

**MODERNIZING FINANCIAL
MANAGEMENT FOR
HUNGARIAN LOCAL
GOVERNMENTS**

**PILOT YEAR SEMINAR:
MARCH 13, 1997**

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TABLE OF CONTENTS

AGENDA	1
Relationship of Budgeting to Accounting: Panel Discussion	1
Exercise	3
Local Government Feedback on the Program	3
Guest Speaker	5
CLOSING CEREMONY	6
CONCLUSIONS	6
ANNEX A	9

MODERNIZING FINANCIAL MANAGEMENT FOR HUNGARIAN LOCAL GOVERNMENTS

PILOT YEAR SEMINAR: MARCH 13, 1997

This report briefly describes the March seminar on *Modernizing Financial Management for Hungarian Local Governments*. The program aims at providing financial officers of Hungarian local governments with skills and information to help them improve budgeting and financial management within their cities. The March seminar was the sixth and last seminar of the pilot year program, which extended from June 1996 - March 1997.

The one day seminar was held on March 13, 1997 at Hotel Rubin in Budapest. The agenda, list of participants, and course material handed out to participants are included in Annex A. Ten local governments attended the March seminar. Table 1 shows the list of local governments who have attended the six pilot year seminars. The participating local governments represent a wide range of size and location, ranging from large cities such as Győr and Pécs to the smaller towns of Püspökladány and Orosháza.

AGENDA

The program started with an introduction and follow up of the last meeting by Mr. József Hegedüs from the Metropolitan Research Institute (MRI) in Budapest. Mr. Hegedüs stated that even though this seminar was the last of the pilot year seminars, the program would continue for another two years. The 1997—1998 program will have three important new elements: (1) The program would be structured along sectoral lines, and participants could choose among 4 sectors to initiate program budgeting—housing, social policy, education and city management, (2) Local governments would be charged a nominal fee to participate in the program, and (3) It was strongly recommended that the municipal finance officer be accompanied by the sector head (of the sector chosen by the local governments for program budgeting) to the seminars.

Relationship of Budgeting to Accounting: Panel Discussion

The introduction was followed by a panel discussion on the relationship of budgeting to accounting. The panel comprised of Ms. Lászlóné Gubányi from the Ministry of Finance, Mr. Géza Juhász, finance officer from the city of Miskolc, Mr. József Kéri, finance officer from Szolnok, and Mrs. Bartus from the Regional Financial Information Center of Győr-Sopron county. As moderator for the panel discussion, Mr.

Hegedüs introduced the issues concerning program budgeting and accounting. He stressed that program budgeting can be efficiently and effectively implemented only if accounting principles are well known and adaptable. The development of a program structure also requires a good data base with information on program performance. The panel would therefore address the following questions in their discussion. (1) Is there conflict between budgetary information required by the central versus local governments? (2) Are there data/information that are very difficult to collect or that are not used under the current accounting system? (3) Can the information requirements of the central and local governments be linked? (4) Is there a need for a new accounting system?

Ms. Lászlóné Gubányi started the discussion. She said that in traditional budgeting practice, planning is separate from implementation. However, budgeting is a continuous process of evaluating if goals are being met. This central government objective is now being reconfirmed by the new program budgets of the local governments. According to Ms. Lászlóné Gubányi, there is an insufficient link between current accounting and budgetary practices, and she also stressed that it is important to distinguish between expenditure and cost based accounting (she assumed that local governments were following an expenditure based accounting system—since the current Hungarian cash-flow approach to accounting is expenditure based). Program budgeting has a special structure—a focus on programs rather than special duties of different departments—which gives rise to the need for program financing. However, Ms. Lászlóné Gubányi felt that the current sixth category of accounting could be used to capture the information produced and needed by a program based budget.

