

APPENDIX A
PLANNING, BUDGETING, AND PROGRAM EVALUATION PROCESSES

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PLANNING, BUDGETING, AND PROGRAM EVALUATION PROCESSES

This section describes the steps involved in the planning, budgeting, and program evaluation processes.

In general, the North Carolina budget process is similar to that of the federal government and most other states and local governments. The Governor prepares an executive budget that includes proposed expenditures for all State departments and agencies over a two year period.³ The budget is then transmitted to the General Assembly, which reviews and modifies the budget and votes an appropriations act. Once passed, the act becomes the State's budget over the next two years starting with July 1 of the odd-numbered year and ending on June 30 of the next odd-numbered year. The General Assembly meets in a short session in the even-numbered year to make any necessary adjustments to the budget.

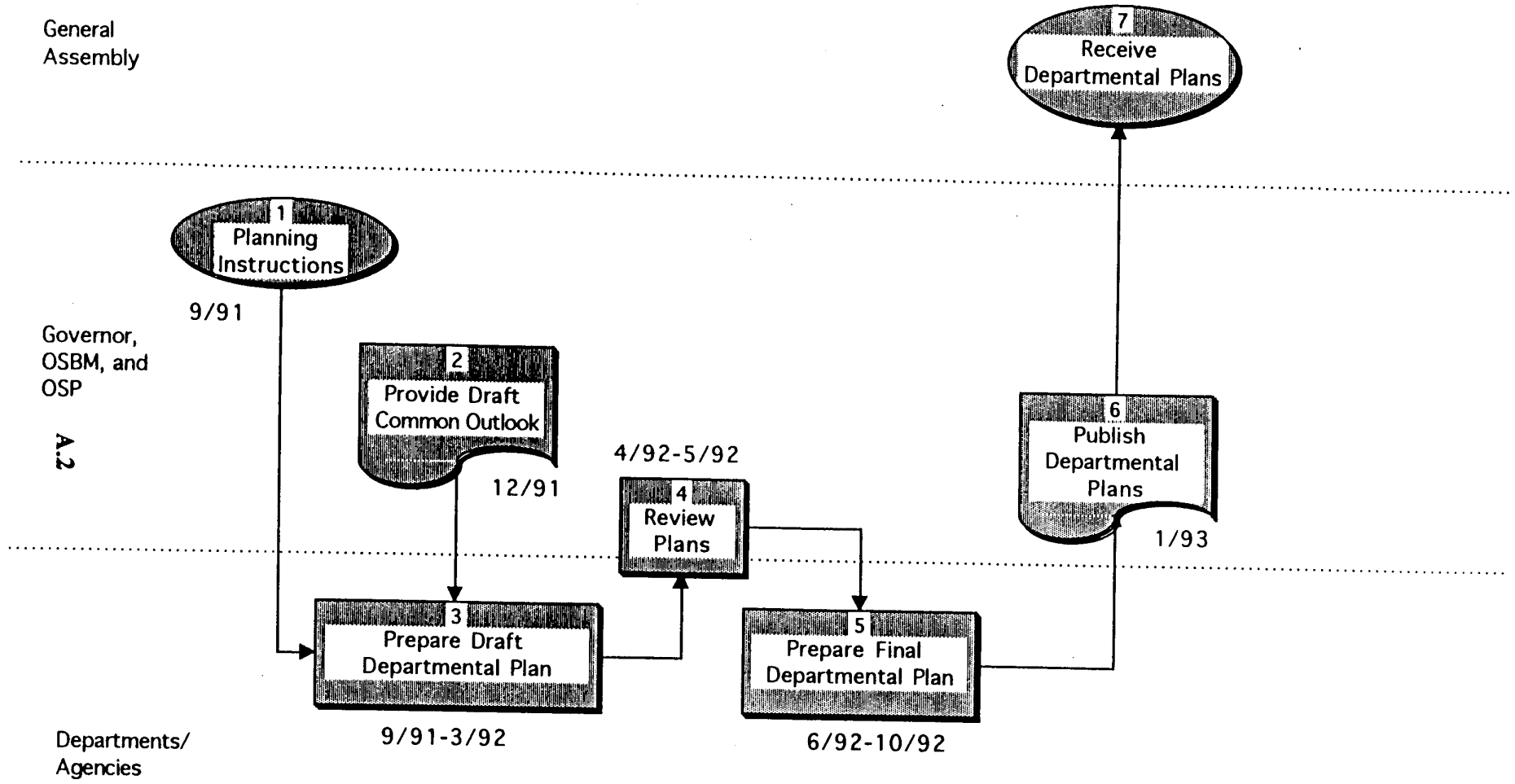
Planning process

The departmental planning process follows a two year cycle consistent with the biennial budget process. The steps involved in this planning process are illustrated in Exhibit A-1 and described below.

