

1986

## The role of the Department of Planning and Budget in shaping higher education in Virginia

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**Whitaker, Russell Everette, Jr.**

**THE ROLE OF THE DEPARTMENT OF PLANNING AND BUDGET IN  
SHAPING HIGHER EDUCATION IN VIRGINIA**

*The College of William and Mary in Virginia*

Ed.D. 1986

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THE ROLE OF THE  
DEPARTMENT OF PLANNING AND BUDGET  
IN SHAPING HIGHER EDUCATION  
IN VIRGINIA

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A Dissertation  
Presented to  
The Faculty of the School of Education  
The College of William and Mary in Virginia

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In Partial Fulfillment  
Of the Requirements for the Degree  
Doctor of Education

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by  
Russell E. Whitaker, Jr.

November 1986



THE ROLE OF THE  
DEPARTMENT OF PLANNING AND BUDGET  
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IN VIRGINIA

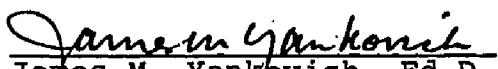
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## Dedication

This report is dedicated to my parents, whose lives have been examples of courage and perserverance.

## ACKNOWLEDGEMENTS

I wish to express my thanks to certain key individuals for their help in completing the requirements for the Doctor of Education degree. Without their assistance the success of this project would not have been possible.

A particular debt of gratitude is owed members of the committee. Dr. Herrmann, Dr. Yankovich, and Dr. Thelin have provided advice, assistance, and understanding during this project.

Thanks is also extended to Dr. Clarence Maze, Jr., President of Richard Bland College, without whose cooperation and support this project would not have been completed.

Finally, thanks and appreciation are offered to three special ladies. Mrs. Mary Ann Liles, Mrs. Jeanette Gibson, and Mrs. Michael Shriver have all provided valuable assistance during this project.

CHAPTER I  
INTRODUCTION

Statement of the Problem

The difficult legislative and fiscal decisions related to the support of public colleges and universities - how to meet increasing financial needs at a time of leveling or shrinking enrollments, scarce public funds, and an ever increasing demand by taxpayers for more accountability by those who spend public funds - combined with the tremendous public investment in higher education have led to an increased state interest in public higher education. Hollander reports that spending for public higher education increased eighty-five percent in the average state from 1968 to 1978 (Hollander, 1978). In Virginia, spending increased five fold during that period and totaled approximately nineteen percent of the General Fund appropriation for the 1982-84 Biennium.

Current events in higher education, combined with future projections, seem to indicate an increase in state coordination and regulation. In addition to the influence of coordinating and governing boards, reporting and operating requirements for educational institutions as they relate to other state agencies are also rapidly increasing. The Carnegie Foundation for the Advancement of Teaching addresses this increased state involvement:



There is an increasing tendency in some states for governors, legislative committees, state budget officers, and their staffs to take over the work of regulatory agencies or to go directly to higher education or to ignore the regulatory agency decisions (Carnegie Foundation For the Advancement of Teaching, 1976).

The hypothesis governing this study is that the Department of Planning and Budget of the Commonwealth of Virginia has been a relatively unnoticed yet potent force in the coordination of public higher education in the state. A key task for higher education during the next decade will be to understand this increased action by the state and to learn to function effectively within the limits of this increased external presence. While previous research has focused on the role of coordinating and governing boards, this study focused on the activities of the Department of Planning and Budget. Through this focus, the writer attempted to provide information to assist institutions in meeting the task of functioning within the limits set by increased state coordination.

#### Purpose of the Study

This study examined the role of the Department of Planning and Budget in shaping public higher education in Virginia. This role was determined in the following manner:

1. An examination of the legislative requirements placed on the Department by the 1976-1984 sessions of the General Assembly.
2. An examination of the relevant policies and directives issued by and through the Department from 1976 to 1984.
3. An examination of the Department's policies, directives, and functions related to state colleges and universities and how these policies, directives, and functions were perceived by the institutions themselves as well as by key officials of the State Council of Higher Education, the Secretary of Education, and the Department.

The literature provides a thorough review of the history of state coordination, the current status, the roles of coordinating boards, and the effects and implications of state control. While the increasing involvement of governors, legislatures, budget offices, and other state agencies is frequently mentioned, little information is presented concerning the effects of the involvement of these agencies, other than the state coordinating boards, in higher education. The primary purpose of this study was to

examine the effects of the Department of Planning and Budget's activities related to the execution phase of the budget cycle.

#### Significance of the Study

State coordination and regulation of higher education is a fact. Public institutions of higher education must now learn to deal with and operate within the limits of this coordination and regulation. The days of unlimited public funds and limited public regulation no longer exist. Hollander states:

A decade ago, if a legislator on a state appropriations committee were asked which would be more detrimental to securing increased funding for higher education, ignorance or apathy, he might well have replied, "I don't know and I don't care." Yet, as likely as not he routinely would have voted substantial additions to college budget requests without raising any serious questions. Perhaps he would have reasoned that what he wasn't aware of could cause no harm, or that appropriations for higher education were too small to warrant close scrutiny (Hollander, 1978).

At one time this statement could have come from many legislators involved in approving appropriations for higher education. Most decisions related to higher education dealt with the rate of growth rather than with the difficult fiscal decisions now facing legislators - how to meet increasing financial needs and demands at a time of leveling

or shrinking enrollments, scarce public funds, and an ever increasing demand by taxpayers for more accountability. As previously stated, these factors have contributed to an increased state role in coordinating and regulating public higher education.

If public institutions are to operate efficiently and effectively, an understanding of this increased state role is necessary. It was intended that this study would help explain the role of the Department of Planning and Budget in Virginia as it related to higher education, and, in so doing, would enable administrators in public higher education institutions in Virginia to plan more effectively for and deal with this aspect of governmental involvement.

#### Definition of Terms

For the purpose of this study the terms were defined as follows:

"Coordination" is the securing of smooth, concerted action through effective interrelationships and recognition of common goals (Halstead, 1974). It (coordination) implies the existence of separate units, each with some freedom to control its own operations, and thus the need for a technique or mechanism by which they act together toward some purpose that cannot be achieved by isolated, individual actions (Carnegie Commission on Higher Education, 1971).

"Regulation" refers to the issuing of policies and rules to control, direct, or govern activities of state agencies and institutions.

"Central state agencies" are the offices of the legislative and executive branches of government, including but not limited to offices such as the Office of the Comptroller, Department of Personnel and Training, and the Division of Engineering and Buildings.

"Department" or "Budget Office" refers to the Department of Planning and Budget of the Commonwealth of Virginia.

"Legislation" refers to the Acts of the Assembly of the General Assembly of Virginia.

"Documents" and "policies" include but are not limited to the directives, correspondence, and other records of the Department of Planning and Budget.

#### Perspectives and Theoretical Framework

This study was conducted within the existing frame of reference that is found in the literature that state coordination and regulation of higher education are legitimate functions of government. The study was based on the premise that this state involvement should be a broad process with institutions permitted the autonomy and authority to govern campus affairs. At the same time, the

expected outcome of this study was based on a theme of the Carnegie Commission:

External authorities are exercising more and more authority over higher education, and institutional independence has been declining. The greatest shift of power in recent years has taken place not inside the campus, but in the transfer of authority from the campus to outside agencies (Carnegie Commission on Higher Education, 1973).

It was expected that the study of the Department of Planning and Budget in Virginia would indicate an increased role in regulating higher education at the expense of the autonomy and local authority of the public institutions.

#### Design, Procedures, and Limitations

Research for this study involved the following methods: (1) a review of the literature relevant to the topic; (2) a review of the legislation related to the creation, functions, duties, and responsibilities of the Department of Planning and Budget which was passed by the 1976-1984 sessions of the General Assembly; (3) a review of the policies and documents of the Department from 1976 to 1984 which apply to public institutions of higher education; (4) a questionnaire to budget and/or financial officers of the four year institutions of higher education; and (5) interviews with selected higher education institutional

personnel and personnel from the Department of Planning and Budget and other state agencies.

Questionnaires sent to personnel in the institutions solicited the respondents' perceptions of the overall role of the Department related to the execution phase of the budget cycle as well as their opinions of and reactions to the specific policies selected for study. Interviews were conducted with the following personnel:

1. Institutional budget and finance administrators from the College of William and Mary, Virginia State University, Christopher Newport College, Virginia Commonwealth University, and the University of Virginia.
2. Two former Budget Analysts now employed by other state agencies.
3. A current Budget Analyst, the current Education Section Chief, and a former Education Section Chief from the Department of Planning and Budget, the Secretary of Education, the Associate Director of the State Council of Higher Education and the Secretary of Finance.

Questionnaires were provided to those interviewed as a guide for the interview. Questions for personnel from the Department, Secretary of Education, State Council and the Secretary of Finance were of the same composition as those for institutional personnel but were intended to solicit a central agency perspective of the Department's role.

This study was limited by the following factors:

1. Only selected four-year, public institutions in Virginia were included in the study.
2. Only policies and information related to budget execution were included in the study; policies related to the request phase of the budget cycle were not included.
3. The relationship of the Department of Planning and Budget to other central state agencies was not included as part of this study.
4. No attempt was made to randomize the selection of people interviewed or the specific policies included in the study.



5. No attempt was made to determine the financial impact of the Department's role on institutions of higher education.

Summaries and analyses of the Department's role were made from the information reviewed and the responses to the questionnaires and interviews. Conclusions were based on these summaries and analyses.

#### Organization of the Study

The remainder of this study was organized into four additional chapters. Chapter II includes a literature review on statewide coordination and regulation of higher education and historical background on the Virginia budgetary process. Chapters III and IV are the main body of the study. Chapter III includes a brief history of the Division of the Budget (the predecessor of the Department), a brief review of the formation and organization of the Department of Planning and Budget, and a summary of documents and relevant policies included in the study. Chapter IV presents summaries and analyses of questionnaire responses and interviews and Chapter V contains conclusions and recommendations for further study.

CHAPTER II  
REVIEW OF THE LITERATURE

Introduction

A working definition of coordination is necessary in order to interpret the literature related to the topic. Halstead states:

Coordination is the securing of smooth, concerted action through effective interrelationships and recognition of common goals (Halstead, 1974).

He goes on to state that coordination is operational - it interrelates and unifies action to achieve predetermined goals, relates the parts of a system to the whole, interrelates parts within the system, and relates the parts and the system to external factors (Halstead, 1974). As previously mentioned, the Carnegie Commission states:

The term coordination implies the existence of separate units, each with some freedom to control its own operations, and thus the need for a technique or mechanism by which they act together toward some purpose that cannot be achieved by isolated individual actions (Carnegie Commission on Higher Education, 1971).

For the purpose of this study, the review of the literature is divided into three major categories:

1. Reports by study commissions, foundations, and councils on statewide coordination of higher education.
2. Books, articles, and reports by individual authors and groups of authors on statewide coordination of higher education.
3. A review of Kellogg's History of the Virginia Budgetary Process.

Kerr reports that formal statewide coordination was a product of the tremendous enrollment growth of the 1960s, which was the decade during which a mechanism (statewide coordination) was introduced to guide the growth which occurred in higher education (Kerr, 1980). If this statement is accepted, then the numerous writings and reports on statewide coordination are the products of the growth of the state involvement in public higher education.

Reports by Study Commissions,  
Foundations, and Councils

In this first category is included three reports by the Carnegie Commission on Higher Education, one report by the Carnegie Foundation For the Advancement of Teaching, a

report by the Sloan Commission, and a report by the Education Commission of the States. All of these reports deal with the states' roles in the coordination of higher education.

The Carnegie Commission on Higher Education was established in 1967 by the Carnegie Foundation For the Advancement of Teaching. Its stated purpose was to study and make recommendations about higher education for the 1970s and to look toward the year 2000. The Commission met with several hundred leaders of higher education and studied technical reports, sponsored studies, and other literature related to higher education.

The Commission's report released in April, 1971, The Capital and the Campus, examined the state's responsibility for postsecondary education. The report reviewed and made recommendations for state planning and coordination, state financing, problems of public accountability, and institutional independence in the context of state financial support. A major theme of this report, and a major theme of most writers on the subject of state coordination, was the Commission believed it appropriate for the state to exercise some type of control over public higher education. While describing the role of state coordinating bodies, this report did not examine the role of other state agencies in regulating higher education. While the report does acknowledge the existence of these agencies' involvement, it

does little to clarify what the proper roles of governors, legislatures, budget offices, and other state agencies should be nor does the report indicate the interrelationship between these agencies and the coordinating boards. The Commission makes recommendations regarding the proper role and function of a coordinating board, recommends that states resist establishing single governing boards, and cautions against the state investing coordinating agencies with administrative authority, especially over budget matters.

The Carnegie Commission reports Governance of Higher Education and Priorities for Action: Final Report of the Carnegie Commission on Higher Education used the same basic information-gathering techniques and report formats. The governance report had three special studies undertaken and the Commission consulted three conferences on higher education. The major theme of this report, as it related to coordination, was as stated:

External authorities are exercising more and more authority over higher education, and institutional independence has been declining. The greatest shift of power in recent years has taken place not inside the campus, but in the transfer of authority from the campus to outside agencies (Carnegie Commission on Higher Education, 1973).

The final report of the Commission dealt with broad issues related to higher education, one of which was the states' role in the coordination of public higher education.

As in the two previous reports, the Commission recognized the necessity of state coordination and called for restraint on the part of the state in exercising its powers. The Commission stated that:

The states should exercise restraint in the application of their potentially great powers and to this end should be prepared to agree with higher education on the outer boundaries of state control.

Our greatest single concern at the present time, however, is that in some states 'superboards' and legislators and governors are now exercising too much detailed policy and administrative control over institutions of higher education and unduly infringing upon their essential independence, are neglecting higher education too much financially and controlling it too much administratively (Carnegie Commission on Higher Education, 1973).

The general view of the Carnegie Commission on Higher Education, expressed in all three of the previously discussed reports, was in favor of the states' continued role in the support and coordination of public higher education. This view was presented after examining numerous writings related to higher education and after discussion with more than two hundred leaders in higher education from across the entire United States. It is not apparent if discussions with state officials other than those in higher education were held. While favoring state coordination in a broad sense, perhaps a more balanced view could have been achieved with additional input from outside of higher education.

The Commission also discusses the increasing role of governors, legislatures, and budget offices in the coordinating process. While speaking in general terms, the Commission was clear in expressing its concern that the influence of these officials could become greater than that of the coordinating bodies. An attempt is made in the reports to clarify the role of the different state agencies and officials.

The Carnegie Foundation For the Advancement of Teaching (1976) looked once again at relations between the states and higher education. The tone of this report was similar to the three Commission reports, recognizing the legitimate need for the states to coordinate higher education while at the same time expressing concern about the involvement of these other state officials and agencies in the coordination of higher education.

This report, The States and Higher Education, is based on data and information provided by the National Center for Education Statistics, on information provided by Lyman Glenny from a survey of trends in state appropriations for higher education, and on supplemental data provided by the Carnegie Commission on Policy Studies in Higher Education. While doing an adequate job reviewing the existing coordination arrangements and making broad recommendations related to state coordination, this report fails to provide adequate guidance in possible arrangements or processes for

other state agencies and officials in dealing with higher education.

The Sloan Commission (1980) report was prepared by an independent commission composed of leaders in higher education, business and industry. The report is based on a study of the current literature in higher education during the period of the study and on working papers and studies prepared by the staff of the Commission. The Commission, in effect, agrees with the previous reports. It states:

We call on the colleges and universities to recognize that some government oversight is inevitable. While we deplore the government's present lack of perspective, we also emphasize that it is unreasonable and unfair for higher education to accept billions in public money annually without being ready to account for its use, and without meeting the social goals toward which so much of the resented oversight is directed (Sloan Commission on Government and Higher Education, 1980).

The Commission felt the greatest need to be a change in the tone of relations between government and higher education. This report seems to support the conclusions and recommendations of the previous reports, but as they did, stopped short of an indepth study of the existing role of other state agencies and officials.

The stated purpose of the Education Commission of the States (1980) report was to examine the impact of changing conditions in higher education on state higher education agencies and to provide a new and objective review of



systems of coordination and governance. This was to be accomplished by an analysis of existing structures in terms of potential strengths and weaknesses in addressing problems expected in the 1980s. The report focused on major functions performed by state agencies - planning, program review and approval, evaluation, policy making, and budget review and recommendation. It was concerned not only with these powers but how they were exercised.

The recommendations of this report were similar to the previous reports, calling for broad state involvement in coordinating higher education with the institutions having the major responsibility for the management of internal affairs. This report gives a more thorough analysis of the increasing state role of other agencies in managing higher education.

Three Thousand Futures (1980), issued by the Carnegie Council on Policy Studies in Higher Education, reports that higher education institutions were becoming less dynamic and torn by internal stresses due to the public will being expressed through bureaucratic controls rather than through free-standing, self-governing entities. The Council predicts that public authorities would penetrate even further into the internal life of institutions, increasingly determining what shall and shall not be done. In order to avoid excessive regulation of higher education, the report recommends that public authorities consult with

representatives of higher education before adopting new regulations, avoid pre-audit control over expenditures, and provide for easy internal transfer of funds.

The Carnegie Foundation for the Advancement of Teaching reports that state officials had generally respected the independence of the campus. However, under public pressure for accountability these officials had moved in the opposite direction. This report, The Control of the Campus: A Report on the Governance of Higher Education (1982), recognizes the state government's responsibility to plan and coordinate a comprehensive system of higher education and recommends that states encourage good management by permitting administrative decisions to be made as close as possible to the point where they are to be carried out.

The literature reviewed in this first major category presents a consensus that state coordination of public higher education is a legitimate function of government. The reports adequately present the status of coordination as it existed in the 1970s. Most of the recommendations relate to the establishment of broad guidelines for the institutions, with a high degree of autonomy retained by the institutions to allow them to operate within these broad guidelines. The reports indicate a concern with the increasing involvement of the governor, legislature, budget office, and other state agencies and officials in the coordination of higher education. The Commissions agree that this more detailed

control is undesirable and a threat to the legitimate role of the state coordinating body. While discussing in broad terms the roles of these other state officials and agencies, additional research is needed to ascertain the effect of this increased activity on coordination within the states and on the public institutions which are influenced by these agencies and officials.

Books, Articles, and Reports by Individual  
Authors and Groups of Authors

The second category of literature reviewed focused on the numerous books, articles, and reports by higher education and related subject authors. While more numerous than the previous category, the tone and direction of this literature is similar to the previous category. Geiogue (1980) gives what could be considered an adequate summary of the viewpoints in this literature:

The question we face is not the governor's or the legislature's right to oversee higher education, it is the extent and nature of their oversight and intervention. The decade of the 1970s saw the general evolution of a regulatory society and a corresponding growth in the degree of external oversight of higher education by elected officials and their agents (Geiogue, 1980).

Generally, the literature presents the above viewpoint that coordination is legitimate, necessary and inevitable.

Concern is expressed about the extent and nature of the coordination and of the role of state agencies and officials, other than coordinating bodies, in this oversight of higher education.

Despite this consensus, Bruce Dearing offers criticism of the coordination process which goes beyond the concern of the other writers. Formerly the president of a university within the coordinated state system of New York, he discussed penalties which he feels cannot be avoided:

1. When decisions are made in the development or implementation of policy for an entire system of diverse campuses, individual differences may be forgotten or ignored.
2. The most galling consequence of centralized decision making is the suspicion that important decisions related to individual campuses are often made, not by senior officials of a central staff, but by minor clerks and functionaries operating according to little understood formulae, personal bias, or careless haste.
3. Suspicion, often supported by what appears to be significant evidence, that some campuses are

receiving preferential treatment at the expense of less favored units (Dearing, 1972).

Dearing's attempt at objectivity can be seen in his statement:

Given the legitimate claims upon higher education of citizens of all ages within a democratic, pluralistic society, the only conceivable means of accommodating future needs and expectations lies in effective coordination, cooperation, and complementary efforts among individual campuses (Dearing, 1972).

Although the above statement indicates Dearing's acceptance of the need for coordination, his use of terms such as "galling consequence", "minor clerks and functionaries", and "suspicion" supported by "significant evidence" indicates bias which goes beyond the concern for the effects of coordination expressed by other writers.

Halstead (1974 and 1979) gives a thorough review of the development of coordination and coordinating agencies. He credits the development of coordination to the tremendous enrollment growth of the 1960s and presents an analysis of the state role in coordination. While these works are probably more valuable as references for campus administrators, they do provide a thumbnail sketch of coordination. However, much is left unsaid concerning the expanding roles of governors, legislatures, budget offices, and other state agencies and officials.

Chambers (1974) provides a descriptive study of the status of coordinating activities in the early 1970s. His state by state summary provides a brief discussion of the role of the state coordinating agencies and major state legislation related to higher education. However, very little is presented beyond these two categories of information.

The role and influence of the political process on state coordination is presented in three of the works reviewed. Goodall (1974) discusses the major political issues related to coordination in the years ahead and calls the coordination of retrenchment and budget review the most significant. Hollander (1978) presents the argument that coordinating boards in the past have been used as buffers between state government and educational institutions. Fisher (1981) says that states are becoming important fields of conflict for institutions of higher education. These three reports emphasize the need for the coordinating council to remain the ally of higher education, especially in the wake of increasing involvement in higher education by other state agencies and officials.

The recurring themes of the literature to this point - legitimacy of state involvement in coordination, a need for broad policy involvement rather than narrow operational involvement, concern for the increased roles of other state agencies and officials - are further supported by some of

the leaders of higher education. Although sometimes disagreeing on the specifics, they agree in principle on the major themes previously stated.

Berdahl (1971) states that all institutions, both public and private, have to function in the context of state law and state sovereignty. He presents the argument that the misunderstanding which sometimes divides the general public and higher education is reflected more intensely at the state rather than national level of government. While agreeing in principle with the concept of state coordination, he opposes the detailed involvement of the state in the affairs of higher education.

Baldrige and others (1978) and Kerr (1980) also support the general theme that the state coordination of higher education is a legitimate function of government. However, both also express concern over the trend toward increased bureaucratization in higher education and express the viewpoint that this intervention will increase as finances tighten. Kerr expresses the viewpoint that the 1980s and 1990s will be one of four "unique periods" in higher education and that policies must be developed to meet, in George Weatherby's term, "life after growth" (Kerr, 1980).

Perkins (1972), Glenny and Hurst (1971), and Millett (1972) provide comprehensive histories of state coordination of higher education, discussions of the types

and functions of coordinating and governing boards, and discussions of state systems of higher education. Although these works are predominately historical and descriptive, all three in tone support the concept of a broad form of state coordination. However, these writings do little to clarify what the role of other state agencies should be in the coordination process.

Schick (1971) presents a summary of budget developments in the states and the effects on higher education. He argues that these budget developments have been one of the reasons for the increased controls now exercised by other state agencies. His discussion of the functions of budgeting help the reader to interpret other readings related to the roles of the governor, legislature, budget office, and other state agencies and officials.