From January 1997, the central government has been keen to incorporate the accounting system of the European Union, since the current Hungarian system of accounting does not lend itself to easy comparisons across countries. The new central treasury system in Hungary, which is based on time related financing (13 annual instalments), may give rise to some conflicts in a program based budget, which might require extra financing at certain times of the year.

Mr. Géza Juhász commented that Hungary had moved away from a cash flow approach to accounting to a management approach; however, in 1982 cash flow accounting was reinstated. The central budget is therefore based on a cash flow system. According to Mr. Juhász, cash flow accounting does not provide sufficient information/data for tasks or programs, and budgeting should focus on the financing of tasks that are subject to a tender, rather than the financing of institutions. Other points



stated by Mr. Juhász were that task related financing (the treasury system) is difficult to implement, and that the central government budget requires less detail than local government budgets. Mr. Juhász concluded by saying that reforms are not required in the current accounting process to fully realize the information needs of a program based budget.

Mr. József Kéri was the next discussant. He said that the aim of program budgeting was to change the traditional attitude towards budgeting. It was a move away from line-item budgeting to an emphasis on results/performance and achievements of expenditures. According to Mr. Kéri, program financing helps facilitate a finance officer's work in the office of the Mayor. Mr. Kéri also felt that the current accounting system in Hungary can capture all the information requirement of a program budget. The use of computers can support both the accounting system and program budgeting.

The conclusions of the panel discussion were as follows:

- The cash flow approach to accounting makes it easier to collect expenditure data, which is the basis of a program based budget.
- The current cash flow system is adaptable enough to deal with the data needs of a program budget and does not need any accounting Act to increase its flexibility.
- The treasury system, which is based on net financing, will make program budgeting (which focuses on expenditures) more difficult.

Exercise

Following the panel discussion Mr. Edward A. Lehan and Mr. Philip Rosenberg (Urban Institute (UI) consultants) made a presentation on work plans and budget monitoring. They outlined the relationship between budget monitoring and implementation and work plans. Mr. Lehan gave examples of several work plans and also discussed the importance of performance measurement and data collection during the budget implementation process.

Local governments then applied the concepts of work plans and budget implementation and monitoring in an exercise. They specified the hours of work or cost of different activities and/or tasks for a full fiscal year. They also specified output targets and performance ratios.

Local Government Feedback on the Program

Ms. Katalin Pallai (local Hungarian trainer) moderated the feedback from the participants on the *Modernizing Financial Management for Hungarian Local Governments* program. Even though evaluation of the program had been conducted in previous seminars, it was felt that it would be appropriate to get a comprehensive feedback on completion of the program. Ms. Pallai broke up the participants into four groups, and asked each group to comment on one of the following categories: program components, program audience/participants, organizational issues, and other issues. Each group made comments on their category and then other participants were encouraged to make other suggestions. Following are the participant comments on each category.

Program Component

- ! Decision making mechanisms (non-financial information) and financial and technical information were combined well. However, more non-financial information would also be welcomed.
- ! The proportion of theory and exercises/case studies was good. But there was a suggestion to make the case studies more relevant. For example, more European and fewer American case studies should be used.
- ! Background reading material that had been adjusted to the Hungarian context was the most useful.
- ! The role playing exercise was the best part of the training. It was held at a perfectly appropriate period of the local budget cycle when finance officials could practice their real life experience.
- ! Homework assignments were very relevant. They gave participants the opportunity to use the information and training from the seminar and apply it to their own circumstances.

Participants

- ! Local governments that had both the finance officer and department heads attending the seminars benefited the most from the training.
- ! At times, the non-financial colleagues or department heads had difficulty in understanding the technical material.

Organizational Issues



- ! The program should include more field trips to the localities by the trainers.
- ! Technically the seminar was very well organized. The material provided was of very high quality, and the practical side well emphasized.
- ! It would be best to have 2 day seminars each time.
- ! It would be useful to summarize the material presented each day. For example, to have a brief session on “lessons of the day.”
- ! It was suggested to change the venue away from Budapest to other cities each time.
- ! It was felt that it was sufficient to receive the training material at the seminar itself.
- ! Participants felt that the seminars gave them an opportunity to network and make friends with other finance officers.

