

PERFORMANCE BUDGETING
REPORT AND EVALUATION OF ITS USE IN MUNICIPAL
ADMINISTRATION

A Thesis
Presented to
the Faculty of the School of Business Administration
The University of Richmond

In Partial Fulfillment
of the Requirements for the Degree
Master of Science in Business Administration

By
William Robert Harton, Jr.
June 1957

*Approved May 21, 1957
Martin L. Flaykeger*

TABLE OF CONTENTS

CHAPTER	PAGE
I. INTRODUCTION	1
Purpose and Significance of the Study	2
Organization of Thesis Material	4
Sources of Information	5
II. CHANGING CONCEPTS IN GOVERNMENTAL BUDGETING	7
Basic Principles of Budgeting	7
Flexibility	9
Budget principles	9
Modern Concepts in Governmental Budgeting	11
Budget is a work plan	12
Recent trends	13
The performance approach	16
The Performance Budget	18
Definition	18
Budget planning and preparation	19
Methods of appropriation	20
Expenditure and program control	21
III. DESCRIPTION OF BUDGET SYSTEM AND PROCEDURES	
CITY OF RICHMOND, VIRGINIA	25
Legal Basis for Budget Preparation	26
Preparation and scope of the general fund budget	26
Appropriation and tax ordinances	28

CHAPTER

PAGE

Work plan and allotments 30

Conformity of expenditures to

 appropriations 31

 Financial administration 32

Organization and Preparation of Budget

 Estimates and work programs 33

 Establishment of work programs 33

 Determining work units and work volume 36

 Work methods 37

 Cost of services 38

 Schedule for assembling budget 38

 Program and performance statements 39

 Appropriation ordinance text 42

 Supporting schedules 42

 Expense schedule 43

 Personnel schedule 45

 Budget financial summaries 48

 Classification of expenditures 50

Budget Execution - Accounting and Reporting

 Systems 55

 Allotment of appropriations 55

 Allotment schedule 56

 Work program forecasts 58

 Allotment register 59

CHAPTER	PAGE
Encumbrance and expenditure register	61
Direct purchase encumbrance	63
Transfer of funds	65
Performance reporting	68
Reserve accounts	70
 IV. EVALUATION AND REPORT ON SELECTED PERFORMANCE	
BUDGET SYSTEMS	71
Experience with the Performance Budget in	
the Federal Government	72
Recommendations of Second Hoover	
Commission	73
Budgeting practice	73
Accounting and auditing	74
Reporting	75
Experience with the Performance Budget in	
Municipal Operations	76
Los Angeles, California	76
Further refinements needed	77
New York City	78
Report of Citizens' Budget Commission	79
The missing link	80
Recommendations of Citizens' Budget	
Commission	81

CHAPTER	PAGE
Richmond, Virginia	82
Criticism by legislative officials	83
V. A REVIEW OF SPECIALIZED PROBLEMS AND	
PROCEDURES	84
Measuring Work Volume	84
Basic elements in measuring work volume . . .	85
Value of work measurement data to	
administrator	86
Establishing Work Standards	87
Factors in developing standards	88
Standards must meet local conditions	89
Unit Costs	90
Comparison of unit costs between localities .	91
Unit costs used for comparative purposes . .	92
Fixed and variable expenses	92
Allocation of program costs	93
Need for constancy in work standards and	
cost formulas	95
Methods of pro-rating administrative	
costs	96
Multiple work units in same program	96
Unit cost formulas	97
Too Much Red Tape and Too Many Forms	99

CHAPTER	PAGE
Point of diminishing returns	99
Reaction of operating officials	100
Correlating Performance and Expenditures	101
Pressure of Legislative Bodies - Halfway	
Performance Budgeting	101
Performance concept relatively new	102
Loss of Perspective by Administrative	
Officials	102
Type of Narrative Statements	103
Method of presenting program narratives	104
Adequacy of Accounting and Coding Systems	104
VI. SUMMARY AND CONCLUSIONS	106
BIBLIOGRAPHY	111

LIST OF FIGURES

FIGURE	PAGE
1. Program and Performance Statement	41
2. Detailed Expense Schedule	44
3. Detailed Personnel Schedule	46
4. Bureau Financial Summary	49
5. Appropriation Allotment Schedule	57
6. Allotment Register	60
7. Register Sheet	62
8. Direct Purchase Encumbrance	64
9. Allotment Transfer Form	66
10. Quarterly Performance Report	69

CHAPTER I

INTRODUCTION

The Commission on Organization of the Executive Branch of the Government, better known as the Hoover Commission, in its Report on Budgeting and Accounting to the Congress of the United States in February, 1949, reported that the Federal Budget was poorly organized and improperly designed to serve its major purpose which was to present an understandable as well as a workable financial plan for the expenditures of government.¹ The report further indicated that some of the fiscal procedures and concepts of the federal government came down from the time of Alexander Hamilton resulting in an accounting system which was outmoded and cumbersome and which did not indicate what services were provided for the funds expended. The budget for all divisions of the federal government had increased each year. However, the framework and method of presentation had not changed in many cases. As a result of this study the Commission made the following recommendation: "That the whole budgetary concept of the federal government should be refashioned by the adoption of a budget based upon

¹Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting. (Washington: Government Printing Office, 1949), p. 7.

functions, activities and projects; this we designate as a performance budget."²

This was the beginning of the concept of performance budgeting and resulted in wide-spread interest and investigation by public officials in the possible use and application of these concepts in local and state financial administration. Although there has been gradual growth of this type of budgeting, the actual development and extended application of the principles involved are still in an evolutionary state. Officials in many areas clearly realizing the need for more efficient management and administration in government have partially or completely adopted the performance approach to governmental budgeting. Other officials want more information and proof of benefits to be derived before making any drastic changes in their present pattern of budget organization.

I. PURPOSE AND SIGNIFICANCE OF THE STUDY

The primary purpose of this study is to investigate and report on performance budgeting and attempt to analyze the effectiveness of the systems and procedures now being used in actual practice by certain governmental agencies.

To date, there has been very little written material presented which actually analyzes and compares the old type

²Ibid., p. 8.

of line budgeting with the newer concepts of performance budgeting. There are pros and cons to both systems and it would be desirable and valuable to have a presentation pointing out both advantages and disadvantages to the use of one system over the other. Generally, the reaction of administrators to this newer type of budgeting has been favorable, but legislative groups have not always been easily convinced of its merits.

In a period of rising costs and demands for service by the citizens there has developed a great deal of interest in improving management and budgeting efficiency on the part of governmental officials so as to obtain the greatest amount of service at the lowest cost in view of the resistance of legislative bodies to continually increasing budget requests. It is hoped that the material presented in this study will make some contribution to better and more efficient program planning and financial administration.

There appears to be a need for a practical detailed description of an existing performance budgeting and accounting system. This description would be in addition to the theoretical and philosophical discussion that is usually presented on this subject; particularly would such a description be valuable to administrators in areas contemplating the establishment of a revised budgeting system.

II. ORGANIZATION OF THESIS MATERIAL

Following a brief introduction reviewing the scope of the problem and the purpose of the study, a review of the changing trends and concepts in governmental budgeting and financial administration is made in Chapter II. This includes a definition of performance budgeting and a somewhat detailed review of the outstanding features of such a system. Also, an effort is made to highlight the differences inherent in the two types of budgeting procedures.

In Chapter III, a description is given of the budget system now in effect in the City of Richmond, Virginia. An outline is provided in detail of the steps followed in budget preparation and sample forms included which are currently in use.

Following the description of an actual budgetary system, an attempt is made in Chapter IV to evaluate and report on selected performance budgeting systems. In Chapter V certain specialized problems are reviewed from the standpoint of general concepts and these problems are discussed as they relate to actual procedures and operations of a city budgeting system.

In Chapter VI, a general summary of the advantages and disadvantages of performance budgeting is given. At this time an effort is made to evaluate the effectiveness of a performance budgeting system. This chapter provides a general summary and gives the conclusions of the study.

III. SOURCES OF INFORMATION

As stated above, there is very little written material on this subject and references of necessity have been made to various papers, budget manuals and workshop discussions. The source of information is to some extent drawn from personal experience in the field including actual preparation of budget material. In obtaining information and material for this thesis during the past three years, conferences and discussions have been held with the Budget Officer of the City of Richmond and his staff as well as with the Director of Public Health and the Directors of Personnel and Finance. A great deal of information has been obtained during meetings on budget hearing at the City Council and the office of the City Manager. Of course, during this period there were numerous meeting and discussions with operating supervisory personnel who actually perform the work for which funds were requested in the operating budget.

Additional information has been obtained from reading various papers, annual reports of governmental agencies and verbal discussions with budget, administrative and health personnel of other localities. Written material and information was obtained from the United States Government Printing Office, Municipal Finance Officers Association, International City Manager's Association, Cities of San Antonio,

Texas and Richmond, Virginia, Citizens Budget Commission of New York City, Harvard School of Public Health, and Cresap, McCormick and Paget, Management Consultants. Information was also obtained from the State of New York, and Cities of Los Angeles and San Diego, California. Several reports of panels and workshop sessions on budgeting and accounting were reviewed. The material was assembled over a period of several years, after this subject had been tentatively selected for thesis presentation.

CHAPTER II

CHANGING CONCEPTS IN GOVERNMENTAL BUDGETING

There are many factors which influence the efficiency of governmental administration, but for the purpose of this discussion consideration will be given primarily to the role of the budgetary process in management and how it can be most effectively applied to assist in the planning, execution, and control of governmental business operations. Certain principles of budgeting are basic and must be observed in practically all fields of operation. However, after observing and complying with these established criteria of good budget preparation and planning there can still be a wide variation in methods of presentation and general philosophy of budgeting techniques between governmental agencies throughout the country. With the recent growth of services provided and the corresponding increase in expenditures, local, state and federal officials have been exploring new approaches and concepts in the field of finance and budgeting. One such approach is the performance approach to budgeting. Because of the widespread interest and inherent possibilities in such an approach, this concept will be explored and discussed in considerable detail.

I. BASIC PRINCIPLES OF BUDGETING

A budget has been defined as a "forecast in detail, of the results of an officially recognized program of operations based on the highest reasonable expectation of operating efficiency".¹ It has also been defined as "the summation of plan and judgment respecting the management of the enterprise and the specific relation to that of facilities available or to be made available for its accomplishment in the form of management, finance, plant, labor, and materials."² Budgeting methods and procedures have been employed in the conducting of the affairs of municipal, state, and federal government for a number of years; however, many business men are still reluctant to use a formalized budget procedure as they are afraid that such practices will bind and restrict business operations. Many, in the past, have been reluctant to adopt business methods which seem to them to be of government origin. This, of course, is an erroneous view as the budget practice of government is not applicable, in the main, to private business. In government, appropriations are usually made for a definite period and to a specific program; therefore, activities must be restricted accordingly and funds and

¹John R. Bartizal, Budget Principles and Procedure. (New York: Prentice-Hall, 1940), p. 1.

²Henry Bruere and Arthur Lazarus, Applied Budgeting, (New York: McGraw, 1926), p. 3.

performance scheduled in advance. The business budget, however, is usually much more flexible to meet changing conditions than is a budget approved and set up by a public legislative body.

Flexibility. To alleviate the fears of the executive that the budget restrains freedom of action, it should be borne in mind that, although the budget should assist management in the control of its operations and state future objectives, it does not prevent deviation from the course or insure the attainment of basic objectives. Despite the budget the actual control of operations, taking into consideration changes that may be necessary, is one of the primary functions of management. As stated by J. R. Bartizal, "The budget should reflect rather than dictate the policies of the management, for it is nothing more than an instrument to be used by the management in planning and controlling operations by forecasting the results of a proposed operating program so that they may be visualized with some degree of accuracy before the program is undertaken."³

Budget principles. No one budget method or system is adaptable to every type of governmental agency and it is necessary to develop methods suitable for each situation. However, there are certain fundamental principles which are

³Bartizal, op. cit., p. 7.

usually applicable in budget preparation and control.

Bruere and Lazarus, in their work, Applied Budgeting, enumerate these principles as follows:

"1. Restrict the budget period to a term for which dependable estimates may be prepared.

"2. Provide for flexibility in adjustments in accordance with need.

"3. Insure a careful preparation of all other estimates and place responsibility for making them on persons who have administrative responsibility for securing results.

"4. Have the budget follow the organization line and the organization line meet the requirements of budget accountability.

"5. Enlist to the greatest possible extent the interest of executive subordinate officials and other responsible factors of the organization, in the preparation of the estimates affecting their work.

"6. Keep the procedure as simple as possible.

"7. Provide for frequent comparisons of estimates with results.

"8. Make estimates actual commitments and not mere aspirations.

"9. Enforce the budget as against every circumstance,

except the logic of business facts."⁴

II. MODERN CONCEPTS IN GOVERNMENTAL BUDGETING

Government could well be considered a non-profit organization operating primarily for the purpose of rendering service to the general public. Revenue is usually limited by the tax sources available and by the individual and industrial wealth and income of the community. Appropriations to the various agencies of government are usually fixed on an annual basis and it is the responsibility of the administrator to see that the agency lives within them. Adjustments can be made for emergencies; however, as opposed to private financing, adjustments are not necessitated by increased sales, reduced manufacturing output, or other factors which so vitally affect private enterprise.

The budget in government is a financial plan for raising and spending money to conduct operations and to meet outstanding obligations. In public finance, there is a distinction made between annual or operating budgets, and long-term or capital budgets. The operating budget provides a plan and funds for the day-to-day operations of government while the capital budget concerns itself with construction

⁴Bruere and Lazarus, op. cit., p. 11.

of major installations involving long-term financing. Funds to finance such projects are usually obtained through bond issues.

Budget as a work plan. The modern budget should "represent dollar values placed upon a work program designed to accomplish specific end results from the performance of every activity financed from any source of government revenue."⁵ According to this concept, the budget is not just a financial statement but is a statement of what is to be done with all the resources at hand.