Furman (1979) advances the argument previously presented that the coordinating board ought to be the advocate of higher education. He and Bowen (1979) emphasize the cooperation theme existing in the literature:

In short, the best way for higher education to improve its relationship with government is to be obviously well-managed, responsive, and cost-effective without giving the impression of arrogance or conceit.

On the other side of this relationship, state governments must avoid a heavyhanded pursuit of efficiency and accountability that impairs educational effectiveness (Furman, 1979).



Bowen (1979) supports this concept of increased cooperation, calling for a "working relationship" to replace the adversarial attitudes which sometimes exist between higher education and government. This attitude of cooperation was a thread connecting most of the literature reviewed.

Callan and Jonsen (1980) express the opinion that the growth of the 1960s and 1970s had increased the importance of statewide planning and coordination. The main task of the 1980s will be to coordinate responses to decline, either in the size of higher education or the fiscal resources available to it. The basic question to be answered will be: Can decentralized governance be maintained while the states, the coordinating bodies, and the post-secondary institutions face an ever increasing number of problems? They suggest that the institutions take the lead in developing solutions to these problems, but that these institutions also be aware of the increasing role of the state coordinating boards and other central state agencies.

Malcolm M. Scully, in reviewing the Carnegie Foundation For the Advancement of Teaching report The Control of the Campus, calls on academic leaders to reassert the right of colleges and universities to govern themselves. He states:

The ever increasing role of outside agencies in campus matters is gradually wearing down internal governance structures. As leadership is diminished,

power and initiative flow even more rapidly to bureaucracies outside.

This destructive cycle must be ended. The governance initiative must be returned where it belongs: to the campus itself (Scully, 1982).

Elliot (1982) reports that the rationale for the development of coordinating boards was the need to control the expansion of higher education and to provide a regulatory system for higher education. This regulatory function has spread to other agencies of the state. By returning control and direction to the institutions themselves, the state will put decision making where it belongs and where its consequences must be lived with.

Robb (1982) offers a different opinion by stating that higher education suffers from a general lack of direction. He sees a statewide, systematic approach as the vehicle to move toward a better understanding of the higher education role in society. No college or university, no matter how well-intentioned, can have the perspective that must be maintained.

Millett (1984) reviews the role of coordinating boards and calls coordination a juggling act. Coordinating boards must balance the conflicting demands of all its constituencies - the governor, the legislature, and the public institutions. He also cautions about the "hidden regulators" - budget, personnel, purchasing, and other

offices in the state government - who can threaten the independence of colleges and universities.

Bowen (1984) expresses the view that a time of retrenchment could be a threat to institutional integrity. He sees no easy solutions compatible with the traditions and values of higher education. Individual institutions should be given wide latitude in managing what retrenchment is necessary because they are in the best position to minimize damage.

Clark Kerr (1984) sees public institutions as constrained by the federal government, state governments, and the courts. More and more public institutions are finding themselves within systems with layers of governance over them. These constraints are one of the reasons institutions seem to have lost their sense of mission. The mission today seems to be more for institutional survival.

Burke (1985) sees public universities facing a crisis in governance. This crisis is a result of divisive conflicts on campus and deadening constraints from state capitals. State officials have a responsibility to insure that institutions serve the needs of society. However, if colleges and universities are to serve society well they must not become creatures of the state, tightly bound by rules and regulations issued from state capitals. The unique character of educational institutions requires an unusual

amount of autonomy and the state and the institutions must reconcile the need for both accountability and autonomy.

Bernstein (1985), in reviewing the formation and work of the New England Board of Higher Education, calls for regional cooperation to educate legislators about the value of higher education and its contributions to society. He sees the purpose of the board - to inform legislators about what they do not have time to learn about higher education - as useful in assisting public institutions in responding to state regulation.

Evangelauf (1985) reports on the study of the future of the State University of New York system. The report concludes that the university is inferior to the nation's leading state universities because it is the most over regulated such institution in the country. The state government does not trust the board, the chancellor, or the campus presidents to make even elementary administrative decisions. State budget and review agencies have to approve even routine personnel actions and purchase orders.

The report on the State University of New York system concludes that this over-regulation costs tens of millions of dollars annually and makes it difficult to recruit top faculty and administration. The study panel recommends restructuring the system so that it has greater management flexibility than the typical state agency and giving the trustees final authority to develop and administer budgets,

define the mission of each institution, and allocate resources within the system.

Although there are concerns expressed about excess control or restraints by state government, the prevailing viewpoint in the literature is agreement on the legitimacy of state involvement in higher education. This second category supports that viewpoint and, in so doing, is consistent with the reports of commissions and councils which were previously reviewed.

### Kellogg's History of the Virginia

#### Budgetary Process

Kellogg (1974) provides a detailed history of the development of the budgetary process in Virginia. While he deals specifically with the development of guidelines for formal budget requests by the institutions, his history provides an overview of and background for the state's involvement in public higher education in Virginia.

According to Kellogg, budgeting in Virginia has existed to some extent since colonial times. He identifies six historical periods of development which, for the purpose of providing historical background, will be highlighted in this review.

The Colonial Period (1607-1776) was the first identified by Kellogg. During this period, a rudimentary

process of budgeting existed. An early charter established the authority of a Treasurer to help govern the early affairs of the first colony. Few full-time government offices were maintained and debts were paid by claims to the Treasurer. The process was informal and a philosophy of least governance and least expenditures prevailed.

During the Ante Bellum Period (1776-1861) more formal measures began to appear. The function of auditing was established and the auditor's and treasurer's offices were placed under the supervision of an Executive Committee, appointed by the General Assembly and reporting to the Governor. The Executive Committee provided continuity of government between legislative sessions and, according to Kellogg, could be viewed as the predecessor of executive departments of modern state government.

It was also during this period that elements of higher education began to appear in state finance. In 1810 a Literary Fund was established to encourage education in the Commonwealth. Proceeds from the fund were used for elementary and secondary education, but institutions of higher education were permitted to borrow from the fund. During the 1819-20 sessions of the General Assembly, provisions were made to reimburse the University of Virginia \$15,000 in each year. Virginia Military Institute was included in this provision by the 1841-42 legislative sessions.

The post Civil War Period (1866-1906) was marked by a commitment by the 1866 legislature to honor all antebellum debts. This action brought heavy pressure on state finance for decades and, until 1900, money for government services was scarce. It was during this period that the values of efficiency and economy became very important and this tradition has, according to Kellogg, been maintained in the Virginia budgetary process.

The Constitution of 1869 enabled Virginia to reenter the Union and started new state commitments to public education. Proceeds from the Literary Fund, a capitation tax, and a mill tax on property were designated for the support of a public elementary and secondary school system. Normal and agricultural schools were established to take advantage of the Morrill Act of 1862 and the legislature began including higher education in the state budget by providing annuities to institutions.

The 1870s brought the introduction of budget innovations to improve the financial management of the state. In 1871, payments were made to Virginia Military Institute on the basis of one-fourth for each quarter of the budget year. In 1886, the Auditor was required to submit quarterly reports to the Governor regarding the status of state finances, in 1890 payments of state appropriations were placed on monthly installments (the predecessor of the

allotment system), and in 1890 the legislature aligned the state fiscal year to conform with the appropriation year.

Complaints about inefficiencies and duplication in higher education were noted for the first time during the post Civil War Period. They began in the early 1890s and increased when the College of William and Mary was included in the state system of higher education in 1906 and with the establishment of normal schools at Harrisonburg and Fredericksburg in 1908 and at Radford in 1910.

Kellogg cites three events which initiated the Period of Reform (1906-1930) - the 1906 formation of an Auditing Committee of the Legislature, the first attempt to establish a State Accountant, and a resolution to examine fiscal management in state government. Although the resolution died in the House of Delegates, its introduction indicated the growing interest in reform. Two other events, the Budget Act of 1918 and the State Reorganization of 1928, are cited as watershed events in the development of the budget process. He states:

The Virginia Budget Law of 1918 vaulted Virginia into the vanguard of modern state governments. The budgetary reforms occurred as an integral part of a general governmental reform movement at state levels (Kellogg, 1974).



The Budget Act of 1918 is credited by Kellogg with influencing the budget process in Virginia ever since its passage. He reviewed the following main features:

1. The idea of a formal budget was established in order to institute economies in the administration of government.
2. The authority and responsibility for preparing and executing the budget was vested in the Governor as the chief executive officer.
3. The supportive and extensive role of the Auditor of Public Accounts (APA) was directed to the Governor, although he was appointed by the General Assembly. The APA was assigned the responsibility of furnishing financial statements and balance sheets of past revenues and expenditures for the state.
4. All state agencies and institutions were required to submit estimates of expenditures to the Governor on a biennial basis. These estimates were to be in a uniform format as required by the Governor.

5. The Governor was given the responsibility of presenting the budget and the complete financial status of the state to the General Assembly.
  
6. The General Assembly preserved the power to increase or decrease appropriations in the interest of efficiency and economy.

The first two formal budgets, presented in 1920 and 1922, indicated the need for a separate budget staff. The General Assembly authorized the staff in 1922.

The State Reorganization of 1928 was preceded by two reports which recommended major changes in the administration of state governments. The reports, issued by the Bureau of Municipal Research of New York (commissioned by the General Assembly) and by the Citizens' Committee on Consolidation and Simplification in State and Local Government, generally agreed about the direction of the reforms needed. Major recommendations called for consolidation of state administrative agencies into twelve departments, centralization of state funds to be controlled by the Treasurer, establishment of a quarterly allotment system, establishment of an accrual accounting system, and the establishment of corresponding fiscal and budget periods of July 1-June 30.

While all recommendations were not implemented, the net effect of the reorganization centralized financial and fiscal controls into the hands of the Governor. The powers necessary to implement this reorganization required a constitutional referendum in 1928 and additional legislative actions in the 1927, 1928 and 1930 sessions.

This reform movement also touched higher education. The Bureau of Municipal Research released a report recommending that institutions of higher education be placed under a Board of Education. The Commission to Survey the Educational System of Virginia recommended that a Chancellor of Higher Education be created. Because of opposition by Governor Harry F. Byrd, Sr., presidents of the institutions of higher education, and many members of the General Assembly, neither of these recommendations were adopted.

Reforms were implemented during this time which called for cooperation among institutions to avoid unnecessary duplication and which brought improvements in the business management and accounting systems of the institutions.

Kellogg notes:

The dilution of the recommendations of the two reports by the subsequent legislation depicts the philosophy of the institutions of higher education toward any form of state control over their affairs including budgetary. The independence and voluntary nature of institutional activities were preserved for nearly three decades after the challenge in 1928 (Kellogg, 1974).

The fifth historical period identified by Kellogg was the Period of Consolidation (1930-1950). The general economic condition of the country influenced all education and budget activities during the 1930s, World War II, and postwar reconstruction activities of the 1940s. The traditional pay-as-you-go, economy-efficiency philosophy continued to prevail in state government in Virginia.

Institutions of higher education continued to operate independently during this period. However, there were activities which indicated a continued state interest in regulating higher education. In 1938 the state normal schools were placed under the supervision of the State Board of Education. During the administration of Governor James H. Price (1938-1942), a Council of Executive Officers of institutions of higher education was formed to formulate long-term programs and policies for higher education in Virginia. Finally, talk of an overall coordinating council for higher education continued, although no action to establish was taken.

The Period of Transition (1950-1972) is the last period of Kellogg's historical review. He terms the period transitional because the state moved toward more formal methods for the allocation and utilization of resources. The Governor and Legislature continued to adhere to the philosophies of efficiency and pay-as-you-go. The most important development in higher education during this period

was the establishment of the State Council of Higher Education. The Council was created with statutory obligations for coordination, program approval, and budget review (including uniform accounting, budgetary, and data reporting systems).

Kellogg summarizes his historical background by generalizing the developments into the broad areas of philosophy, powers, structures, and interagency relations. He concludes:

1. Philosophically, the State of Virginia has been committed to a conservative philosophy of budgeting. Despite ever increasing controls, public institutions of higher education generally competed for funds in the political arena.
2. The powers for budgeting were basically established in the 1918 and 1922 Acts, which vested authority in the Governor and authorized a Budget Office.
3. The Budget Structure gradually fragmented over the period 1918-1950.
4. Interagency relations were characterized by a complex set of interrelationships between the

General Assembly, the Executive arm of state government (Governor, Division of the Budget, Comptroller, the Auditor of Public Accounts, and the Division of Personnel), and the public colleges and universities.

#### Summary

In summary, the review of the literature indicated the following themes and viewpoints:

1. State coordination of higher education is a legitimate function of government. If institutions continue to accept the large amounts of state funds appropriated to them, they should expect to be held accountable for the use of these funds.
2. This coordination should be a broad process. The states should exercise restraint in the use of their power while permitting institutions the autonomy and authority to govern campus affairs.
3. Governors, legislatures, budget offices, and other state agencies and officials have increased their role in the states' oversight of higher education.

This increased involvement has been at the expense of the role of the coordinating agency.

4. The Commonwealth of Virginia budgetary process has been a developmental process and has adhered to a conservative philosophy of economy, efficiency, and pay-as-you-go. This developmental process has resulted in an increasing state involvement in higher education.

The findings of the review of literature seem to leave little doubt as to the acceptance by most writers of the legitimacy of state coordination of higher education. While Bruce Dearing voices the major dissent, his opposition is based primarily on the degree of coordination and some of the negative impact it has. However, even Dearing recognizes the right of the state to coordinate and regulate public higher education.

Because of the states' intensive involvement in regulating higher education, public institutions must be able to operate within the limits imposed by that regulation. While relationships between these institutions and coordinating and governing boards seem to be better defined, the implications of increased involvement by governors, legislatures, budget offices and other state agencies is less clear. The review indicates a need for

research regarding the role and influence of these other arms of state government with the objective of providing a framework in which public institutions could function in their dealings and relationships with governors, legislatures, and budget offices.



CHAPTER III  
THE DEPARTMENT OF PLANNING AND BUDGET  
AND HIGHER EDUCATION

Introduction

The state system of higher education in the Commonwealth of Virginia consists of five doctoral granting institutions, ten comprehensive four-year colleges and universities, and twenty-four two-year colleges. The doctoral granting institutions and the comprehensive four-year colleges and universities are governed by Boards of Visitors appointed by the Governor, while the Community Colleges are governed by a State Board of Community Colleges appointed by the Governor. These boards are the legal entities responsible for the operation of these institutions and have authority for program approval, operating and capital outlay budget approval, establishment of personnel policies, and establishment of other policies for the operation of these institutions.

The State Council of Higher Education for Virginia is the state agency with the responsibility for coordinating the Commonwealth's public institutions of higher education. J. Michael Mullen of the State Council has presented this capsule statement concerning the functions and development of the Council:

Under the coordinating board arrangement, individual institutions retain their essential institutional autonomy. There is, therefore, no central board of control; each institution retains its own board. Because of this, the Virginia Council is not involved in determining the admissions policies and practices of the individual institutions and does not approve the hiring of individual personnel.

Established in 1956 as an advisory body on higher education matters to the Governor and the General Assembly, the Council was gradually mandated additional responsibilities. The trend toward strengthening the authority of the Council culminated in 1974 in legislation clarifying the Council's responsibilities and increasing its involvement in the budgetary process for the state-supported institutions (Mullen, 1978).

Although a coordinating body, the Council's actions have a significant effect on the operation of the public institutions. Perhaps the two functions which most critically influence the institutions' operations are the review and recommendation related to operating budgets and the approval of enrollment projections. Because Virginia uses an enrollment driven funding formula, these two responsibilities are closely connected. The Council develops the funding guidelines used by the institutions to make operating budget requests, approves the enrollment projections on which requests for faculty are based, and recommends to the Governor and the General Assembly an operating budget based on the guidelines and projections. With approximately 70-75 percent of the average institutional budget committed to personnel costs, these guidelines are a critical factor in determining the funding made available for operating expenses.

Although the Boards of Visitors retain the ultimate authority and responsibility for institutional operation, the authority of the State Council in these previously mentioned areas has a significant impact on the decision-making authority and flexibility of the boards. Added to the requirements and limitations imposed by the State Council are reporting and approval requirements placed upon the institutions by other state agencies. The Department of Planning and Budget, Department of Personnel and Training, Department of Accounts, Division of Purchases and Supply, and Division of Engineering and Buildings all play major roles in the planning and operation of public institutions, while numerous other state agencies exert a lesser, but nonetheless, very real influence upon higher education.

Because this study focuses on the Department of Planning and Budget, this chapter will provide background information on the Division of the Budget, the formation and responsibilities of the Department of Planning and Budget, and the policies included in this study.

#### Division of the Budget

The first state budgets were prepared by Governor Westmoreland Davis' office staff in 1920 and 1922 (Kellogg, 1974). The Division of the Budget was established by

the 1927 Reorganization Act and placed in the Department of Finance. This department was never formed, however, and the Division operated independently until it was designated as a unit in the Governor's Office (Ibid).

Kellogg identified the period of 1930-1950 as a period of consolidation, during which general economic conditions influenced all budgeting activities in the Commonwealth of Virginia. During this period of time the traditional pay-as-you-go, economy-efficiency philosophy continued to prevail in state government. The Division of the Budget was the vehicle used by the Governor and General Assembly to provide a measure of budgetary uniformity in dealing with higher education.

A summary of the organization of the Division of the Budget from 1958-1969 is provided by Kellogg in his History of the Virginia Budgetary Process. In 1958, the Division consisted of an Administrative Office (which passed judgement upon most policy interpretations and maintained contact with state agencies and institutions), a Bureau of Property Records and Insurance, a Central Telephone Exchange, a Buildings and Grounds Section (for the Capitol Square Area), and an Engineering Section (for capital outlays). By 1963 the Division added a Capitol Police Section and a Central Accounting Section.

During the first administration of Governor Godwin, the Division was reorganized and lost most of its functions

except for the Administrative Office. By 1969 the functions of the Division were to advise the Governor concerning fiscal matters and to administer fiscal-related activities assigned by statute or the Governor (Kellogg, 1974).

On February 18, 1970, Governor Linwood Holton issued Executive Order Number 2, establishing a Governor's Management Study to review the operation and management activities of the Executive Branch and the Department of Law, the Office of the Auditor of Public Accounts, and the Industrial Commission. Chaired by William L. Zimmer, III, the study was to provide comprehensive suggestions for improving economy and efficiency in the ninety departments, agencies, and institutions reviewed (Governor's Management Study, Inc., 1970).

The Study Team provided an Agency Report on the Division of the Budget. This report identified the Governor as the chief budget officer and the Division of the Budget as the staff agency with primary responsibility in this field. The Division was headed by a Director, who was appointed by the Governor and who served at the Governor's pleasure. The Director reported to the Commissioner of Administration, who was appointed by the Governor, with the consent of the General Assembly, and also served at the pleasure of the Governor.

No specific duties were assigned to the Director who, by statute and under the direction and control of the

Governor, was to exercise powers and perform duties fixed by law or required by the Commissioner of Administration. The Director was to advise the Governor on current, anticipated, and desired actions with fiscal implications.

The report also reviewed the activities of the Division in its three major areas of responsibility - Budget Preparation, Budget Execution, and Ancillary Functions. Seven major Budget Preparation responsibilities were identified: the determination of appropriate form and content for agency budget requests as well as preparation and issuance of instructions for the request; receipt and clerical verification of agency requests; consideration of content and preparation and internal review of tentative recommendations based upon the Governor's instructions, knowledge of agency programs, and presentations; discussion of recommendations and revenue estimates with the Governor and his advisory board; incorporation of capital outlay requests, as approved by the Governor, into the budget; assisting the House Appropriations Committee and the Senate Finance Committee in their deliberations; and printing the budget document, the position supplement, and the budget bill.

The second area of responsibility of the Division was in Budget Execution. The Division was responsible for releasing, in the name of the Governor, appropriations based on a review of the agency's quarterly allotment requests,

reviewing intermittent agency requests for increases in appropriations from designated fund sources, transferring appropriations among related programs, recommending action to the Governor concerning deficit and advance fund authorizations, and acting on requests by state agencies for the purchase of all passenger-type vehicles. The Division also issued license plates for these vehicles once they were purchased by a state agency.

Ancillary Functions was the third major area of responsibility of the Division. Included in this area were the responsibilities of visiting state agencies and institutions for on-the-spot discussions of program and funding problems, designing procedures and preparing policy recommendations relating to administration, and making special fiscal studies requested by the Governor.

The report indicated that the Division of the Budget had been understaffed in the past. The state budget for 1950-52 had been prepared by two individuals and, until the mid-1960s, five consultants were used during the budget preparation period to augment the five man staff of the Division. A staff improvement program started in July, 1966, led to a complement of fourteen professional and technical positions. Despite these additional positions and the use of four consultants, the professional staff of the Division worked eight man-months of overtime during the six months

required for preparation and legislative review of the 1970-72 budget.

The Study Team made specific recommendations to improve the fiscal management of state government and the operating efficiency of the Division of the Budget. These recommendations are summarized as follows:

1. Provide for the reversion to the General Fund of Special Fund Revenues in excess of stated appropriations.

Past studies had concluded that Special Funds restricted effective budgetary control. The Governor's Management Study identified the non-revisionary feature of Special Funds surpluses as a most significant impediment to effective planning and budgetary control procedures. Special Funds had been used to justify the creation of new agencies on the basis that activities would be financed by those who benefited from them.

2. Expand and improve the budget planning and preparation process.

Expand the budget planning function by increasing the staff of the Division of the Budget. The



Division was also encouraged to establish a well-defined working relationship with the Division of State Planning and Community Affairs which would involve that Division in relating long-term goals to the short-term budget planning process.

3. Establish a Management Engineering Section within the Division and adopt formal project-oriented cost improvement programs.

This section would conduct interagency and intraagency organization studies, perform management and operational audits as directed by the Governor, and conduct cost effectiveness studies and program accomplishments evaluations.

4. Apply a program planning and budgeting system to operations of the state.

This system would feature the use of quantitative performance measurement indicators, annual updating of a five-to-six year forecast of operations, and systematic integration of long-term planning with the budgetary process.

5. Change the agency's name to the Division of Budget and Management Controls.

The term "budget" was seen as having implications that were not consistent with the Division's role. The designation Division of the Budget was seen as even more inappropriate if the management engineering function was established.

6. Adopt project-oriented administrative planning and scheduling controls to manage an expanded professional staff.
7. Adopt policies for providing personal automobiles to employees.
8. Continue biennial budgeting until longer-term annual forecasts are systematically made.
9. Reduce the number of agencies subject to quarterly allotment procedures.

This procedure was performed for approximately 225 units of state government and was seen as perfunctory, especially for smaller agencies which expended funds uniformly or on a predictable

basis. It could be eliminated by using an annual allotment, forecast by quarters.