1. The Office of State Planning (OSP) transmits planning instructions to the agencies (September of odd-numbered year).
2. Agencies prepare draft departmental plans (over a seven month period).
3. During this departmental planning period, OSP provides a draft "Common Outlook and Assumptions" to agencies to assist in developing plans.
4. OSP and the Governor comment on the direction taken by the agencies in their draft departmental plans.
5. Agencies prepare final departmental plans (over a five month period).
6. OSP collects all of the departmental plans and publishes them as one document (January of odd-numbered year).
7. The Governor transmits departmental plans to the General Assembly (February - odd-numbered year).

³ North Carolina is one of 22 states that budgets on a biennial basis. Source: *Legislative Budget Procedures in the 50 States*, 1988, National Conference of State Legislators.

Exhibit A-1 Planning Process



Executive branch budget formulation process

A flow chart of the executive branch budget process for North Carolina is shown in Exhibit A-2. The process comprises the following general steps:

1. OSBM transmits budget instructions to State agencies in March of the even-numbered year.
2. Agencies prepare budget requests over the next seven months (from March to the end of September).
3. OSBM prepares the Governor's budget during the months of October, November, and December based on agency budget requests.
4. Governor transmits budget to General Assembly at the start of the legislative session (usually February 1).

The executive branch budget process lasts about ten months - from March to December.

Legislative branch budget formulation/approval process

A flow chart of the legislative branch budget process for North Carolina is shown in Exhibit A-3. The process comprises the following general steps:

1. Joint appropriations committee receives report from Governor on budget in open session.
2. Appropriations committees in each house receive budget.
3. Appropriations subcommittees review the continuation budget (February through April).
4. Appropriations committees vote on continuation budget (April).
5. Appropriations subcommittees review the expansion and capital improvement budget (May and June).
6. House and Senate appropriations committees vote on expansion budget (June).
7. The full House and Senate consider and vote on their respective appropriations bills.
8. Differences between House and Senate bills are resolved and General Assembly votes on biennial appropriations (June).

