Legislature and the administrator of an agency opportunity to determine, explain, and evaluate program costs compared with program objectives. Except in a few large agencies, control was formerly exercised only over objects of expenditure. In order to gain these advantages, the programs must be adequately designed so the programs can reflect the objectives of the agency and so that the progress of the agency in accomplishing these objectives can be measured. Secondly, the agency responsible for the administration of the budget must require each agency to submit performance data for each program to show that the agency actually carries out the work program for which the budget was planned.

The major framework of the program budget has been established, but to be most useful considerable work must still be done before the state has the effective program budget which is desirable. Some programs are not designed so they can be measured effectively against costs. In some agencies, even though the programs can be measured, little accurate information about the program performance is collected. The Central Budget Agency plans to continue improvement in this area the coming biennium.

The Allotment System

An allotment system has been installed based on work programs and is one of the most important methods of budget control under the program budget system in state government. Agencies must plan their expenditures and submit their plans to the Central Budget Agency for review and approval. (Formerly, the allotment system did not apply to all agencies and was based on objects of expenditure.) However, the new allotment system is not yet fully effective. Some agencies have spent in excess of allotments (not in excess of appropriations), showing a lack of proper internal administrative control. The process of planning expenditures in detail, and comparing planned expenditures with actual expenditures, represents a major advance. Overexpenditures are spotted quickly and procedures are followed to contain expenditures within appropriations.

Under the new budget control system, unexpended balances of allotments are placed in reserve each quarter. Any funds placed in reserve cannot be used without obtaining the approval of the Central Budget Agency. The reporting of amounts placed in reserve by each agency has been slow.

This allotment system, by law, affects all agencies insofar as reporting is concerned, but the Central Budget Agency may not revise the allotments or reserves of certain agencies, sometimes referred to as "non-revisable agencies". These include agencies of the Legislature and Judiciary, those headed by elective officers other than the Governor, and the institutions of higher education. Incidentally, non-revisable agencies spend in excess of 50% of the appropriations from the general fund.

Adequacy of Progress

Our evaluation of the installation of the system of program budgeting and controls has pointed out both elements of progress and elements for further improvement. The Central Budget Agency has considerably improved the staffing of that agency, but progress in installing the new budget system has been restricted (a) by the policy of recruiting all personnel from this state, and (b) because recruitment of staff did not begin far enough in advance of the installation date of the new system.

Until the planning and installation of this system, relatively few people in the state had an opportunity to develop the kind of experience needed to establish and operate the new budget system. Moreover, Washington institutions of higher education have not had specific curricula leading to such a career. More rapid progress could have been made if some experienced personnel had been employed, even if they had to be brought in from other states. If the Legislature approves funds for expansion of staff in the Central Budget Agency, the employment of technically trained staff is still possible. This is not to reflect adversely on the quality of personnel obtained. As they become more experienced and trained on the job, we should expect them to provide the necessary quality of service, but these services could have been secured earlier, could yet be speeded up, if a few personnel, experienced in program budget work, were employed by the agency.

In the long run, this State must plan to train its own people and Washington universities are planning to fill the gap in the training program.

RESPONSIBILITY AND AUDIT

The Budget and Accounting Act (Chapter 328, Laws of 1959) removed the responsibility for preaudit from the State Auditor and placed this responsibility with the agency heads, and the supervision of the accounting system with the Central Budget Agency.

Control of expenditures, except for legality, is an essential element of the revised accounting, reporting, and budget system. The adequacy of control procedures depends on the extent to which the accounting system is fully installed and prescribed procedures are followed in all cases. It is the responsibility of the Central Budget Agency to supervise accounting and to make sure that

prescribed procedures are being applied by each agency. The Central Budget Agency has made significant progress in obtaining compliance with prescribed accounting standards.

Even though supervision of the accounting system rests with the Central Budget Agency, it is the primary responsibility of the head of each agency to insure that expenditures are legal, that prescribed procedures are being applied, and that accounts are kept accurately. We are not now in a position to evaluate fully the extent to which agency heads, through preaudit operations, are fulfilling this responsibility. Reports from the State Auditor's office indicate that the preaudit appears more accurate than anticipated by that office. However, the reports of the Central Budget Agency show some agency heads have not exercised sufficient control over expenditures so that, as a result, these agencies did exceed their allotments. Also, in some agencies, accounts are either not kept according to prescribed methods or not reported as required. The completion of more post audits and a longer period under allotment control should indicate the adequacy of the preaudit systems.

For some of the larger agencies, it appears necessary that someone responsible to the director of these agencies check the accuracy and adequacy of preaudit operations. For small agencies, internal auditing could well be the function of a small staff responsible to the Governor. In the past, the Governor has had very inadequate sources of information about the adequacy or inadequacy of fiscal controls under his command, and it appears that to some extent this condition still exists. In the absence of this kind of internal audit, any errors or exceptions to procedures would only wait until they receive attention from some outside agency such as the State Auditor. The absence of necessary internal audit procedures makes it more urgent and important that there be a timely post audit.