10. Review all state publications, eliminate unneeded ones, evaluate cost versus benefit of formats, and purge mailing lists.
11. Institute performance measurement systems that provide increased incentives to achieve challenging organization objectives.

The Study Team observed that more attention and energy were devoted to obtaining additional funds than in their effective use. Furthermore, more resources were allocated to making studies than in implementing findings.

The report also recommended major changes in the organization of the Executive Branch. The Study Team suggested that the State duplicate the structure used in many large business organizations - a chief executive, an administrative process with line and staff functions, and a few top executives reporting directly to the chief executive.

The administrative process recommended included two staff offices - the Governor's Office and an Office of

Administration and Budget. The Governor's Office would include the Governor's staff and the Office of Administration and Budget, headed by a Commissioner, would contain staff functions for budgeting, personnel, and planning. This office would have included the Division of the Budget, Division of Personnel, Division of State Planning and Community Affairs, Division of Engineering and Buildings, Division of Automatic Data Processing, and the Art Commission.

This recommended reorganization also included five line agencies headed by Deputy Governors of Finance, Education, Human Affairs, Commerce and Resources, and Transportation and Public Safety. The title Deputy Governor was chosen to carry the prestige of the Governor's Office, a designation similar to executive vice-presidents in corporate structures. The Deputy Governors were to be involved with agency and department heads under their area of responsibility and were not to have staff responsibilities.

The main thrust of the Governor's Management Study was that control was needed immediately and badly. The existing piecemeal proliferation of the many units in the Executive Branch was not conducive to economy and efficiency. A highly capable executive team headed by the Governor would be invaluable in bringing into focus the government services required and the means for effectively administering these services.

The report issued by the Governor's Management Study contained a total of 390 recommendations and approximately eighty percent of those were implemented by executive or administrative orders. While the recommendation for Deputy Governors was not implemented, a similar organization was established by the passage of Chapter 641 of the Acts of Assembly by the 1972 session of the General Assembly. This legislation established the Governor's Secretaries of Administration, Finance, Education, Human Affairs, Commerce and Resources, and Transportation and Public Safety with duties and management functions delegated by the Governor. While the Division of the Budget received additional positions and was transferred from the Governor's Office to the Secretary of Administration, it was not until a later report by the Commission on State Governmental Management that the Division was reorganized.

#### Department of Planning and Budget

At its 1973 session the General Assembly concluded that in spite of the considerable effort involved in the Governor's Management Study in 1970, many fundamental organizational and management issues in state government remained to be addressed. Chapter 432, Acts of Assembly, 1973 created a Commission on State Governmental Management with the purpose of "... bringing about greater efficiency

in the State government by the reduction of the more than one hundred agencies to a reasonable and practicable number, the elimination of duplication and overlap, the establishment of clearer lines of authority, and undivided responsibility for particular functions of the state government; ..." (Acts of Assembly, 1973). The Commission, popularly known as the Hopkins Commission, was chaired by State Senator William B. Hopkins of Roanoke.

The Hopkins Commission identified the Division of the Budget as the staff agency with the responsibility for preparing an executive statement showing how resources would be allocated to meet the needs of state government. The statutory responsibilities of the Division were to perform all duties conferred by the Governor or the Secretary of Administration and Finance relative to the preparation and administration of the Executive Budget and to designate the number, quality, and manner of binding of all annual and biennial reports of state agencies and all catalogs from public institutions of higher education. The Division goal was to assist in the process of preparing and administering a state budget by systematically relating expenditures to the accomplishment of planned program objectives. The specific objectives of the Division were to develop the program structure for budget planning and administration, to identify, where possible, measures of attainment of agency performance and objectives, and to analyze agency management

and operations for cost-benefit determination and improvement.

The Commission further reviewed the organization of the Division of the Budget, identifying three major organizational sections. The Budget Preparation and Administration Section had the responsibility of examining agency budget submissions, preparing a cohesive budget statement, and administering quarterly allotments, capital outlay funding analysis, grant funding analysis, fund transfer actions, and program and workload reviews. The Division of Administration reviewed actions on capital outlay projects, prepared records of approved program allotments, and was responsible for internal office operations. The Management Analysis Section studied agency programs and their management.

A major conclusion of the Hopkins Commission was that the separation of planning and budgeting was unnatural and that both functions were performed optimally only when merged. The Commission recommended forming a Department of Planning and Budget. The Department would have the responsibility of developing an integrated planning and budget cycle and would be organized into four major subdivisions:

1. Policy Analysis Staff

This division would be charged with the overall coordination of program planning activities and the conduct of major policy analyses. The division would be staffed by professionals drawn from different educational and work backgrounds and would function as the Governor's "think tank."

The staff would undertake major studies that crossed studies within a functional area. Emphasis would be on imagination and innovation. The Commission encouraged relatively rapid turnover in an attempt to generate fresh ideas. The staff was to be comprised of faculties of state colleges and universities, middle management officials of industry, senior state officials, and professional consultants, all encouraged to accept limited appointments of two years. The emphasis would be on change rather than continuity.

2. Program Budget Review Staff

This section of the Department would be responsible for the review of state agency activities in reaching the agency's stated goals



and objectives. This section would be organized functionally and provide the basic planning and budget capacity for the Department. The emphasis would be on continuity.

3. Research Staff

The Research Staff would continue the economic research functions of the Division of State Planning and Community Affairs. The staff would be responsible for the development, storage, retrieval, and dissemination of data on the social, economic, physical, and governmental aspects of the state. The emphasis would be on providing relevant and reliable information for use by the state government and other governmental bodies.

4. Budget Control and Reports Staff

This staff would oversee the operation of budget allotment controls and other summary controls on such things as employment and travel. This section would also coordinate the development of standardized reports of program and financial performance for top management.

The Commission noted there had been no comprehensive reorganization of state government attempted since 1928. The reorganization which occurred at that time had since eroded and the continued growth of state government made the need for reform even more pressing.

The 1976 session of the General Assembly amended the Code of Virginia by adding Title 2.1, chapters 26-29, containing sections number 2.1-377 through 2.1-408. In summary, this revision affirmed the Governor as the chief planning and budget officer of the state with the Secretary of Administration and Finance as the Deputy. The Department of Planning and Budget was created, subordinate to the Secretary of Administration and Finance. The Department was to be headed by a Director, appointed by and serving at the pleasure of the Governor. The Director was to exercise such power and perform such duties as imposed by law and others as required by the Governor and the Secretary.

Section 2.1-380 granted the general powers of the Department, as follows:

1. Employ personnel to carry out the purposes of the Department.
2. Make and enter contracts and agreements necessary or incidental to the performance of its duties,

including but not limited to contracts with the United States, other states, agencies, and governmental subdivisions of Virginia.

3. Accept grants from the United States government. In accepting these grants, the Department has the power to comply with conditions of the grant.
4. Do all acts necessary or convenient to carry out purposes of this chapter.
5. Conduct of policy and program analysis for the Governor.
6. Continuous review of the activities of state government focusing on budget requirements in the context of the goals and objectives determined by the Governor and General Assembly. The Department is to monitor the progress of agencies in achieving these goals and objectives.
7. Operation of a system of budgetary execution to assure that agency activities are conducted within fund limitations provided in the Appropriation Act and in accordance with gubernatorial and legislative intent.

8. Development of a system of standardized reports of program and financial performance for management.
9. Establish boundaries of planning districts.
10. Establish standard metropolitan statistical areas.

In addition to the powers outlined above, the legislation also assigned duties to the newly created Department. Section 2.1-381 listed the following duties:

1. Development and direction of an integrated policy analysis, planning, and budgetary process within state government.
2. Development, storage, retrieval, and dissemination of data on the social, economic, physical, and governmental aspects of the state to provide relevant and reliable information for use in the state government and by other governmental bodies.
3. Coordination of plan development for the filing of six year expenditure plans by state agencies.

4. Formulation of an executive budget. The Department of Planning and Budget shall utilize the resources of such agencies as the Secretary of Administration and Finance may designate to support an efficient and effective budget process.

A comparison of the recommendations of the Commission on State Governmental Management and the legislation creating the Department of Planning and Budget indicated the influence of the Commission in the establishment of the Department. On July 1, 1976, the Department of Planning and Budget became a reality with the merger of the Division of the Budget and the Division of State Planning and Community Affairs. John R. McCutcheon, previously Director of the Division of the Budget, was appointed the first Director of the Department.

On July 9, 1976, the Director issued a memorandum addressing the formation of the new department and the manner in which it would be organized (Department of Planning and Budget, July 9, 1976). He emphasized the necessity of looking at the new department as a single entity, without any "we-and-they" syndrome. After relief of the pressure of closing one fiscal year and opening another, the Director hoped to address the matter of what the department should be doing. For the time being, the basic structure of the new department would reflect the structure

of the previous separate divisions. There were to be three organizational units. The Budget Unit would consist of the staff of the former Division of the Budget, State Planning would include the staff of the planning unit of the former Division of the State Planning and Community Affairs, and Planning Research would include the staff of the research division of the former Division of State Planning and Community Affairs. The Budget Unit continued to be organized along functional lines, with analysts within each functional unit assigned agencies for which they were responsible. The analysts were contact persons for their agencies, provided information and clarification to agencies concerning departmental directions and requests, and assisted agencies in meeting requirements of directives and requests.

Early in 1977, the Director issued a memorandum outlining the process for issuing Department of Planning and Budget Directives (Department of Planning and Budget, Policy Directives, 1977). This policy established the procedure by which the directives were initiated, numbered, and maintained.

Two types of departmental documents were identified in the memorandum. A Directive was defined as a document establishing policies (and transmitting procedures or instructions) for an indefinite period of time. A Temporary Directive established a requirement calling for a one time action or actions for a limited period of time. These

directives specified a date for automatic cancellation. The memorandum also explained the numbering system used for the Directives and Temporary Directives.

The process for establishing and issuing Department of Planning and Budget Directives was a fourteen step procedure; this process was as follows:

Step One: Director, Deputy Director, or Division Directors determine need for Directive. (This need would be determined by gubernatorial or legislative requirements or based on the specific powers and duties of the Department).

Step Two: Lead and support analysts were assigned from the appropriate Divisions.

Step Three: Lead Analyst prepared a draft Directive.

Step Four: Manager reviewed draft.

Step Five: Division Directors reviewed the draft; Division Directors provided comments to Deputy Director; Deputy Director provided summary comments.

Step Six: Lead Analyst reworked draft into final copy.

Step Seven: Manager reviewed.

Step Eight: Directive forwarded to Division Director for final review. (If external coordination required, it occurred prior to this step).

Step Nine: Division Director forwarded the Directive to the Deputy Director for final review.

Step Ten: Deputy Director forwarded the Directive to Director for approval/disapproval.

Step Eleven: Director approved/disapproved the Directive and returned it to the Deputy Director.

Step Twelve: Deputy Director provided the approved or disapproved Directive to Central Files Coordinator and notified Division Director responsible for the



assignment. The Central Files Coordinator assigned a number to approved Directive, duplicated the appropriate number of copies for distribution, and retained original copy of the Directive. The disapproved Directive was retained in the chronological and/or subject category files.

Step Thirteen: Responsible Division Director provided the Support Services Manager with a list specifying internal and external distribution. The Support Services Manager then distributed the copies.

Step Fourteen: Central Files Coordinator entered all original Directives in separate log notebooks for temporary and permanent Directives.

A significant reorganization of the Department was initiated in January, 1979, and completed in April, 1980. By this time Stuart W. Connock had replaced the retired McCutcheon as Director and he also served as Assistant Secretary for Financial Policy. A position of Deputy

Director for Operations, filled by Ray T. Sorrell, had been created to oversee the day-to-day affairs of the Department. This Deputy Director was responsible for the general administrative functions of the Department under the guidance of Connock and the general guidance of the Secretary of Administration and Finance.

A memorandum issued by Connock outlined the new organizational structure of the Department (Office of Administration and Finance, May 6, 1980). Reporting directly to the Operations Director were the Personnel and Fiscal Services Sections, responsible for internal administrative functions of the Department, and Legislative Coordination, responsible for the development of procedures for coordination of all the Executive Branch legislative activities. This section also coordinated the preparation of fiscal and policy impact statements for all legislation introduced.

Under the new organizational concept there were three operating divisions. The Division of Program Review and Evaluation was responsible for analytical evaluations of all state programs, operating plans, and budget submissions. In this latter assignment, this division developed the Governor's biennial budget and served as staff to the Governor and Secretaries. The Division of Research and Policy Development was responsible for staff advice on the development of statewide policy, procedures and information,

and the preparation of policy and procedure documents. This division also conducted special analyses and studies requested by the Governor and his Cabinet, assessing short-term and long-term implications for the Commonwealth. The third division, the Division of Information Management, was responsible for the processing of all data in automated form relating to the production of all of the Department's publications. Another major emphasis within this division was the development of the Program Budget System.

In addition to the reorganization, the memorandum also addressed changes designed to make interface between the Department and state agencies more effective and efficient and to streamline the budget process. Agencies were encouraged to correspond directly with their assigned analysts concerning all routine actions such as allotment requests, temporary loans, disencumbrance of personal service funds, and budget submissions. All correspondence concerning non-routine matters was to be addressed to the Director.

On June 1, 1981, Stuart W. Connock was appointed Secretary of Administration and Finance and Ray T. Sorrell became Acting Director of the Department of Planning and Budget. In August he announced a minor change to the Department's organizational plan to include the inter-governmental affairs function within the Department of Planning and Budget, as required by legislation passed by

the 1981 General Assembly. The new division, the Division of Legislative and Intergovernmental Coordination, would be responsible for legislative coordination and for analyzing Federal programs, such as the Federal budget cuts, Indirect Costs, Block Grants, and other matters that had fiscal impact on Virginia.

With the election of Governor Robb in November, 1981, Stuart Connock returned to his former position as Assistant Secretary for Financial Policy/Director of the Department of Planning and Budget. In December, 1982, a major reorganization of the Department of Planning and Budget was implemented. The intent of the reorganization was to enable the Department to better serve the Governor, Cabinet Secretaries, General Assembly, state agencies, and the public (Department of Planning and Budget, December 27, 1982).

The new organizational structure included three divisions - Administrative Services, the Division of Research, Evaluation and Policy, and the Division of Budget Development and Execution. Administrative Services provided support services for the operation of the Department and included sections responsible for Data Processing, Employee Relations, Fiscal Services, Support Services (logistical and technical), and Word Processing.

The Division of Research, Evaluation and Policy had the responsibility to develop objective and timely information, policies, projections, and analyses for state officials in

the state and State government. This division had three sections:

Research Section - Develop and maintain statewide information and produce projections and analyses on economic, social, physical and governmental service characteristics for state officials.

Evaluation Section - Conduct analyses on governmental programs and services, identifying opportunities to improve effectiveness, efficiency, and economy for the taxpayer.

Policy Section - Conduct analyses of existing and potential statewide policies, practices, and issues for state decision makers and develop appropriate means for their implementation.

The Division of Budget Development and Execution had the responsibility to prepare the Governor's budget and amendments thereto; assure that the Appropriation Act was implemented within Executive and Legislative intent; and provide information on new federal actions to state officials for informed decision making. This division consisted of five sections - General Government and Public Safety, Commerce and Transportation, Education, and Human

Resources - all with the responsibility to conduct program reviews of budgetary data related to agencies within their functional area. The fifth section, Projects Management, managed and coordinated all special projects in the Division of Budget Development and Execution and coordinated the development of the Budget Document, Budget Bill, and other reports and major projects.

Immediately prior to the announcement of the 1982 reorganization, Governor Charles S. Robb issued Executive Order Number Twenty Seven (82) establishing the authority and responsibility of the Assistant Secretary For Financial Policy/Director of the Department of Planning and Budget (Office of the Governor, November 3, 1982). Briefly, the delegation consisted of the following powers and duties:

1. To develop revenue forecasts and to provide advice on matters of finance to the Governor and the other Secretaries, including advice as to alternative funding mechanisms.
2. To oversee financial policy development and coordinate the financial activities of the several public authorities, agencies, and institutions issuing bonds.

3. To take those actions or to sign, in accordance with specified conditions and in the Governor's stead, documents referenced by subject matter in either cited General Appropriation Act or Code of Virginia sections.

The reorganization completed by the end of 1982 remained the basic organization of the Department until June 30, 1984, the close of the period included in this study. Stuart W. Connock continued to serve in the dual role of Assistant Secretary For Financial Policy/Director of the Department of Planning and Budget during that period.

#### Directives of the Department of Planning and Budget

Because the primary purpose of this study was to examine the impact of the Department of Planning and Budget's activities which related to the execution phase of the budget cycle, the review of the Department's documents concentrated on directives related to budget execution. As previously stated, these budget execution activities were authorized by Section 2.1-380 of the Code of Virginia, which granted the Department the power for the operation of a system of budgetary execution to assure that state agency activities were conducted within fund limitations and in accordance with gubernatorial and legislative intent.

The review of directives issued by the Department for the 1976-1984 period of the study focused on budget execution policies which applied to all four-year institutions. For the convenience of discussion, these directives were grouped into five major categories - Central Appropriations, Nongeneral Fund Revenues, Personal Services, Program Budgeting, and Reversions. A brief discussion of each of these categories follows, with a more detailed discussion in the following sections of this chapter of the directives selected for the questionnaire which was sent to institutional and central agency personnel.

The General Assembly annually included in the Appropriation Act sums of money in Central Appropriation Items. These funds are allocated to state agencies and institutions on the basis of policies and procedures developed and implemented by the Department of Planning and Budget. If funds in the particular item are not sufficient to cover all statewide costs, then allocation is based on a distribution determined by the Department. Included in this category are funds for classified pay increases (usually included annually in the Appropriation Act), funds for unbudgeted costs for capital outlay projects, and, at various times, funds for unbudgeted costs in fuel oil, utilities, telecommunications, and benefits for state personnel. Institutions are usually requested to project costs for these various items in Central Appropriations and



submit a request for the General Fund share of costs. The amount received by the institution is determined by the Department of Planning and Budget and, while appeals of decisions are possible, the funds received are predetermined by funds available and the Department's allocation decisions.

One example of the Central Appropriation Item administration was the memorandum issued by Director John R. McCutcheon related to the Administration of Item 35.01, 1977 Appropriation Act (Department of Planning and Budget, June 28, 1977). Transfers from Item 35.01 were to be limited to actual salary scale adjustments effected for employment as of July 1, 1977, as recorded by the Department of Personnel and Training. The Department would provide notice of these cost figures with a request for verification, or reconciliation, and for identification of costs to be covered by Nongeneral Funds. Subsequently, the Department would provide each agency notice of maximum amounts tentatively considered for transfer to agency appropriations from Item 35.01, with transfer to the institutions to be made during the fourth quarter of the fiscal year.

A second example of the Central Appropriation Item policies was Department of Planning and Budget Temporary Directive No. 2-80, issued by Director Stuart W. Connock (Department of Planning and Budget, April 10, 1980). This directive established policies for the distribution of funds

from Item 34 of the 1978 Appropriation Act. Item 34 was an emergency appropriation of \$8,600,000 for unbudgeted costs of fuel, utility services, energy related services and reimbursement of expenses for traveling on state business. This policy stated that:

1. Transfers would be made for unbudgeted increases in unit costs but not for cost increases due to increased consumption.
2. Costs chargeable to Nongeneral Fund Appropriations would be paid from such appropriations, which were not eligible for transfers from Item 34.
3. Agencies were expected to make every effort to absorb unbudgeted cost increases within existing unencumbered appropriations, including personal services and employee benefits funds which the agencies did not anticipate expending.
4. Transfers from Item 34 could be requested to support General Fund unbudgeted costs which could not be absorbed by the methods described above.

A second category of Department involvement in budget execution matters related to policies established to effect

reversions of appropriations from state agencies and institutions. These reversions have been implemented on the basis of a percentage reduction in General Fund appropriations and on the basis of appropriations for specific items of expenditure, such as energy costs.

During the 1976-77 fiscal year, Director John R. McCutcheon issued a memorandum to the heads of all state agencies and institutions to implement a five percent reduction in General Fund appropriations and the reversion of excess costs appropriations (Department of Planning and Budget, August 13, 1976). The memorandum was in response to a gubernatorial order issued in May, 1976 requiring the reversion in order to help the Commonwealth meet revenue shortages due to the recession which occurred in 1976-77. The memorandum stated that it was the general intent that agency heads determine priorities in effecting the reductions. The Department did indicate that it would be concerned that unfunded obligations (such as unbudgeted positions) not be expended and that basic needs (such as maintenance) not be deferred to sustain programs which could be reduced or dropped.

In addition to the five percent reduction in General Fund appropriations, an adjustment would be made in General Fund appropriations to recover sums budgeted for escalation in energy costs and indicated by more recent price information as excess. The policy also stated that this

portion of the reduction would be restored if energy costs increased and further reductions could be expected if energy costs continued to fall and went below the adjusted amounts.

In 1983 a similar memorandum was issued by Director Stuart W. Connock to implement a 1.5% appropriation reduction due to declining revenue estimates (Department of Planning and Budget, November 21, 1983). This reduction was required by the 1983 Appropriations Act, which removed from agency and institution appropriations certain amounts no longer needed as the result of policy decisions which affected personal service expenditures (such as merit increase freezes for classified employees for the 1983-84 fiscal year). The Department of Planning and Budget, with agency input, was to calculate the net effect of these reductions on agency appropriations.

Directives of the Department also established policies related to the appropriation, allotment, and expenditure of Nongeneral Fund Revenues, the expenditure of Personal Services and Employee Benefits funds, and the development of a Program Budget System for the Commonwealth of Virginia. Because directives related to these three budget execution areas were selected to be included in the questionnaire phase of this study, these policies will be discussed in the final three sections of this chapter.

Nongeneral Fund Revenues

The 1978 session of the General Assembly included Section 4.1-04 in the 1978 Appropriations Act as follows:

In the event the total regular session full-time equivalent enrollment in an institution of higher education exceeds, by one percent or more, the number upon which the appropriation to that institution was based, the Governor is authorized to direct the transfer to the surplus of the general fund, from the appropriation to that institution for educational and general programs, an amount not exceeding the tuition and fees collected on account of the enrollment in excess of one percent. However, the transfer shall not be made for any excess in enrollment which is less than fifty full-time-equivalent students. The transfer shall be made by the Department of Planning and Budget prior to the end of the fiscal year in which the excess enrollment occurs; if funds are not available in the account to effect the transfer in the same fiscal year, the amount not then available shall be transferred at the beginning of the succeeding fiscal year. With reference to part-time students this limitation shall be interpreted liberally (Acts of Assembly, Chapter 850, 1978).

In addition to the above section related to excess revenues generated by excess enrollment, the 1978 Appropriation Act also contained Section 4-3.05,(c.) related to tuition and fees charged by institutions of higher education:

The appropriations in this Act to the senior colleges and universities reflect adjustments to the relationships between support from the general fund and nongeneral fund to effect a more equitable distribution of general fund support. The adjustments are based on a phased approach to accomplish the objectives that the

students of an institution collectively provide 30 percent of the cost of their education. The principle that this approach is attempting to establish is that a student, regardless of his choice of a state-supported institution to attend, would pay approximately 30 percent of the cost of the education at that institution (Ibid).