Exhibit A-2 Executive Branch Budgeting Process

General
Assembly

Governor,
Office of State Budget
and Management, and
Office of State Planning

A.4

Departments/
Agencies

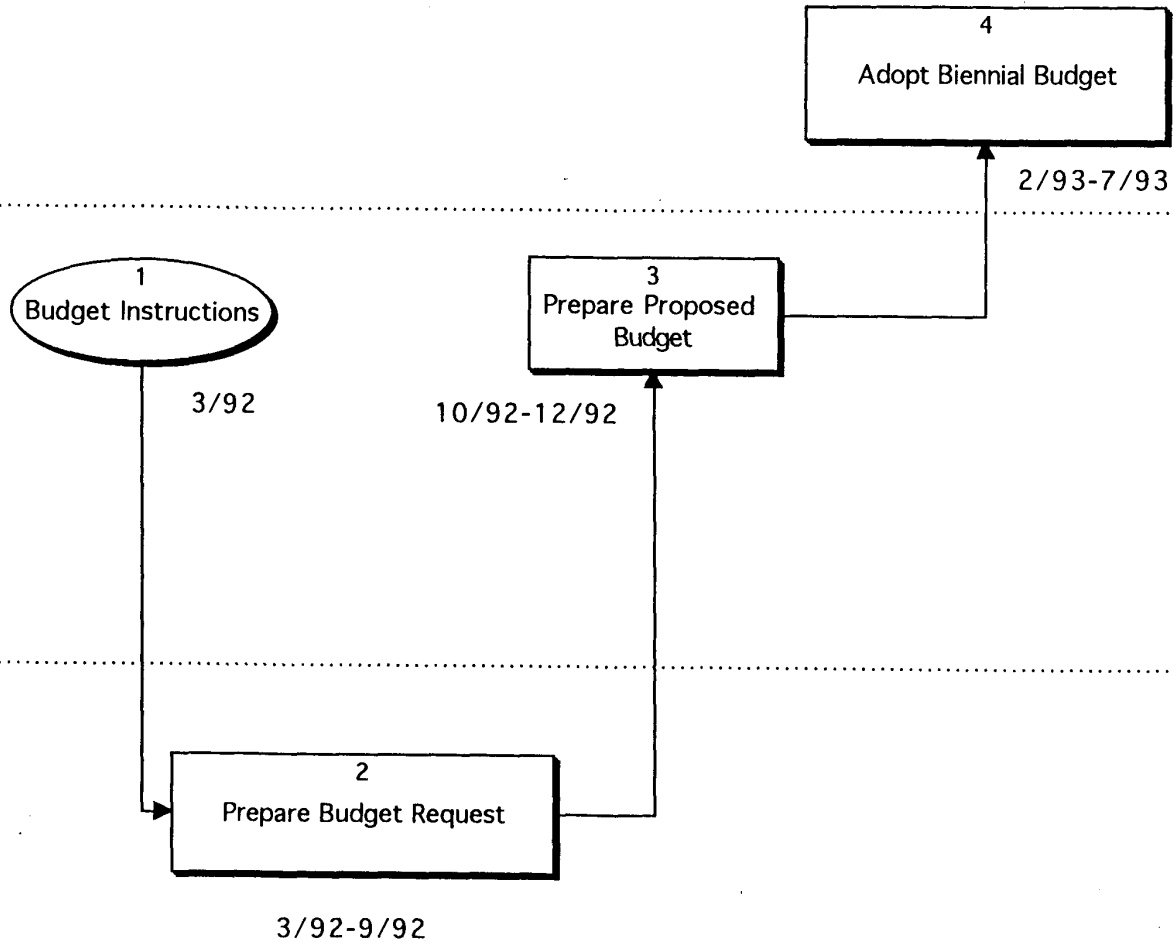
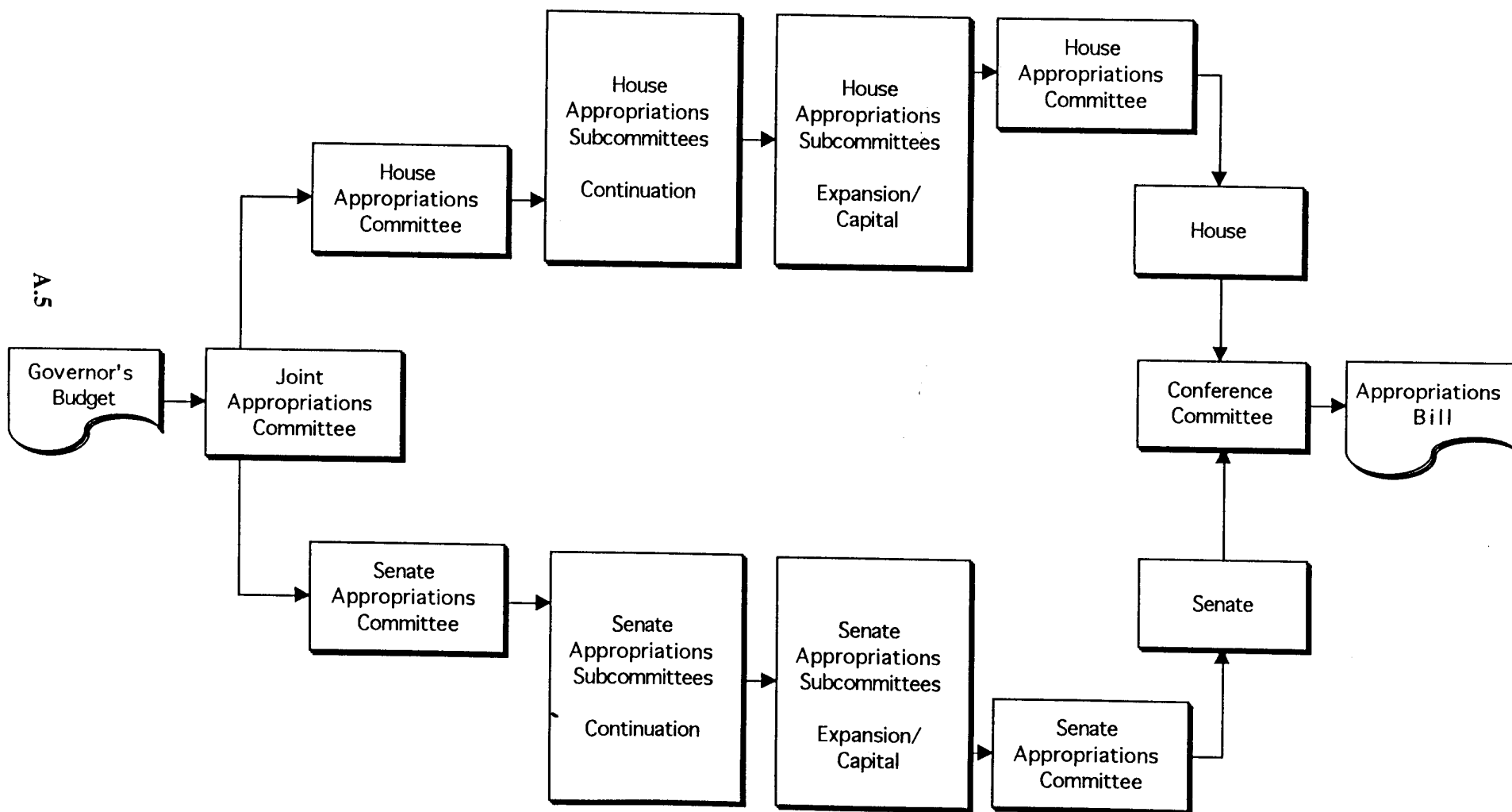