All too often budgeting has been based on the premise that the budget should be only a financial statement and a request for funds. In the past many governmental budgets have been prepared in such a manner as to provide little correlation between services rendered and the funds requested. In many agencies the burden of detail work imposed on the administrator and his staff has been so great that the justification of estimates has been arrived at to a large extent on a purely speculative basis. In turn, appropriating bodies, not having a clear concept of the program involved or the funds needed, have routinely slashed such budgets on a percentage basis. This results in the official agency overestimating

⁵Municipal Finance Administration, (Chicago: The International City Managers' Association, 1948), p. 258.

its actual needs and, in turn, having its requests refused by the reviewing body. One particularly prevalent practice was that of reckless spending at the end of the fiscal year in order to be sure that no funds remained to be returned as an unexpended balance. A proper budgetary control and allotment system combined with an adequate description of the service can do much to correct this situation.

Recent trends. The trend in more progressive localities is toward considering the budget as an aid to everyday administration to be referred to frequently as a guide for program planning and execution rather than as a mere fiscal document. In order for the budget to serve such a purpose, it is necessary that sufficient data be made available which would include an overall summary of statistics, unit costs, work volume, service standards and program description in one document as supporting data for the financial request.

The preparation of the budget in its broadest implications challenges the entire basis of operations, the suitability of policies, the facilities and organization of departments and the efficiency of methods. Budgeting is not a static thing but is a continuous process which is governed by no time period. The budget is an important document, of course, from an administrative viewpoint, but also of great importance is the fact that in democratic government the

final authority to establish the budget constitutes the most effective control exercised by the legislative body over administrative officials.

In recent years, especially since the end of World War II, the costs of government services and operations have steadily increased due to rising prices and a greatly increased demand for services. The actual cost of all phases of activities has increased each year to the extent where serious consideration must be given to this problem. Administrators and legislators viewing with alarm the requests for continually increasing appropriations, realize that appropriations cannot continue indefinitely to rise. Basic governmental services must be maintained and there is constant pressure from the public for the government to provide new programs and services. For this reason, it is mandatory that appropriate authorities take a realistic view of program planning, management and control. In private business the least efficient concerns are often eliminated due to competition whenever their costs of operations rise as a result of unsound or extravagant management. However, in government the only recourses are to increase the tax rate, find new tax sources or reduce services currently being provided to the community, all of which are most unpopular measures.

In the changing governmental scene old programs or

services no longer needed should be discontinued and more modern programs developed as required in the public interest. Inauguration and operation of these new programs call for administrative procedures that are flexible and which permit continual program evaluation. To do this requires that effective tools of management be made available in the form of modern budgetary and accounting systems. It is to be expected that legislative groups will scrutinize most carefully all requests for funds particularly if such requests are made for the purpose of initiating new programs or providing additional services. Therefore, it is most important that effective techniques be used to explain to the public, to administrative budget agencies and to legislative bodies, the services to be provided for the funds requested. To do this, it may be necessary to deviate from established budgetary patterns of the past in an effort to explain and justify the budget request. In a period of inflation and rising costs, increased funds must be requested each year to continue to provide even basic minimum services. Adequate explanation is necessary, therefore, to avoid the curtailment of existing services because of a reduction in the budget request, unless such a reduction of services is desired by the citizens. Reviewing personnel should be fully aware of the effect that any contemplated budgetary revisions may

have on the work program. The budget is actually a summation of work plans that have been converted into dollar values.

The performance approach. All problems, of course, cannot be solved by improved budgetary processes. However, improvement in this field is essential to the intelligent interpretation of work programs and future activities as they relate to the requested funds. Many localities have become convinced that great strides can be made in this field through the application of the principles of the performance budget which is designed for the specific purposes of providing facts and figures most helpful for appraisal of overall program activities. The concept of performance budgeting originated in the early 1900's, was highlighted by the Hoover Commission report⁶ in 1949 and since that time has been adopted by a number of public jurisdictions.

Performance budgeting is an approach toward budget formulation, presentation and control rather than a distinctive budgeting system. It is characterized by the shift of primary emphasis from the means of attaining governmental objectives, i.e., personnel, supplies and equipment, to the objectives themselves which are the functions, activities and

⁶Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting. (Washington: Government Printing Office, 1949).

projects that a government has undertaken.⁷ The performance concept is not an answer in itself to every governmental problem, for the budget before final adoption must be subjected to the full range of influences outside the control of the budget-maker. These influences include geographical, sociological, political, legal and technological activities.

The aim of the government administrator is to present to the legislative body a program that provides for the use of all available resources to the greatest advantage possible within the limitation and framework set by public policy. As stated earlier, the success of this method of budgeting will depend to a large extent upon the existence and development of other management techniques in the agency. This would include an adequate personnel system, employment of qualified personnel, modern purchasing procedures, efficient accounting and statistical services and an organization which provides for the continuous review of operating objectives, program development, and work methods. By the use of all factors involved in good management, the possibilities for overall success of program objectives will be greater if the performance approach is used, taking into consideration the limitations that may exist in any given situation.

⁷Administrative Uses of Performance Budgets, (Chicago: Municipal Finance Officers Association, 1954), p. 1.

III. THE PERFORMANCE BUDGET

Definition. The performance budget is designed to show clearly and concisely the programs of work done and services to be rendered in return for the funds appropriated to the governmental agency. Major emphasis is placed upon the work programs and upon the identifiable key factors in the work load, the work units, and unit cost.⁸ An engineer's definition of a performance budget is, "A plan for the execution of the functions required of an agency over a definite period of time based on production rates and unit costs as derived from prior operational experience."⁹ From this definition it can be seen that the engineer requires information as to personnel and materials required to complete a predetermined number of work units based on predetermined standards. From this information actual work projection can be made and the money budget then derived which is accordingly expressed in terms of work output. This approach to budgeting focuses attention upon program activity and services provided rather than upon items to be purchased. In terms of a field visiting program, for example, it is more effective to show the total visits made and the unit cost involved than it is merely to

⁸Manual of Budget Instructions and Regulations, (Richmond, Virginia: 1952), AR 2-1, Sec. 1-3.

⁹Richard Gallagher, "The Engineer Views Use of Performance Budgeting." Administrative Uses of Performance Budgets. (Chicago: Municipal Finance Officers Association, 1954), p. 8.

request total funds for operation and explain that they will be used for the purchase of so many supplies and for employment of a stated number of personnel. Following such a procedure does not necessarily mean that the budget will not be cut. However, the legislative body will be less prone to make arbitrary reductions in the requested amount.

Budget planning and preparation. In the preparation of the performance budget, particular emphasis is placed on a program and performance statement. This statement describes in detail the various activities and services provided by each individual program. It includes not only a descriptive narrative, but also various statistical information pertaining to work volume and a breakdown of the cost for each unit of work activity which can be measured. This information is given comparatively by years and indicates trends in the costs of a program and of results achieved. There is a question as to whether or not a program narrative is necessary on an annual basis once the objectives of the program have been carefully outlined in previous budget messages. It is probably true that the program narrative should be streamlined and, after initial presentation, should contain only a basic description including any changes which might affect the cost or the operation of the program. Of course, this does not alleviate the necessity for recording annually the work volume, unit cost, and other statistical information basic

to the interpretation of the budget request.

Supporting detailed personnel and expense schedules are prepared which show comparative information by years. These schedules are used for reference purposes by the administrative agency and are not provided for detailed legislative scrutiny. This results in more careful appraisal of program activity and diverts the attention of the reviewing agency or legislative body away from the minute details making up the total requested appropriation. Where there is an established classification and pay plan, there is little need to incorporate detailed lists of employees and salaries in the printed budget. This information should be on hand, however, for ready reference by the initiating agency. Based on the philosophy that the primary objective of government is to provide the best possible service at the lowest possible cost, it becomes apparent that there is little difference between the purchase of manpower and the purchase of equipment and supplies as long as the end result is adequate performance.

Methods of appropriation. Funds may be appropriated by the legislative body in a lump sum on the bureau level, but allotted by the department involved on a program or division level. The bureau appropriation is further classified in three categories. First, expenditures by work programs, which show the total cost for the operation of each

program element. Second, expenditures by character which reveal the cost of personal services as compared with expenditures for equipment and supplies. Finally, expenditures by object, which is a breakdown of the expense classification into the various items required for the conduct of programs during the fiscal year. By assigning an accounting code classification to each of the various program units under each bureau, a basis for proper cost accounting is established. Expenditures can be charged to the appropriate program on a systematic basis. This greatly simplifies the job of figuring unit costs and provides the administrator with precise data as to the cost of operating each program of the department.

Expenditure and program control. After approval of the budget document and appropriation of requested funds, allotments are made at the program level on a quarterly, semi-annual, or other time basis. The quarterly allotment is widely used. The theory behind allotments of appropriations is that they will assist in controlling reckless spending and induce adherence to preplanned work schedules and budget estimates. In making allotments, consideration must be given to peak work loads, seasonal programs, purchasing schedules, and employment. Due to these factors, allotments are not routine estimates arrived at arbitrarily, but rather the results of careful planning. Since each program and its cost of operation is

reviewed at the end of the quarter, it behooves the executive to complete work schedules within the allotted appropriation. Unless extenuating circumstances arise, expenditures for each quarter and each program cannot exceed the quarterly allotment. However, where justified, funds can be transferred at any time. The transfer of funds between bureaus within the department requires only the approval of the local administration. However, no transfers between various major operating agencies of the government can be effected until the final quarter, and then only upon the approval of the legislative body. In transferring funds between bureaus and programs of the department, it is important to provide funds on the basis of service needs. An effort must be made to educate the various bureau chiefs to the fact that the appropriated funds are not the personal property of the individual bureaus; that they will be allotted and, if necessary, reallocated in a manner which will serve to the best interest of the department as a whole. On a still broader plane, it is the obligation of government to utilize funds for those activities which can best meet the current requirements and demands for service from its citizens.

Regardless of how effective program planning might be, no executive can foresee all the emergencies or contingencies that may arise during a budget year. For this reason, it

is essential that sufficient administrative flexibility be provided to enable the administrator to cope with these problems. Prudent management requires a reserve for contingency fund wherever possible, and this is provided during the quarterly review of program activities. If the work load of a program is lower than anticipated and surplus funds are on hand at the end of a quarter, complete justification for carrying these funds forward into the next quarter should be provided. Otherwise, these funds should be transferred into a reserve for contingency account. This reserve account is established on the bureau level and is available for reallocation at any time during the fiscal year provided such reallocation is justified on the basis of an emergency or a need for an unanticipated expenditure to carry on an authorized program. A reserve account, in addition to providing a cushion, helps maintain administrative discipline in the various bureaus by not allowing large amounts of surplus funds to accumulate and also eliminates to a large extent excessive fourth quarter expenditures.

It is most important that the monthly financial statements be reviewed carefully in order to effectively curb expenditures or reallocate funds during the balance of the quarter, keeping in mind the relationship of the

expenditures to the volume of services rendered. This will be difficult, however, unless an effective accounting system is used in which the accounts classification and code have been designed to conform to the pattern in which the performance budget was prepared.

CHAPTER III

DESCRIPTION OF BUDGET SYSTEM AND PROCEDURES

CITY OF RICHMOND, VIRGINIA

A City Charter was granted to the City of Richmond by the General Assembly of Virginia by Chapter 116 of the Acts of the General Assembly of 1948. The charter changed the form of government of the city to the City Manager form. At that time a Department of Personnel and a Merit System were established as well as a Budget Office to be directed by the Budget Officer of the city serving as a staff assistant to the City Manager. The Budget Officer is responsible for compiling, in cooperation with the Department of Finance, the departmental estimates and other data necessary or useful to the administration in the preparation of budget estimates. He is also required to examine and review the organization of operating units and determine the manner in which their respective budgets are executed and their functions performed.

At the time the charter was granted the city also adopted a performance type of budget, and the administration proceeded to issue instructions and commence preparation of the annual budget on this revised basis. The final pattern was developed over a period of several years and the system and procedures now in effect are described in the following

sections of this chapter.

I. LEGAL BASIS FOR BUDGET PREPARATION

The legal basis granting authority for the budget system and procedures of the city is the City Charter.¹ The charter provides the framework through which administrative directives are issued establishing and carrying out the financial administration of the city. The fiscal year of the city begins on the first day of July and ends on the thirtieth day of June of the succeeding year. The tax year for taxes levied on real estate, tangible personal property, machinery and tools and capitation taxes is on a calendar year basis. The City Manager must submit to Council no later than the first day of May in each year the following documents: (a) a current expense budget, known as the general fund budget, for the operation of the city government; (b) a budget message; and (c) a capital budget.

Preparation and scope of the general fund budget.

Each department is required to file with the Budget Officer at a predetermined date estimates of revenue and expenditure for the coming fiscal year. The Budget Officer assembles and compiles the consolidated estimates and submits these

¹The Charter of the City of Richmond, (Richmond, Virginia: 1948), pp. 34-44.

estimates with additional data to the City Manager. The City Manager holds such budget hearings as he deems advisable, and makes such revisions in the estimates as are desirable or necessary prior to submitting the recommended budget to the City Council.

The charter specifies that the general fund budget shall be prepared in accordance with accepted principles of municipal accounting and budgetary procedures and shall contain: (a) an estimate of any general fund cash surplus at the end of the current fiscal year that is proposed to be used for meeting expenditures in the general fund budget; (b) an estimate of receipts from taxes on real estate, personal property, etc., during the coming fiscal year. However, estimates can be no greater than the average proportion of the levy collected in the last three completed tax years; (c) an estimate of receipts from all other sources of revenue; however, these estimates shall not exceed the amount estimated to be received from the same source in the current fiscal year unless a law or ordinance has been amended or a new law or ordinance has been passed creating a new source of revenue. If additional revenue is to be derived from the state the estimated amount shall not exceed the amount which the proper state official shall certify in writing to be the reasonable expectation of receipts from such source; (d) a

statement from the Director of Finance of the debt service requirement for the ensuing year; (e) an estimate of the general fund cash deficit, if any, at the end of the current fiscal year and of any other obligations required by charter to be budgeted for the next fiscal year; (f) an estimate of expenditures for all other purposes to be met from the general fund in the ensuing fiscal year.

All estimates must be in detail showing receipts by sources and expenditures by operating units, character and object and so arranged as to show comparative expenditures and receipts for a three year period. This reveals actual financial transactions for the previous fiscal year and estimated income and expenditures for the current and ensuing fiscal years. The budget must be balanced. The expenditures recommended by the City Manager shall in no instance exceed the estimated revenue for that year, taking into consideration estimated cash surplus or deficit at the end of the current fiscal year, unless a recommendation is made to increase taxes or provide additional income to make up the difference.