As stated in the above sections, the intent of this legislation was to prevent institutions from increasing enrollments to generate funds beyond the appropriated level and to establish equity in tuition charged students attending public institutions of higher education. In May, 1978, Secretary of Administration and Finance Charles B. Walker sent a memorandum to Presidents of public institutions advising that their institutions should develop financial plans in accordance with funding levels for both General and Nongeneral Funds approved by the General Assembly. He indicated there were no plans to allocate any Nongeneral Funds above those listed in the Appropriations Act for 1978-79 and 1979-80 (Secretary of Administration and Finance, May 24, 1978).

In August, 1978, Department of Planning and Budget Temporary Directive Number 9-78 was issued establishing policy for Nongeneral Fund revenues in excess of Appropriation Act amounts (Department of Planning and Budget, August 17, 1978). The memorandum stressed that legislative and executive policies required considered restraint in the approval of unanticipated, or excess, funds

as stated in the Appropriation Act. The burden for adequate justification for the approval of these funds rested with the institutions.

This memorandum also stated that consideration for the appropriation of these excess funds would be made when the funds were derived from:

1. Approved gifts, grants, donations, and contracts, pursuant to Department of Planning and Budget Directive No. 1, dated February 2, 1978.
2. User charges/commodity sales (such as Auxiliary Enterprises and Public Service activities in institutions of higher education) for which there was an income/expenditure relationship.
3. Sale of surplus property, within the limits described in Secretary of Administration and Finance Directive 5-78 and in Section 4-3.03, 1978 Appropriation Act.
4. Insurance recoveries, within the limits described in Section 4-3.04, 1978 Appropriation Act.
5. Federal formula funds and supplements thereto.

6. Assessments authorized by the Code of Virginia for support of specified programs.
  
7. Other sources, which should be discussed with the Department of Planning and Budget.

Director Connock issued another memorandum to the Presidents in December, 1978, further addressing the appropriation of excess Nongeneral Fund revenues (Department of Planning and Budget, December 18, 1978). The memorandum indicated the approval of excess funds only in instances where analysis showed an essential need. Two areas of need specified were a need to provide for the costs of January, 1978, and July, 1978, salary scale adjustments and attendant employee benefits and the institution's nongeneral share of total Educational and General appropriations in relation to the 70/30 policy.

Further guidance related to this policy was issued by Director Connock in a 1982 memorandum to institutional Presidents (Department of Planning and Budget, July 20, 1982). This memorandum addressed issues and policies related to Governor Robb's order for a five percent reduction in General Fund appropriations for the 1983 fiscal year to meet anticipated shortfalls in the state's revenues. The policy stated that, should revenue projections continue to require reduced allotments, the Governor would consider requests for



approval to expend increased tuition and fees to the extent necessary to protect essential academic services.

Sections 4.1-04 and 4.305 have remained in succeeding Appropriation Acts, with the percentages of the 70/30 plan being modified to require students to pay 35 percent of the cost of attendance at senior colleges and universities. The policy established by the Department of Planning and Budget Temporary Directive Number 9-78 remained in effect until June 30, 1984, the end of the period covered by this study.

#### Personal Service Funds

Statewide Manpower Utilization Policies and Procedures were implemented in June, 1978, by a memorandum issued by Secretary Charles B. Walker (Secretary of Administration and Finance, June 1, 1978). According to Directive Number 6, this policy was applicable to all Executive Department agencies and was designed to:

1. Enable the effective discharge of the Governor's responsibilities as Chief Budget Officer and Chief Personnel Officer.
2. Restrict employees and positions to the number required for efficient operation of programs approved by the General Assembly.

3. Provide current and timely information for management to allocate or reallocate personnel resources and related dollars.
4. Encourage more productive utilization of existing personnel resources and to place less reliance upon the creation of additional positions.
5. Encourage, to the greatest possible extent, that the total number of positions approved in the agency's budget shall not be exceeded and only in exceptional circumstances will the creation of additional positions be authorized.

The concern of the General Assembly regarding employment in state government had been expressed in Section 4-1.02(c) of the Appropriation Act, which stated that the Governor:

... shall prepare and administer a plan whereby the growth in the number of employees and positions in the Executive Department shall be restricted to the number required for efficient operation of programs approved by the General Assembly ... (Acts of Assembly, Chapter 850, 1978).

The directive provided instructions to be followed by all Executive Department agencies in the administration of funds included in appropriations for personal service and

employee benefits and authorized the Department of Planning and Budget to administer detailed procedures necessary for the implementation of the Statewide Manpower Utilization Policies and Procedures. The result of this authorization was the issuance of procedures for encumbrances of personal service and employee benefit funds.

Pursuant to Secretary of Administration and Finance Directive Number 6, Director Connock issued Department of Planning and Budget Directive Number 6: Personal Service and Employee Benefit Encumbrance Changes (Department of Planning and Budget, November 24, 1978). The Secretary of Administration and Finance Directive which established the policies and procedures required the encumbrance of funds provided in agency appropriations for personal service and employee benefit costs. The Department's directive established the procedure for requests for changes in these encumbrances.

The basic policy established by Department of Planning and Budget Directive Number 6 stated that funds encumbered for personal service or employee benefits could not be used for any other purpose without recommendation to the appropriate Secretary by the Department of Planning and Budget and the concurrence of the Secretary. Requests for changes (increases or decreases) in either personal service or employee benefit encumbrances were to be sent directly to the Director of the Department, accompanied by a detailed

justification of the need for the change and a detailed explanation of the implications of disapproval.

In 1979, Secretary Walker issued Secretary of Administration and Finance Directive Number 4-79, establishing a long-range goal for managing the growth of state government (Secretary of Administration and Finance, July 13, 1979). This directive superceded Administration and Finance Directive Number 6 and was designed to provide greater managerial flexibility for agency heads. The new policy provided a mechanism for assigning numbers of positions and full-time equivalent personnel. However, the requirement for the encumbrance of personal service and employee benefits funds at the appropriated level was retained. The Department retained the responsibility to identify funds to be encumbered by each agency and to follow up to ensure appropriated amounts were encumbered.

Another change in the Manpower Utilization Program, as it became known, occurred when Secretary Walker issued Secretary of Administration and Finance Directive Number 3-80 (Secretary of Administration and Finance, June 16, 1980). The purpose of this directive was to change the program to comply with requirements of Chapter 760 of the 1980 Acts of Assembly. This policy established an Authorized Employment Level for state agencies and institutions and provided that these levels could not be exceeded except when an agency had two employees occupying the same position in

anticipation of the separation of one of them. The requirement for the encumbrance of funds was expanded to include wage employment (part-time employment). Effective July 1, 1980, agencies and institutions were required to prepare three encumbrance orders - one each for personal services (full-time), wages, and employee benefits. The policy provided for exceptions with the approval of the appropriate Secretary and the Director of the Department of Planning and Budget.

In October, 1980 this directive was amended in order to provide agency heads greater flexibility in the use of their personnel resources and to hold the agency heads strictly accountable for the implementation of the Manpower Utilization Program (Secretary of Administration and Finance, October 17, 1980). The amended directive established an Authorized Employment Level for each year of the biennium but removed controls on established positions as long as the number established did not exceed the authorized level. Previously, all positions to be established were subject to review by the Department of Personnel and Training. The requirement for encumbrances of personal services, wages, and employee benefits was retained. However, agencies and institutions were permitted to increase expenditures for wage employment beyond the appropriated level if the increase was accompanied by the transfer and encumbrance of funds from another subobject

within personal services. Simply stated, part-time wages could be increased if accompanied by a corresponding decrease in expenditures and encumbrances for full-time employees.

A minor change in these personnel policies occurred when Secretary Wayne F. Anderson issued Directive 1-82 (Secretary of Administration and Finance, June 29, 1982). This directive established the Executive Manpower Control Program and abolished the Manpower Utilization Program. The directive included a requirement for an Executive Agreement between the Governor and Agency Heads, with the agreement being one of the mechanisms used to control levels of state employment. Maximum Employment Levels were retained and the requirement for the encumbrance of personal services, wages, and employee benefits funds continued.

Finally, a December, 1983, memorandum from Secretary Anderson to agency heads deleted the requirement for the encumbrance of personal services, wages, and employee benefits funds (Secretary of Administration and Finance, December 15, 1983). The requirement had lasted approximately five and one-half years and was made unnecessary, according to Secretary Anderson's memorandum, by the automatic entry of agency operating plans into PROBUD (Program Budget System) and CARS (Commonwealth Accounting and Reporting System). Employment controls were continued through the

Executive Manpower Control Program and the Executive Agreements.

PROBUD

The 1975 session of the General Assembly enacted legislation which was designed to provide for the Virginia budget to be formulated, presented, and appropriated on a programmatic basis (Acts of Assembly, Chapter 760, 1975). In response to this legislation, the Department of Planning and Budget developed a computerized program budget system (PROBUD). The first part of this system to be implemented was that which supported budget execution for the 1980-82 Biennium and provided requirements, forms, and procedures for allotment requests, initial operating plans, and requests for adjustments to appropriations, allotments, and operating plans. Those portions of the system which supported central and agency planning and other budget preparation activities were implemented for the 1982-84 Biennium.

In a 1980 memorandum to agency heads, Director Connock outlined the principal steps in the system (Department of Planning and Budget, April 18, 1980). According to the memorandum, the budgeting process was a cyclical process with ten principal steps:

1. Statewide Guidance Package - A top-down statement of policies and goals for the Commonwealth developed by the Governor, his Secretaries and the Department of Planning and Budget (DPB).
2. Agency Needs Assessment - In this step, the agencies assess long-range needs for services to be rendered and the corresponding resource requirements for provision of those services.
3. Program Proposals - The needs assessment process culminates with the development of program proposals: statements of proposed levels of services to be rendered and of resource needs of the next six years.
4. Biennial Targets - After analyzing the program proposals submitted by the agencies and considering the projected level of resources to be available, the Governor, with the advice of his Secretaries and DPB, established service level, spending and personnel targets for each agency for the upcoming biennium.
5. Biennial Budget Submissions (Financial and Addendum Proposals) - Based on its established



resource targets, each agency then develops a detailed financial proposal for resources needed during the next biennium.

6. Executive Budget - The budget submissions are examined and analyzed by the Governor, his Secretaries and DPB. When the analysis is complete, an Executive Budget and a proposed Budget Bill are submitted to the General Assembly.
7. Legislative Appropriations - The General Assembly reviews the agencies' budget submissions and the Governor's budgetary recommendations, makes desired amendments and adopts an Appropriation Act for the next biennium.
8. Detailed Annual Operating Plan and Allotment Requests - Based on the Appropriation Act, the agencies develop a detailed annual operating plan; this plan serves as a spending benchmark as the agencies expend resources and deliver services.
9. Delivery of Services - This step is ongoing throughout the biennium as the agencies provide services according to their established operating plans.

10. Evaluation of Results - Also ongoing throughout the biennium, results are continually analyzed and monitored both by the agencies and by DPB to assure that resource limits are not exceeded and services are provided as planned.

The Detailed Annual Operating Plan and Allotment Requests comprise the computerized program budget system called PROBUD and is the component of the Program Budget System which applies to the execution phase of budgeting. The Department's instructions for PROBUD included the following definitions (Department of Planning and Budget, April 18, 1980):

1. Allotment - A part of an appropriation which is made available for expenditure or encumbrance during the fiscal year.
2. Annual Operating Plan - An annual budget or plan for expenditures prepared for the year of execution at subprogram and subobject level of detail (also referred to as the expenditure plan). The annual operating plan forms the basis for the agency's allotment request and subsequent periodic variance reports.

3. Appropriation - An authorization, granted by the legislature, to make expenditures and incur obligations for a specific purpose.
  
4. Fund - An independent fiscal and accounting entity with a self-balancing set of accounts that may have financial transactions with other funds of the state.

This execution phase of PROBUD is initiated prior to the beginning of the fiscal year. Agencies and institutions receive a computer printout of their fiscal year appropriation. This printout, called a Turnaround Document, presents the appropriation by subprograms and subobjects of expenditure. The agencies revise the expenditure figures to reflect, as near as possible, what they estimate their expenditures to be for the upcoming fiscal year. The document is returned to the Department of Planning and Budget, which establishes the annual allotment and expenditure plan. During the fiscal year, institutions submit forms to initiate transfer of appropriations or allotments and changes to the expenditure plan.

As previously stated, this phase of PROBUD was implemented to support budget execution for the 1980-82 Biennium and continued in use for the succeeding biennia. Training sessions were conducted by personnel of the

Department of Planning and Budget to give agencies and institutions the information and instruction necessary for completing input forms and for using reports generated by the system. The questionnaires and interviews related to PROBUD examined only the budget execution impact of the system.

### Summary

The state system of higher education in Virginia consists of five doctoral granting institutions, ten comprehensive four-year colleges and universities, and twenty-four two-year colleges. The doctoral granting and other four-year institutions are governed by Boards of Visitors and the community colleges by a State Board of Community Colleges. These boards, appointed by the Governor, are the legal entities responsible for the operation of these institutions.

The State Council of Higher Education for Virginia is the state agency with the responsibility for coordinating the Commonwealth's public institutions of higher education and has a significant impact on the decision-making authority and flexibility of the governing boards. Added to the requirements and limitations imposed by the State Council are reporting and approval requirements placed upon the institutions by other state agencies. The Department of

Planning and Budget, Department of Personnel and Training, Department of Accounts, Division of Purchases and Supply, and Division of Engineering and Buildings all play major roles in the planning and operation of public institutions. Because this study focused on the Department of Planning and Budget, this chapter provided background information on the Division of the Budget, the formation and responsibilities of the Department of Planning and Budget, and the policies included in this study.

The Division of the Budget, the predecessor of the Department of Planning and Budget, was established by the 1927 Reorganization Act and operated independently until it was designated as a unit in the Governor's Office. Several reorganizations of the Division occurred between 1927 and 1969. The official functions of the Division were to advise the Governor concerning fiscal matters and to administer fiscal related activities assigned by statute or the Governor. Further reorganization brought by the Governor's Management Study in 1970 and the Commission on State Governmental Management in 1973, popularly called the Hopkins Commission, led to the merger of the Division of the Budget with the Division of State Planning and Community Affairs. The new agency was named the Department of Planning and Budget.

The Department was established by legislation passed by the 1976 General Assembly. Sections 2.1-380 and 2.1-381 of

the Code of Virginia grant the powers and establish the duties of the Department. Among the powers was the operation of a system of budgetary execution to assure that agency activities are conducted within fund limitations provided in the Appropriation Act and in accordance with gubernatorial and legislative intent. It was this power that is the focus of this study.

Review of the Department's documents concentrated on directives related to budget execution during the 1976-1984 period of this study. For the convenience of discussion, these directives were grouped into five major categories - Central Appropriations, Nongeneral Fund Resources, Personal Services, Program Budgeting, and Reversions. Policies selected for review were those which applied generally to all four-year institutions. Policies related to Nongeneral Funds, Personal Services, and Program Budgeting were included in the questionnaire and interview phases of the study covered in the following chapters.

## CHAPTER IV

### PERCEPTIONS OF THE DEPARTMENT OF PLANNING AND BUDGET

#### Introduction

This study examined the role of the Department of Planning and Budget in shaping public higher education in Virginia. One of the factors considered in determining this role was the perception of the Department by officials of the four-year colleges and universities as well as perceptions by officials of selected central state agencies. These perceptions were determined by responses to questionnaires sent to representatives of the colleges, universities, and central state agencies and interviews with selected institutional and central agency personnel.

The questionnaire used in this portion of the study consisted of four sections. The first section contained general statements designed to solicit opinions of the overall role of the Department in its relationships with the public institutions. This section was answered by both institutional and central agency personnel. The remaining three sections related to the three policies selected for the study. These statements were responded to only by the institutional personnel. The questionnaire was used as the guide for all interviews, and were generally related to the

responses of both institutional and central agency personnel.

This chapter presents the results of both the questionnaires and the interviews. The first section will reflect responses by personnel of the colleges and universities and the second section the responses of selected central agency personnel. Each of the sections that follow is organized in the same manner as the questionnaire - General, Nongeneral Fund Revenues, Personal Service Funds, and PROBUD.

Perceptions of the Department  
by Institutional Personnel

Questionnaires pertaining to the role of the Department of Planning and Budget in shaping public higher education in Virginia were sent to finance or budget personnel at each of the four year colleges and universities in the Commonwealth. Personnel from twelve of the fifteen institutions responded, a response rate of eighty percent (80%) from these representatives.

Interviews were conducted with five of the twelve institutional representatives who responded to the questionnaires. The five were selected as representative of the different sizes and types of institutions in the Commonwealth. Those interviewed were:



1. Mr. Dennis K. Cogle  
Acting Director, Planning and Budget  
The College of William and Mary
  
2. Mr. Edward L. Cooper  
Budget Director  
Virginia State University
  
3. Mr. Jeffrey S. Cribbs  
Assistant Vice-President, Planning and Budget  
Virginia Commonwealth University
  
4. Mr. James D. Eagle  
Vice President of Financial Affairs  
Christopher Newport College
  
5. Mr. Leonard W. Sandridge  
Assistant Vice-President, Budget and Planning  
University of Virginia

The questionnaires were used as a guide for the interviews, with those interviewed asked to expand on their questionnaire responses or answer additional questions related to questionnaire topics. The following presents the responses to the questionnaire and interviews.

General

The following statements, with the number of responses to each statement, were intended to solicit the opinions and perceptions of the institutional representatives about the role of the Department of Planning and Budget in shaping public higher education in Virginia.

1. If state coordination/regulation of public higher education is viewed as a legitimate function of government, institutions which accept the large amounts of state funds appropriated to them should expect to be held accountable for the use of these funds.

7 Strongly Agree

0 Disagree

3 Agree

0 Strongly Disagree

2 Neutral

2. In Virginia, the Commonwealth has exercised restraint in the use of its power while permitting state institutions the autonomy and authority to govern campus affairs.

0 Strongly Agree

8 Disagree

0 Agree 2 Strongly Disagree  
2 Neutral

3a. The Governor, General Assembly, and Department of Planning and Budget have increased their role in the state's oversight of higher education during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84). This increased involvement has infringed upon the role of the State Council of Higher Education.

0 Strongly Agree 5 Disagree  
4 Agree 1 Strongly Disagree  
2 Neutral

b. This increased involvement has infringed upon the role of the Boards of Visitors of the state institutions.

3 Strongly Agree 3 Disagree  
6 Agree 0 Strongly Disagree  
0 Neutral

4. Malcolm M. Scully (1982) in reviewing the Carnegie Foundation for the Advancement of Teaching report

Control of the Campus, made the following statement:

"The ever increasing role of outside agencies in campus matters is gradually wearing down internal governance structures. As leadership is diminished, power and initiative flow even more rapidly to bureacracies outside."

This statement accurately reflects the trend in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

<u>3</u> Strongly Agree	<u>2</u> Disagree
<u>5</u> Agree	<u>0</u> Strongly Disagree
<u>2</u> Neutral	

5. The Carnegie Foundation for the Advancement of Teaching (1982) recommended that states encourage good management by permitting administrative decisions to be made as close as possible to the point where they are to be carried out.

This recommendation accurately reflects the trend in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

<u>  0  </u> Strongly Agree	<u> 10 </u> Disagree
<u>  1 </u> Agree	<u>  0 </u> Strongly Disagree
<u>  1 </u> Neutral	

6. The Governor and General Assembly should continue to delegate to the Department of Planning and Budget in regard to the oversight of public higher education in Virginia.

<u>  0 </u> Strongly Agree	<u>  8 </u> Disagree
<u>  1 </u> Agree	<u>  2 </u> Strongly Disagree
<u>  1 </u> Neutral	

7. The Department of Planning and Budget has generally been a positive influence in the oversight of public higher education in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

<u>  0 </u> Strongly Agree	<u>  6 </u> Disagree
<u>  0 </u> Agree	<u>  1 </u> Strongly Disagree
<u>  5 </u> Neutral	

8. Budget analysts, section chiefs, and administration of the Department of Planning and Budget have generally demonstrated an understanding of the

requirements and restraints placed upon public institutions of higher education in Virginia by the Department's policies and directives.

<u>  0  </u> Strongly Agree	<u>  4  </u> Disagree
<u>  7  </u> Agree	<u>  1  </u> Strongly Disagree
<u>  0  </u> Neutral	

9. Generally, policies and directives of the Department of Planning and Budget during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84) have not infringed upon the institution's autonomy and authority to govern campus affairs.

<u>  0  </u> Strongly Agree	<u>  7  </u> Disagree
<u>  2  </u> Agree	<u>  1  </u> Strongly Disagree
<u>  2  </u> Neutral	

The institutional representatives agreed with statement number one that coordination/regulation of higher education was a legitimate function of government. Comments concerning this statement expressed the opinion that accountability was understood and expected. One of the prices of being a public university was being accountable for the utilization of public funds. However, opinions were also expressed that accountability did not necessarily entail "front end"

controls. Accountability could be established through the Boards of Visitors rather than through central state agencies. Because the Boards of Visitors are the entities legally responsible for the operation of the institutions, strong reporting and auditing requirements could establish the necessary accountability.

While agreeing about the need for accountability, respondents expressed the opinion in statement two that the Commonwealth had not exercised restraint in the use of its power. Several comments indicated the opinion that the state exercised significant power, often at the expense of institutional autonomy and authority. Cogle, Cooper, Cribbs, and Eagle all expressed concerns about the degree of autonomy permitted the public institutions. Cogle viewed some central restrictions, such as the policy on personal services funds, as unnecessary. Cooper expressed the concern that policies and directives restricted the institution, and in some instances its board, at the higher administrative levels. Day-to-day activities were less affected. Cribbs felt that autonomy was more form than substance. Policy direction from the Department had become more exacting in the last ten years and tended to negate and compromise the authority of the boards and compromise institutional ability to respond to the dynamic academic environment. While Cribbs recognized the need for reporting, compliance, and audit, he had problems with the day-to-day activities of the

institutions being unnecessarily influenced by central agencies. Eagle did not view the amount of autonomy as good at all. He opposed the requirement for reversions of appropriation balances at the end of fiscal years, line item requirements in budgets, and the requirement for operating plans at detailed levels.

Sandridge, on the other hand, was not overly critical of the requirements placed on higher education. He did emphasize, however, that the degree of autonomy depended on how the executive branch administered its statutory powers. He expressed the opinion that central agencies had a right to information. While there was not too much control, generally, these central agencies should emphasize the flow of information rather than detailed transaction requirements and approvals.