Exhibit A-3 Legislative Branch Budgeting Process



The legislative budget process generally lasts five months. The entire budget cycle including legislative and executive branch processes lasts about 15 months.

Program evaluation

Program evaluation can occur on an ongoing basis or can be an in-depth program review. State departments are required by G.S. 143A-17 to include in their departmental plans "measurement criteria for the determination of success or failure of (a) requested new programs and (b) programs whose funding was previously supported from non-state sources." North Carolina has a method for monitoring program performance and it has several agencies that review agency operations. The program monitoring process and the agencies responsible for program evaluations are described below.

Ongoing program monitoring

The program tracking system operated by the Office of State Budget and Management (OSBM) was created in the mid 1970s to accompany the new program budget format. It is used to track program statistics, objectives and measures (provided by the departments and agencies) so that they can be included in the Governor's proposed budget. The process and timetable used for reporting these data are illustrated in Exhibit A-4. The steps included in the process are:

1. OSBM requests updates of program statistics from agencies (August of odd-numbered year).
2. Agencies update program statistics (during a period of five months).
3. OSBM requests program narrative and statistics (May of even-numbered year).
4. Agencies update narratives and program statistics (during a period of four months).
5. OSBM compiles narratives and statistics for inclusion in budget (September of even-numbered year).

The process for updating program statistics lasts about 11 months.

In-depth program reviews

Three agencies in State government are given the authority to evaluate agency operations. The agencies are:

- Joint Legislative Commission on Governmental Operations
- Office of the State Auditor

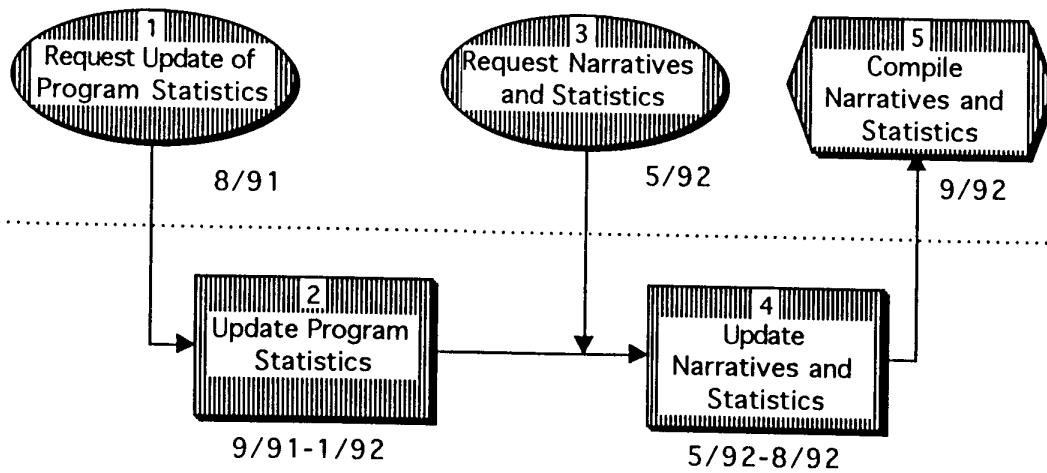
Exhibit A-4 Ongoing Program Monitoring Process