Appropriation and tax ordinances. Simultaneously with submission of the general fund budget the City Manager is required to introduce in the Council a general fund appropriation ordinance. This ordinance is based on the

general fund budget but is not required to be itemized further than by departments and the major operating bureaus of each department. At the same time, if necessary to balance the budget, an ordinance is required altering the tax rates or levying a new tax to provide the additional revenue. The proposed budget is reproduced in sufficient quantities for general distribution to Council and city officials as well as the daily newspapers. Two copies are also made available in the office of the city clerk to public inspection during office hours. A public hearing on the entire budget is held by the City Council prior to voting on its passage.

After public hearings the Council may increase or decrease various items of expenditure in the general fund budget except that expenditures for debt service or for items required to be included by the charter shall not be reduced or deleted. Council does not have the authority to alter estimates of receipts contained in the budget document and shall not cause the total of expenditures as recommended by the City Manager to be increased without a public hearing on such increase. In no event shall the Council adopt a budget in which expenditures exceed estimated receipts unless at the same time it adopts measures to provide additional revenue. The City Council must adopt the budget for the

coming fiscal year no later than the twenty-ninth of May and, if for any reason, Council fails to adopt the general fund budget by this date the budget as submitted by the City Manager shall automatically become the approved general fund budget for the ensuing year.

Work plan and allotments. After adoption of the expense budget and prior to the beginning of the fiscal year, each department of the city submits a work program to the City Manager which shows the requested allotments of the appropriations for the department for the entire fiscal year by quarterly periods. After approval of allotment schedules by the City Manager the allotments are filed with the Director of Finance and serve as a basis for establishing the accounting system for the coming year. No expenditure can be authorized from any appropriation except on the basis of approved allotments. Allotments of the various departments may be revised during the fiscal year in the same manner as the original allotment was made. The City Manager is authorized to readjust work programs and allotments at any time during the year if in his opinion the expected revenue will be less than the expenditures so as to prevent the incurring of a deficit.

The City Manager may at any time authorize at the request of a department the transfer of unencumbered funds from

one classification of expenditure to another within the same department. At the request of the City Manager, but only during the last quarter of the fiscal year, the Council may by resolution transfer any unencumbered balance in any general fund appropriation from one department or agency to another. An appropriation in addition to those already provided in the general fund appropriation ordinance, except for the purpose of meeting a public emergency, may be made by the Council by not less than six affirmative votes provided it is recommended by the City Manager and the Director of Finance certifies in writing that funds are available in the general fund sufficient to meet the requested appropriation. Any portion of an annual appropriation unencumbered and unexpended at the close of a fiscal year shall lapse and revert to the general fund of the city.

Conformity of expenditures to appropriations. The charter provides that no expenditure shall be made and no obligation incurred by or on behalf of the city unless an appropriation has been made and no payment shall be made from such appropriation or allotment unless the Director of Finance shall first certify that there is a sufficient unexpended and unencumbered balance in the appropriation or allotment to meet the obligation. Any expenditure or obligation authorized or incurred in violation of this provision is void and payments made are illegal. Any official unlaw-

fully authorizing such an expenditure may be held liable.

Financial administration. The Department of Finance supervises and controls all encumbrances, expenditures and disbursements of the city to insure that budget appropriations are not exceeded. It is also responsible for prescribing and installing systems of accounts for all departments and provides instructions for their use. The department has custody of all funds belonging to the city and examines all documents which create financial obligations against the city to ascertain that funds are available to cover the proposed expenditures. The Director of Finance is required to submit monthly a statement of the financial transactions of the city showing total expenditures as well as revenue and providing information as to the unencumbered balance of funds available. He is also required to furnish the head of each department on a monthly basis a copy of that portion of the statement relating to that department's activities.

In supervising and operating the centralized accounting system the finance department must encumber each item of appropriation and the allotment thereof with the amount of each purchase order, payroll, or contract immediately after certification that such funds are available.

II. ORGANIZATION AND PREPARATION OF BUDGET ESTIMATES AND WORK PROGRAMS

In establishing a performance budgeting system one of the first requirements is the development of appropriate work programs necessary to the proper planning of the annual budget. These work programs are subject to revision on a year to year basis and change as activities of the government are changed. Originally, each department after conferences with the Budget Bureau of the city was responsible for recommending work programs after adequate study and review of the various functions, and activities involved in the work of the department. This might be designated as functional analysis. Functional analysis involves obtaining information as to the type of work performed, the personnel assigned to do this work, the availability of statistical information concerning work volume, the adequacy of statistical reports and procedures, and a selection of work units to be used in showing work output.

Establishment of work programs. Each major operating bureau is sub-divided into work programs or divisions, these programs being established on the basis of activities or work performed. A code number has been assigned to each program element which has resulted in the establishment of a comprehensive coding system for all major activities of the city

government. This is the basis for cost accounting and performance budget reporting. As an example, code number 280101 represents the Division of General Administration in the Bureau of Administrative Services in the Department of Public Health. The first two numerals designate the department involved, the second two numerals, the bureau within the department and the last two reveal the work program. As an illustration of this system and the type of program elements used, the organizational pattern of the Department of Public Health, which is representative, is given below:

- 2801 Bureau of Administrative Services
 - 280101 General Administration
 - 280102 Health Information and Methods
 - 280103 Public Health Statistics
- 2802 Bureau of Preventive Medical Services
 - 280201 Laboratory Services
 - 280202 Public Health Nursing
 - 280203 Infectious and Chronic Disease Control
 - 280204 Maternal and Child Health
 - 280205 Tuberculosis Control
- 2803 Bureau of Sanitation
 - 280301 Housing Sanitation
 - 280302 Rabies Control and Animal Collection
 - 280303 Environmental and Food Sanitation
 - 280304 Milk Sanitation
 - 280305 Plumbing Inspection

- 2804 Bureau of Medical Aid
 - 280401 Ambulance Service
 - 280402 Hospitalization Services
 - 280403 Home Care Services
 - 280404 Out-Patient Care
 - 280405 Coroner Services
- 2805 Bureau of Pine Camp Hospital
 - 280501 Tuberculosis Hospital Care
 - 280502 Intermediate Hospital Care

Each of the above listed divisions represents an individual work program with funds allotted for the specific purpose of performing work units and activities as outlined in the program narrative. In each case work units, work volume and unit cost must be derived and reported prior to budget preparation. The above listing shows the organization of only one department so it can readily be seen that the city government as a whole is composed of many and varied work programs.

There are several basic factors involved in the preparation of work programs. Comprehensive work programming includes such factors as: (1) service standards, (2) volume of work, (3) work methods, (4) unit cost, (5) results to be achieved.² Some level or standard of service must be

²The Preparation of Work Programs and Annual Budget Estimates. (Chicago: International City Managers Association, 1948). Report #53, p. 199.

established for each activity during the budget year. For instance, should restaurants be inspected once a week, once a month or once a year? Should refuse containers be picked up at the alley line or removed from the back doors by the collectors themselves? These service standards have a great effect on the city's budget and upon its public relations as well. Budget-making time provides an excellent opportunity for a thorough review of existing practices for it calls special attention to the services being rendered. Quite often service standards are compared with model standards or with standards of other cities in the United States. These comparisons, however, are often misleading in that conditions vary so greatly between different areas.

Determining work units and work volume. Once the level of service is established, city officials have to determine for each program the volume of work which should be done during the coming year. To express work volume it is necessary to use work units. It is sometime difficult to select an ideal work unit and often it is necessary to have several units of work designated in one program. The selection of work units is most important and in the City of Richmond a careful study was made before tentative units were selected and this procedure has been refined each year as more experience is gained in the field. In most instances it was found that necessary statistical information was available expressed

in terms of the work unit for each program. If this information is not available, some type of special reporting system has to be devised. In Richmond, as in other localities, the selection of work units has been guided by the following criteria:³ (a) the work unit must be countable, (b) the work unit must express output, (c) the work unit must reflect work effort, (d) the work unit must have consistency and (e) the work unit must be expressed in familiar terminology.

Work methods. A review of work methods is usually made prior to and during the budget-making season. Actually, appraisal of work methods, types of equipment and organizational plans should be made on a continual day-to-day basis, but often it requires the scrutiny and cross-examination of the administration to stimulate the active examination of work methods by various departments. In studying work methods such questions are answered as to whether a nurse' aide should be employed to relieve the professional nurse of time consuming details so that a more effective field visiting program can be carried on or should a police car carry two policemen in carrying out police patrol work? Should there be an automotive pool or is it more economical to assign automobiles to employees

³George Terhune, An Administrative Case Study of Performance Budgeting in the City of Los Angeles. (Chicago: Municipal Finance Officers Association, 1954). p. 5.

on an individual basis? The answers to such questions often result in improved work methods and in financial savings to the taxpayer.

Cost of services. Unit cost, as the name implies, is merely the cost of providing one unit of a given service or activity. There are numerous factors involved affecting the validity of unit cost figures and these factors will be discussed in greater detail in a subsequent chapter. As a rule it is inadvisable to attempt to compare unit costs for similar activities in different localities due to the wide variations in local conditions and the lack of uniform reporting systems and standard unit cost formulas. If information as to the total amount of funds expended and total work volume expressed in work units is given it is a simple matter to determine the unit cost. In preparing the request for funds the end result to be attained in each program should be anticipated and stated. Each department usually reviews the benefits to be derived by the community during the current year if the budget request is approved.

Schedule for assembling budget. Once the budget format has been determined and a general outline of work programs developed, consideration can then be given to the actual mechanical process of budget preparation. During the first few weeks in January the Budget Officer issues standard instructions for the preparation of the general fund operating budget. These

instructions call for all departmental budget estimates for the coming year to be submitted to the budget office no later than the third Monday in February. Following this date, the City Manager and Budget Officer hold individual department conferences for the purpose of reviewing the budget estimates during the early part of March of each year. The budget recommended by the administration is submitted to the City Council in April for consideration of that body. Following public hearings, the budget is adopted and becomes effective on July first, the beginning of the fiscal year.

Program and performance statements. A statement of the general objectives and scope of activities of the department constitutes page one of each departmental budget. This statement, which is written as clearly as possible within the limits of one page, outlines the work of the agency. Its purpose is to tell briefly the work and service provided to the citizens by that agency.

A program and performance statement is also prepared for each program element or division which serves to explain what services are provided by the work program in return for the dollars requested. Budget instructions require that these statements be clear and brief and that they present factual material only, not argument or sales talk. Units of work must be identified and pertinent work volume statistics and unit cost figures must be provided. Where possible, statistical information in tabular form is favored over descriptive paragraphs. In showing

work volume figures, a tabulation is provided showing the work load planned for the coming fiscal year. Comparative data are also estimated for the current year and the actual work volume is given for the previous year. This provides comparative figures for a three-year period and provides valuable information useful in interpreting the budget data. In most cases any request for increased funds is reflected in an increased work volume estimate in the coming year. Some examples of work units selected are as follows: laboratory services - number of specimens examined; public health nursing - number of field visits; maternal and child health - number of clinic visits; tuberculosis control - number of clinic visits and number of x-rays; environmental and food sanitation - number of field inspections; rabies clinics - number of dogs inoculated; hospitalization program - number of patient days; ambulance service - number of ambulance calls. While these illustrations are taken from the health department budget, they are representative of work units used throughout the city service.

Figure 1 shows the form used to record program and performance data. This information, of course, changes from year to year and is prepared and typed by each agency concerned with budget preparation. Each major bureau prepares a series of program statements covering all work activities in that bureau. The bureau is the appropriation unit although funds are later allotted to the various individual

MEDICAL AID

(BUREAU)

DEPARTMENT OF PUBLIC HEALTH

(DEPARTMENT, BOARD, COMMISSION, OR AGENCY)

PROGRAM AND PERFORMANCE

Ambulance Service
 (Acct. #280401.)

Emergency ambulance service is provided on a 24 hour basis. Non-emergency transportation is provided for the indigent sick who need to be moved by ambulance.

	<u>Actual</u> 1954-55	<u>Estimate</u> 1955-56	<u>Budget</u> 1956-57
Emergency trips.....	5,882	6,500	6,500
Non-emergency trips (indigent patients).....	<u>3,152</u>	<u>3,500</u>	<u>3,500</u>
Total.....	9,034	10,000	10,000
Unit Cost.....	\$7.24	\$5.47	\$5.40

Hospitalization Services
 (Acct. #280402.)

This program provides medical care for indigent citizens of Richmond. Increased longevity of the population has increased the need for long-term hospitalization.

Hospitalization for the acutely ill is provided at the Medical College and Sheltering Arms Hospitals. Convalescent and intermediate hospital care is provided at Pine Camp Hospital. Long-term institutional care is provided by Virginia Home for Incurables. Whenever possible, the cost of institutional care of long-term cases is reduced by transferring many such patients to less expensive facilities or to the Home Care Program.

FIGURE 1

PROGRAM AND PERFORMANCE STATEMENT

program elements.

Appropriation ordinance text. On the last page of program and performance statements of each bureau there appears an appropriation ordinance text. The ordinance text states the total amount of funds requested for the bureau and stipulates that the funds will be used for salaries and other expenses including acquisition of equipment necessary for the conduction of the work programs of the bureau. While the language may vary, the primary purpose of the ordinance text is to provide a basis for Council action in appropriating funds for operation of the divisions of the bureau.

Supporting schedules. Although not incorporated as part of the printed budget, detailed expense and personnel schedules are required to support the budget request. These schedules are submitted as part of the working budget to the office of the Budget Officer and City Manager. They are reviewed in considerable detail during budget hearings. Schedules are prepared in detail for each work program. In the final printed budget, all expenses are consolidated by bureau into the ten expense code classifications established as part of the accounting system. Also all schedules of the various work programs are consolidated into a bureau summary showing total bureau expense and personnel requests. Therefore, from a mass of budget information and supporting material, the final budget is consolidated and released in condensed version.

The details must be provided to enable administrative officials to evaluate the many departmental requests more intelligently and justly.