Respondents did not agree on the impact of increased roles by the Governor, General Assembly, and the Department on the role of the State Council of Higher Education. Several indicated the difficulty of determining how the proper role of the State Council was defined. Some viewed the State Council as an advocate for higher education while others expressed the opinion it had become an arm of central government. Respondents did agree, however, in statement three (b) that these increased roles had infringed upon the authority of the Boards of Visitors. Cogle expressed the opinion that the board should have complete authority,



ideally, over the institutions. While this was not likely to happen, the authority of the board was restricted in too many areas. Cribbs again expressed the need for flexibility to operate in a complex environment while Sandridge perceived a need by the Department to deal with the details because it was not comfortable in dealing with broad policy issues. However, Sandridge saw this improving as the caliber and training of Budget Office personnel improved.

Responses to statements four and five indicated opinions that power and initiative were flowing from the institutions to outside bureaucracies and that the Commonwealth was not permitting decisions to be made as close as possible to the point where they were to be implemented. One respondent commented that, while he perceived power flowing to outside agencies, there seemed to be little leadership or initiative in those agencies to make timely decisions. Cribbs observed that central agency staffs had become much more proficient in policy making than advising.

Statements six through nine dealt specifically with the relationship between the Department and the institutions of higher education. Institutional personnel disagreed with the statement in number six that the Governor and General Assembly should continue to delegate responsibility to the Department for the oversight of public higher education in Virginia. Comments expressed the opinion that the Department

should only be involved in judging the accountability of the institutions in budget matters and that the State Council of Higher Education should be firmly established as the oversight agency for public higher education.

Respondents to the questionnaire generally disagreed that the Department had been a positive influence in the oversight of public higher education. Responses to statement number seven indicated five neutral and seven disagreeing, one strongly, about this positive influence. Comments indicated a perception that the Department had been positive in its support, but that it did not have a full understanding of higher education. The opinion was also expressed about recent improvement in universally applying guidelines and policies in budgetary matters.

Statement number eight indicated a narrow agreement that personnel of the Department understood the requirements and restraints placed upon the institutions by the Department's policies and directives. Cogle expressed "reluctant agreement." He viewed agency analysts as quite helpful, but expressed the opinion that higher authority within the Department often demonstrated a complete lack of regard for institutional "need to know" in cases of reversions and central funding decisions. All too often that information was not released in timely fashion.

Cooper viewed each analyst as different. The relationship between the analyst and institutional officer

had to be based on an honest exchange of information. If the analyst worked with the institutional officer long enough, the possibility existed for the development of a helpful/positive relationship. Analysts over the last several years seemed to be better prepared and informed than in previous years. However, the Department seemed better prepared to deal with other types of state agencies than with higher education. This was especially true when the institution had to go beyond the analyst to higher authorities within the Department. Cribbs expressed the opinion that the relationship between the institutions and the Department had improved dramatically over the years. Recently, it had been more positive, with the executive leadership at the Department maturing in its understanding of higher education. Eagle and Sandridge supported the views of recent improvement in the influence of the Department and attributed this improvement to more knowledgeable and competent analysts and administrators within the Department.

Responses to statement number nine reflect the view of institutional personnel that the policies and directives of the Department had infringed upon the institutions' autonomy and authority to govern campus affairs. Comments indicated a perception that the Department had increased its involvement in the everyday financial affairs of the institutions during the last four biennia. Cogle expressed aggravation at the line item involvement in budgetary matters which seemed to

be increasing. He cited specific reversions during the last three biennia for excess appropriations for such items as fuel oil, insurance, telecommunications, and travel. He acknowledged that this involvement had been at the direction of the legislative branch. However, it was inefficient and unnecessary. Appropriations were not made by line items and should not be administered by that method. Cribbs indicated that the level of detail required for budget execution assumed both an operational interest and knowledge which did not exist. Eagle opposed the information requirements, transaction controls, and line item concepts which had been imposed during the last six to eight years. Sandridge agreed that some specific negative examples of too much involvement by the Department existed. However, he had seen improvement. The Department had begun recently to look more at broad policy issues and was beginning to allow budget analysts more freedom to operate within broad parameters rather than narrow constraints.

The institutional personnel interviewed were unanimous in agreeing that relationships between the Department and the institutions had improved since 1980. This improvement was attributed to improved communications, better trained and more knowledgeable analysts, improved administration within the Department of Planning and Budget, and improved management practices at the institutions. Sandridge referred to an internship at the University of Virginia by a Budget

Analyst from the Department. This internship provided a better understanding of higher education by permitting the analyst to observe agency operations and problems and meet Deans and Vice-Presidents involved in actual institutional programs. He indicated a desire for opportunities for more of these internships and for the opportunity for institutional personnel to have the same experience at central agencies.

Respondents also expressed the opinion that higher education institutions were different from other state agencies and should be treated differently. Each institution has a Board of Visitors which is the legal entity responsible for the operation of these institutions. The boards should be permitted to govern within broad state guidelines and be held accountable for institutional compliance with state requirements. While recognizing the need for accountability for the use of state tax dollars, the interviewees expressed the need for institutions to have control over the non-tax dollars (tuition and fees) used in their operation. Institutions should have reporting requirements similar to other agencies, but accountability should be established through reporting and audit requirements, rather than through transaction related operating controls. Cribbs expressed the opinion that the Commonwealth should not establish a governing board and then superimpose another set of standards upon that board and

institution. Sandridge saw more concern by Boards of Visitors with this involvement of the Department in individual transactions than with central agency infringement on board power. It should be the responsibility of the institutional administration to see that only the most critical issues reach the Board of Visitors.

A final viewpoint expressed by those interviewed was the possible impact of a decentralization study implemented by Governor Robb in 1984. While the report of this study commission and the implementation of its recommendations are beyond the scope of this study, the results of this decentralization effort do have implications for any further research related to this topic.

#### Nongeneral Fund Revenues

The following statements, with the number of responses to each statement, were intended to solicit the opinions and perceptions of the institutional personnel about Department of Planning and Budget Temporary Directive 9-78: Nongeneral Fund Revenues.

1. Department of Planning and Budget Temporary Directive 9-78 is an example of legitimate state oversight of public institutions of higher education.

<u>  0  </u> Strongly Agree	<u>  5  </u> Disagree
<u>  3  </u> Agree	<u>  2  </u> Strongly Disagree
<u>  2  </u> Neutral	

2. This directive may be categorized as part of the broad process of state oversight and did not infringe upon state insitutions' autonomy and authority to govern campus affairs.

<u>  0  </u> Strongly Agree	<u>  5  </u> Disagree
<u>  3  </u> Agree	<u>  4  </u> Strongly Disagree
<u>  0  </u> Neutral	

3. The policy established by Temporary Directive 9-78 infringed upon the authority of the Boards of Visitors of the public institutions to set tuition and fee charges by potentially denying institutions the use of these revenues if they exceeded the appropriated amount.

<u>3</u> Strongly Agree	<u>2</u> Disagree
<u>5</u> Agree	<u>0</u> Strongly Disagree
<u>2</u> Neutral	

4. Requirements of this directive resulted in increased expenses and/or workloads at the institutional level without increased resources (funds and/or personnel) to meet these additional requirements.

<u>0</u> Strongly Agree	<u>3</u> Disagree
<u>6</u> Agree	<u>0</u> Strongly Disagree
<u>3</u> Neutral	

5. The Department of Planning and Budget provided sufficient advice and assistance in helping institutions of higher education meet the requirements of this policy.

<u>0</u> Strongly Agree	<u>2</u> Disagree
<u>1</u> Agree	<u>0</u> Strongly Disagree
<u>9</u> Neutral	

6. The policy established by this directive was a beneficial management tool for the public institutions of higher education.



0 Strongly Agree

6 Disagree

0 Agree

4 Strongly Disagree

2 Neutral

Institutional representatives did not view the responsibility included in this policy as a legitimate area of state oversight of public higher education. Those commenting on the questionnaire indicated that the tuition and fee policy included in this policy statement was a major area of responsibility which should be retained by the Boards of Visitors. One respondent agreed the policy was legitimate only because it was required by the Appropriation Act. Another agreed with the intent of the policy only because his experience suggested that the Department had been reasonable in carrying out its responsibilities related to implementation.

Cogle expressed the opinion that the policy definitely infringed upon the authority of the board. Although the policy caused William and Mary no major problems, the requirements for approval of the utilization of the excess funds was unnecessarily burdensome. He indicated that the board should be able to "set fees at what the traffic will bear" and use the revenue according to its policies and priorities. Cooper stated that Virginia State University had not generated excess revenues because enrollment declines

had resulted in revenue collections less than the appropriated amounts.

Cribbs had no problems with the disclosure of all resources available to the institution. However, he opposed the detailed procedures required by this policy. Eagle thought the paperwork requirements for approval of excess resources was burdensome. He suggested a reporting by exception procedure as a reasonable alternative to the policy. Sandridge initially viewed the policy as negative when it was announced. In practice, however, the Department had been reasonable in the implementation and administration of the policy.

Responses to statement number two indicated that the policy was not a part of the broad process of state oversight. This position was consistent with responses to statement number three which agreed that the policy infringed on the authority of the Boards of Visitors to set tuition and fees. Concern was expressed that the policy was a pretense to reduce General Fund support of higher education while trying to control the level of Nongeneral Funds. Eagle, while opposing the policy, commented that the actual administration had been reasonable. Sandridge viewed the policy as part of the price for tax support of the institutions, especially when the Commonwealth implemented the 70/30 policy and Nongeneral Funds began influencing requirements for funding from General Funds.

Opinions on statements four and five were, for all intents and purposes, neutral about increased workloads and advice and assistance from the Department in assisting institutions to meet policy requirements. Cogle viewed the paperwork requirements as burdensome and Eagle felt them unnecessary. However, all interviewed agreed that the Department had been reasonable in its approach to the policy. Institutional requests, for the most part, had been routinely approved when reasonably justified. In most instances requests and approvals for utilization of these excess funds were based on cost increases for oil and electricity which occurred during the effective period of this policy.

Statement number six responses indicated the opinion that this policy was not an effective management tool. Comments expressed the view that the policy was a control measure rather than a management tool.

In summary, institutional representatives viewed this policy as not a legitimate area of state oversight, an infringement on the Boards of Visitors' authority to set tuition and fees, and a control measure rather than an effective management tool. However, requests for the utilization of excess funds had been routinely approved and the Department of Planning and Budget had been reasonable in the implementation and administration of the policy.

Personal Service Funds

Department of Planning and Budget Directive No. 6 established policies and procedures for the encumbrance and utilization of funds appropriated for personal service and related employee benefits. Following are responses to the section of the questionnaire related to this policy.

1. Department of Planning and Budget Directive No. 6 is an example of legitimate state oversight of public institutions of higher education.

<u>0</u> Strongly Agree	<u>6</u> Disagree
<u>2</u> Agree	<u>4</u> Strongly Disagree
<u>0</u> Neutral	

2. This directive may be categorized as part of the broad process of state oversight and did not infringe upon state institutions' autonomy and authority to govern campus affairs.

<u>0</u> Strongly Agree	<u>6</u> Disagree
<u>2</u> Agree	<u>3</u> Strongly Disagree
<u>1</u> Neutral	

3. Requirements of this directive resulted in increased expenses and/or workloads at the

institutional level without increased resources (funds and/or personnel) to meet these additional requirements.

0 Strongly Agree

1 Disagree

7 Agree

0 Strongly Disagree

4 Neutral

4. The Department of Planning and Budget provided sufficient advice and assistance in helping institutions of higher education meet the requirements of this policy.

0 Strongly Agree

3 Disagree

2 Agree

0 Strongly Disagree

7 Neutral

5. The policy established by this directive was a beneficial tool in the management of public institutions of higher education.

0 Strongly Agree

7 Disagree

1 Agree

4 Strongly Disagree

0 Neutral

Responses to the questionnaire and from those interviewed indicated strong disagreement with this policy. Institutional representatives' responses to statements one and two expressed the opinions that this was not a legitimate area of state oversight and that it definitely infringed upon the authority of the institution to govern campus affairs. Comments included in the responses referred to the policy as an example of the Department's insensitivity to day-to-day operation of the institutions in a complex academic environment. Responses to statements three and four were less emphatic concerning increased workloads and assistance from the Department in meeting requirements of the directive. Comments included complaints about the institution losing flexibility in the management of financial resources. There was strong disagreement with statement number five that this policy had benefit as a management tool. Respondents called the policy another central tool for control and that it had no positive impact on internal institutional management.

Those interviewed tended to agree with responses to the questionnaire. Cogle did not agree with the policy, called it unnecessary, and stated that it was not a legitimate area of state control. At the beginning of the fiscal year, it was very difficult to pinpoint personal service costs because of vacancies and turnovers. Because it was easier to encumber additional funds rather than unencumber funds which

would not be needed for personal service, institutions would underestimate personnel costs and increase encumbrances during the year as needed. This, in effect, negated the policy to some extent. Cogle considered the encumbrance procedure to be burdensome and time consuming.

Cooper presented the view that once appropriations were authorized by the legislature, central agencies such as the Department of Planning and Budget should not be involved with budget execution on a day-to-day basis. He stated, however, that the encumbrance policy had created no operating problems for Virginia State University. The institution had been permitted to unencumber funds late in the fiscal year and utilized these funds for nonpersonal service needs.

Cribbs considered Directive No. 6 to be unnecessary and not a legitimate area of state control. The encumbrance process was another series of bureaucratic steps which were counterproductive and contrary to good business practices. If institutions had an approved position they should be permitted to allocate the appropriated resources to that position. If, however, resources became available on a short-term basis due to vacancies or turnover in that position, the institution should have the flexibility to reallocate those resources as needed. He did not consider this policy well thought out and viewed it as a disincentive

for good management at both the state and institutional level.

Eagle did not think this policy was a legitimate area of control. He viewed the procedure as an attempt to control manpower levels and it was the wrong method to use for that purpose. In order to prevent losing funds the institutions learned to "play games" with the procedure by underestimating personal service costs. The policy required a significant amount of institutional time to monitor the process in order to assure no funds were lost due to the encumbrance procedure.

Sandridge considered this policy one of the less legitimate areas of state control. He advocated that institutions describe resources needed and, once appropriated, permit them to use the resources as needed. Accountability would be determined by productivity and results. He considered the objective of the policy to control employment and viewed it as an example of a policy put in place without the Department fully considering and understanding its intent and purpose. The policy did not result in good management and institutions were able to "play games" with the encumbrance process. Sandridge had the opinion that anytime a single section within a resource allocation process is singled out for control that a good budget manager could find, if so desired, a way around that control.



Respondents to the questionnaire and those interviewed were nearly unanimous in their negative view of Department of Planning and Budget Directive No. 6. The policy was not considered a legitimate area of state control, was not well thought out and designed, was a disincentive for good institutional management, and caused many institutions to underestimate personal service costs and "play games" with the encumbrance procedure to prevent losing these funds.

#### PROBUD

The 1975 session of the General Assembly enacted legislation which was designed to provide for the Virginia budget to be formulated, presented, and appropriated on a programmatic basis. In response to this legislation, the Department of Planning and Budget developed a computerized program budget system (PROBUD). The first part of the system to be implemented was that which supported budget execution for the 1980-82 Biennium and provided requirements, forms, and procedures for allotment requests, initial operating plans, and requests for adjustments to appropriations, allotments, and operating plans. Following are questionnaire responses related to PROBUD.

1. The Department of Planning and Budget PROBUD system is an example of legitimate state oversight of public institutions of higher education.

<u>0</u> Strongly Agree	<u>4</u> Disagree
<u>3</u> Agree	<u>1</u> Strongly Disagree
<u>4</u> Neutral	

2. This system may be categorized as part of the broad process of state oversight and did not infringe upon state institutions' autonomy and authority to govern campus affairs.

<u>0</u> Strongly Agree	<u>5</u> Disagree
<u>4</u> Agree	<u>1</u> Strongly Disagree
<u>2</u> Neutral	

3. Requirements of this system resulted in increased expenses and/or workloads at the institutional level without increased resources (funds and/or personnel) to meet these additional requirements.

<u>3</u> Strongly Agree	<u>1</u> Disagree
<u>8</u> Agree	<u>0</u> Strongly Disagree
<u>0</u> Neutral	

4. The Department of Planning and Budget provided sufficient advice and assistance in helping institutions of higher education meet the requirements of this system.

<u>0</u> Strongly Agree	<u>4</u> Disagree
<u>6</u> Agree	<u>0</u> Strongly Disagree
<u>2</u> Neutral	

5. The PROBUD system was a beneficial management tool for public institutions of higher education.

<u>0</u> Strongly Agree	<u>5</u> Disagree
<u>3</u> Agree	<u>1</u> Strongly Disagree
<u>3</u> Neutral	

Institutional representatives were more divided in their opinions of PROBUD than any of the other policies included in the study. Responses to statement number one indicated only a small disagreement with the legitimacy of the system. Comments revealed more concern about the level of detail required for the operating plans. Respondents agreed the Department needed the ability to retrieve the information provided by the system; the disagreement was with the use of that information for control purposes. Respondents were also divided on statement number two, with

comments indicating the opinion that the level of detail required by the system went beyond the broad process of state oversight.

Statement number three revealed a strong opinion that PROBUD resulted in increased workloads at the institutional level without increased resources to meet the additional requirements. Again, the major concern was the level of detail required by the system. Respondents were also divided on opinions about statements four and five, indicating no strong opinion against or in favor of the advice and assistance given by the Department or the benefits to the institutions which resulted from the use of PROBUD. One respondent viewed the system as a control tool for central government rather than a management tool for the institutions. Another comment credited the system with forcing some institutions to establish expenditure plans where none had previously existed.

Cogle felt the system was legitimate and indicated it was difficult to disagree with a requirement to maintain orderly records. While the level of detail in accounting records at William and Mary had increased since the implementation of PROBUD, he did not view this increased detail as useful because the institution did not budget down to that detail. Implementation of the system had cost a significant amount of time, people, and money.

Cooper viewed PROBUD as another tracking system for the state with no usefulness to the institutions as a management tool. Virginia State University does not budget to the level of detail required by the system and, as a result, the operating plan did not always reflect what actually was happening on campus. If central agencies were using the operating plans to monitor institutional activities they were not getting accurate information. If the level of detail in PROBUD was required, then the Commonwealth Accounting and Reporting System (CARS), which recorded actual expenditures, was a more accurate source of information.

Cribbs saw PROBUD as conceptually and theoretically appropriate and legitimate. However, the level of detail required by the system was a major problem. The requirements were inconsistent with the actual environment at the institutions because they did not budget to that level. Because the institutions did not budget at that level of detail, the system was not useful as a management tool. The design of PROBUD showed the lack of experience and insight at the Department when dealing with the day-to-day activities at the public institutions.

Eagle was of the opinion that the concept of an automated budget, appropriation, and allotment system was good. However, because of the detail required by PROBUD, it was virtually useless to the institutions as a management

tool. While Christopher Newport balanced PROBUD and local records at the major program level, no attempts were made to balance at the level of detail of the system.

Sandridge viewed PROBUD as legitimate in its broadest sense but ludicrous because of the required level of detail. He indicated the institutions could probably live with a system at the program level, major object of expenditure level, and even some critical subobject levels (fuel, electricity, travel). However, the institutions normally did not budget at the subobject level and he saw no legitimate use for that level of detail at the central level.

As previously stated, respondents were divided in their opinions of PROBUD. While they could accept the necessity and legitimacy of a computerized budget system, the level of detail required made it virtually useless to the institutions as a management tool and a source of inaccurate information at the central level.

#### Perceptions of the Department

#### by Central Agency Personnel

Questionnaires were also sent to seven representatives of central state agencies. Those selected were chosen because they were employed as Budget Analysts by the Department of Planning and Budget, were former employees of the Department, or were in positions at other central state

agencies that provided them an opportunity to participate in and closely observe the relationship between the Department and the public institutions of higher education. All seven responded to the questionnaire.

Those who participated in the questionnaire phase were asked to respond only to the General section. They were not asked to respond to the sections on policies because they were not in a position to directly observe the effect of these policies on the institutions. However, they were all interviewed and were asked questions related to each policy included in the study. In addition to the seven who responded to the questionnaire, Mr. Stuart W. Connock, Secretary of Finance and Director of the Department for six years, was also interviewed.

The following central state agency officials were included in this questionnaire and interview phase of the study.

1. Mr. Stuart W. Connock  
Secretary of Finance  
Director, Department of Planning and Budget/  
Assistant Secretary of Administration and  
Finance 1978-84
  
2. Mr. James B. Cook, Jr.  
Analyst, Department of Planning and Budget

Former Manager, Education Section,  
Department of Planning and Budget

3. Dr. Donald J. Finley  
Secretary of Education
  
4. Mr. Joseph J. Hester  
Budget Division, Virginia Community College  
System  
Analyst, Department of Planning and Budget  
1977-80
  
5. Mr. William Hill  
Department for the Deaf and Hard of Hearing  
Analyst, Department of Planning and Budget  
1980-85
  
6. Mr. Samuel E. Jones  
Analyst, Department of Planning and Budget
  
7. Dr. J. Michael Mullen  
Associate Director of Finance, State Council  
of Higher Education



8. Mrs. Nancy D. Suttentfield  
 Manager, Education Section, Department of  
 Planning and Budget

General

The following statements, with the number of responses to each statement, were intended to solicit the opinions and perceptions of central agency personnel about the role of the Department of Planning and Budget in shaping public higher education.

1. If state coordination/regulation of public higher education is viewed as a legitimate function of government, institutions which accept the large amounts of state funds appropriated to them should expect to be held accountable for the use of these funds.

<u>  7  </u> Strongly Agree	<u>  0  </u> Disagree
<u>  0  </u> Agree	<u>  0  </u> Strongly Disagree
<u>  0  </u> Neutral	

2. In Virginia, the Commonwealth has exercised restraint in the use of its power while permitting state institutions the autonomy and authority to govern campus affairs.

<u>1</u> Strongly Agree	<u>1</u> Disagree
<u>5</u> Agree	<u>0</u> Strongly Disagree
<u>0</u> Neutral	

3a. The Governor, General Assembly, and Department of Planning and Budget have increased their role in the state's oversight of higher education during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84). This increased involvement has infringed upon the role of the State Council of Higher Education.

<u>0</u> Strongly Agree	<u>3</u> Disagree
<u>0</u> Agree	<u>4</u> Strongly Disagree
<u>0</u> Neutral	

b. This increased involvement has infringed upon the role of the Boards of Visitors of the state institutions.

<u>0</u> Strongly Agree	<u>1</u> Disagree
<u>2</u> Agree	<u>3</u> Strongly Disagree
<u>1</u> Neutral	

4. Malcolm M. Scully (1982), in reviewing the Carnegie Foundation for the Advancement of Teaching report

Control of the Campus, made the following statement:

"The ever increasing role of outside agencies in campus matters is gradually wearing down internal governance structures. As leadership is diminished, power and initiative flow even more rapidly to bureaucracies outside."