General
Assembly

Governor,
OSBM, and
OSP

A.7

Departments/
Agencies



■ **Office of State Budget and Management**

The statutory authority and the actual practice of these agencies are discussed below in more detail.

Joint Legislative Commission on Governmental Operations

The Joint Legislative Commission on Governmental Operations was created in 1975 "for the purpose of performing . . . continuing examination and evaluation of State agencies." As it now operates, the Commission does not have the resources nor the staff to "conduct program evaluation studies" or to sponsor such studies by contracting directly with outside evaluators. In fact, it seldom even initiates specific evaluations of program results. Instead, it receives a small number of selected evaluations of program results that have been mandated by the General Assembly and that generally are conducted by outside evaluators under contracts executed by program managers.

Office of the State Auditor

The Office of the State Auditor (OSA) has the authority to conduct evaluations of program results, however, audits performed by the State Auditor's office have focused primarily on economy and efficiency. Occasionally, performance audit reports call for a program effectiveness assessment, but OSA does not conduct such evaluations itself.

Office of State Budget and Management

The authority for conducting program reviews by the Director of the Office of State Budget and Management is more general, but certainly would allow for evaluations of program results. The emphasis in the OSBM's statutory authority, however, is on assessments of economy and efficiency rather than program results. Our interviews with OSBM indicate that the management studies conducted by OSBM's Management and Productivity Section are not intended to assess the impacts of the State's programs or their effectiveness in attaining the end-results for which they were created.

APPENDIX B
OFFICE OF STATE PLANNING
COMMENTS





State of North Carolina
Office of State Planning

James G. Martin
Governor

Sheron K. Morgar
State Planning Officer

17 September 1992

Curtis Clark, Director
Government Performance Audit Committee
North Carolina General Assembly
Legislative Office Building -- Room 612
300 North Salisbury Street
Raleigh, North Carolina

Dear Mr. Clark:

The Office of State Planning has reviewed the State Government Performance Audit, Phase I, "Performance Audit of Planning, Budgeting and Program Evaluation Processes." We generally agree with its findings with respect to the planning process and will support implementation of its recommendations.

Having said that, I think it important to qualify five points:

First, the need for vision. I agree that we need to develop the capacity to articulate visions of North Carolina which, in turn, energize and focus political debate. But we must recognize that in a society such as ours, with many competing -- sometimes conflicting -- values and interests, a single vision is not possible.

Second, the need for goals. We need to agree on goals that reflect what the majority of citizens want and are willing to pay for. This is not simply a matter of registering majority opinion. It requires that we define very precisely government's responsibility. Good programs may be started and perform very well and still completely miss the policy target, because we failed on the front end to be very clear about the public purpose they were to serve. We must also find a way of implementing public sector goals that reflects the fact that voters often want more than taxpayers are willing to pay for.

B.1

Curtis Clark
Page 2
17 September 1992

Third, the need to integrate the process of looking ahead with the daily operation of government. If they are to be more than rhetoric, goals must be tempered by knowledge and understanding of current and future trends and by the constraints on what is possible, technically and financially. In order to do this, the roles of both the legislative and executive branches must be strengthened. Implementing the proposed recommendations on strategic planning and performance budgeting would complement the Department Planning process already in place and offer more opportunities for legislative-executive dialogue.

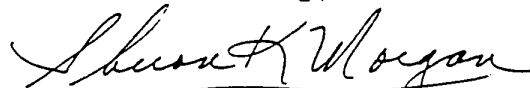
Fourth, the need for outcome measures. The first and most important step in developing meaningful outcome measures is to agree on and clarify what we want. Outcome measures can then be used to send a clear message to managers as to what is expected of them. But we must provide appropriate incentives to managers, if we expect them to embrace this new way of operating. Finally, we must use the agreed upon measures to evaluate program performance -- to determine whether we got what we said we wanted.