Expense schedule. A copy of a detailed expense schedule is shown as Figure 2. In column one the object code number and the title of the expense classification is given. Under each object of expenditure of which there are a total of ten, various items which make up the particular classification are listed. For instance, under Code 201 (Supplies and Materials) various items are listed in that category such as office supplies, janitorial supplies, gasoline, food, clothing, et cetera. Column two shows the actual expenditures made for each item during the past year. This information is obtained directly from previous financial statements. Column three lists the actual amount of funds originally approved in the budget for the current year under consideration. Columns four, five and six provide information as to actual expenditures for the first six months of the fiscal year and estimated expenditures for the last six months giving a total revised estimate for the budget year. The last six months' expenditures must of necessity be estimated due to the fact that budget preparation commences in January of each year while the fiscal period is July first to June thirtieth of the succeeding year.

City of Richmond, Virginia
 DETAILED EXPENSE SCHEDULE
 BUDGET - FISCAL YEAR 1956-57

PREVENTIVE MEDICAL SERVICES
Maternal and Child Health

PUBLIC HEALTH

BUREAU

DEPARTMENT, BOARD, COMMISSION OR AGENCY

OBJECT CODE OBJECT OF EXPENDITURE ITEMS AND QUANTITY	ACTUAL EXPENDITURE FISCAL 1954-55	BUDGET FISCAL 1955-56	REVISED ESTIMATE 1955-56			REQUESTED FISCAL 1956-57	REASON FOR CHANGE
			SIX MONTHS ACTUAL	SIX MONTHS ESTIMATE	TOTAL		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
201							
<u>SUPPLIES AND MATERIALS</u>							
Office Supplies	80	80	36	44	80	80	Four more clinics in operation in coming year.
Drugs and Medical	2,542	2,800	1,507	1,292	2,799	3,000	
Laundry	735	850	347	525	872	950	
Automotive	60	75	25	40	65	75	
Total	3,417	3,805	1,915	1,901	3,816	4,105	
202							
<u>EQUIPMENT, MAINTENANCE, REPLACEMENT</u>							
Automotive	98	200	33	72	105	120	Equipment in two clinics is over 25 years old, much of it needs replacement.
Clinic instruments and equipment	126	200	204	250	454	500	
Building maintenance				1,000	1,000		
Total	224	400	237	1,322	1,559	620	
203							
<u>EQUIPMENT, NEW</u>							
Total	739	3,050	1,489	500	1,989	800	Present year will nearly complete new district clinics. This item to establish 2 examining rooms at West Station and the 2nd one at the North Station.
	739	3,050	1,489	500	1,989	800	

FIGURE 2

DETAILED EXPENSE SCHEDULE

The expense budget requests for the coming year are shown in column seven and reasons for changes in the amount of funds requested over previous years are given in column eight. When properly completed the expense schedule provides overall information as to previous and anticipated expenditures and greatly facilitates the work of the budget office in evaluating budget estimates.

Personnel schedule. A detailed personnel schedule is shown in figure three. A personnel schedule is prepared for each work program and shows the number of positions in each job classification by title. Following the position title in column one, the pay range symbol is given in column two. In column three the actual number of authorized positions is given and the man-years of performance expected is listed in column four. While positions may be authorized it can be anticipated that there will be vacancies during the year particularly in classifications where recruitment is difficult due to scarcity of qualified personnel. For instance, a sizeable number of vacancies usually exist at any given time in the positions of public health nurse, policeman, public health social worker, physical therapist and many other job classifications. Accordingly, man-years of performance does not always equal the number of positions shown in column three. Total salary costs are shown in column five.

PREVENTIVE MEDICAL SERVICES - CONT'D.

PUBLIC HEALTH

BUREAU		DEPARTMENT, BOARD, COMMISSION OR AGENCY								
CLASSIFICATION TITLE (1)	PAY RNG SMBL (2)	ESTIMATED 1955-56			PROPOSED 1956-57			ANALYSIS OF 1956-57		
		NO. (3)	MAN-YEARS OF PERFORMANCE (4)	TOTAL SALARY COSTS (5)	NO. (6)	MAN-YEARS OF PERFORMANCE (7)	TOTAL SALARY COSTS (8)	INCREASE IN COSTS		COST SAVINGS - (11)
								STEP + (9)	MAN-YEARS + (10)	
<u>Infectious & Chronic Disease Control</u>										
Chief, Prev. Med. Services	45	1	1	9,360	1	1	9,360			
Chief, Inf. & Chr. Dist. Cont.	43	1	10/12	6,162	1	1	7,464	312	990	
Graduate Nurse	24	1	11/12	2,776	1	1	3,126	130	220	
Interviewer (V.D.)	22	1	11/12	2,811	1	1	2,850		36	
Investigator (V.D.)	21	1	10/12	2,129	1	1	2,720	130	461	
Sr. Clerk-Stenographer	21	1	1	2,665	1	1	2,800	135		
Sr. Clerk-Typist	20	1	1	2,990	1	1	2,990			
Sr. Clerk-Stenographer *	21	1	4/12	945	1	1	2,795	95	1,755	
Cost of 26 Pay Periods		8	6 10/12	29,841	8	8	34,105	802	3,462	1,286
Cost of 27th Pay Period				1,286						
Sub-Total		8	6 10/12	31,127	8	8	34,105	802	3,462	1,286

FIGURE 3
 DETAILED PERSONNEL SCHEDULE

* Position Transferred From Bureau of Sanitation, Division of Environmental & Food Sanitation Feb. 13, 1956.

Information as to estimated expenditures and number of positions authorized is provided for the current year, and similar information is shown as the proposed budget request for the coming year. Any request for additional personnel is reflected in columns six, seven and eight under proposed personnel for the next budget year.

Any difference in estimated expenditures (either decrease or increase) between the current year, (column five), and the coming year, (column eight), must be reflected in columns nine, ten or eleven representing an analysis of proposed changes in the personnel requests. The total cost of step increases and the total cost of new positions or filling of man-year vacancies is reflected in columns nine and ten. If a position is abolished, the previous salary cost is shown as a savings in column eleven. In general, increases in personnel costs are brought about by salary increases, increase in man-years of performance, or establishment of new positions, while offsetting savings are the result of turnover, separation at high rates, new employment at the lowest step in a grade, and delay in filling vacancies. Each agency is required to review carefully productive manpower available and turnover for the current year in order to estimate lapses of salaries more accurately, so that appropriations for personal services will not exceed actual needs.

Budget financial summaries. A financial summary is prepared for each department and major operating bureau in the city government. A copy of a bureau financial summary form is shown in Figure 4. The departmental summary summarizes all subsidiary bureau appropriations showing the one annual appropriation for that department. Any unexpended balance is subtracted thus giving the net total general fund expenditures for the past year as well as the current year and shows the budget request approved for the next fiscal period.

The bureau financial summary is prepared in a similar manner showing financial information for a three-year period for comparative purposes. This statement represents a summary of budget estimates of the various work programs in the bureau with the annual appropriation being shown as a lump sum. Also, on the summary appear two primary classifications of expenditures of the bureau. These are (1) expenditures by work programs and (2) expenditures by character and object. Expenditures by work programs reveal the total amount of funds for both personnel and expense categories approved for each program. For example, in the Department of Public Health, Bureau of Preventive Medical Services, the total amount of funds approved for the Laboratory, Public Health Nursing, and other programs equals the total appropriation of the Bureau. Expenditures by character and object

City of Richmond, Virginia
BUDGET - FISCAL YEAR 1956-57

PREVENTIVE MEDICAL SERVICES

(BUREAU)

DEPARTMENT OF PUBLIC HEALTH

(DEPARTMENT, BOARD, COMMISSION, OR AGENCY)

DESCRIPTION	EXPENDITURES		
	ACTUAL	ESTIMATE	BUDGET
	FISCAL YR. 1954-55	FISCAL YR. 1955-56	FISCAL YR. 1956-57
GENERAL FUND			
Annual Appropriation.....	\$ 292,735	\$ 302,700	\$ 304,850
Decrease of Appropriation by Transfer			
To: Intradepartmental.....	27,968	9,591	-
Total GENERAL FUND Appropriation.....	\$ 264,767	\$ 293,109	\$ 304,850
Less: Unexpended Balance.....	8,128	1,424	-
Net Total GENERAL FUND Appropriation.....	\$ 256,639	\$ 291,685	\$ 304,850
EXPENDITURES BY WORK PROGRAMS			
#280201. Laboratory Services.....	\$ 54,043	\$ 57,717	\$ 58,378
#280202. Public Health Nursing.....	86,686	107,714	121,912
#280203. Infectious and Chronic Disease Control..	37,039	36,805	38,640
#280204. Maternal and Child Health.....	39,787	49,383	48,592
#280205. Tuberculosis Control.....	39,084	40,066	37,328
Total.....	\$ 256,639	\$ 291,685	\$ 304,850
EXPENDITURES BY CHARACTER AND OBJECT			
Man-Years of Employment - Permanent.....	55	59	63
Temporary.....	-	-	-
Personal Services, Permanent.....	\$ 199,078	\$ 225,618	\$ 237,258
Supplies and Materials.....	20,917	24,046	22,030
Equipment, Maintenance and Replacement.....	9,110	7,867	10,644
Equipment, New.....	1,279	3,125	2,051
Rents and Utilities.....	7,553	11,755	12,370
Printing and Binding.....	1,964	1,695	1,550
Travel.....	2,126	2,249	2,450
Freight, Express, Hauling.....	143	264	150
Other Contractual Services.....	14,426	15,049	16,335
Unclassified.....	43	17	12
Total.....	\$ 256,639	\$ 291,685	\$ 304,850

67

FIGURE 4 - BUREAU FINANCIAL SUMMARY

shows a breakdown of the total bureau appropriation between the cost of personal services and other expenses of operation. Other expenses of operation are divided into ten classifications of expense items. The total breakdown of expenditures by character and object is the same amount as the total appropriation and the same amount shown as the breakdown by work programs.

Classification of expenditures. Prior to the introduction of the performance type budget the City of Richmond used in excess of thirty different classifications of expenditures. At the present time only ten such classifications are being used for routine coding of departmental expenditures. Object coding is essential to a proper accounting and budget system. Reference has been made quite frequently to expense classifications and as they are few in number, it is proper that they be listed here with a definition of each category. All payroll costs for personal services are coded 101 and the classifications defined below⁴ are used for coding expenses only.

.201 - Supplies and Materials

The purchase of the following commodities is included in this classification: stationery,

⁴Definition of Expense Classifications. (Richmond, Virginia: Department of Finance, 1956). pp. 1-4.

office supplies, typewriter supplies, food, medical supplies, building supplies, and any commodity that does not have an appreciable value after use.

.202 - Equipment, Maintenance and Replacement

Includes the cost of maintenance, repair, and replacement of all machinery, furniture, buildings, and all other equipment that may be used repeatedly without material impairment of its physical condition. Expenditures for the repair of the following should be included: office furniture, files, typewriters, medical instruments, automotive equipment, and structures. Also, a purchase of a piece of equipment to replace one of the above examples is charged to this classification.

.203 - Equipment, New

Includes the cost of any equipment which results in a definite increase in inventory (i. e., is not a replacement). Such equipment should have a definite period of service and be of such a nature that repeated use will not materially impair its physical condition. Example: office furniture, files, typewriters, medical instruments, et cetera.

.204 - Rents and Utilities

Includes all rentals, utility service, communications, postage, telephone, and advertising.

.205 - Printing and Binding

Includes the cost of printing of all administrative printed forms and annual reports, and the binding of publications, books, periodicals, and other records into permanent book form. Also includes costs of books, subscriptions to newspapers, magazines and periodicals.

.206 - Travel

Includes the cost of transportation, hotel, meals, and other incidental expenses of any employee attending any convention or conference in the performance of city business. Also included is cost of bus transportation for employees.

.207 - Freight, Express and Hauling

Includes the cost of all freight, express, and drayage, but only if the costs are not included as a part of the cost of the article purchased.

.208 - Grants, Subsidies and Contributions

Includes all payments made by the City to charitable or corrective institutions, and the cost of indigent medical care and services provided by the Medical College of Virginia, St. Philip Hospital, et cetera.

.209 - Other Contractual Services

Includes all payments of services rendered of a personal nature and all services rendered under contractual arrangements not otherwise classified.

.210 - Unclassified

Includes the payment of official membership dues of any employee in any association, convention, or conference; and any cost of a miscellaneous nature.

In addition to the expense classifications outlined above, there are five other general classifications which are used in specialized situations but not for general use by the administrative departments of the city in coding routine expenses. These expense classifications are as follows:

.215 - Insurance

Includes the cost of any fire, theft, burglary, liability, property damage or any other form of insurance, including employee surety bonds.

.216 - Interest Payments

Includes payments to the Commissioners of the Sinking Fund to cover the cost of interest payments on the bonded debt of the City, including the debt assumed by annexation and payments to banks to cover interest on temporary loans.

.217 - Redemption Payments

Includes payments to the Commissioners of the Sinking Fund to cover annual installments on serially issued bonds and the payment into the sinking fund for redemption of term bonds. This applies to debt issued by the City and that assumed by annexation.

.220 - Land

Includes the purchase price of any real property, together with the cost of title examination and recording of the deed.

.221 - Building and Structures

Includes the construction cost of new structure or additions to existing structures. Incidental costs directly connected with the project, such as architects' fees or travel cost, should be included in the construction cost.

III. BUDGET EXECUTION - ACCOUNTING AND REPORTING SYSTEMS

Budgeting procedures usually involve three steps, budget preparation, budget adoption and budget execution. The first two steps have been described above. There follows below a description of one of the most important parts of any budgetary plan, that is, budget execution, which involves the accounting and reporting systems of the organization. A budget is of little value to an agency unless there is an effective system of financial as well as performance control. The best way to insure adequate control is to have an efficient and well-organized system of accounts and records tying in with a work-volume reporting system.

Allotment of appropriations. After the official budget has been approved by City Council and prior to the beginning of the new fiscal year, work program and appropriation allotments must be prepared and submitted to the office of the Department of Finance and to the Budget Bureau. Upon approval of the Budget Officer the original allotment schedule is filed with the Director of Finance and serves as the official basis for the accounts maintained in the Finance Department. Along with the allotment schedules it is required that work program forecasts be submitted, attached to the financial allotment schedules.