This statement accurately reflects the trend in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

0 Strongly Agree

5 Disagree

0 Agree

1 Strongly Disagree

1 Neutral

5. The Carnegie Foundation for the Advancement of Teaching (1982) recommended that states encourage good management by permitting administrative decisions to be made as close as possible to the point where they are to be carried out.

This recommendation accurately reflects the trend in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

<u>  1  </u> Strongly Agree	<u>  4  </u> Disagree
<u>  2  </u> Agree	<u>  0  </u> Strongly Disagree
<u>  0  </u> Neutral	

6. The Governor and General Assembly should continue to delegate to the Department of Planning and Budget in regard to the oversight of public higher education in Virginia.

<u>  0  </u> Strongly Agree	<u>  2  </u> Disagree
<u>  3  </u> Agree	<u>  2  </u> Strongly Disagree
<u>  0  </u> Neutral	

7. The Department of Planning and Budget has generally been a positive influence in the oversight of public higher education in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

<u>  0  </u> Strongly Agree	<u>  0  </u> Disagree
<u>  2  </u> Agree	<u>  0  </u> Strongly Disagree
<u>  5  </u> Neutral	

8. Budget analysts, section chiefs, and administration of the Department of Planning and Budget have generally demonstrated an understanding of the

requirements and restraints placed upon public institutions of higher education in Virginia by the Department's policies and directives.

<u>0</u> Strongly Agree	<u>2</u> Disagree
<u>4</u> Agree	<u>0</u> Strongly Disagree
<u>1</u> Neutral	

9. Generally, policies and directives of the Department of Planning and Budget during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84) have not infringed upon the institution's autonomy and authority to govern campus affairs.

<u>3</u> Strongly Agree	<u>2</u> Disagree
<u>2</u> Agree	<u>0</u> Strongly Disagree
<u>0</u> Neutral	

Central agency personnel responding to statement number one were unanimous in the opinion that public institutions which accept state funds should expect to be held accountable for the use of the funds. Comments included the opinion that this was not a debateable issue. The use of tax dollars required a level of accountability to assure the efficient allocation of limited state resources.

Institutions must be accountable if they are to take maximum advantage of the authority and autonomy granted them.

Respondents also agreed that the Commonwealth had exercised restraint in the use of its power while permitting state institutions the autonomy and authority to govern campus affairs. Connock maintained that tighter state controls had to be implemented between 1978 and 1984 because many institutions did not have adequate financial controls, systems, or records. This situation was brought about at the demand of the legislature when it could not get information about the institutions it desired or needed. Cook saw the Commonwealth as liberal in the granting of institutional autonomy. Finley expressed the opinion that the institutions had as much autonomy as they had since World War II. Some of the recent improvements in management practices, especially in budget execution, were due in part to accounting improvements and management practices required by the state. If the institutions had been unmonitored, the state would not have been in a position to know of problems and to implement procedures to help solve problems. Hester and Hill viewed the institutions' autonomy as fair. Although the institutions receive appropriations and manage these appropriations without a great amount of line item detail, there had been times when limitations, such as personnel ceilings and restrictions on the use of personal service funds, had unnecessarily restricted the institutions'

operations. However, the institutions had maintained a reasonable capability to operate without undue restrictions. Jones and Suttentfield expressed opinions that autonomy, when compared to other states, was more than adequate. A good balance between state oversight and autonomy existed. The state set broad guidelines and the Department of Planning and Budget was one of the agencies used to establish policies and procedures to comply with these guidelines. Mullen viewed the amount of autonomy as fair, but not as much as it could be. Limitations had been imposed due to a concerted effort between 1976 and 1986 to control the size of state government and due to problems encountered at the institutions during that time. The institutions did not have their "act together" and audit reports revealed a need for tighter state controls.

Connock, Finley, Mullen, and Suttentfield also referred to the possible impact of a decentralization study on the autonomy of the institutions. In 1984, Governor Robb appointed a task force to conduct a Higher Education Administrative Decentralization Study. This task force reported in 1985 and outlined major concerns and requirements for further decentralization in the management of higher education. A Steering Committee was appointed by Governor Baliles and first met in June, 1986. The purpose of this steering committee was to identify issues and establish guidelines for possible decentralization in order to "...cut

the bureaucratic strings that extend from Richmond to Virginia's public institutions of higher education - strings that frequently inhibit effective instruction, productive research, and institutional management" (Office of the Governor, June 5, 1986). The recommendations of this committee are to be implemented, at least in part, during the 1986-88 Biennium.

James Cook of the Department of Planning and Budget expressed a different opinion on the direction needed in the state's oversight of public higher education. He personally favored the replacement of the separate Boards of Visitors by a single statewide governing board with a single appropriation for all of higher education. This board would govern all two and four-year public institutions and determine the distribution of the appropriation among the various institutions.

Responses to statement number three reflected the opinion that state oversight during 1976-1984 had not infringed upon the roles of the State Council of Higher Education and the Boards of Visitors of the state institutions. Suttentfield did not agree that strong leadership by the Governor represented an infringement on the roles or authority of the State Council or the Boards of Visitors. Hill pointed out that the Boards were creations of the state and were subordinate to it. Absolute autonomy had been shown not to work - the Commonwealth's Center for



Innovative Technology was an example. State institutions should not be exempt from all accountability and control by the legislative and executive branches of government.

Responses to statement number four reflected considerable disagreement with the idea that the strengthening role of outside agencies was gradually wearing down internal governance structures. Jones expressed the opinion that the statement may have been true, to a point, during the 1976-84 period. However, trends toward the end of that period reflected attempts by the state to provide increased flexibility and initiatives for management effectiveness. While disagreeing that institutional autonomy was being eroded, respondents were divided on statement number five. Three agreed that Virginia had encouraged good management by allowing administrative decisions to be made as close as possible to the point where they were to be carried out. Four respondents disagreed with this observation. Hill thought the statement was more accurate for large institutions, especially the University of Virginia, but less accurate for smaller institutions and the two-year colleges. Cook stated that a compromise needed to be established that would draw a dividing line between local autonomy and accountability at the state level.

There was also disagreement in responses to statement number six concerning the continued delegation to the Department of Planning and Budget involving the oversight of

public higher education. Cook, Mullen, and Suttentfield agreed that there had been no delegation of authority to the Department in the oversight of higher education, at least no more than that over any other function of state government. Hester stated that, to the extent fiscal oversight was deemed necessary, the Department was the most appropriate agency to exercise that oversight. Jones favored an "analysis by exception" role in budget execution, with the Department actively involved only in issues which fell outside broad policy areas. Hill favored the same oversight function for higher education as the Department had for other functions of state government.

No strong opinions were expressed about the relationship between the Department and the institutions. Only two agreed in statement number seven that the Department had been a positive influence in the oversight of public higher education while five were neutral on that point. Four respondents agreed and two disagreed in statement number eight that the Department had demonstrated an understanding of the requirements and restraints placed upon public institutions by the Department's policies and objectives. Connock viewed the relationship with the institutions as fair during his tenure as Director. There were controls which the institutions did not like but over time came to realize were necessary. Some perceived the Department as helpful and some as a barrier. Increased

flexibility and freedom would come only as the institutions improved their management capabilities. He expressed the opinion that the Education Section of the Department had been weak during the 1976-84 period, but had improved in numbers and quality since 1980. Cook viewed the relationship with higher education as the same as with other state agencies. While personalities influenced the relationship, the Department tried not to let personalities be a major influence. The Department's approach was to carry out the intentions of the Governor and General Assembly. Finley viewed the relationship as neutral - assistance in some cases and a nuisance in others. Analysts were helpful at times and at other times the institutions viewed them as looking over their shoulders. Hester, during his tenure as a Budget Analyst, viewed the relationship as moderately adversarial. He did not think there was a lot of mutual support between the Department and institutions because the analysts did not have the opportunity to learn enough about the institutions to be helpful. He expressed the opinion that the Department worked in a mode of applying a standard methodology in its activities without regard to individual institutions or programs. The Department applied policies which impacted programs approved and reviewed by a third party, the State Council of Higher Education. There was no third party involved in dealings between the Department and other state agencies and analysts had to familiarize

themselves with the programs of the various agencies. Because of the Council's involvement with higher education, there was no real need to establish a deeper relationship with the institutions.

Hill expressed the opinion that each institution had its own personality and the relationships varied. Some were extremely adversarial and analysts at times felt there were some who could not be trusted to give accurate information. Because the Department was more regimented than the institutions, personalities played a larger role on the institutional side of the relationship. He was not aware of the Department giving favorable treatment to some institutions and not to others. However, some were more successful in their dealings with the Department than others due to the approach taken in dealing with the Department. Jones agreed that the relationship varied according to the institution. However, he viewed it on an overall basis as positive and cooperative. Analysts tried to be aware of the impact of policies and directives. The Department, especially since 1980, had tried to establish a dialogue with the institutions in the development and implementation of policies and had tried to recognize the differences between institutions of higher education and other state agencies. He recognized that institutions were different, but that fact did not remove the oversight responsibilities of the Department.

Mullen viewed the relationship as improving, but with a way to go. From 1976-1982 the Department had emphasized control. Since that time, changes in the Department's administration and philosophy had changed the emphasis to assistance and instruction. In the past, analysts had taken too long to respond to institutional inquiries and problems and had demonstrated an inability to deal with institutional problems. During the last few years, analysts were better informed and more responsive. Suttentfield expressed the opinion that, because of differences in perspective, differences would always exist between the Department and the institutions. While the Department appreciated the institutions' viewpoints, it still had the obligation to carry out the provisions of the Appropriations Act and the intent of the Governor and General Assembly. When actions impact budgets, the potential for an adversarial relationship would always exist. Relationships had improved since 1980 due to improved communications and increased visits of Department personnel to the institutions. These visits had provided an appreciation for the institutions' perspectives on various issues and policies.

In summary, central agency personnel agreed that the policies and directives of the Department of Planning and Budget had not infringed upon the institutions' autonomy and authority to govern campus affairs. Hill saw the Department as having helped introduce equity and predictability into

both the budget request and budget execution processes. Finley admitted that more paperwork was now required of institutions. However, this paperwork was, for the most part, for informational purposes and did not necessarily imply control at the expense of local autonomy and authority. Suttentfield saw the Department as less involved than in the past in the control of institutions. This trend should continue as the Commonwealth begins to implement recommendations of the Decentralization Study.

The following three sections of this chapter present the views of central agency personnel related to the policies included in this study. They did not respond to the questionnaire sections related to these policies because the statements were designed to determine the institutional impact of these policies. However, they were asked their opinions of these policies during the interviews conducted for this study.

#### Nongeneral Fund Revenues

Secretary Connock indicated that the idea for this policy originated at a legislative conference in New Orleans attended by himself and Gerald Baliles, then a member of the General Assembly. The legislature had been concerned that Nongeneral Funds were a large portion of the state budget, were not being appropriated, and were subject to little

legislative review. This was especially true in situations where these funds, such as some grants and contracts, generated demands upon the General Fund. Connock viewed this policy as part of the attempt to control the growth of state government. It was viewed as a management tool at the central level and was not intended to control or restrict colleges and universities.

Cook viewed this policy as a legitimate area of state oversight because there were instances where Nongeneral Funds drove demands upon General Funds. This policy did not infringe upon the authority of the Board of Visitors to set tuition and fees because it only controlled revenue at the upper level. The boards could set tuition and fees as desired, based upon total approved enrollment projections. Requests for the appropriation and allotment of excess funds were routinely approved with sufficient justification. Hill also viewed the policy as legitimate, expressing the view that public institutions were subject to state oversight. Manipulations by the institutions to increase enrollments or tuition and fees after the passage of the Appropriation Act was cited as the reason for the policy. These manipulations had the effect of providing Nongeneral Funds not approved by the General Assembly. Jones viewed the current policy as a requirement imposed by the legislature and, as such, legitimate. The Department of Planning and Budget only developed the procedure to implement the policy. The policy

was needed, he felt, if viewed from the perspective that some institutions, because of quality, cost, or reputation, had the ability to generate unlimited funds while others were limited. These extra funds could be used to increase salaries and improve facilities, thereby giving these institutions a greater advantage in attracting students. This was not an acceptable situation when state funds were used to support all public institutions. The policy was also an attempt to establish equity in the costs to students regardless of where they chose to attend. Mullen viewed the policy as legitimate because it permitted the legislature to know about and approve all state funding. The previous method permitted institutions to raise tuition to cover unfunded requests to the legislature, a method which favored the "more attractive" institutions. The policy did not infringe upon board authority because it addressed total dollar amounts, not pricing, and provided mechanisms to exceed appropriated amounts.

Finley saw a "close call" on the legitimacy of this policy. To a degree he saw the policy as an infringement on board authority to set fees. However, there were implications when institutions increased fees beyond appropriated levels. Because the state government provided approximately two-thirds of the institutions' funding, it had to be involved in order to control charges to students and any additional demands upon state funds. Institutions



admitting additional students brought about the policy. Manipulations by the institutions made a mockery of the budget process and, because of the incremental nature of budgets, gave some institutions a larger base for their next budget request. Hester expressed the opinion that, given the circumstances which existed at the time, this policy was probably appropriate. From year to year appropriations were made and institutions then increased enrollments or tuition to raise extra funds. Because budgets were historically enrollment driven, the base for the next budget cycle increased and drove additional demands on state funds. The policy and the procedure established by the Department were attempts to brake this unauthorized growth and require the institutions to function at the level of operation intended and appropriated by the General Assembly. Suttentfield expressed the opinion that the policy resulted from a concern with disparate levels of tuition and fees at state institutions and a concern about future demands upon the General Fund. The policy was an attempt to prevent some institutions from benefiting more than others. Generally, the Department approved requests for excess funds with proper justification. However, close scrutiny was given these requests when the excess funds were generated because the institution exceeded its enrollment projections by a significant amount (the policy established one percent as the maximum amount). If one took a narrow view the policy

could be viewed as infringing upon the authority of the Boards of Visitors to set tuition and fees. However, because the policy only established a limit on total funds, the boards maintained flexibility to operate within the maximum limit.

#### Personal Service Funds

Department of Planning and Budget Directive No. 6, which established procedures for the encumbrance of personal service and employee benefits funds, produced the most disagreement among central agency personnel of any of the policies included in this study. Despite these differing opinions, however, there was agreement that the policy was largely ineffective and cumbersome.

Secretary Connock viewed this policy and procedure as a legitimate attempt to restrict the expenditure of personal service dollars. If funds were appropriated for that purpose, they should be used for the purpose appropriated. The legislature was not willing to make a program appropriation and then give up the prerogative to review line items within that appropriation.

Cook viewed the policy as a legitimate area of state supervision. If an institution was budgeted for a certain number of employees, employment of additional people increased future demands on the General Fund. While the

procedure was troublesome to administer, it was an attempt to control employment and appropriations related to employment. The policy was a forerunner of manpower levels in the Appropriation Act, a procedure much more effective than the encumbrance requirement. Secretary Finley viewed the policy as the beginning of attempts to get the "fat" out of state government. Some institutions did not fill all positions and used the funds for nonpersonal service expenditures. This practice increased the base for the next budget cycle by increasing the nonpersonal service base, while at the same time requiring funding for the positions from which the money had been transferred.

Mullen viewed the policy as legitimate and a forerunner of controls on employment levels. At that time, personal service and employee benefits costs comprised approximately seventy-five percent of institutional budgets and were rapidly increasing. The state had no choice but to establish some policy if it was to control the size of state government. While perceived as a control by the institutions, it was held not to be a control because it did not prevent the actual expenditure of funds. Although the funds were encumbered, there was no integration of the budgeting, accounting, and personnel systems to prevent actual expenditures of cash even though they had been encumbered in the accounting system. The major benefit of the policy was the demonstration of the need for an

integrated state budgeting, accounting, and personnel system. Suttentfield agreed that the policy was legitimate as an early attempt to control employment levels. However, she also agreed that including employment levels in the Appropriation Act had been a more effective means of controlling employment.

Hester viewed this policy as not legitimate or necessary. It was a constraint which led more to inefficiency than to good management. The results of the policy were not what was intended. Some institutions made a concerted effort to spend all funds appropriated for personal service even though the personnel were not needed. Position controls would have been more effective. Other institutions moved the funds to nonpersonal services areas, increasing this base for the next budget cycle while maintaining the positions and the requirement for funding for these positions. Hill expressed the opinion that, as an analyst, he did not view the policy as a legitimate area of state oversight. The procedures were cumbersome and ineffective and a total waste of time and effort. Because personal services were the most stable part of their budgets, the institutions found ways to protect these funds at all times. Including position levels in the Appropriation Act had been a more effective means of controlling employment and the size of state government. Jones did not view the policy and procedure as an

appropriate area of central control. The policy was rescinded because of the recognition that it was not working and because of the movement in the middle of the 1980s to grant as much institutional flexibility as possible. The Department of Planning and Budget was "off the mark" in the procedure it established. Including staffing levels in the Appropriation Act has proven a much more effective means of controlling employment.

#### PROBUD

The computerized program budget system (PROBUD) implemented during the 1980-82 Biennium was viewed as a necessity by central agency personnel. Secretary Connock indicated the Department of Planning and budget could not exist without the automated system. The Department was still operating with hand calculators as late as 1978 and this system has provided a critical management and information tool at the central level.

James Cook of the Department of Planning and Budget stated that the volume of data made the system absolutely necessary and one that the Department could not function without. He viewed the system as one of accounting and not control. Although he realized that the required operating plans did not actually reflect institutional operations, he was optimistic that the future would bring more accurate

operating plans. Although he preferred not to deal with institutions at the subobject level of expenditure, there were times when the legislature required such information, particularly in the area of personal services, and it was necessary to have a system which could provide this information. If institutions realized the actual and potential uses of the data in the operating plans, they would attempt to make these plans more accurately reflect institutional operations. Secretary Finley agreed that the system was important for information and accountability purposes. However, he was less and less inclined toward the level of detail required and felt it ludicrous to require operating plans at the subobject level. Hester agreed that the system was valuable in dealing with the volume of information which flowed through the Department. PROBUD had automated the Department and reduced paper requirements. However, he did not agree with the required level of detail. The information was not meaningful on the input side because the institutions did not budget to that level of detail. The institutions usually allocated funds in the operating plan according to historical trends, which did not necessarily reflect what actual expenditures might be in a particular fiscal year. The existence of two systems at the state level, one for budgeting and one for accounting, was not necessary or practical.

Hill viewed the system as a legitimate area of state oversight. He realized the system had flaws but it did provide information needed by central government. He agreed that the level of detail to the subobject level might not be necessary or meaningful but there were times when such information was needed by the Department. He was not sure how to reconcile the needs of central government agencies with those of the institutions or other state agencies. Jones saw the system as beneficial to the Department because it could not handle the volume of data without a computerized capability. The system gives the Department the opportunity to compare agency operating plans with actual expenditures (provided by the Commonwealth Accounting and Reporting System). Although institutions complain about actions resulting from use of the PROBUD files, they should accept the responsibility for updating the operating plans and keeping them accurate. Since PROBUD is the major source of available information, the Department must use it in calculating regrades, reversions, and other appropriation and allotment actions. Mullen agreed that PROBUD was legitimate but questioned the success of the system. He recognized the need of the Department for the information and, at times, the detail provided by the system. His concern was the accuracy of the operating plans. He felt it was necessary for the institutions to realize the requirements, uses, and limitations of the system and

protect themselves by assuring the accuracy of the information in the system. In spite of his support of PROBUD, he offered the opinion that central agencies would be better served by using actual prior expenditures rather than planned expenditures in making budget calculations. Suttentfield viewed PROBUD as an effort to have program budgeting combined with the necessary level of detail needed by the state. From a theoretical point of view, the system is probably too detailed for policymakers. Realistically, however, the General Assembly asks for and the Department must be able to provide such information. The Department does its best to encourage institutions to update the plans, especially when it knows it will access the file for certain information. While the operating plans will always be subject to change, they will remain the primary source of information available to the Department.

#### Observations

The following statements, with the number of responses to each statement, compare the responses of institutional personnel and central agency personnel to the General section of the questionnaire.

1. If state coordination/regulation of public higher education is viewed as a legitimate function of



government, institutions which accept the large amounts of state funds appopriated to them should expect to be held accountable for the use of these funds.

Institutional Personnel

<u>7</u> Strongly Agree	<u>0</u> Disagree
<u>3</u> Agree	<u>0</u> Strongly Disagree
<u>2</u> Neutral	

Central Agency Personnel

<u>7</u> Strongly Agree	<u>0</u> Disagree
<u>0</u> Agree	<u>0</u> Strongly Disagree
<u>0</u> Neutral	

2. In Virginia, the Commonwealth has exercised restraint in the use of its power while permitting state institutions the autonomy and authority to govern campus affairs.

Institutional Personnel

<u>0</u> Strongly Agree	<u>8</u> Disagree
<u>0</u> Agree	<u>2</u> Strongly Disagree
<u>2</u> Neutral	

Central Agency Personnel

<u>1</u> Strongly Agree	<u>1</u> Disagree
<u>5</u> Agree	<u>0</u> Strongly Disagree
<u>0</u> Neutral	

3a. The Governor, General Assembly, and Department of Planning and Budget have increased their role in the state's oversight of higher education during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84). This increased involvement has infringed upon the role of the State Council of Higher Education.

Institutional Personnel

<u>0</u> Strongly Agree	<u>5</u> Disagree
<u>4</u> Agree	<u>1</u> Strongly Disagree
<u>2</u> Neutral	

Central Agency Personnel

<u>0</u> Strongly Agree	<u>3</u> Disagree
<u>0</u> Agree	<u>4</u> Strongly Disagree
<u>0</u> Neutral	

b: This increased involvement has infringed upon the role of the Boards of Visitors of the state institutions.

Institutional Personnel

<u>  3  </u> Strongly Agree	<u>  3  </u> Disagree
<u>  6  </u> Agree	<u>  0  </u> Strongly Disagree
<u>  0  </u> Neutral	

Central Agency Personnel

<u>  0  </u> Strongly Agree	<u>  1  </u> Disagree
<u>  2  </u> Agree	<u>  3  </u> Strongly Disagree
<u>  1  </u> Neutral	

4. Malcolm M. Scully (1982), in reviewing the Carnegie Foundation for the Advancement of Teaching report Control of the Campus, made the following statement:

"The ever increasing role of outside agencies in campus matters is gradually wearing down internal governance structures. As leadership is diminished, power and initiative flow even more rapidly to bureaucracies outside."

This statement accurately reflects the trend in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

Institutional Personnel

<u>3</u> Strongly Agree	<u>2</u> Disagree
<u>5</u> Agree	<u>0</u> Strongly Disagree
<u>2</u> Neutral	

Central Agency Personnel

<u>0</u> Strongly Agree	<u>5</u> Disagree
<u>0</u> Agree	<u>1</u> Strongly Disagree
<u>1</u> Neutral	

5. The Carnegie Foundation for the Advancement of Teaching (1982) recommended that states encourage good management by permitting administrative decisions to be made as close as possible to the point where they are to be carried out.