Fifth, the need for an iterative process -- one that allows us to learn by doing. For this to work, the legislative and executive branches must act in good faith; we must be willing to take some risks; and we must acknowledge at the outset that, to some extent, we will fail, learn from it and try another way.

This Performance Audit and the political debate it will generate offers us an opportunity like none other in my experience -- an opportunity to retool government to be more responsive to the needs of its citizens.

With my best wishes, I am

Yours sincerely,


Sheron K. Morgan, Ph.D.



State of North Carolina
Office of State Budget and Management

James G. Martin
Governor and Director
of the Budget

Marvin K. Dorman, Jr.
State Budget Officer

September 18, 1992

Mr. Curtis Clark, Director
Government Performance Audit Committee
Room 612
Legislative Office Building
Raleigh, North Carolina 27603-5925

Dear Mr. Clark:

Thank you for the opportunity to review the draft of the KPMG Peat Marwick field work on Phase I Performance Audit of the Planning, Budgeting and Program Evaluation System. My comments will be brief; however, I will be available for further discussion if you, Peat Marwick or the Government Performance Audit Committee wish.

First, let me acknowledge that the "program statistics" and "objective and measures" are for the most part workload measures rather than results. Peat Marwick estimates that ten percent (10%) of these data measure program "results". I believe improvement can be made in this area. But this is possible only with the full support and assistance of state program managers, and I believe they must be assured of permanent benefits in their approach to budgeting. To develop meaningful "measures" requires long periods of staff work and research. Many programs do not currently have measures identified, data available nor staff to develop such measures. If a new approach to the State's budget is implemented, it will require time to develop such meaningful measures. Two states, Oregon and Iowa, considered to be the leaders in program budgeting, stated at a recent National Association of State Budget Officers (NASBO) meeting that only fifteen percent (15%) of their "measures" were true performance/result measures. Since the early 1970s, performance measures have been discussed in North Carolina's state government. Statewide citizen surveys have been used to determine change over time ("results"). To further these efforts by department and institutional managers will require a permanent commitment to this new approach by the State.

Second, I do not believe that the "continuation" and "expansion" budgets should be consolidated in the budget format to eliminate the distinction between the two. In the Executive Branch, the amount of work required to prepare a budget, the schedule under which one is prepared, and the requirement to have the latest possible economic, revenue and demographic data available before finalizing a budget require that a distinction be made and shown. This does not mean that priorities can not be established between on-going programs

B.3

("continuation" budgets), new requests to expand or add new programs ("expansion" budget) and compensation/benefit increases for state funded employees. Those trade-offs can be shown if necessary as reductions in the "continuation" budgets as part of the "expansion" budget format.

In the Legislative Branch, it is my opinion that analysis would be difficult if there were no distinction shown between changes to current programs and changes caused by new or expanded programs. It has been my experience over the last twenty-nine years that one of the first questions asked in appropriation committees has been "Why is there an increase?". Distinctions have to be made. I have also observed over these years that the General Assembly does establish priorities as it develops and enacts a state budget, taking into account the needs of current programs and the need to expand or add programs.

Again, it has been my experience that governors have sought to submit budgets with which appropriation committees would accept the format as workable documents. But please keep in mind that the North Carolina Constitution (Article III, Section 5, (3)) states that the Governor shall prepare a comprehensive budget.

Third, I agree that the Governor as Director of the Budget should consolidate line-items in his recommended budget to no more than ten (10). This should be done regardless of the final approach to state budgeting the General Assembly enacts into North Carolina statutes. Further, I believe that current budget restrictions in N. C. G.S. 143-16.3 and 23 should be repealed.

Fourth, I agree that a program should be put in place to ensure that state facilities are repaired and maintained on an on-going schedule. Functions are currently in place in the Executive Branch to provide the necessary information to identify repair and maintenance needs for state facilities.

The matter of how to fund on an on-going basis these repair and maintenance needs is a matter for discussion. I do not believe that the State should budget a "lapsed salary" factor in its operating budget for any need, including repairs and maintenance to facilities. States which have taken this approach have found themselves unable to manage revenue shortfalls or shortfalls in critical areas in their operating budgets. Consider the following for North Carolina.