Other Issues

- ! It was suggested that a longer bibliography should be provided on each topic covered. The material/literature could be kept at MRI, and participants given the opportunity to request additional readings.
- ! The program should focus more on sectoral issues. More sectoral professionals should be incorporated as trainers/presenters.
- ! Participants would like to see the budgets of other local government who have made progress on program budgeting. Also cities should be requested to present elements of their budget at the seminars.
- ! The best days of the week to have the seminar are Wednesdays and Thursdays.

Guest Speaker

The guest speaker for this closing seminar was Mrs. Kuzstos, head of the Municipal Finance Department at the Ministry of Interior. Mrs. Kuzstos discussed current issues in the Hungarian municipal subsidy system, the new law on municipal insolvency which came into force in 1996, and a few “bankruptcy” cases of local governments.

She summarized the main points of the 1997 budget, and future plans of the Ministry of Interior regarding addressed and targeted subsidies. The following comment was made on addressed subsidies: “This is set up for subsidizing few, but costly investments. However, we should set some cost-limits in the law, e.g. parliamentary decisions should be made only for project appraisals with total investment costs greater than 200 million HUF. Decisions on smaller projects can be handled by the new County Development Councils.” Regarding targeted subsidies, Mrs. Kuzstos stated that the involvement of medium level agencies, i.e. County Development Councils, has been raised and is currently under discussion.

Mrs. Kuzstos was personally involved in the team preparing the Bankruptcy Act and was emphatic about its necessity and usefulness. The bankruptcy law is relatively new in Central and Eastern Europe, and not yet prevalent in Western-Europe. The lessons learned from the 7 municipal bankruptcy cases (5 had already existed before the acceptance of the Law) are still not clear, as each case has been different and in some cases extreme.

Participants raised several questions after Mrs. Kuzstos’s speech. One participant questioned the advantages of the Hungarian process of decentralization, especially concerning its transparency, and strategic/conceptual decision-making. Mrs. Kuzstos replied that decentralization makes decision making closer to the information base, but the arguments raised were relevant.

CLOSING CEREMONY

The closing ceremony of the pilot year of the *Modernizing Financial Management for Hungarian Local Governments* program was presided over by Mrs. Kuzstos and Mr. Thomas F. Cornell, the AID Representative to Hungary. Each local government representative made a brief 3-5 minute speech on the impact of this program on their 1997 budgets. This was followed by a speech and then a handing out of certificates to each participant by Mr. Cornell.



In his speech, Mr. Cornell commended the participants on their commitment and hard work in bringing about change in their budgeting process. He reminded them that the recent autonomy given to local governments implied increased responsibility of finance officers to become effective financial managers and increased citizen rights to demand the best of their government. He stressed that partnerships formed with neighboring colleagues during the course of this three year program would continue to grow and support local governments long after USAID had finished its term in Hungary. Finally, he confirmed the ties between the United States and Hungary, and expressed hope that the next two years of this program would deepen and increase the collaborative efforts of the two countries.

CONCLUSIONS

The closing ceremony was followed by a reception to celebrate the successful end of the pilot year program. The local governments were highly appreciative of the program and their own achievements. It was announced that the next program cycle would begin in May and end in March 1998 with a series of six 2-day seminars during the course of the year. All participants were strongly encouraged to join the program again and recruit other and neighboring cities to also join the program.