Allotment schedule. An appropriation allotment schedule is prepared for each bureau. A copy of this form is shown as Figure 5. In the first column this schedule shows a breakdown of programs and the accounting code number assigned to each of these work programs. The total amount of funds which has been approved is shown for each program with a breakdown between personal services and expenses. Appropriations for personal services and expenses are then divided into four allotments for the periods ending the last day of September, December, March and June. The personal services cost is shown as estimated expenditure for each quarter. There is some variation in the quarterly allotments due to the fact that an extra payroll period quite frequently falls in one of the quarters. There are also variations due to salary increases received by various employees at different times throughout the year. Consideration must also be given to the effects on allotments brought about by the employment of temporary and seasonal personnel. In a number of agencies, particularly Recreation and Parks, a large number of employees are hired during the summer months in various playgrounds throughout the city. This, of course, necessitates a higher allotment of funds during the summer quarter.

With reference to the preparation of expense allotments

WORK PROGRAM & APPROPRIATION ALLOTMENTS

Preventive Medical Services

(BUREAU, DIVISION, OR OFFICE)

PROPOSED

June 5, 1956

E. W. Holman Jr.

(DATE)

(HEAD OF AGENCY)

FISCAL YEAR

19 **56** — **57**

Public Health

(DEPARTMENT, BOARD, COMMISSION, OR AGENCY)

APPROVED

(DATE)

(DIRECTOR OF BUDGET)

(CITY MANAGER)

PROGRAM and/or PROGRAM ELEMENT	APPROPRIATION	ALLOTMENT FOR QUARTER ENDING				
		Sept. 30, 19 <u>56</u>	Dec. 31, 19 <u>56</u>	Mar. 31, 19 <u>57</u>	June 30, 19 <u>57</u>	
Public Health Laboratory ACCT. CODE NO. 280201.	P	66,173	11,088	12,936	11,088	11,061
	E	12,205	2,500	3,000	3,000	3,705
	TOTAL	58,378	13,588	15,936	14,088	14,766
Public Health Nursing ACCT. CODE NO. 280202.	P	109,265	25,215	29,417	25,215	29,418
	E	12,647	6,100	1,600	2,100	2,847
	TOTAL	121,912	31,315	31,017	27,315	32,265
Infectious & Chronic Disease Control ACCT. CODE NO. 280203.	P	32,230	7,438	8,677	7,438	8,677
	E	6,410	2,070	1,300	1,450	1,590
	TOTAL	38,640	9,508	9,977	8,888	10,267
Maternal & Child Health ACCT. CODE NO. 280204.	P	22,197	5,555	6,481	5,555	4,606
	E	26,395	5,400	6,600	6,600	7,795
	TOTAL	48,592	10,955	13,081	12,155	12,401
Tuberculosis Control ACCT. CODE NO. 280205.	P	27,393	6,754	7,880	6,754	6,005
	E	9,935	2,880	2,100	2,350	2,605
	TOTAL	37,328	9,634	9,980	9,104	8,610
ACCT. CODE NO. _____	P					
	E					
	TOTAL					
Totals ACCT. CODE NO. _____	P	237,258	56,050	65,391	56,050	59,767
	E	67,592	18,950	14,600	15,500	18,542
	TOTAL	304,850	75,000	79,991	71,550	78,309

FIGURE 5 - APPROPRIATION ALLOTMENT SCHEDULE

there are many more factors that must be taken into consideration. For instance, the agency head must anticipate the purchase of new equipment, any revenue expected on the sale of used equipment, the effects of seasonal activities and the pattern in the agency for payment of invoices received. The preparation of quarterly allotments is most important in that once they are approved and set up in the Finance Department they govern the amount of expenditures for the agency in each quarterly period. To exceed the amount of the allotment requires the preparation of transfer forms with complete justifications for this action which must be routed through the Budget Officer and City Manager. Inaccurate allotments reflect upon the judgment of the agency concerned unless, of course, an emergency occurs or there is some other valid reason for the unanticipated amount of expenditures.

Work program forecasts. As stated previously, work program forecasts are submitted at the same time as the allotment schedules are submitted. The work forecasts explain and describe why the quarterly allotments are established in the stated amounts and describes the basis upon which they were arrived. In addition to this description, there is also given a quarterly breakdown of work volume for each program. The total work volume figure for the coming year is taken from the program narrative of the budget and then divided into quarterly estimates. As in the case of expenditures these

quarterly estimates of performance will vary considerably between quarters. It is obvious, for example, that the activities of the mosquito control crew will be much greater during the summer than the winter months. On the other hand, it can be readily seen that the work of a smoke control inspector might be heavier during the winter months. The fire department is also usually more active during the winter months, while parks and playgrounds are subject to a great many more activities during the warmer months. For these reasons, it is necessary that all factors affecting work volume be taken into consideration before final estimates are made. Inaccurate estimates made at the beginning of the year will certainly reflect back upon the agency at a later date when performance reports are submitted showing actual expenditures and work volume as compared with the estimates which had been submitted.

Allotment register. A copy of an allotment register is shown as Figure 6. As soon as a copy of the approved allotment schedule for the coming year is returned to the agency concerned, the agency prepares an allotment register in duplicate for each approved allotment, or work program. This serves as a permanent record of the departmental allotments and the recording form for any increases or decreases in allotments throughout the year. In preparing the registers the financial information is taken directly

ALLOTMENT REGISTER

FISCAL YEAR 19 55 - 56

Administrative Services

(BUREAU, DIVISION, OR OFFICE)

Public Health

(DEPARTMENT, BOARD, COMMISSION, OR AGENCY)

General Administration

(PROGRAM OR PROGRAM ELEMENT)

ACCT. CODE NO. 280101.

DATE	TO OR FROM	PERSONAL SERVICE	QUARTER ENDING			
			SEPT. 30, 1955	DEC. 31, 1955	MAR. 31, 1956	JUNE 30, 1956
7-1-55	INITIAL ALLOTMENT	40,440	10,744 ✓	10,744 ✓	9,208 ✓	9,744 ✓
6/29/56	Transfer No 9 (280102.1) (280103.1)	276.75 40,716.75				276.75 10,040.75
7-1-55	INITIAL ALLOTMENT	5,500	1,600 ✓	1,250 ✓	1,250 ✓	1,400 ✓
7-1-55	INITIAL ALLOTMENT	45,940	12,344 ✓	11,994 ✓	10,458 ✓	11,144 ✓
		45,216.75				11,420.75

FIGURE 6 - ALLOTMENT REGISTER

from the approved appropriation allotment form. The original entries are shown as the initial allotment while the blank lines in each block are used, if necessary, throughout the year by posting thereto approved allotment transfers or other adjustments.

Encumbrance and expenditure register. The actual financial transactions of the city are recorded on an encumbrance and expenditure register. An example of this register is shown as Figure 7. In the various departments and agencies both encumbrances and expenditures are recorded at the allotment level. This means that an encumbrance and expenditure register is prepared for each program allotment and filed with the allotment register as part of the accounting system. Thereafter, each encumbrance of the allotment resulting from a purchase order or other commitment will be entered as a debit from the encumbrance document. These debits are offset in the credit column upon submission of the invoice for payment and the actual expenditure is carried over to the expenditure column. The register will show at all times total expenditures and net outstanding encumbrances against the allotment and permit ready comparison with the allotment figure on the allotment register filed with this form.

The date column shows the date of the document which fixes the exact amount of the encumbrance or changes an encumbrance to an actual expenditure. The reference column refers

ENCUMBRANCE AND EXPENDITURE REGISTER

SHEET _____ OF _____

ACCT TITLE General Administration

Control

ACCT NO. 280101.

DATE	REFERENCE	CHAR. OBJ.	ENCUMBRANCES			EXPENDITURES	ALLOTMENT	BALANCE
			DEBIT	CREDIT	OUT-STANDING			
7/1/55	1 st Quarter Allotment						12,344.00	
7/19/55	Reserve for Enc. brought forward		32.40				32.40	
7/7	L-2847 D		19.96					
7/1	DP Encs 2801		900.00					
7/12	L-2932 D		7.50					
7/21	L-2995 D		26.92					
6/27	R-1					1,508.00		
7/11	R-2					1,508.00		
7/22	R-3			7.50		7.50		
7/25	R-4			19.76		19.76		
8/1	L-3040 D		27.66					
8/1	L-3058 D		32.36					
8/1	L-3073 D		40.34					
8/2	L-3104 D		21.04					
8/4	L-3131 D		51.10					
8/7	L-3145 D		2.00					
8/12	L-3194 D		5.00					
7/25	R-6			13.00		13.00		
7/25	R-7					1,508.00		
7/28	R-8			6.99		6.99		
8/5	R-9			3.48		3.48		
8/8	R-10					1,508.00		
8/11	R-12			74.74		78.42		
8/18	R-13			72.74		72.74		
	TOTAL FORWARD		1,166.28	198.41	967.87	6,734.09	12,376.40	6,142.31

FIGURE 7 - CITY OF RICHMOND, VIRGINIA - REGISTER SHEET

to the number of the purchase order, service invoice or other document and enables the auditor to trace the entry back to original documents at any time. The character and object column refers to the type of expenditure, whether for expense, capital outlay or personal services. The monthly financial statement can then easily be prepared from the two forms just described. The encumbrance and expenditure register shows the actual amount of expenditures as well as commitments to date, while the allotment register shows the amount of the basic allotment. The difference between these two amounts is the net unexpended balance available for the rest of the quarterly period.

In the Department of Finance, which maintains the central accounting records of the city, encumbrances are recorded at the appropriation level but not at the allotment level. Expenditures, however, are recorded at the allotment level just as in the accounts and records of the operating agencies.

Direct purchase encumbrance. A direct purchase encumbrance form is shown in Figure 8. This form is used to encumber funds prior to actual expenditures when a purchase is made on a direct basis by an agency rather than issued through the central purchasing department. When a regular purchase is made the City Purchasing Department issues a purchase order, a copy of which is sent to the Finance Department for encumbrance of departmental funds before being released to the vendor. This insures that adequate funds are available before

actual commitments are made for expenditures. There are a number of cases, however, where services are rendered under contract and purchases are made for direct services or medical supplies and it is therefore necessary to encumber in advance, at the beginning of the quarter, a sufficient amount of funds estimated to cover expenditures in each program. Accordingly, direct purchase encumbrances are estimated at the beginning of the quarter and forwarded to the Finance Department. The encumbrance is then made against the departmental accounts on a lump sum basis. As expenditures are made, these are applied against the encumbrance. This insures adequate safeguards against overexpenditures. This encumbrance account can be either decreased or increased at any time during the quarter by filing an amendment in the amount desired.

Transfer of funds. Action to transfer funds between quarters is initiated by completion of allotment transfer forms. A copy of this form is shown as Figure 9. Requests for transfers of funds or adjustments in allotments may be made at any time, but in all cases they must be made and approved by the Budget Bureau before an allotment is over-committed. In the interest of holding paper work to a minimum agency heads are urged to be sure that allotments are as accurate as possible to begin with. Upon approval by the Budget Officer and the City Manager, a copy is sent to the Finance Department for posting to the accounts of that department.

APPROPRIATION — ALLOTMENT TRANSFERS

All Bureaus

(Bureau, Division, or Office)

FISCAL YEAR

19 56-57

Public Health

(Department, Board, Commission, or Agency)

PROPOSED

December 20, 1956

(Date)

APPROVED (Except as Noted)

(Date)

E. W. Holmes Jr.

(Head of Agency)

(Director of Budget)

(City Manager)

I T E M	INCREASE					DECREASE				
	ACCOUNT CODE NO.	Q T R	PRESENT ALLOTMENT	AMOUNT TO BE TRANSFERRED	NEW ALLOTMENT	ACCOUNT CODE NO.	Q T R	PRESENT ALLOTMENT	AMOUNT TO BE TRANSFERRED	NEW ALLOTMENT
1	280202.2	2	8,572.20	300.00	8,572.20	280202.2	3	2,100.00	300.00	1,800.00
2										
3	280205.1	2	14,784.00	325.00	15,109.00	280202.1	2	16,882.00	325.00	16,557.00
4										
5	280303.2	2	8,189.90	250.00	8,439.90	280303.2	3	2,000.00	250.00	1,750.00
6										
7										
8										
9										
10										

Reasons For Action

Items 1 and 5: Funds needed to cover cost of operation in second quarter. Did not receive funds from sale of used cars as anticipated when quarterly allotments were prepared. These funds will be received in 3rd Quarter.

Item 3: To cover payroll costs due to cancellation of perquisite deductions by employee. Transferred from Fine Camp to Tuberculosis Control at beginning of fiscal year.

FIGURE 9

ALLOTMENT TRANSFER FORM

The department is notified of approval of the transfer and appropriate entries are made increasing the allotment for that quarter. In filling out this form the account code number of the program involved must be given and information must be shown as to the quarter which is being affected by either an increase or decrease in allotments. The present quarterly allotment must be shown as well as the amount requested for transfer leaving a revised net allotment available for that program. The same information is provided on the second half of the form showing the amount of decrease and which program is affected by the decrease. This information is necessary because funds may be transferred between different programs in different quarters and funds can also be transferred between quarters in the same program. Funds are often transferred between payroll and expense allotments also.

Actually, there are a rather large number of allotments involved in the accounting system of each department because there is a separate allotment for payroll and for expense in each program, and there may be as many as twenty or twenty-five programs in the department. Therefore, since each payroll and expense allotment itself is further divided into four quarterly allotments, the total number of allotments possible in a department having twenty programs would be one hundred and sixty quarterly allotments. Such a definitive breakdown necessitates a careful budget review and planning in order to stay within the amounts of allotted funds.

Performance Reporting. The final step in budget execution is performance reporting. For this purpose the city uses a quarterly performance report. The form used is shown as Figure 10. Performance is reported on a quarterly basis for each department. The name of the program, code number, and the amount of quarterly allotment are given. The total amount of expenditures for a particular quarter is shown and the name or title of the work unit selected is also shown. Comparative information between corresponding quarters of the current and previous fiscal year is shown. Under the column entitled budget estimate the total work volume of the program is given as originally estimated. In the next column actual work volume performed is given which indicates actual performance as compared with that which was originally estimated. Unit cost figures are shown as a guide for cost purposes and can be compared with the unit cost of the previous year of the same quarter and also with the estimated unit cost for the entire year.