As of November 10, 1960, the State Auditor had completed audits of all state agencies through June 30, 1959, except for Central Washington College of Education and the soil conservation districts. Post audits for 1959-60 are completed for only a few agencies. The Auditor's office plans ultimately to post audit operations after the completion of each quarter of operations instead of waiting for the completion of a fiscal year. Although it may be questioned whether this would be prompt enough, little or none of this has been done. According to the State Auditor's office, the problem of training existing staff to audit a new system and the trouble some agencies are having in installing this system has resulted in slowing down post audit operations.

Competent experienced personnel could be employed for this purpose and would be useful in training existing staff. Reluctance to employ such professional competence could permit the continuance of a serious condition, of which nobody now may have any knowledge. However, the State Auditor reports

that he has raised the standards for staffing his office and intends to employ the kind of personnel recognized as competent to carry out the post audit operation. We are not now able to evaluate the extent to which post audits may be hindered by (a) lack of trained staff in the State Auditor's office, or (b) failure of operating agencies adequately to install the new accounting system. It would appear to us that a new accounting system should have only a slight effect on the time required for a post audit. In fact, improved and more effective accounting procedures should increase the speed of post audits.

The post audit should include a review of internal control procedures. In the past, the reports of the State Auditor indicated little as to the adequacy or inadequacy of control procedures, and defects in control were often not reported at all. One reason for this may be that some agencies never corrected the inadequate controls which were reported. In any case, we have been informed that the staff of the State Auditor has now been instructed to place special emphasis on checking agency compliance with the accounting instructions of the Central Budget Agency and the effectiveness of control procedures.

In addition, section 16 (3) (d) of the Budget and Accounting Act provides:

"The state auditor shall: . . . Be empowered to take exception to specific expenditures that have been incurred by any agency or to take exception to other practices related in any way to the agency's financial transactions and to cause such exceptions to be made a matter of public record, including disclosure to the agency concerned and to the budget director. It shall be the duty of the budget director to cause corrective action to be taken promptly, such action to include, as appropriate, the withholding of funds as provided in section 11 of this act."
[Emphasis supplied]

Therefore, for the first time, definite responsibility is placed for corrective action in those cases where agencies do not have proper fiscal control practices.

FUTURE STUDIES AND IMPROVEMENTS

The Budget and Accounting Act provides that the budget director, as the agent of the Governor, shall, among other duties, "make surveys and analyses of agencies with the object of determining better methods of increasing effectiveness of the use of manpower and materials."

There are at least two ways in which this duty could be accomplished: (1) through long range planning, and (2) through management studies.

The Legislative Budget Committee has, on several occasions, pointed out that long range plans were needed by one or a combination of agencies in order to provide efficient, orderly use of the State's resources. It cannot be expected that this kind of planning can, or should be, done by the Legislature during the appropriation process. Yet, much of this planning has been left to the Legislature. Certainly no budget can be properly prepared or considered without knowing the probable effects of immediate expenditures on long range state problems.

Planning is presently done only on a partial basis. It appears that a small staff in the Governor's office, responsible for coordinating and planning the use of State resources on a long range basis, would prove to be of considerable value in solving major state problems.

The second aspect concerning the effective use of appropriations is the use of management surveys covering such items as the use of machines, forms control, organization studies, and others. As of this date, the Central Budget Agency has had little time to devote to much of this kind of work outside of exercising control over the use of accounting forms and assisting in the installation of improved accounting procedures. It is our understanding that the Central Budget Agency plans to do more of this kind of work during the next biennium, including some review of present forms, and will include an item in the budget request for this purpose. The use of management studies should result in more efficient and less costly operations in several state agencies.

An appropriation of \$275,000 was given to the Governor for 1959-1961 for the purpose of "Surveys and Installations". This appropriation has been allocated as follows:

\$ 75,000 to the Governor's Expenditure Advisory Council
\$ 10,700 to the Consumer's Advisory Council
\$ 189,300 to the Central Budget Agency.

THE LEGISLATIVE BUDGET COMMITTEE AND BUDGET HEARINGS

Chapter 328, Laws of 1959, section 9, relative to the development of the budget states in part: "copies of all such estimates and other required information shall also be submitted to the Legislative Budget Committee. The Governor shall also invite the Legislative Budget Committee to designate one or more persons to be present at all hearings provided in section 10."

Pursuant to this section, the Legislative Budget Committee was notified and invited to be present at the hearings on requests for capital outlay for the various state agencies, at hearings for the institutions of higher education, and

at hearings for a few of the other non-revisable agencies. Copies of related budget requests were supplied. No such invitation was given to budget hearings on any of the operating budgets for the agencies under the Governor nor was the Legislative Budget Committee provided with any of the requests for operating budgets for these agencies until the Governor's budget was delivered to the Legislature.

The Director of Budget regards the preliminary requests filed at these hearings as working papers having no predictable relationship to the Governor's request to the Legislature. Since all reviseable agencies are responsible to him, the only significant requests are those which reflect his policies and these are the results of the hearings rather than the source materials for hearings.

The Legislative Budget Committee believes the Legislature is entitled to these facts, but we are not prepared to raise any issues over the matter. Unless this be regarded as an exception, and we do not make this claim, we must report that the Central Budget Agency has been very cooperative and helpful in our work of this biennium.