Table 1
List of Cities Participating in the Pilot Year Seminars on Modernizing Financial Management for Hungarian Local Governments

No.	Cities	Population	June 27, 1996	September 12-13, 1996	October 30-31, 1996	December 5-6, 1996	January 14, 1997	March 13, 1997
.	Baja	39,800	✓	✓	✓	✓	✓	✓
.	Budapest District VIII	40,042		✓	✓			
.	Budapest District XIX	78,400	✓	✓	✓			
.	Debrecen	24,900	✓	✓	✓	✓		
.	Debrecen	9,500	✓					
.	Derecske	5,201		✓				
.	Dunavarsány	61,400	✓					
.	Eger	131,100		✓	✓	✓	✓	✓
.	Győr	23,387			✓	✓	✓	✓
.	Hajdúszoboszló	6,100	✓	✓			✓	✓
.	Jászládány	7,900	✓					
.	Kistelek	53,353			✓		✓	✓
.	Nagykanizsa	34,600	✓	✓	✓	✓	✓	✓
.	Orosháza	167,400	✓	✓	✓	✓		✓
.	Pécs	17,000	✓	✓	✓	✓	✓	✓
.	Püspökladány	33,000	✓	✓	✓	✓	✓	✓
.	Szentes	85,200	✓	✓				
.	Szombathely	81,500	✓	✓	✓	✓	✓	✓
.	Szolnok	62,485		✓		✓		
	Zalaegerszeg							

ANNEX A

United States Agency for International Development
**MODERNIZING FINANCIAL MANAGEMENT FOR
HUNGARIAN LOCAL GOVERNMENTS**

*Hotel Rubin, 1118 Budapest, Dayka Gábor u. 3
May 14-15, 1997*

TABLE OF CONTENTS

Agenda

List of Participants

A. Transparencies

A.1 Work Plans and Budget Monitoring

B. Exercise

B.1 An Exercise in Work Plan Formulation

B.1.1 "A Note on Work Plans" by Edward A. Lehan

B.1.2. "A Note on Performance Review Procedures" by Edward A. Lehan

B.1.3 Work Plan - City of Padang, Indonesia

B 1.4 Work Plan Worksheet

C. Background Reading

C.1 Model Performance Review Regulations by Edward A. Lehan

C.2 Example of Performance Review Report

C.3 "Implementing and Monitoring the Budget." Chapter 6 from The Operating Budget. A Guide for Smaller Governments by Juliet Carol Powder. Government Finance Officers Association 1996.

C.4 "The Budgeting Process." Chapter 9 from Accounting Issues and Practices. A Guide for Smaller Governments by Gregory S. Allison. Government Finance Officers Association 1996.

C.5 "Financial Reporting." Chapter 11 from Accounting Issues and Practices. A Guide for Smaller Governments by Gregory S. Allison. Government Finance Officers Association 1996.

C.6 "Linkages between Budgeting and Other Fiscal Systems." Chapter 5 from *Linkages* by Frederic O. R. Hayes, David A. Grossman, Jerry E. Mechling, John S. Thomas and Steven J. Rosenbroom. The Urban Institute. 1982

C.7 "Productivity Monitoring: Systems, Indicators, and Analysis." by Theodore H. Poister in *Public Productivity Handbook* edited by Marc Holzer. 1992. New York: Marcel Dekker, Inc.

C.8 "Accounting Support for Results Oriented Budgeting" by Edward A. Lehan

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Agenda
MODERNIZING FINANCIAL MANAGEMENT
FOR HUNGARIAN LOCAL GOVERNMENTS