The system of quarterly performance reporting is used in conjunction with the quarterly review of allotments and progress of work programs. These reviews are held by the Budget Officer at the end of each quarter. Reports on work accomplished and money spent are then provided in order that work programs and estimates may be properly evaluated. In this manner information is made available during the operating

CITY OF RICHMOND, VIRGINIA

QUARTERLY PERFORMANCE REPORT

Preventive Medical Services

FISCAL YEAR
19 56 - 57

Public Health

(BUREAU, DIVISION, OR OFFICE)

(DEPARTMENT, BOARD, COMMISSION, OR AGENCY)

First QUARTER

October 16, 1956

(HEAD OF AGENCY)

(DATE)

PROGRAM	CODE	ALLOTMENT	EXPENDITURES	WORK UNIT	WORK THIS QUARTER			WORK SAME QUARTER LAST YEAR		
					BUDGET ESTIMATE	ACTUAL	UNIT COST	BUDGET ESTIMATE	ACTUAL	UNIT COST
Laboratory Services	280201	18,604.00	14,658.17	Spec Exam	21,000	21,586	0.679	20,500	21,735	0.582
Public Health Nursing	280202	30,937.20	19,366.52	Field Visit	8,500	6,672	2.903	7,500	8,067	3.016
Infectious & Chronic Disease *	280203	9,808.00	7,019.98	Clinic-Field Vet	3,550	4,157	1.689	4,500	4,277	2.252
Maternal & Child Health	280204	11,012.11	10,812.63	Clinic Visit	4,385	4,853	2.228	4,410	3,920	2.916
Tuberculosis Control	280205	9,865.50	8,432.21	Chest X-Ray	16,500	14,851	0.568	14,500	14,265	0.647

EXPLANATION:

* Work volume includes immunisations and tests, public health physician consultation visits, venereal disease clinic visits, streptomycin clinic visits and field visits of venereal disease investigator. (No V.D. investigator on duty).

FIGURE 10

QUARTERLY PERFORMANCE REPORT

year on the accuracy of program planning and the need for adjustments and alterations of the work load.

Reserve accounts. At these quarterly conferences the quarterly financial statement of the agency is reviewed. Any unspent funds remaining at the end of the quarter are scrutinized carefully. Unless justification can be made for retaining unspent funds, such funds are transferred to a reserve for contingency account. Such funds usually accumulate from two sources: first, lapsed salaries or savings due to vacant positions, and second, savings from expenses reduced below the estimates included in the original budget request. Such savings may also result from reduction in prices, elimination of projected items of purchase, or reductions in the cost of contractual services. If surplus funds cannot be legitimately used for another work program, they are usually transferred to the reserve account. Allotments of funds from the reserve for contingencies can be made with the City Manager's approval upon presentation of facts justifying such reallocation of funds. Such justifications would include an: increased work load; additional cost from new ordinances; reallocation of positions; public emergencies; and additional costs due to increases in prices. The reserve prevents agencies from spending funds for unauthorized purposes and also provides a cushion for necessary expenditures or emergencies that may develop at a later date.

CHAPTER IV

EVALUATION AND REPORT ON SELECTED PERFORMANCE BUDGETING SYSTEMS

The growth of performance budgeting in this country has been steady rather than spectacular during the past eight or ten years, since the Hoover Commission reported on budgeting and accounting in the federal government. To date, literature on this subject has been scarce and the majority of administrators who have prepared papers on performance budgeting have taken great pains to explain the benefits and advantages of the system. Actually, there must also be disadvantages and problems involved in preparing and executing such a budget, which is by nature rather complex, requiring considerable thought and planning for successful preparation and execution. Reports from areas which have had experience with performance budgeting seem to agree that it is an improvement over the line type of budgeting system previously used. As has been stated, performance budgeting is not a system in itself, but a specialized approach to the budgeting procedure. Therefore, many of the problems involved in it are the same problems that are basic to any budgeting system. However, there are certain other problems, specialized in nature, which do not confront the administrator when the conventional approach is used.

A budget is only of value if it is useful to management. No matter how well the budget document is prepared, it cannot insure attainment of objectives or economy in government. Budgets must be executed and interpreted by people. Operating heads cannot control dollars. They can only influence people who supervise and control operation. Therefore, even though the performance budget system has been installed, success will not be likely unless operating personnel as well as budget office personnel and legislative groups all understand, cooperate, and work together in the financial management of a governmental jurisdiction. A cooperative teamwork approach is essential to satisfactory results from the budgeting system. In this chapter the experiences of several governmental jurisdictions are reviewed and some general problems are discussed.

I. EXPERIENCE WITH THE PERFORMANCE BUDGET IN THE FEDERAL GOVERNMENT

The Federal Government has been using the performance budget on a limited but gradually expanding basis since it was first recommended by the Hoover Commission Report on Organization of the Executive Branch of the Government in 1949. Much progress has been made since that time and many refinements in budgeting techniques have been initiated. The original Commission was so successful that a second Hoover Commission was appointed which conducted a critical reappraisal of

existing financial procedures of the federal government. This study resulted in a series of recommendations for further development of financial management in the federal government.

Recommendations of Second Hoover Commission. These recommendations are contained in the budget and accounting reports submitted to Congress by the Commission in June, 1955. With respect to federal budget practices, the principal recommendations call for: (a) continued use of performance budgeting, (b) formulation and administration of agency budgets on a cost basis, (c) appropriations based on accrued expenditures and (d) authorization for limited periods of continuing government programs not susceptible to the usual budget controls.¹

Budgeting practice. The Commission noted that considerable progress had been made towards achieving a performance budget and recommended further steps to establish such classifications as might be necessary to present the budget on a performance basis. It was pointed out that continuous effort had been made for several years to refine budget and accounting classifications in the interest of synchronizing organization structures, budgets and accounting systems and to encourage the use of performance budget reports in agency operations. In

¹United States Bureau of the Budget, Improvement of Financial Management in the Federal Government. (Washington: Government Printing Office, 1956). p. 21.

recommending a cost basis for agency budgets it was indicated that budgets should show the cost of goods and services consumed each year in carrying out budgeted programs in addition to the obligations presently shown, which do not disclose the use of carryovers of inventory and working capital from prior years. If this is done, agency budgets enable all concerned more readily to correlate budget figures for a given year to the cost of work or services performed during that year. The Second Hoover Commission also recommended that continuing programs not susceptible to the usual budgetary controls be authorized for a limited term only, in order to require periodic congressional reviews of their usefulness.

Accounting and auditing. With reference to accounting and auditing practices, the Commission recommended that the government accounting systems be kept on an accrual basis. This focused attention on the need for a method of accounting which could best assure the development of accurate information on the cost of work or services performed. The accrual method discloses the value of resources actually applied to operations performed during a specified period of time. Because of the complex and confusing nature of the governmental allotment structure, it was deemed advisable that each operating unit be financed from a single allotment for all appropriations involved in its operations and also that the allotment structure be simplified through establishment of allotments

at the highest practicable organizational level consistent with management responsibility. This should eliminate some of the confusion brought about when an operating unit has four or five different appropriations from various sources, sometimes making it very difficult to determine actually how much money is being expended by that agency.

Reporting. Performance reporting was also reviewed by the Commission and it was recommended that more comprehensive reports be developed for both financial and performance reporting on government programs. Another interesting suggestion was that an employee of the Budget Bureau be located in each major operating agency. This recommendation was intended to bring the Budget Bureau staff into closer contact with agency operations and employees in order that the bureau would have more intimate information concerning agency operations. This recommendation was not well received by the Budget Bureau because of its possible impact upon bureau-agency relationships. The Budget Bureau pointed out that for best results relationships with the agencies had to be based on cooperation and mutual understanding of the basic factors underlying the submission and presentation of agency budgets. Most operating agencies believed that the placement of bureau staff in the agency would result in a diffusion of agency budget and management responsibility and would probably result in deterioration rather than betterment of relationships among staff

and operational units. As an alternative to this suggestion, the Budget Bureau has recommended that its central office staff be increased so as to enable its employees to get out more into the field and observe operations.

The publication Improvement of Financial Management in the Federal Government, published by the Bureau of Budget in October, 1956, reviews these recommendations in considerable detail as well as a number of other recommendations for improvement of financial management.

II. EXPERIENCE WITH THE PERFORMANCE BUDGET IN MUNICIPAL OPERATIONS

Los Angeles, California. The city of Los Angeles, California, reporting on the use of the performance budget in that city,² has indicated that considerable advance has been made in the field of budgeting but that work is far from being completed. That is, many additional studies must still be made in this field. There is some doubt whether or not all the work measurements used for budgeting and reporting purposes are reliable indices of the actual work performed. Many work units selected originally have been found to be rough

²George Terhune, An Administrative Case Study of Performance Budgeting in the City of Los Angeles, (Chicago: Municipal Finance Officers Association, 1954). p. 19.

approximations of actual conditions. Executives and key personnel are urged to review the work units for the purpose of making these units of measurements more indicative of actual performance.

Further consideration needs to be given also to unmeasurable work. A tabulation of the personnel employed in unmeasurable work categories reveals that thirty per cent of all authorized personnel for all departments are engaged in unmeasurable activities. These statistics indicate that an effort should be made to develop some method of controlling personnel assigned to this type of work.

Further refinements needed. It is the belief of city officials that the performance budget reporting procedures would be more productive if a series of time-trend charts to reflect seasonal variations and factors affecting work loads were developed and maintained. The charts would be used in determining production peaks and valleys as well as personnel available during slack periods. Available personnel in some organizational units might be utilized to handle temporary heavy work loads in other units of the same or other departments. The general opinion expressed is that the results obtained through the installation of performance budgeting in the City of Los Angeles has been highly beneficial and that when further refinements are made the maximum benefits of the new management technique will accrue to the city

government and to the citizens of the area.

New York City. The nation's largest city, New York City, has recently adopted the performance type budget. This was brought about through a reform movement spearheaded by the Citizens' Budget Commission, Incorporated. Citizens had become alarmed over the tremendous increases in budget appropriations and in the cost of operating the city government in New York. The 1956-57 budget totalled in excess of one billion nine hundred million dollars, which is over one billion dollars greater than the 1946-47 budget, representing an increase of one hundred and twenty-two per cent. The first billion-dollar budget was formulated in 1947-48. The information obtained from the report of the Citizens' Budget Commission³ indicates that fixed additional costs for the coming year will automatically boost the budget by sixty million dollars and the trend indicates a two-billion budget by the next fiscal year. Due to rising costs of government, it is predicted that the real estate tax rates will reach or exceed four dollars per hundred in the coming year. The Mayor's Committee on Management Survey calls this the danger point. This is the point beyond which greater taxes would seriously affect the current rate of new construction

³The Performance Budget Must Now Perform. (New York: Citizens' Budget Commission, Inc., 1956). pp. 1-3.

and rentals, a point at which new business development would slow down and perhaps stop within the city.

Report of Citizens' Budget Commission. The Citizens' Committee also reported that the proposed expense budget in the new form represented a notable and commendable advance towards technically sound performance budget document. They pointed out that it was vastly superior to the former type of budget and that administrative officials should be credited with taking a giant stride forward in the development of a useful and understandable budget. The Commission report stated, "We applaud the technical budgetary reforms in this proposed budget. The virtue of these reforms, however, is their greater potential usefulness as a tool of good management. The value of good management is its promise of equally good or better service at a lower cost."⁴

The report was very critical of the administration's budget even though it was highly complimentary of the budget format as such. Despite the development of the performance budget, the proposed budget for the coming year showed an increase of one hundred thirty-five million dollars over the previous year and accordingly, it was the Commission's opinion that such an increase indicated that the new and effective

⁴Ibid., p. 1.

management tool was developed but not used. The new performance budget apparently contained every appropriation that would have been included in the old obsolete line-item budget. While effective management tools may be available, they must be used to achieve the desired results.

The Commission's report also revealed that tremendous advances had been made in the compilation of work load data and that although this information was given in the budget document, the budget funds requested did not give convincing evidence that the work load data controlled the amounts of money allocated to various program activities. A great need in the future is the formulation of broad-scale performance standards to be used as yardsticks to determine the amount of funds to be allocated to each activity. It was emphasized that creating and developing the instrument of control is one thing while its actual use is another. It did not appear that the work load information and the performance standards that had been developed were basic measures determining the amounts of funds recommended in the budget.

The missing link. Representatives of the technical staff of the Citizens' Budget Commission who attended the budget hearings conducted by the Bureau of the Budget gave an opinion that many top city officials and their budget officers needed schooling and considerably more information and understanding of performance budgeting and its principles.

The majority at the hearings did not seem to understand the meaning of programs, work load data and standards of performance measurement. Therefore, it was pointed out that one of the biggest weaknesses of the performance budget system is that evidence is lacking that the various departments either use or know how to use a performance budget. In that this is one of the greatest challenges confronting the administration, it was recommended that every step possible be taken to educate and coordinate departmental efforts. Technical development of a budget system should never preclude a review of opportunities for economy. On the contrary, a new budget should present the kind of information which can reveal such opportunities. The report indicated that there is a missing link in the New York City Budgeting System, "The link between the existence of an excellent tool and the skill and will to use it is the missing link."⁵

Recommendations of Citizens' Budget Commission. The Commission has recommended a practical plan to make performance budgeting work. This plan consists of the following steps: (a) provide for a wider understanding of the objectives of performance budgeting, since the work of technical budget specialists may well be doomed to failure unless steps

⁵Ibid., p. 6.

are taken to create an awareness of the need for and possibilities of performance budgeting among department heads and their operating staffs; (b) although an in-service training program has been developed by the city for supervisory personnel, there is a need for a far wider top-level participation in the in-service program; (c) a council of city agencies on performance budgeting should be formed in which all departments would be represented.⁶ The budget office staff would work very closely with this council. The council would provide an opportunity for the interchange of opinions and information between those who have budgetary techniques as their special field of interest and those on the department level who translate programs into work loads and costs. Through this coordination of ideas it is hoped that the necessary experience will be obtained to make performance budgeting work.

Richmond, Virginia. The performance budgeting system in Richmond, Virginia was established approximately seven years ago and has been highly satisfactory. In general, reports from administrative officials have praised the new system and many visitors from other states and foreign countries have visited the city to observe the budgeting organization and procedures. Operating personnel are now

⁶Ibid., pp. 16-17.

as a rule thoroughly familiar with the general format and procedures to be followed in budget preparation. Many of the instructions have been clarified and many of the problems have been solved which originally confronted the administration. This is not to say that there are not many refinements that could be made and that there are no current problems which must be solved in the budgeting administration of the city.