This recommendation accurately reflects the trend in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

Institutional Personnel

<u>0</u> Strongly Agree	<u>10</u> Disagree
<u>1</u> Agree	<u>0</u> Strongly Disagree
<u>1</u> Neutral	

Central Agency Personnel

<u>  1  </u> Strongly Agree	<u>  4  </u> Disagree
<u>  2  </u> Agree	<u>  0  </u> Strongly Disagree
<u>  0  </u> Neutral	

6. The Governor and General Assembly should continue to delegate to the Department of Planning and Budget in regard to the oversight of public higher education in Virginia.

Institutional Personnel

<u>  0  </u> Strongly Agree	<u>  8  </u> Disagree
<u>  1  </u> Agree	<u>  2  </u> Strongly Disagree
<u>  1  </u> Neutral	

Central Agency Personnel

<u>  0  </u> Strongly Agree	<u>  2  </u> Disagree
<u>  3  </u> Agree	<u>  2  </u> Strongly Disagree
<u>  0  </u> Neutral	

7. The Department of Planning and Budget has generally been a positive influence in the oversight of public higher education in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

Institutional Personnel

<u>0</u> Strongly Agree	<u>6</u> Disagree
<u>0</u> Agree	<u>1</u> Strongly Disagree
<u>5</u> Neutral	

Central Agency Personnel

<u>0</u> Strongly Agree	<u>0</u> Disagree
<u>2</u> Agree	<u>0</u> Strongly Disagree
<u>5</u> Neutral	

8. Budget analysts, section chiefs, and administration of the Department of Planning and Budget have generally demonstrated an understanding of the requirements and restraints placed upon public institutions of higher education in Virginia by the Department's policies and directives.

Institutional Personnel

<u>0</u> Strongly Agree	<u>4</u> Disagree
<u>7</u> Agrée	<u>1</u> Strongly Disagree
<u>0</u> Neutral	

Central Agency Personnel

<u>0</u> Strongly Agree	<u>2</u> Disagree
<u>4</u> Agree	<u>0</u> Strongly Disagree
<u>1</u> Neutral	

9. Generally, policies and directives of the Department of Planning and Budget during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84) have not infringed upon the institution's autonomy and authority to govern campus affairs.

Institutional Personnel

<u>0</u> Strongly Agree	<u>7</u> Disagree
<u>2</u> Agree	<u>1</u> Strongly Disagree
<u>2</u> Neutral	

Central Agency Personnel

<u>3</u> Strongly Agree	<u>2</u> Disagree
<u>2</u> Agree	<u>0</u> Strongly Disagree
<u>0</u> Neutral	

Questionnaire responses and comments and discussions during the interviews revealed differences between institutional personnel and central agency personnel in their perceptions of the Department of Planning and Budget and the policies included in this study. Both groups indicated these differing opinions were due in large part to the different perspective of each group and the difficulty in balancing the state's right to know and responsibility for the accountability for the use of public funds with the

institutions' need for local autonomy and authority. Institutional representatives emphasized the difference between public institutions of higher education and other state agencies. While recognizing this difference, central agency personnel viewed the Boards of Visitors as creations of the Commonwealth and, therefore, subject to it.

Responses to the General section of the questionnaire and discussions during the interviews revealed agreement that the acceptance of state funds made state coordination and regulation of higher education a legitimate function of government. This was viewed as the price of being a public institution. Respondents disagreed, however, on the restraint exercised by the Commonwealth in exercising its power. Institutional personnel expressed the opinion that the Commonwealth had not exercised restraint and that its policies and procedures had infringed upon the role of the Boards of Visitors and, to a lesser extent, the State Council of Higher Education. They indicated agreement with Scully's statement that power and initiative were flowing from the campus to outside bureaucracies. They expressed the opinion that the Department should only be involved in evaluating the accountability of the institutions and that the State Council of Higher Education should be the major oversight agency for higher education. Central agency personnel disagreed, expressing the opinion that the Commonwealth had exercised restraint in the use of its



power. Compared to other states, the institutions in Virginia had a reasonable amount of autonomy. The controls which were implemented during the 1976-84 period were due in large part to failure of the institutions to keep their "house in order". Lack of internal controls and inadequate financial records as revealed in institutional audits were cited as the major reasons for the state's implementation of certain policies and procedures.

Disagreement about perceptions of the Department also existed between the two groups. Institutional representatives did not view the Department as a positive influence in the oversight of higher education. The major comments revealed concern about a lack of understanding of higher education by upper management of the Department. Despite this view, a majority of the respondents agreed that the Department's personnel generally demonstrated understanding of the restraints and requirements placed upon higher education. They also viewed these restraints and requirements as infringing on the institutions' autonomy and authority to govern campus affairs. Central agency personnel were neutral on the influence of the Department, but agreed with institutional personnel that Budget Analysts understood the restraints and requirements of the Department's policies and procedures. However, central agency respondents did not agree that the Department's policies and procedures had infringed upon the institutions' autonomy and authority.

They viewed the Department's activities as attempts to introduce equity and predictability into state budgeting and management activities.

Institutional representatives viewed the Nongeneral Fund policy as not being a legitimate component of state oversight. It was viewed as a control rather than management procedure, an infringement on the Board's authority to set tuition and fees, and a burdensome and unnecessary paperwork procedure. Central agency respondents viewed the policy from a different perspective, saying the institutions brought the restriction on themselves due to manipulations and increases in tuition and fees after the passage of Appropriation Acts. They also felt these funds were a large part of the state budget and, in some instances, drove future demands on state tax dollars, and they should be subject to legislative review and approval. The policy did not infringe on the Boards of Visitors' authority because it controlled only total revenue and not the specific tuition and fee charges.

Strong disagreement was also expressed by institutional personnel about the policy on Personal Service Funds. There were strong reservations about the legitimacy of the policy and it was viewed as an infringement on the institution's authority to manage campus affairs. Requirements of implementing the policy were burdensome, time consuming, and a disincentive for good management. This particular policy generated the most disagreement among central agency

personnel. Most respondents agreed the policy was cumbersome, inefficient, and not conducive to good management. However, it was defended as a legitimate attempt to control employment and the size of state government. The more recent practice of including manpower levels in the Appropriation Act had proved to be a more effective means of controlling employment. The major benefit from the implementation of policy was the recognition of the need for an integrated state budgeting, accounting, and personnel system.

PROBUD was the area of major division for institutional personnel. They were divided on the view of the legitimacy of the system and about the infringement on local autonomy. While recognizing the need at the central level for information, there was strong opposition to the level of detail required in the operating plans. Because institutions do not budget to that level, the plans do not always accurately reflect activities on the campuses. More reliable information is available through the mandatory state accounting system. Central agency personnel defended the system as an information and management tool at the central level and absolutely necessary due to the volume of data now generated by state government. While some reservations were expressed about the required level of detail, it was noted that the Governor and General Assembly often requested such information and the Department needed a means to provide. It

was necessary for the institutions to recognize the potential uses of PROBUD and to make attempts to submit operating plans which reasonably reflected campus activities.

Representatives from both groups agreed that recent improved relationships between institutional and central agency personnel had occurred. These improvements were due to improved communications, better trained and prepared personnel in the Department, and the beginning of efforts by the Department to decrease transaction level reviews and controls on the institutions. Respondents agreed that different perspectives would always influence the relationship between the Department and institutions, but both groups recognized the need and expressed the desire for continuing communications and improvements in the relationships between the Department and institutions.

#### Summary

One of the factors considered in determining the role of the Department of Planning and Budget in shaping public higher education in Virginia was the perception of the Department by officials of the four-year colleges and universities as well as perceptions by officials of selected state agencies. These perceptions were determined by responses to questionnaires sent to representatives of the

colleges, universities, and central state agencies and interviews with selected institutional and agency personnel.

The questionnaire used in this study consisted of four sections. The first section contained general statements designed to solicit opinions of the overall role of the Department in its relationships with the public institutions. This section was answered by both institutional and central agency personnel. The remaining three sections related to the three policies selected for the study. These statements were responded to only by the institutional personnel. The questionnaire was used as the guide for all interviews, with questions generally related to the selected policies asked both institutional and central agency personnel.

Results of the questionnaire survey and the interviews revealed differences between institutional personnel and central agency personnel in their perceptions of the Department of Planning and Budget and the policies included in this study. Differences were revealed in opinions about the relationships between the Department and the institutions, the legitimacy of the policies included in the study, and the benefits derived from the implementation of these policies. Both groups agreed that the acceptance of public funds by the institutions required them to be accountable to the state for use of these funds. The groups indicated that these differing opinions were due in large

part to the different perspective of each group and the difficulty in balancing the state's right to know and its responsibility for the accountability for the use of public funds with the institutions' need for local autonomy and authority. Representatives from both groups agreed that recent improvements in institutional and central agency relationships had occurred. These improvements were due to improved communications, better trained and prepared personnel in the Department, and the beginning of efforts to decrease transaction level reviews and controls on the institutions.

## CHAPTER V

### SUMMARY, CONCLUSION, AND RECOMMENDATIONS

#### Introduction

Current events in higher education, combined with future projections, indicate an increase in state coordination and regulation. In addition to the influence of coordinating and governing boards, reporting and operating requirements for educational institutions as they relate to other state agencies have also increased. The hypothesis for this study was that the Department of Planning and Budget of the Commonwealth of Virginia has been a relatively unnoticed yet potent force in the coordination of public higher education in the Commonwealth.

#### Purpose and Procedures

The primary purpose of this study was to examine the effect of the Department's activities related to the execution phase of the budget cycle. The role of the Department was described in the following manner:

1. An examination of the legislative requirements placed on the Department by the 1976-1984 sessions of the General Assembly.

2. An examination of the relevant policies and directives issued by and through the Department from 1976 to 1984.
3. An examination of the influence of the Department's policies, directives, and functions on the state colleges and universities as perceived by the institutions themselves as well as by key officials of the State Council of Higher Education, the Secretary of Education, and the Department.

#### Summary of Literature Review

The review of the literature indicated the following themes and viewpoints:

1. State coordination of public higher education is a legitimate function of government. If institutions continue to accept the large amounts of state funds appropriated to them, they should expect to be held accountable for the use of these funds.
2. This coordination should be a broad process. The states should exercise restraint in the use of



their power while permitting institutions the autonomy and authority to govern campus affairs.

3. Governors, legislatures, budget offices, and other state agencies and officials have increased their role in the states' oversight of institutions of higher education. This increased involvement has been at the expense of the role of the coordinating agency.
4. The Commonwealth of Virginia budgetary process has been a developmental process and has adhered to a conservative philosophy of economy, efficiency, and pay-as-you-go. This developmental process has resulted in an increasing state involvement in higher education.

The findings of the review of the literature indicated an acceptance by most writers of the legitimacy of state oversight of higher education. Most dissent was based primarily on the degree of oversight and its possible negative impact. While relationships between public institutions and coordinating and governing boards were well defined and discussed, the implications of increased involvement by governors, legislatures, budget offices and

other state agencies was less clear. The review indicated a need for research regarding the role and influence of these other arms of state government with the objective of providing a framework in which public institutions could function in their dealings and relationships with governors, legislatures, and budget offices.

#### Summary of the Study

The state system of higher education in Virginia consists of five doctoral granting institutions, ten comprehensive four-year colleges and universities, and twenty-four two-year colleges. The doctoral granting and other four-year institutions are governed by Boards of Visitors and the community colleges by a Board of Community Colleges. These boards, appointed by the Governor, are the legal entities responsible for the operation of these institutions.

The State Council of Higher Education for Virginia is the state agency with the responsibility for coordinating the Commonwealth's public institutions. Added to the requirements and limitations placed upon the institutions by the State Council are reporting and approval requirements placed upon the institutions by other state agencies. Because this study focused on the Department of Planning and

Budget, research for the study provided background information on the Division of the Budget, the formation and responsibilities of the Department of Planning and Budget, and the policies selected to be included in the study.

The Division of the Budget, the predecessor of the Department of Planning and Budget, was established by the 1927 Reorganization Act and operated independently until it was designated as a unit in the Governor's Office. Several reorganizations of the Division occurred between 1927 and 1969. The official functions of the Division were to advise the Governor concerning fiscal matters and to administer fiscal related activities assigned by statute or by the Governor. Further reorganization brought by the Governor's Management Study in 1970 and the Commission on State Governmental Management in 1973 - popularly called the Hopkins Commission - led to the merger of the Division of the Budget with the Division of State Planning and Community Affairs. The new agency was named the Department of Planning and Budget.

The Department was established by legislation passed by the 1976 General Assembly. Sections 2.1-380 and 2.1-381 of the Code of Virginia grant the powers and establish the duties of the Department. Among the powers was the operation of a system of budgetary execution to assure that agency activities are conducted within fund limitations provided in

the Appropriation Act and in accordance with gubernatorial and legislative intent. It was this power that was the focus of this study.

Review of the Department's documents concentrated on directives related to budget execution activity during the 1976-1984 period of this study. Policies selected for review were those which applied generally to all four-year institutions. Policies related to Nongeneral Funds, Personal Services, and Program Budgeting were included in the questionnaire and interview phases of the study.

In addition to powers and duties established by the Code of Virginia, perceptions of the Department by officials of the institutions and selected state agencies were factors considered in describing the role of the Department in shaping public higher education in Virginia. These perceptions were determined by responses to questionnaires sent to representatives of the colleges, universities, and central state agencies and interviews with selected institutional and agency personnel.

Results of the questionnaire survey and the interviews revealed differences between institutional personnel and central agency personnel in their perceptions of the Department of Planning and Budget and the policies included in this study. Differences were revealed in opinions about the relationships between the Department and the

institutions, the legitimacy of the policies included in the study, and the benefits derived from the implementation of these policies. Both groups agreed that acceptance of public funds by the institutions required them to be accountable to the state for use of these funds. The groups indicated that differing opinions were due in large part to the different perspective of each group and the difficulty in balancing the state's right to know and responsibility for the accountability for the use of public funds with the institutions' need for local autonomy and authority. Representatives from both groups agreed that recent improvements in institutional and central agency relationships had occurred. These improvements were due to improved communications, better trained and prepared personnel in the Department, and the beginning of efforts to decrease transaction level reviews and controls on the institutions.

#### Major Findings

Research for this study provided information which supported the following major findings:

1. State coordination and regulation of higher education was viewed as a legitimate function of state government.
2. The Department of Planning and Budget was not viewed as a positive influence on higher education by college and university personnel. Central agency personnel were neutral in their view of the influence of the Department.
3. Different perspectives caused institutional and central agency personnel to view the Department's policies and directives in a different manner.

Both institutional and central agency personnel viewed state coordination and regulation of higher education as a legitimate function of government. Seventeen of the nineteen respondents to the questionnaire agreed that this function was legitimate. Those interviewed supported the view of this coordination being a result of accepting state funds and being held accountable for the use of these funds. Respondents also agreed that this coordination and regulation should be a broad process, with the institutions retaining authority and autonomy at the institutional level.

These findings are consistent with views expressed in the literature reviewed in Chapter II. The findings of the review of literature left little doubt as to the acceptance by most writers of the legitimacy of state coordination and regulation of higher education. The review also supported the opinion that the coordination and regulation should be a broad process, with any major disagreements based primarily on the degree of state involvement. Findings based on the literature review and the research for this study were consistent.

The finding that the Department of Planning and Budget was not viewed as a positive influence on higher education by college and university personnel was based on questionnaire responses and interviews with the institutional personnel. While five of the twelve institutional respondents were neutral on this point, the other seven agreed that the Department was not a positive influence. Five of the seven central agency respondents were neutral on this point. The major concern was the level of involvement of the Department, viewed as being too detailed and having too much transaction level orientation at the institutional level.

This finding was also consistent with findings from the review of literature. Scully (1982) viewed the increasing role of outside agencies as wearing down internal governance

structures on the campus and Geiogoe (1980), while accepting the state's right to oversee higher education, questioned the extent and nature of this oversight. Detailed controls and actions were viewed as having a negative impact on the institutions, a viewpoint supported by the views of institutional personnel in the population of this study.

Institutional and central agency personnel referred to their different perspectives in viewing the legitimacy and impact of the policies included in the study. Institutional representatives questioned the legitimacy of all three policies, but they were even more concerned with the level of detailed involvement of policy requirements. The emphasis from this group was institutional authority and autonomy. They were willing to provide broad levels of information but disagreed with control measures of the current policies. Central agency personnel emphasized the state's need to know and the need to assure proper utilization of and accountability for public funds as the justification for procedures required by the policies.

This finding is also supported by the review of literature. Furman (1979) and Bowen (1979) emphasized the need to recognize differences and cooperate. Furman presented the view that the best method for improving relationships between higher education and state government was for the institutions to be well-managed and responsive



without giving the impression of arrogance or conceit. Bowen (1979) supported the concept of increased cooperation, calling for a "working relationship" to replace the adversarial attitudes which sometimes existed.

### Conclusion

The hypothesis for this study - the Department of Planning and Budget has been a relatively unnoticed yet potent force in the coordination of public higher education in the state - was supported by the research results. The duties and powers assigned the Department of Planning and Budget by Sections 2.1-380 and 2.1-381 are indicative of the involvement of the Department in the execution of the state budget. The views of the institutional and central agency personnel involved in this study also indicate that the Department has been a potent force in coordinating higher education in the Commonwealth. This is further supported by the concerns expressed by institutional personnel about the level of detail involvement of the Department and the influence of this involvement on the authority and autonomy of the institutions and their Boards of Visitors.

The review of literature and other research for this study did not reveal a great body of information related to budget offices in general or the Department of Planning and

Budget in Virginia in particular. This would indicate that the Department, generally, has been unnoticed. The conclusion that the Department has been a potent force was also supported by the general view of the literature as expressed by the Carnegie Foundation:

There is an increasing tendency in some states for governors, legislative committees, state budget officers, and their staffs to take over the work of regulatory agencies or to go directly to higher education or to ignore the regulatory agency decisions (Carnegie Foundation For the Advancement of Teaching, 1976).

#### Recommendation

Opinions expressed by institutional personnel and central agency personnel revealed disagreement about the degree of state supervision of institutions of higher education, not about the legitimacy of this state supervision. The degree of budget oversight contributes significantly to the communication, or lack thereof, between the central state agencies and the public institutions. A joint study group, consisting of representatives from the central agencies and institutions, should study the relationship between the Commonwealth and its institutions and function in a capacity similar to the Finance Advisory Committee, a committee of institutional representatives

which consults with and advises the State Council of Higher Education staff on matters pertaining to funding guidelines and other financial issues. This study group could exchange views and ideas on policy issues which influence public institutions of higher education, establish a continuing opportunity for communication between central state agencies and the institutions, provide a forum for the discussion of and solution to potential problems caused by proposed policies and procedures, and provide a means for each group to understand the positions and viewpoints of the other group.

#### Recommendations for Further Study

Research for this study revealed possible areas of inquiry for future research as follows:

1. This study focused on the role of the Department of Planning and Budget in the oversight of public higher education in Virginia. However, other state agencies also influence public institutions. What has been the impact of such agencies as the Department of Accounts, Department of Purchases and Supply, Department of Personnel and Training and

others on the operation, authority, and autonomy of public institutions of higher education?

2. Institutional and central agency personnel commented about the possible impact of the Decentralization Study. Governor Baliles appointed a Decentralization Steering Committee in June, 1986, to suggest methods for implementing recommendations from the study. What impact will this process have on the relationships between central state agencies and the public institutions of higher education?

## Appendices

Appendix A

QUESTIONNAIRE ON THE ROLE OF THE  
DEPARTMENT OF PLANNING AND BUDGET IN SHAPING  
PUBLIC HIGHER EDUCATION IN VIRGINIA

The following statements are intended to solicit your opinion and perception of the role of the Department of Planning and Budget in Virginia in shaping public higher education in the state. Following each of the statements choose the response which best expresses the degree of your agreement or disagreement with each of them. The scale of responses ranges from "Strongly Agree" to "Strongly Disagree".

GENERAL

1. If state coordination/regulation of public higher education is viewed as a legitimate function of government, institutions which accept the large amounts of state funds appropriated to them should expect to be held accountable for the use of these funds.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. In Virginia, the Commonwealth has exercised restraint in the use of its power while permitting state institutions the autonomy and authority to govern campus affairs.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 3a. The Governor, General Assembly, and Department of Planning and Budget have increased their role in the state's oversight of higher education during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84). This increased involvement has infringed upon the role of the State Council of Higher Education.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3b. This increased involvement has infringed upon the role of the Boards of Visitors of the state institutions.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

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4. Malcolm M. Scully (1982), in reviewing the Carnegie Foundation for the Advancement of Teaching report Control of the Campus, made the following statement:

"The ever increasing role of outside agencies in campus matters is gradually wearing down internal governance structures. As leadership is diminished, power and initiative flow even more rapidly to bureaucracies outside."

This statement accurately reflects the trend in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

5. The Carnegie Foundation for the Advancement of Teaching (1982) recommended that states encourage good management by permitting administrative decisions to be made as close as possible to the point where they are to be carried out.

Strongly Agree Agree Neutral Disagree Strongly Disagree



Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. The Governor and General Assembly should continue to delegate to the Department of Planning and Budget in regard to the oversight of public higher education in Virginia.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. The Department of Planning and Budget has generally been a positive influence in the oversight of public higher education in Virginia during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84).

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. Budget analysts, section chiefs, and administration of the Department of Planning and Budget have generally demonstrated an understanding of the requirements and restraints placed upon public institutions of higher education in Virginia by the Department's policies and directives.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 9. Generally, policies and directives of the Department of Planning and Budget during the last four biennia (1976-78, 1978-80, 1980-82, 1982-84) have not infringed upon the institution's autonomy and authority to govern campus affairs.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

NONGENERAL FUND REVENUES

In response to a requirement in the 1978 Appropriation Act, Department of Planning and Budget Temporary Directive 9-78 was issued on August 17, 1978. This provision of the act prohibited the expenditure of nongeneral funds not included in the act without the prior written approval of the Governor.

This directive established procedures for requests for the appropriation of nongeneral fund revenues in excess of the amounts included in the appropriation act. The policy indicated the department would use "considered restraint" in recommending approval of such requests and placed the "burden for adequate justification" on the requesting agency.