March 13, 1997, Budapest
Hotel Rubin, 1118 Budapest, Dayka Gábor u. 3

- | | |
|-------------------------------|---|
| 9.30 - 10.00 a.m. | Registration |
| 10.00 - 10.15 a.m.
Meeting | Introduction and Follow-up from Last Meeting
<i>József Hegedüs, Városkutatás</i> |
| 10:15 - 12.00 a.m. | Relationship of Budgeting to Accounting
Panel Discussion
<i>Lászlóné Gubányi, Ministry of Finance</i>
<i>Géza Juhász, Local Government of Miskolc</i>
<i>József Kéri, Local Government of Szolnok</i>
<i>Bálint Lacó, Regional Financial Information Center of Győr-Sopron county</i>
Moderator: <i>József Hegedüs, Városkutatás</i> |
| 11:15 - 11.30 a.m. | Coffee Break |
| 12.00 - 1.00 a.m. | Work Plans and Budget Monitoring
<i>Edward Lehan and Philip Rosenberg, The Urban Institute</i> |
| 1.00 - 2.00 p.m. | Hosted Lunch |
| 2.00 - 2.45 p.m. | Exercise
Group Presentation and Critique
<i>Edward Lehan, The Urban Institute</i> |
| 2.45 - 3.30 p.m. | Local Government Feedback Session
Moderator: <i>Katalin Pallai, City Government of Budapest</i> |
| 3.00 p.m. | Coffee served during discussion |
| 3.30 - 4.15 p.m. | Guest Speaker
<i>Edit Kusztošné Nyitrai, Ministry of Interior</i> |
| 4:15 - 5.00 p.m. | Presentation of Certificates to Participants
<i>Thomas Cornell, USAID</i>
<i>Edit Kusztošné Nyitrai, Ministry of Interior</i> |
| 5.00 p.m. | Adjourn and Reception |

LIST OF PARTICIPANTS

Local Governments

1. József Marjánovity
Counsellor of Property
Office of the Mayor, Baja
2. Balog Lászlóné
Head of the Financial Department
Office of the Mayor, Jászladány
3. János Lipták
Head of the Technical Department
Office of the Mayor, Szentes
4. Sándor Varga
Technical Department
Office of the Mayor, Szentes
5. József Tüttő
Deputy Mayor
Office of the Mayor, Nagykanizsa
6. Margit Zadravec
Head of the Finance Department
Office of the Mayor, Győr
7. László Lőrincz
Head of the Finance Department
Office of the Mayor,
Hajdúszoboszló
8. Miklósné Pásztor
Finance Department
Office of the Mayor,
Hajdúszoboszló
9. Tóthné Krémer Mária
Finance Department
Office of the Mayor, Nagykanizsa
10. Zsolt Volencsik
Deputy Mayor
Office of the Mayor, Orosháza
11. Dezső Gombkötő
Head of the Economic
Department
Office of the Mayor, Orosháza
12. József Mislai
Economic Office
Office of the Mayor, Orosháza
13. Ian Yorty
Peace Corp
Office of the Mayor, Orosháza
14. Csilla Horváth
Head of the Economic
Department
Office of the Mayor, Pécs
15. Ferencné Kürthy
Head of the City Management
Office
Office of the Mayor, Püspökladány
16. Lábadyne Csaba Anikó
Head of the Budget Office
Office of the Mayor, Pécs
17. Sándorné Krajsóczky
Head of Budget Office
Office of the Mayor, Szentes