Criticism by legislative officials. Primary criticism on the budget format and the information provided therein has come from several Council members in the city government. The legislative officials apparently believe that the performance budget does not present sufficiently detailed information as to items of expenditure and salary costs to enable them to review and evaluate the various budget requests adequately. Each year when the budget is presented, a minority group takes the opportunity to point out what they believe to be the deficiencies in the present budget system. However, to date the majority of Council members have expressed confidence in the budget system now in effect. Some modifications have been brought about in the method of presenting the budget to Council as a result of this criticism. The changes involve primarily the provision of additional information to Council members during budget hearings.

CHAPTER V

A REVIEW OF SPECIALIZED PROBLEMS AND PROCEDURES

In preparing the performance section of the performance budget, there are a number of factors peculiar to this system which should be reviewed. The final accuracy and dependability of the information contained therein is often dependent upon how well these procedures are handled. Furthermore, as a result of experience with these specialized procedures, certain basic problems have presented themselves, progress in solving them is still in an evolutionary state.

I. MEASURING WORK VOLUME

Work measurement is a basic technique in performance budgeting. The information obtained in measuring work volume is highly beneficial to management in improving management and program control and is also most useful in budgetary planning at both the administrative and legislative levels. Work measurement has been defined as a method for establishing an equitable relationship between work performed and manpower used.¹

¹United States Bureau of the Budget, Work Measurement in Performance Budgeting and Management Improvement. (Washington: Government Printing Office, 1950). p. 4.

Basic elements in measuring work volume. There are two basic elements in measuring work volume. The first is the selection of the proper work unit and the second is the proper recording of statistical information which would provide work volume figures at any time expressed in terms of the work unit which has been selected. The importance of selecting the proper work unit has been discussed earlier in this paper and it is needless to say that the work unit should as accurately as possible reflect the work output of each program. This can only be determined after a detailed and thorough study of program activities. Frequently, in the past, difficulties have arisen because too great an emphasis was placed on the initial selection of the work unit while the emphasis really belongs on the follow-up of that selection, and the re-checking to make certain the unit is measuring what it is supposed to be measuring. It is ridiculous to continue the fiction of work measurement when it is obvious that the work units are not related to resources expended.²

In some programs no adequate work unit to express output can be determined. Usually such programs are administrative or educational in nature and no clearly defined unit of activity is available. One solution to this problem is

²Frank P. Sherwood, "Work Measurement." Administrative Uses of Performance Budgets. (Chicago: Municipal Finance Officers Association, 1954). p. 3.

to show no work unit as such but to reflect unit cost on a per capita basis. Per capita expenditures, of course, are determined by dividing the total expenditures for service by the population of the locality served.

In the case of office and administrative services, or services of a supervisory nature, the manpower and cost of these programs are pro-rated to the various operational units which they supervise. The solution to this problem depends upon individual investigation and study in each situation. Certainly, logic and reason should govern actions in this matter. It would be absurd to require the completion of numerous forms on a detailed day-by-day basis for the purpose of determining and assigning a portion of the measured work to different programs. Where possible, it is advisable to take the most direct and simple method of measuring and applying the information to obtaining program costs.

Value of work measurement data to administrator. In performance budgeting work measurement is used to assist the administrator as follows:

- (1) determine, explain and evaluate program cost
- (2) determine, explain and evaluate personnel requirements
- (3) determine approximate unit cost

- (4) support requests for personnel ceiling and fund allotments.³

A performance budget cannot be prepared without providing performance information. To do this, naturally, work volume is required and work volume can be obtained only through a system of work measurement. This information is basic for planning future programs and for proper guidance of program activities. It is also extremely helpful in scheduling the use of manpower and other facilities. It is essential as supporting data in the budget requests as funds should be tied in with work volume.

It should be made clear that a basic fundamental requirement is an adequate statistical and recording system. Of course, this is desired whether an area is using the performance budget or not, and unless statistics are reliable, gathered under controlled conditions, they are of little value to the government concerned.

II. ESTABLISHING WORK STANDARDS

Work volume information will be much more meaningful and useful to management if standards of performance are established. A standard might be considered a base point

³United States Bureau of the Budget, Work Measurement in Performance Budgeting and Management Improvement. p. 7.

against which performance or behavior can be measured. Standards are formulated on the basis of past experience and only after full consideration is given to local conditions and methods of work. Study is made of past performance and then a practical standard is established. This naturally requires examination of methods employed and is tied in with the usual concept of time and motion studies. Such standards cannot be derived at the office desk but require examination of the work in the field.

Factors in developing standards. In establishing standards there are certain factors listed below which should be considered.

- (1) Those individuals setting up the standards should be thoroughly familiar with the work involved.
- (2) Standards should only be set up after actual examination of the activity in the field and the actual measurement of the time it takes to perform the particular job.
- (3) Where possible, several methods of investigation should be used and a careful analysis of past performance should be made if the records of this past performance are available in the agency.
- (4) Comparison should be made where possible with the standards which have been established by

other organizations carrying on a similar work.

- (5) It would be advisable that these figures be compiled using as large a group as possible over a sufficient length of time and that any variations from standard be carefully investigated and proper action taken to remove the cause or adjust the standard.
- (6) Once the standards are established, they should not be considered inflexible, but should change as conditions change. The figures must not be considered absolute but as approximations of actual conditions.⁴

If proper standards are established, then any deviations from these standards could be investigated and the reason for the deviation determined. Common sense and judgment play a large part in setting up the standards and in later appraising actual results obtained.

Standards must meet local conditions. In some cases in government, standards have become so important to some personnel, that they replace common sense and good judgment. National standards have become an inflexible guide to some administrators and governmental personnel. It should be

⁴The Preparation of Work Programs and Annual Budget Estimates. (Chicago: International City Managers' Association, 1948). pp. 202-203.

recognized that standards, particularly, on a national level may be ideal or average guides and quite often the locality can never expect to fully comply with these standards. Standards as to the qualification of personnel, standards of service to be rendered, number of inspections to be made, number of personnel employed per statistic have become overriding influences and in some cases have worked to the detriment of the agency in its budget planning. It appears that an appropriate answer to this problem is that each locality prepare its own standards taking into consideration local conditions, local economy and the demands for services from its citizens. It must be kept in mind that standards of performance both for quality and quantity of work performed will vary considerably based on local conditions.

III. UNIT COSTS

Unit Costs are a by-product of cost accounting and the performance process. It is only logical when work volume is given and expenditures are shown that an average cost per unit of work should be ascertained. It should be a continuous process to evaluate the various programs in order to determine the most appropriate unit of work representative of the functions being carried on by the various programs. It is also desirable to constantly review the procedures that are used for determining unit cost. This is necessary because of

changes occurring in the program as well as in the community as a whole.

Comparison of unit costs between localities. Unit costs are subjected to so many influences and different interpretations of methods of computation that, as a general rule, it is not advisable to attempt to compare the unit cost of an activity between two different governmental jurisdictions or localities. To make such a comparison anywhere near valid would require complete information from both areas outlining the standard formula used in computing these costs. This would show what items went to make up the total expenditures charged to the program. For example, in some communities as in Richmond, Virginia there is established a central division of buildings management which has the responsibility for building maintenance, and for the provision of janitorial services for all city buildings. The total cost of operations for this service is maintained as an individual program and is not allocated to the various activities in the other operating departments of the government. Accordingly, this would make the unit cost of operation in some programs considerably lower than the cost of operation of the same program in another area which did not have this service provided. In some programs various volunteer services are provided at no charge. Community agencies donate time and services as a community effort. In other areas the same services are

performed by regular employees. There are many other variable factors involved also which make it risky to attempt to be too precise in comparing unit cost figures between different localities.

Unit costs used for comparative purposes. Unit cost figures are of great value to management in revealing trends in program costs between various years. Unit costs for one year can be compared with previous years showing the trend upward or downward, on a realistic comparable basis. When unit costs rise there must be a reason and such information puts management on the alert to investigate and analyze what is behind increasing cost of operation. Unit cost figures are not affected a great deal by man-year vacancies during the year. The work volume of the agency, however, is lower but due to savings in dollars not paid out to employees, the unit cost will approximate the same figure as originally estimated at the beginning of the year. Whenever there is extravagance in management and expenditure of unwarranted funds for unauthorized purposes, this will usually be reflected in a higher unit cost for the program.

Fixed and variable expenses. In certain types of programs such as the operation of a hospital the unit cost, in this case the cost per patient day at the hospital, will often increase substantially as the work volume decreases or as the number of patients served is lowered. This is brought

about because of certain fixed expenses which expenses are not affected by the total number of patients served. For instance, the cost of raw food and certain salaries fluctuate with the number of meals served to the patients and would be considered variable expenses. On the other hand, certain other salaries, for instance, the head cook, baker, dietician do not vary with the meals and accordingly are classified as fixed expenses.

Variable expenses are affected by work volume while fixed expenses of operation remain constant and this latter group represents expenditures which must be made for the operation of the hospital regardless of the patient load within certain limits. Some localities in an effort to more adequately explain unit cost figures have adopted a procedure of computing two unit costs, (1) fixed cost, and (2) a variable cost. These two figures added together give the unit cost of operation. Fixed costs are relative, however, and do not remain fixed under all conditions. They are fixed only at a specified level of operation. For instance, if an entire building were closed and a major portion of the activities ceased, then there would be a reduction in fixed costs. Also, if a new building were erected, the fixed costs would increase. Accordingly, fixed costs change with the use of physical facilities, but not directly with changes in the work load.

Allocation of program costs. In the majority of

governmental programs, however, unit costs are directly affected by work volume and vary in accordance with the services performed. A question of proper allocation of cost arises when one governmental agency performs services for another without making direct charges for this service. An example referred to previously is the case of a central buildings' maintenance division which cares for buildings and provides maid and janitorial assistance to the operating agency. Should this service be computed and charged to the operating agency concerned or should all costs be kept on a central program level and unit cost figured for the buildings' management activities alone? Either method would probably be satisfactory provided that the method of deriving these costs did not change and they remained constant from year to year so that comparisons could readily be made.

All direct costs of operation must be allocated to the programs concerned if accurate unit costs are to be determined. There are several methods of doing this. First, allocation of costs can be made directly at the program level on an accounting basis. In other words, all personnel and expenses chargeable to the program are charged directly in accordance with the coding system of the government. This is the simplest and most direct method and insures a more accurate accounting of expenditures. In some cases, however,

personnel may be working in two or three different programs and the problem arises as to how the salary of these employees should be allocated. In the case of several employees, this might be solved by using the man-hour approach, that is, determining the number of man-hours used in each program and then assigning an equivalent number of employees on the payroll of the agency to approximate the number of man-hours worked. This cost would then be charged directly through the regular accounting system. However, it is difficult to split one person's salary into three or four programs. This is usually handled by charging the salary to one program and then at the end of the fiscal year, when costs are determined, removing this salary from the financial statement of the program charged and making a separate reallocation on a time percentage basis to the other programs served.

Need for constancy in work standards and cost formulas.

A warning is in order because if there is too much shuffling around of expenditures by the administrator at the end of the year on an arbitrary basis, there is a good possibility of a different cost formula being used in each year. Such actions result in unit cost figures which are not comparable and which are often false and misleading. To avoid such a possibility it is recommended that standard formulas for the determination of unit costs of agency activities be prepared in writing and that these formulas be maintained on a current

basis. Also, that operating departments be instructed that formulas should not change unless instructions are received in writing. Particularly, it is important that instructions be given in writing on a permanent basis when there is a necessity for allocating administrative and supervisory costs over a number of programs on a percentage basis.

Methods of pro-rating administrative costs. There are two methods of handling administrative and supervisory costs with reference to determination of unit cost of program activities. These costs could be allocated over the various programs served or either in some cases, a program can be set up and all costs of administration charged to this administrative program. This would show the total cost of administration, however, these costs would not be reflected in the various work programs. As a general guide it appears most practical to set up a special program for general administration on the departmental level and carry this as a separate program element. However, administrative and supervisory expenses in each bureau certainly should be pro-rated over the various divisions or program elements. This is essential in order to get actual unit cost of the breakdown of services of each individual program in the bureau.

Multiple work units in same program. In some programs one designated work unit does not adequately describe the scope of activities. Therefore, sometimes two or three work units will be designated for one program having a single

allotment of funds. This complicates calculation of unit cost to a great extent because expenditures have been coded through the accounting system to one program and the administrator at the end of the fiscal year must subdivide these costs into the proper categories for unit cost purposes. Here again, consistency is important and directions should be spelled out in writing. The entire process of figuring unit costs can be made much simpler if the accounting system is established so as to provide the required information. However, as this process becomes simpler for the administrator, it becomes more complicated for the accountant because there is a limit as to the number of accounts and subaccounts that can be kept in detail by the central accounting office. Accordingly, some compromise must be made and a basic accounting system provided that gives the most comprehensive information within reasonable limits that can be obtained and at the same time does not overburden the accounting office. Operating, budgeting, financial and accounting activities must be closely integrated and coordinated for the most desirable results in this field.

Unit cost formulas. As examples of unit cost formulas, a few representative formulas taken from Health Department Memorandum 31-A Formulas for Determining Unit Cost of Health Department Activities, dated March 22, 1955 are given. For the Bureau of Administrative Services, a statement is made that performance is not measureable in units of work. Per

capita costs for service only can be shown. For public health nursing, the formula for determining unit cost is the total expenditures for the year divided by the total number of nursing visits. A note is made to the effect that five nurses are assigned to clinic duty and are carried and charged on clinic payrolls so as to properly allocate cost for more accurate unit cost figures.

In the Division of Infectious and Chronic Disease Control the unit of work and unit cost are not measureable in terms of work volume since aspects of planning, consultation and administrative procedures do not lend themselves to specific measurement. However, unit cost for field and clinic visits can be measured. The formula for a field visit is the salary of the field investigator plus one half the salary of a typist, plus automotive and transportation expenses divided by the total number of field visits. In tuberculosis control, three unit costs are shown and a detailed description is given as to how these costs are derived. For the program in environmental and food sanitation, the unit of work is a field inspection and the unit cost is determined as follows: one sixth of the salary of the chief of the bureau, salaries of all personnel in the division plus expenditures of the division. This is divided by the number of all types of inspections made by this entire division. With reference to medical care activities, units of work stipulated, such as hospital

patient days, emergency room visits, et cetera, are all covered by contract and unit costs are stipulated therein. In this case, unit costs are determined by an outside agency and payment is made on a contractual basis. While only a few representative examples are given above, it serves to indicate a few of the different approaches used in arriving at unit costs.