- 1. Department of Planning and Budget Temporary Directive 9-78 is an example of legitimate state oversight of public institutions of higher education.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

- 2. This directive may be categorized as part of the broad process of state oversight and did not infringe upon state institutions' autonomy and authority to govern campus affairs.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. The policy established by Temporary Directive 9-78 infringed upon the authority of the Board of Visitors of the public institutions to set tuition and fee charges by potentially denying institutions the use of these revenues if they exceeded the appropriated amount.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Requirements of this directive resulted in increased expenses and/or workloads at the institutional level without increased resources (funds and/or personnel) to meet these additional requirements.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. The Department of Planning and Budget provided sufficient advice and assistance in helping institutions of higher education meet the requirements of this policy.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. The policy established by this directive was a beneficial management tool for the public institutions of higher education.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

PERSONAL SERVICE FUNDS

Pursuant to Secretary of Administration and Finance Directive No. 6, June 1, 1978, Department of Planning and Budget Directive No. 6 was issued on November 24, 1978. This directive established the policy that "funds encumbered for personal service or employee benefits cannot be used for any other purpose without recommendation to the appropriate Secretary by the Department of Planning and Budget and the concurrence of the Secretary." Requests for changes in encumbrances were to be submitted to the Director, Department of Planning and Budget, accompanied by a detailed justification of the need for the change and a detailed explanation of the implications of disapproval.

1. Department of Planning and Budget Directive No. 6 is an example of legitimate state oversight of public institutions of higher education.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. This directive may be categorized as part of the broad process of state oversight and did not infringe upon state institutions' autonomy and authority to govern campus affairs.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

---

---

3. Requirements of this directive resulted in increased expenses and/or workloads at the institutional level without increased resources (funds and/or personnel) to meet these additional requirements.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

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---

4. The Department of Planning and Budget provided sufficient advice and assistance in helping institutions of higher education meet the requirements of this policy.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

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5. The policy established by this directive was a beneficial tool in the management of public higher education institutions.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

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PROBUD

The 1975 session of the General Assembly enacted legislation which was designed to provide for the Virginia

budget to be formulated, presented, and appropriated on a programmatic basis. In response to this legislation, the Department of Planning and Budget developed a computerized program budget system (PROBUD). The first part of the system to be implemented was that which supported budget execution for the 1980-82 biennium and provided requirements, forms, and procedures for allotment requests, initial operating plans, and requests for adjustments to appropriations, allotments, and operating plans. Those portions of the system which supported central and agency planning and other budget preparation activities were implemented for the 1982-84 biennium.

- 1. The Department of Planning and Budget PROBUD system is an example of legitimate state oversight of public institutions of higher education.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

- 2. This system may be categorized as part of the broad process of state oversight and did not infringe upon state institutions' autonomy and authority to govern campus affairs.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

- 3. Requirements of this system resulted in increased expenses and/or workloads at the institutional level without increased resources (funds and/or personnel) to meet these additional requirements.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

\_\_\_\_\_

---

4. The Department of Planning and Budget provided sufficient advice and assistance in helping institutions of higher education meet the requirements of this system.

Strongly Agree Agree Neutral Disagree Strongly Disagree

Comments: \_\_\_\_\_

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5. The PROBUD system was a beneficial management tool for public institutions of higher education.

Strongly Agree Agree Neutral Disagree Strongly Disagree

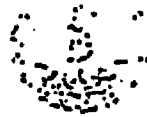
Comments: \_\_\_\_\_

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**Appendix B**





# COMMONWEALTH of VIRGINIA

Department of Planning and Budget

445 Ninth Street Office Building

JOHN R. McCUTCHEON  
DIRECTOR

POST OFFICE BOX 1477  
RICHMOND VIRGINIA 23211  
(804) 786 2134

August 17, 1978

TO THE HEADS OF ALL STATE AGENCIES:

Department of Planning and Budget Temporary Directive No. 9-78

Nongeneral Fund Revenues in Excess of Appropriation Act Item Amounts, 1978-80 Biennium

PA  
SA  
FB  
RC  
LC  
BC  
JC  
JD  
E  
HG  
JH  
LH  
SJ  
PL  
HL  
RK  
M  
AM  
ICH  
CRO  
CVR  
JOR  
JCT  
AWT  
JAN  
NW  
FILE

1. Legislative and Executive policies require considered constraint in the approval of unanticipated, or "excess," nongeneral fund revenues pursuant to the General Provisions of the 1978 Appropriation Act. Policies thus far have been stated in Item 622.1, 1978 Appropriation Act, and in memorandums to institutions of higher education. The following additional guidance is provided, the burden for adequate justification resting upon the requesting agency when submitting DPB Forms G31 and G33 to effect appropriation of "excess" revenues.
2. Appropriation of "excess" revenues will be considered when they are derived from:
  - a. approved (DPB Forms 16, 16-A and 16-B) gifts, grants, donations, and contracts, pursuant to Department of Planning and Budget Directive No. 1, dated February 2, 1978.
  - b. user charges/commodity sales (e.g. Auxiliary Enterprises and Public Service activities in institutions of higher education, industries) for which there is an income/expenditure relationship.
  - c. sale of surplus property, within the limits described in Secretary of Administration and Finance Directive 5-78 and in Section 4-3.03, 1978 Appropriation Act.
  - d. insurance recoveries, within the limits described in Section 4-3.04, 1978 Appropriation Act.
  - e. federal formula funds and supplements thereto.
  - f. assessments authorized by the Code of Virginia for support of specified programs.

(Over)

2. other sources, which should be discussed with the Department of Planning and Budget.
3. In reviewing requests for appropriation of such revenues, factors considered will include:
  - a. requirements for salary scale adjustments, employee benefits and other unbudgeted costs within the total program affected;
  - b. any commitment stated or implied for the State to continue the support of any program added or expanded in scope, quality or work load from the "excess" revenues.
  - c. a resulting reduction in the general fund appropriation for the program pursuant to Sections 4-2.02 and 4-2.03, 1978 Appropriation Act.
4. When "excess" revenues are appropriated, the approval will not constitute relief from review procedures for new positions.

*John R. McCutcheon*  
John R. McCutcheon

Appendix C



# COMMONWEALTH of VIRGINIA

Department of Planning and Budget

Stuart W. Connock  
Director

November 24, 1978

IV  
AJ - GLC  
CO - CVR  
ED - JBC  
CG/T - CRD  
HRS - ELR  
MIS - JOE  
RED - WRC

D/P - WBR  
Post Office Box 1427  
Richmond 23211  
(804) 785 315

TO THE HEADS OF ALL EXECUTIVE DEPARTMENT AGENCIES:

Department of Planning and Budget Directive No. 6

Personal Service and Employee Benefit Encumbrance Changes

1. References

This directive is issued:

- a. with the concurrence of the Department of Accounts (DOA).
- b. pursuant to Secretary of Administration and Finance Directive No. 6, June 1, 1978, Paragraph C 3 of attachment thereto entitled "Statewide Manpower Utilization Policies and Procedures."

2. Policy

Pursuant to Directive No. 6, funds encumbered for personal service or employee benefits cannot be used for any other purpose without recommendation to the appropriate Secretary by DPB and the concurrence of the Secretary.

3. Procedure

- a. Requests for changes (increases or decreases) in either personal service or employee benefit encumbrances should be sent directly to the Director, DPB, accompanied by a detailed justification of the need for the change and a detailed explanation of the implications of disapproval, and two copies of completed Form DA-02-179 to effect the requested action. DPB will forward the request to the Secretary with its recommendation.

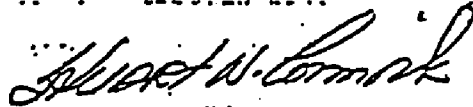
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TO THE HEADS OF ALL EXECUTIVE DEPARTMENT AGENCIES

Page 2

November 24, 1978

- b. If the request is approved by the Secretary, DPB will provide the completed encumbrance order forms (both copies) to DOA, with a notation of approval for action.
- c. If the request is disapproved by the Secretary, DPB will return the encumbrance forms to the agency with notification of the disapproval.
- d. Send requests for decreases which are offset by increases in other agency programs directly to the Director, DPB, as a package, for approval action as described in the preceding subparagraphs.
- e. Send directly to the Preaudit Division, DOA, encumbrance orders involving other types of actions, as described in Section 53 of the Manual, "Commonwealth of Virginia - Accounting Policies and Procedures," issued by the State Comptroller.



Stuart W. Connock

cc Mr. Vincent J. Pross, Jr.  
Acting State Comptroller

Appendix D



# COMMONWEALTH of VIRGINIA

*Department of Planning and Budget*

Stuart W. Connock  
Director

Post Office Box 1472  
Richmond 23211  
854 7663154

April 18, 1980

TO THE HEADS OF ALL STATE AGENCIES:

As you are aware, a computerized program budget system (PROBUD) is being developed by the Department of Planning and Budget. This system will be implemented using a phased approach over the next 18 months. The first portion of the system to be implemented is that which supports budget execution for the 1980-1982 biennium. Subsequently, those portions of the system which support central and agency planning and other budget preparation activities for the 1982-1984 biennium will be implemented. This implementation schedule was developed to ensure that budget execution data from the 1980-1982 biennium will be available as a planning base for the 1982-1984 and future biennia.

Throughout the implementation phases of PROBUD, a series of training sessions will be conducted to give agencies the information and instruction necessary for completing input forms and for using reports generated by the system. The first set of training sessions, to be conducted April 28 - May 1, 1980, will include an overview of the entire PROBUD system and training in the preparation of forms for the budget execution cycle of PROBUD, which will be operational by July 1, 1980. The processes of the budget execution which will be specifically addressed in the first training session are:

- . allotment requests;
- . initial operating plans; and
- . requests for adjustments to appropriations, allotments, and operating plans.

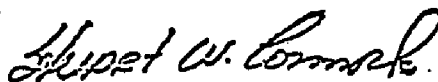
Background information for this training session is included in this package:

- . an agenda;
- . an overview of the PROBUD system; and
- . learning objectives for the training session.

We hope that you and those representatives of your agency who will participate in the training session can review these materials prior to the meetings.

Within the next few days, you will be receiving a separate package which contains the forms for initial appropriations, allotments, and operating plans along with specific instructions for completing them. The training session will provide additional assistance in the preparation of these input forms.

We look forward to working with you on the implementation of this important project.



Stuart W. Connock

Attachments

cc: Secretary Charles B. Walker  
Secretary H. Selwyn Smith  
Secretary George M. Walters  
Secretary Jean L. Harris  
Secretary J. Wade Gilley  
Secretary Maurice B. Rowe



PROBUD

AGENCY TRAINING SESSION NO. 1

AGENDA

APRIL 28, 1980 - MAY 1, 1980

I. Introduction

- Opening Remarks
- Introduction of DPB and Agency Advisory Groups, and Trainers
- Objectives of Training Session
- Agenda for Training Session

II. Overview of the PROBUD System

- Program Budgeting Process
- PROBUD System Cycles
- Key Features of the PROBUD System

III. Annual Operating Plan (DPB Form 25) and Allotment Request (DPB Form 26) Turnaround Documents

- Overview of the Process
- Agency Reconciliation Procedures.
- Examples
- Policy Issues

IV. Appropriation/Allotment/Operating Plan Adjustment Request Form (DPB Form 27)

- Overview of the Process
- Agency Adjustment Request Procedures
- Examples
- Policy Issues

V. Synopsis

## COMMONWEALTH OF VIRGINIA

### OVERVIEW OF THE PROGRAM BUDGET SYSTEM (PROBUD)

#### BACKGROUND

In February, 1975, the General Assembly of the Commonwealth of Virginia enacted legislation mandating the adoption of a program budgeting approach to allocation of the Commonwealth's resources. The General Assembly's intent was to establish "a mechanism by which goals, objectives, programs, and resources can be organized, analyzed and summarized for presentation to State policy makers (Executive and Legislative) to provide them with a more objective basis for decision-making."

As the new program budgeting process began to take shape, it became obvious to the Commonwealth's financial executives that existing data processing systems could not support the new process. A new system was needed, and in March, 1979, the development of the PROBUD system was initiated. The new system is designed to support the development and management of a biennial budget of greater than \$11 billion for the more than 240 State agencies, institutions, and organizations receiving State funds.

#### PLANNING AND BUDGETING PROCESS

The planning and budgeting process developed by the Commonwealth is a cyclical process which can be outlined in ten principal steps:

1. Statewide Guidance Package - A top-down statement of policies and goals for the Commonwealth developed by the Governor, his Secretaries and the Department of Planning and Budget (DPB).
2. Agency Needs Assessment - In this step the agencies assess long-range needs for services to be rendered and the corresponding resource requirements for provision of those services.
3. Program Proposals - The needs assessment process culminates with the development of program proposals: statements of proposed levels of services to be rendered and of resource needs for the next six years.
4. Biennial Targets - After analyzing the program proposals submitted by the agencies and considering the projected level of resources to be available, the Governor, with the advice of his Secretaries and DPB, establishes service level, spending and personnel targets for each agency for the upcoming biennium.
5. Biennial Budget Submissions (Financial and Addendum Proposals) - Based on its established resource targets, each agency then develops a detailed financial proposal for resources needed during the next biennium.
6. Executive Budget - The budget submissions are examined and analyzed by the Governor, his Secretaries and DPB. When the analysis is complete, an Executive Budget and a proposed Budget Bill are submitted to the General Assembly.

7. Legislative Appropriations - The General Assembly reviews the agencies' budget submissions and the Governor's budgetary recommendations, makes desired amendments and adopts an Appropriation Act for the next biennium.
8. Detailed Annual Operating Plan and Allotment Requests - Based on the Appropriation Act, the agencies develop a detailed annual operating plan; this plan serves as a spending benchmark as the agencies expend resources and deliver services.
9. Delivery of Services - This step is ongoing throughout the biennium as the agencies provide services according to their established operating plans.
10. Evaluation of Results - Also ongoing throughout the biennium, results are continually analyzed and monitored both by the agencies and by DPB to assure that resource limits are not exceeded and services are provided as planned.

The PROBUD system has been designed to support all steps of the planning and budgeting process described above. Based upon analyses of information processing and reporting requirements within each stage of the agency planning and management process, four primary cycles were identified within which the PROBUD system will operate. The specific relationships between the steps in the planning and budgeting process and the PROBUD system cycles are depicted in Figure 1.

OVERVIEW OF PROBUD PROCESS

<u>PROBUD Cycle</u>	<u>Steps in the Budget Process</u>
Cycle I - Central and Agency Planning	1. Statewide Guidance Package 2. Agency Needs Assessment 3. Program Proposals 4. Biennial Targets
Cycle II - Agency Request and Executive Review	5. Biennial Budget Submission (Financial and Addendum Proposals) 6. Executive Budget
Cycle III - Legislative Review	7. Legislative Appropriations
Cycle IV - Central and Agency Execution	8. Annual Operating Plan and Allotment Requests 9. Delivery of Services 10. Evaluation of Results

The Department of Planning and Budget has defined the budget development process in terms of five phases, whereas the PROBUD system operates with four major budget cycles. The previously defined phases of the budget development process and the new PROBUD cycles are shown below:

<u>Phase</u>	<u>Prior DPB Definition</u>	<u>Cycle</u>	<u>New PROBUD System</u>
I	Central and Agency Planning Phase	I	Central and Agency Planning
II	Agency Preparation Phase	II	Agency Request and Executive Review
III	Executive Review Phase		
IV	Legislative Review	III	Legislative Review
V	Central and Agency Execution Phase	IV	Central and Agency Execution

The only difference between the PROBUD system cycles and DPB's budget phases is that DPB's Phase II (Agency Preparation Phase) and Phase III (Executive Review Phase) are consolidated in the PROBUD system's Cycle II (Agency Request and Executive Review).

## KEY FEATURES OF THE PROGRAM BUDGET (PROBUD) SYSTEM

Key features of the PROBUD System are described below:

- o PROBUD supports the production of the major outputs of the budgeting process. The following outputs of each cycle will be produced by PROBUD:

Cycle I -- Program Proposals and Targets;

Cycle II -- Financial and Addendum Proposals, Executive Budget;

Cycle III -- Budget Bill, Appropriation Act; and

Cycle IV -- Agency Operating Plans, Allotments, Variance Reports.

- o PROBUD has the capability to store and maintain key resource inputs for reporting:

- Funding, both revenue and expenditure amounts;
- Employee position data;
- Output performance measures;
- Clients, or people served, in a program area, and
- Physical facilities data.

For the 1980-82 biennium, only funding and position data will be maintained by PROBUD. Capability for the other inputs will be added in future years.

- o PROBUD provides reporting flexibility with a report generator capable of producing various types of reports:

- Detailed reports for analysts,
- Intermediate and high-level summary reports for middle management and top management,
- Standard edit and control reports, and
- Budget preparation turnaround documents.

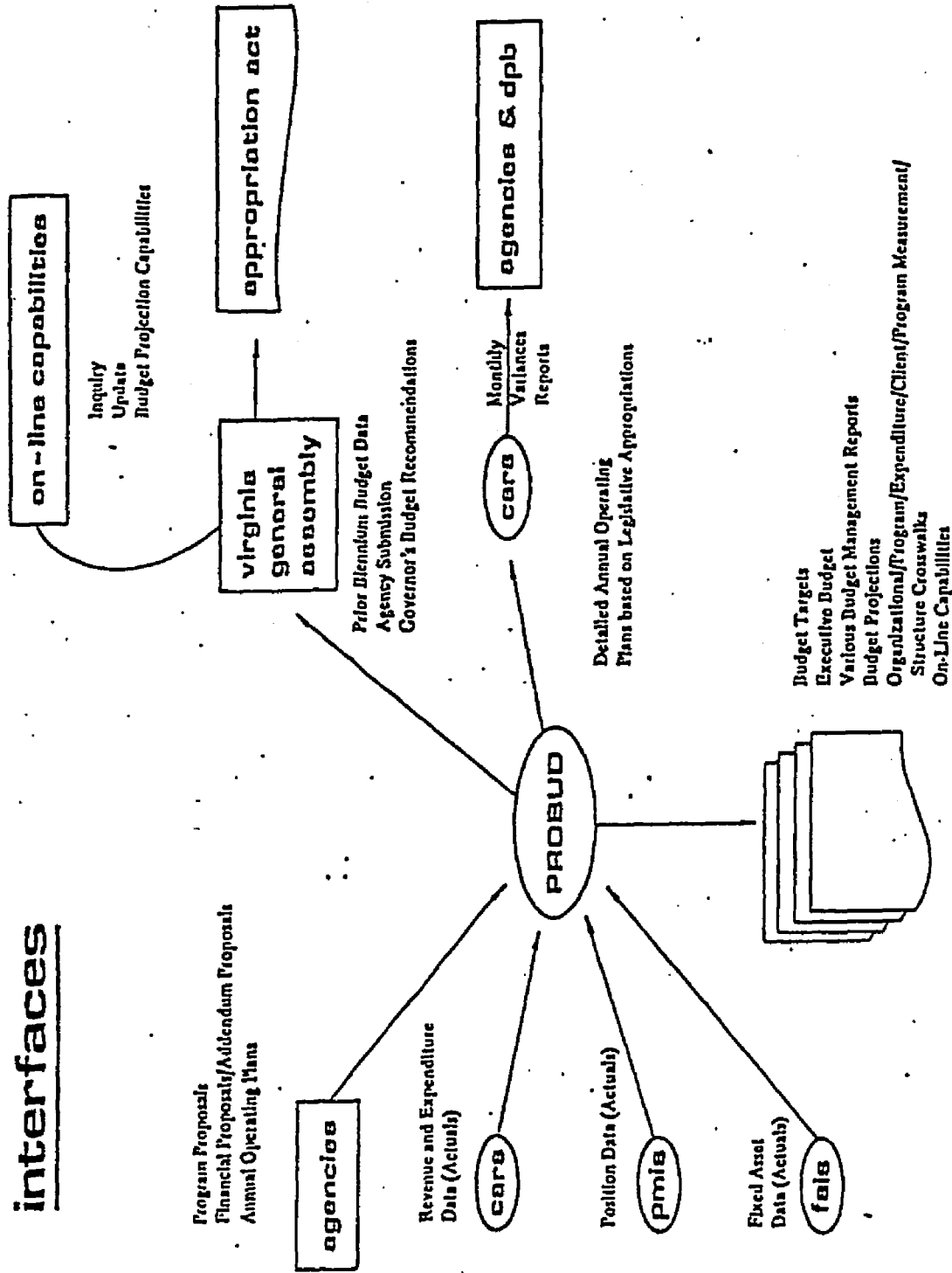
- o PROBUD provides automated linkages (interfaces) with major agency and statewide systems including CARS and PMIS;
- o PROBUD provides for operating and fixed asset budgeting;
- o PROBUD provides automated budget projection capabilities that can be used to simulate alternative budgetary strategies.

Figure 2 presents a conceptual overview of inputs, outputs, and interfaces provided by PROBUD.

In summary, PROBUD is both a budget development and a management system. It provides a base of current and historical information to assist in decision making related to the allocation of resources by program.



# interfaces



PROBUD

LEARNING OBJECTIVES FOR AGENCY TRAINING SESSIONS

April 28, 1980 - May 1, 1980

I. Overview of the PROBUD System

- o to understand the budget process steps in each of the PROBUD System cycles
- o to understand the key features of PROBUD

II. Cycle IV Turnaround Documents

- o to understand the purpose of the Cycle IV Turnaround Documents
- o to understand how and when the Turnaround Documents will be used
- o to learn how to complete the Annual Operating Plan Turnaround Document
- o to learn how to complete the Allotment Request Turnaround Document
- o to understand new policies related to appropriations, allotments, and operating plans

III. Appropriation/Allotment/Operating Plan Adjustment Request Form

- o to understand the purpose and scope of the Adjustment Request Form
- o to understand general concepts related to the design of the form
- o to learn how to complete the form by understanding four examples:
  - an additional revenue appropriation;
  - a legislative amendment;
  - an appropriation transfer; and
  - a change in operating plan.

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## Abstract

### THE ROLE OF THE DEPARTMENT OF PLANNING AND BUDGET IN SHAPING HIGHER EDUCATION IN VIRGINIA

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The College of William and Mary in Virginia

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The purpose of this study was to examine the role of the Department of Planning and Budget in Virginia in coordinating and regulating public institutions of higher education. The study focused on the impact of the Department's activities related to the execution phase of the budget cycle. It was hypothesized that the Department had been a relatively unnoticed yet potent force in the coordination of public higher education in Virginia.

The role of the Department was determined by 1) an examination of the legislative requirements placed on the Department by the 1976-1984 sessions of the General Assembly, 2) an examination of the relevant policies and directives issued by and through the Department from 1976 to 1984 and 3) an examination of the impact of the Department's policies, directives, and functions on the state colleges and universities as perceived by institutional personnel and personnel of central state agencies. These perceptions were determined by questionnaires sent to all four-year institutions and central state agency personnel and interviews with representatives of these two groups.

It was found that 1) state coordination and regulation of higher education was viewed as a legitimate function of state government, 2) the Department of Planning and Budget was not viewed as a positive influence on higher education by college and university personnel, 3) different perspectives caused institutional and central agency personnel to view the Department's policies and directives in a different manner; and concluded that the Department had been a relatively unnoticed yet potent force in the coordination of public higher education in Virginia.

Further study is needed to determine the role of other central state agencies in regulating higher education and the impact of recommendations of a Decentralization Steering Committee appointed by Governor Baliles in June, 1986.