Participating Experts

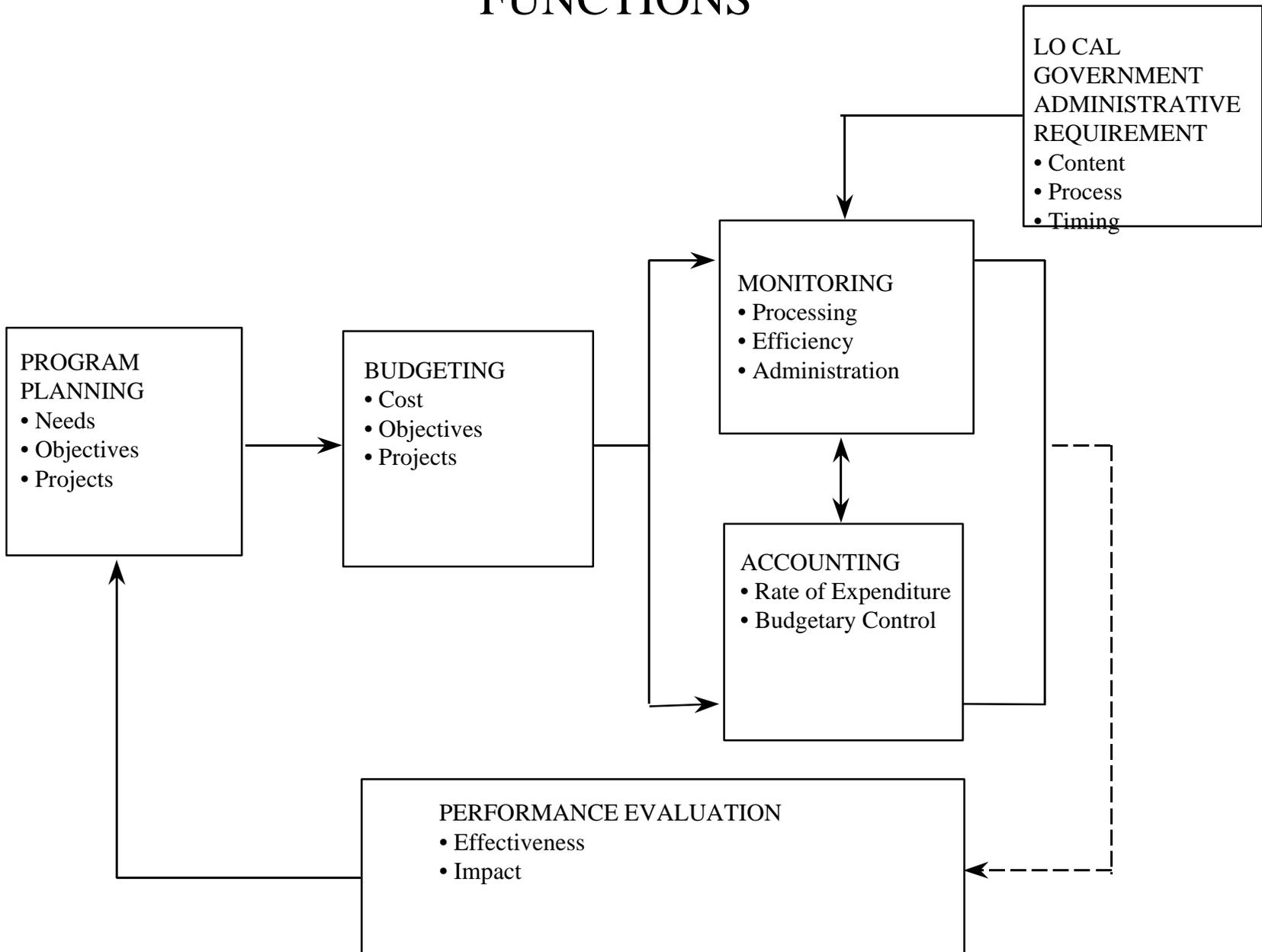
18. Gabriella Bakos
Assistant
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19. Marylinne B. Davis
City Manager
ICMA, Debrecen
20. Andrea Deák
Assistant
ICMA, Debrecen
21. Craig Steensland
City Manager
ICMA, Szeged
22. Judit Deilinger
Deputy Project Manager
ICMA, Budapest
23. Michael Jackson
Senior Local Government
ICMA, Budapest
24. Lawrence E. Birch
Senior Housing Advisor
USAID, Budapest
25. Ritu Nayyar-Stone
Municipal Finance Specialist
The Urban Institute, U.S.A.
26. Philip Rosenberg
Municipal Finance Specialist
The Urban Institute, USA
27. Margaret Tabler
Municipal Finance Specialist
The Urban Institute, Budapest
28. József Kéri
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Office of the Mayor, Szolnok
29. Mihály Lados
Senior Research Fellow
Hungarian Academy of Sciences,
Győr
30. Péter László
Head of the Financial Department
Office of the Mayor, Szolnok
31. Katalin Pallai
Special Counsellor
Municipality of Budapest
32. András Vígvári
Head of Business Analysis and
Dev. Dept.
Budapest Bank Rt., Budapest
33. Izabella Barati
Assistant
Center for Civic and Municipal
Innovation
34. József Hegedüs
Local Government Specialist
Városkutatás Kft., Budapest
35. Judit Kálmán
Fellow
Városkutatás Kft., Budapest
36. Lászlóné Gubányi
Head of Accounting Office
Ministry of Finance
37. Marianna Góré
Assistant
ICMA, Zalaegerszeg
38. Katharine Mark
Municipal Finance Specialist
The Urban Institute, Budapest
39. Edward Lehan
Municipal Finance Specialist
the Urban Institute, USA
40. Zoltán Györgyi
Education Specialist
41. Bálint Lacó
Director
TÁKISZ, Győr-Sopron
42. Thomas F. Cornell
The USAID Representative
USAID, Budapest
43. Edit Kusztosné Nyitrai
Ministry of Interior