IV. TO MUCH RED TAPE AND TOO MANY FORMS

Performance budgeting can defeat itself unless an effort is made to keep reporting as well as budgeting as simple and direct as possible. Perhaps the most complicated financial and reporting system is that of the Federal Government. While it is desirable to obtain as much information as is usable to management, it is certainly of no advantage to obtain a mass of data which clutters up the files and which is never used by the agency concerned. Front line operating personnel are quick to grasp and understand the significance of these reports. If they do not agree that they serve a valuable purpose, passive resistance will be the result.

Point of diminishing returns. In budgeting as in any other activity, a point of diminishing returns is reached where it costs the government more to obtain the information than it saves in the utilization of the information after it becomes available. In order to receive the fullest cooperation.

and support of operating personnel, there should be a good and valid reason for all forms that must be completed and through in-service training these reasons should be explained and fully justified to the employees preparing the reports.

Reaction of operating officials. Some of the publications issued by the Federal Government on work measurement, work standards, performance reporting could hardly be expected to be understood by the layman and even the budgeting expert might become confused over the terminology and lengthy descriptions given.

On the local level reaction comes much quicker than on the federal level. In establishing the performance budget in the City of Richmond, several forms requiring elaborate breakdown of the use of personnel and the allocation of personnel time for unit cost purposes was introduced with the new budgeting system. However, over a relatively short period of time, these forms were discarded as being impractical. Certainly, information should not be obtained just for the sake of obtaining the information and the guiding premise should be that the information is valuable and is useful to management. It is desirable to strive towards a practical performance budget, not a highly theoretical and philosophical budget system which has little meaning to the operating and supervisory personnel of the various agencies.

V. CORRELATING PERFORMANCE AND EXPENDITURES

In order to correlate work performance and expenditures it is necessary that the accounting system be established so as to provide this information. Expenditures should be expressed accounting-wise in terms of the work program involved. To properly correlate the two, the most reliable and indicative work units should be selected and used in making the performance report on a periodic basis. Proper analysis calls for investigation whenever performance or expenditures are out of proper proportion. This is one of the basic principles of performance budgeting.

VI. PRESSURE OF LEGISLATIVE BODIES - HALFWAY PERFORMANCE BUDGETING

Constant vigilance is necessary in order to prevent a locality from reverting to halfway performance budgeting. That is, having a system called performance budgeting installed, but in actual practice not following the system at all. Sometimes this is brought about through the lack of interest and enthusiasm on the part of administrative personnel. However, in some areas, as in Richmond, Virginia, there has been a constant pressure from a minority group in the legislative body attempting to revise the budgetary patterns which had been established. This is not always done with malice of forethought but rather with all good intentions on the part of the

legislative group to obtain more detailed information. This indicates that the true concept of performance budgeting and the City Manager form of government is either not understood by the group or either they are opposed to the fundamental principles.

Performance concept relatively new. Of course, the performance concept is relatively new and it is good to have discussions, reviews and differences of opinion between various groups involved in budget preparation and control. In this way in the long run it insures a better system, prevents stagnation, and keeps the administrator alert so he can best explain his side of the story and present the most effective budget to the legislative body.

VII. LOSS OF PERSPECTIVE BY ADMINISTRATIVE OFFICIALS

In some areas the administrative officials advocating performance budgeting do not follow the principles involved. Often on a gradual basis in their zeal for more and more complete information, the system slowly reverts to the line type budget again. If central office budget officials do not accept performance as a criterion and guide for appropriations and arbitrarily cut budget requests on a percentage basis without reference to work-load data, then the spirit and philosophy of the performance approach is lost. Therefore,

legislative bodies are not always responsible for deterioration of the budgeting system. Administrative officials in some cases must share fully in the blame for these adverse changes in the budgeting system. The answer to this problem to some extent lies in providing better means of communication through interchange of ideas within the locality as well as with other officials outside of the immediate jurisdiction. Also, the use of all available media for in-service training and education of personnel would appear justified.

VIII. TYPE OF NARRATIVE STATEMENTS

Narrative or program statements are prepared each year as part of the budget document. Naturally, if these statements are repeated without change from year to year, they soon become uninteresting and at a casual glance, it is difficult to tell one budget from another except for the figures contained in the document. Localities have been experimenting with different methods of program narrative presentation. In the City of Richmond for several years a rather complete descriptive narrative was provided for each program. Sensing that this was becoming too repetitive, program narratives were considerably abbreviated and now consist of only one or two short paragraphs which only highlight the activities of the program and note any major changes occurring during the year or anticipated during the coming year. Even this

abbreviated statement seems repetitive year after year and actually the narrative consumes considerable space in the printed document.

Method of presenting program narratives. As a possible future development localities might well consider the publication of a small booklet which could be printed yearly or every three years which would outline the various programs and give a detailed description of each. This booklet could be made available along with the printed budget and the information as such eliminated entirely from the budget document. There would still be a need, however, under each program to give work volume figures as well as unit cost. The only information contained in the separate booklet would be the program description. While it is not known if this has been tried in any area, it appears worthy of consideration.

IX. ADEQUACY OF ACCOUNTING AND CODING SYSTEMS

When the City of Richmond adopted the performance budget, the accounting system was established with ten basic expense coding classifications. These ten classifications are the ones included in the printed budget as presented to Council. However, the budget office calls for detailed expense schedules providing information as to expenditure for a great many different items under each major expense classification. Under category 201 Supplies and Materials, each

department must break down this category into such items as office supplies, building materials, laundry, automotive supplies, et cetera. Since this information is not provided through the accounting system, it requires that the department personnel go through various invoices and assemble in the best manner they can the information as to the breakdown of the specific category. This is very time consuming and the most accurate information is not always attainable.

It would appear that in the interest of saving of time of departmental employees and also in the interest of accuracy, that the accounting code system should be so arranged as to provide this information. For example, the two hundred series could be supplies and materials, and 201 office supplies, 202 automobile supplies, and so on down the line. In this way, the financial statement at the end of an accounting period would have this information automatically coded and ready for each department's use. The present accounting system is not set up and apparently was not originally established with the purpose in mind of providing such detailed information. Since the budget is based on performance and work volume rather than upon detailed scrutiny of minor items of expenditure, it would seem that the ten items, as presently classified, would provide sufficient information. If not, it would appear highly desirable to expand the accounting system to give the desired information.

CHAPTER VI

SUMMARY AND CONCLUSIONS

The performance budget, like any other tool of management, has its advantages and disadvantages, or rather, its limitations. Any tool of management is limited by the qualifications and knowledge of the personnel responsible for operations. Based on a review of the published reports and upon experience in the field, it seems that the disadvantages are centered largely around the methods of use and the application of the principles rather than in the performance budget document itself. Most of the limitations on this process are due to the limitations of the personnel attempting to use it. Performance budgeting is a philosophy or an approach to basic budgeting and it is very easy for a number of reasons to bypass the performance concept.

Performance budgeting is only one of the tools of management that has been developed for use in governmental agencies as a result of the need for greater economy in operations and more efficiency in program planning. The rapidly increasing cost of governmental operations has been a source of concern for the past several years. Inflationary trends are evident and the demand for new and additional services from the citizens are increasing rather than diminishing. This system of budgeting aids the administrator in providing legislative groups with the necessary information to enable

that group to make more sound policy decisions concerning agency appropriations.

The performance budget offers many advantages to the administrator and to the governmental agency. It is an effective tool of management in planning a well balanced program. It assists in developing program objectives and provides the elements for proper control of programs and costs. Detailed information is provided as to work volume and unit cost pertaining to past, present and future activities of the governmental agency. The request for funds can be supported on a realistic basis as it is tied in with the anticipated work load. The data provided are complete and so arranged as to make the practice of padding the budget more difficult. If the requested funds are not provided, it is usually necessary to revise work volume estimates downward.

This type of budgeting aids in planning future procedures in regards to expansion or reduction of specific services as they relate to community needs. It states clearly the functions of various programs, thereby revealing any deficiencies or duplications of services. Also, an important consideration is that it is prepared in a manner which permits bureau chiefs and other supervisory personnel to understand the relationship of the budget request to work output. An operational picture is provided to all personnel,

not only of one department's activities, but of the activities of related departments of government which have prepared their budget in the same pattern.

The performance budget provides a qualitative as well as a quantitative measure of departmental efficiency. For not only are work volume estimates recorded, but minimum service standards are established and outlined in the budget narrative.

The disadvantages of this type of budgeting might more aptly be referred to as some problems of performance budgeting. These problems represent a challenge to budget makers in all levels of governmental operations. Legislative and administrative officials alike must adhere to the performance budget philosophy if it is to be successful. It is very easy to revert to old methods unless responsible officials keep policy-making legislative bodies constantly aware and informed of budgetary practices and standards. The value of the performance budget document depends upon the integrity and ability of the person preparing the budget. If the budget is prepared in a haphazard manner and work volume figures are unreliable, it is to be expected that very little will be gained from this type of budgeting. Honesty and conscientiousness are requirements for all management activities but it is essential to efficient and adequate performance budgeting.

Adequate consideration and appropriate studies should be made in measuring work volume, establishing work standards and deriving unit costs. Officials should make every effort to see that the entire process is made as simple as possible, consistent with efficiency of operations. Reporting should be adequate and in sufficient detail and wherever possible, performance and expenditures should be correlated for comparative purposes. Finally, the accounting code system should be prepared in such a manner as to dovetail with the performance budget accounts. It should be set up also to provide as complete detailed information as may be needed by the operating agencies.

Regardless of how effective and enlightening a budget system may be, it must be realized that it is not a substitute for good judgment and responsible executive leadership in conducting the program. However, a budget system which emphasizes services to be rendered rather than funds to be expended will result in a more satisfactory and effective service to the community. This is particularly true if other essentials of a good budget system are present which would include a modern statistical reporting system, adequate accounting procedures and finally, leadership by a competent executive who has a broad and thorough knowledge of the complete operations of the agency.

The latest evidence seems to indicate that the advantages of performance budgeting far outweigh the disadvantages. Government administrators are not satisfied with the mediocre and confusing methods of budget preparation and control so often used in the past, and in experimenting with new procedures are making every effort to obtain the greatest value for each public dollar expended. This type of budgeting not only assists in planning a well balanced program but also provides the elements for more effective control of operations and expenditures. Further refinements are needed in many of its techniques, but budgeting procedures are never static and are constantly changing.

It is concluded from the evidence presented that by conscientious application of the principles of the performance budget, considerable improvement in existing budgetary and fiscal procedures can be affected. Experience in the City of Richmond and reports from other localities indicate that the results obtained from performance budgeting thus far have been highly satisfactory and that even more satisfactory results can be anticipated as more experience is gained in the field.

BIBLIOGRAPHY

BIBLIOGRAPHY

A. BOOKS

Bartizal, John R. Budget Principles and Procedure.
New York: Prentice - Hall, 1940.

Bruere, Henry and Arthur Lazarus. Applied Budgeting.
New York: McGraw, 1926.

Municipal Finance Administration. Chicago: The Inter-
national City Managers' Association, 1948.

B. GOVERNMENTAL MANUALS, DIRECTIVES AND OFFICIAL DOCUMENTS

Charter of the City of Richmond. Richmond, Virginia: 1948

Definition of Expense Classifications. Richmond, Virginia:
Department of Finance, 1956.

Department of Public Health Budget. Richmond, Virginia:
1956-57

Formulas for Determining Unit Cost. Richmond, Virginia:
Department of Public Health, 1955.

Manual of Budget Instructions and Regulations. Richmond,
Virginia: 1952.

C. UNITED STATES GOVERNMENT PUBLICATIONS

Commission on Organization of the Executive Branch of the
Government. Budgeting and Accounting. Washington:
Government Printing Office, 1949.

United States Bureau of the Budget. Improvement of Finan-
cial Management in the Federal Government. Washington:
Government Printing Office, 1956.

United States Bureau of the Budget. Techniques for the
Development of a Work Measurement System. Washington:
Government Printing Office, 1950.

United States Bureau of the Budget. Work Measurement in Performance Budgeting and Management Improvement. Washington: Government Printing Office, 1950.

United States Bureau of the Budget. A Work Measurement System - Development and Use. Washington: Government Printing Office, 1950.

D. MISCELLANEOUS PAPERS, REPORTS, AND BULLETINS

Administrative Uses of Performance Budgets. Chicago: Municipal Finance Officers Association, 1954.

Gallagher, Richard. "The Engineer Views Municipal Use of Performance Budgeting." Administrative Uses of Performance Budgets. Chicago: Municipal Finance Officers Association, 1954.

Klepak, Daniel. Performance Budgeting for Hospitals and Health Departments. Chicago: Municipal Finance Officers Association, 1956.

Performance Budgeting and Unit Cost Accounting for Governmental Units. Chicago: Municipal Finance Officers Association, 1954.

Sherwood, Frank P. "Work Measurement." Administrative Uses of Performance Budgets. Chicago: Municipal Finance Officers Association, 1954.

Steinle, John G. Principles of Expenditures Control. New York: Cresap, McCormick and Paget, Management Engineers, 1954.

Terhune, George A. An Administrative Case Study of Performance Budgeting in the City of Los Angeles, California. Chicago: Municipal Finance Officers Association, 1954.

The Performance Budget Must Now Perform. New York: Citizens' Budget Commission, Inc., 1956.

The Preparation and Adoption of the Annual Budget.
Chicago: International City Managers' Association,
1949.

The Preparation of Work Programs and Annual Budget
Estimates. Chicago: International City Managers'
Association, 1948.

William Robert Harton, Jr.

The author was born in Richmond, Virginia in 1919 and was educated in the elementary school system of that city. He attended McGuire's School, graduating in 1937. He received his college education at the University of Richmond, receiving a Bachelor of Science Degree in Business Administration in 1941.

Following two years' employment in the accounting and advertising fields, he entered the Armed Forces and served with the U. S. Navy for three years, during World War II, being discharged in 1946 holding the rank of Lieutenant Junior Grade.

Following this period, he was employed in the field of purchasing for approximately one year with a local firm and for a one year period with the State of Virginia, Department of Health. Since 1947, he has been employed by the City of Richmond, Department of Public Health in several different capacities involving duties in hospital administration and general public health administration. His present position is Chief of Administrative Services in that department. He is married and has two children.