1. Medicaid - underfunding in a current fiscal year (\$32.3 million in last two fiscal years).
2. AFDC - underfunding in a current fiscal year.
3. Public Schools, University or Community Colleges - overenrollments in a current fiscal year.
4. Prisons - high admissions requiring additional operating funds such as for medical needs in a fiscal year (\$17.7 M in last two fiscal years).
5. Natural Disasters - a Hugo (\$22 million cost to State).
6. Mental Institutions - additional accreditation requirements in a current fiscal year.

7. Departments and Institutions - higher level of employment than historical average.
8. Department and Institutions - higher level of operating costs than were anticipated, such as for utilities.
9. Revenue Shortfalls - shortfalls in revenue greater than funds in the Rainy Day Fund (\$550 million and \$729 million general fund revenue shortfalls in 1989-90 and 1990-91 respectively).

Note: Exhibit 3-6 is incorrect for 1989-90 and 1990-91. These years are overstated by carryforwards of payrolls and reversions of special reserves. All years in the exhibit included all state departments and institutions, not just public schools, universities and human resources.

Fifth, I do not agree that there should be any limit placed on transfers between programs within a department or institution. Several mandated requirements mentioned in the above paragraphs would not have been resolved in previous years if a five percent (5%) transfer between programs within a department or institution had been in place. These transfers were required to carry out legislative intent and not to create new or expanded programs. Again, I recommend the repeal of N.C. G.S. 143-23 which would provide managers more flexibility to respond to unanticipated events.

Sixth, I do not believe the entire budget and all its "programs" can be transformed into a "performance (program) budget" by the 1995-97 biennium. The tasks required are enormous. I recommend at a minimum a three biennial approach. Also, I recommend that the General Assembly establish a schedule for its own evaluation of state programs over a period of several biennium rather than attempt to evaluate in depth every program every two years.

Lastly, with respect to recommendations related to the capital budgeting process in North Carolina, the report states that capital funds are generally authorized based on needs identified by the General Assembly at the close of the legislative session. It should be noted that much of the funding authorized by the General Assembly has traditionally been consistent with recommendations submitted by the Governor. It should also be noted that a major emphasis has been focused on the capital budgeting process by the Executive and Legislative branches in the last decade. This focus has resulted in a methodical and documented assessment of requested capital in the following areas:

1. Agencies are required to submit a Six Year Capital Improvement Plan at the beginning of each biennial budget process. This plan is updated in each biennium and is the guideline which is to be used in recommending capital projects to the General Assembly. These plans are submitted to legislative staff for use by the General Assembly.
2. Because of increasing cost overruns in past years in budgeted capital projects, this office and the Office of State Construction developed a cost estimation process which must be strictly adhered to prior to agencies submitting capital requests for consideration by the Governor. This process includes a data base of construction values and inflation factors in North Carolina which allows the Office of State Construction to estimate the cost of projects to the point of

award. This process has had a major impact on cost overruns primarily by requiring the scope of projects to be identified early in the process and not permitting any variance from that scope (General Statute).

3. The previous sessions of the General Assembly have used appropriation subcommittees to review capital requests of the Governor as well as the construction process for State Government. These subcommittees were very effective in deliberating the capital needs of the State.
4. Legislation has been enacted which allows an optional bid for single prime on capital projects authorized for state government facilities. This legislation has proven effective in making government projects more competitive in the market place while aiding in the reduction of cost overruns.

We believe the report presents additional positive recommendations for improving the capital improvement process for state government. We agree that funds should be earmarked annually for the repair and maintenance of existing facilities and that generally this should be a priority over new construction in the budget. The Office of State Budget and Management has been charged by the General Assembly to develop a plan for recommending and funding such a program by the 1993 Session.

As outlined herein, it is clear that many of the recommendations to "Restructure the State's capital budgeting process" have either been implemented or are under review for implementation. The three most important factors involved in the capital budgeting process are long-range planning, proper review in the biennial budget process and adequate funding sources to meet the needs.

In closing, let me say that I do not envision the transformation from the current "line-item" budget to a "performance (program) budget" being an easy one. Much work, resources and time will be required. The two pilot "performance budget" projects will be a start from which adjustments will no doubt be required.

Sincerely,



Marvin K. Dormon, Jr.