44. Géza Juhász
Head of Financial Office
Office of the Mayor, Miskolc

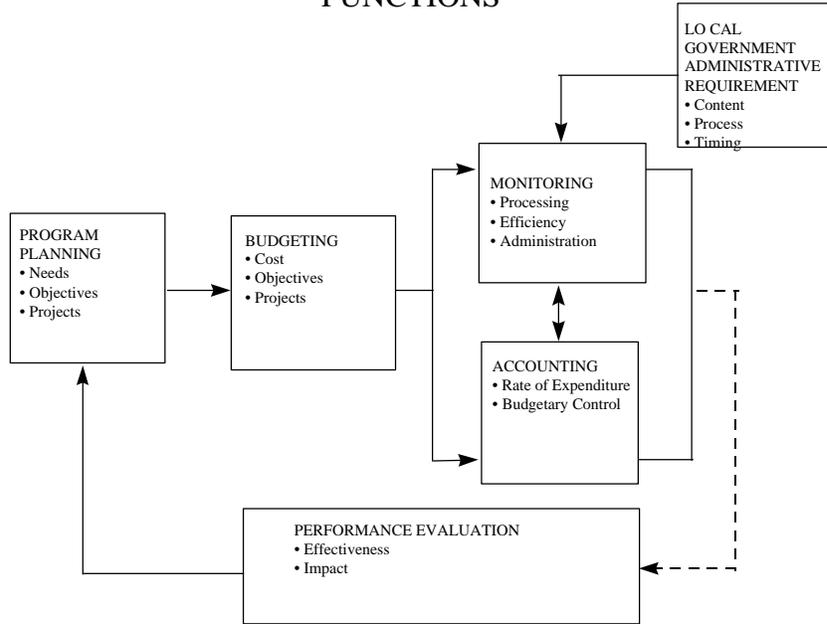
45. Andrea Tönkő
Fellow
Városkutatás Kft., Budapest

WORK PLANS AND BUDGET MONITORING

RELATIONSHIP OF MONITORING TO OTHER MANAGEMENT FUNCTIONS



RELATIONSHIP OF MONITORING TO OTHER MANAGEMENT FUNCTIONS



BUDGET MONITORING

(1) ADMINISTRATION AND EXECUTION

- CONSTANT REVIEW
 - DEPARTMENT/INSTITUTION
 - EXECUTIVE
 - LEGISLATIVE
- BUDGET CONTROL AND ACCOUNTING
 - FUNDS AND ACCOUNTS
 - BUDGETARY APPROPRIATIONS
 - ALLOTMENTS

(2) REPORTS AND EVALUATION

- ACCOUNTING AND FINANCIAL REPORTS
 - CLASSIFICATION OF FUNDS
 - REPORTS BY FUND OR ACCOUNTS
 - # APPROPRIATION
 - # EXPENDITURES
 - # UNENCUMBERED BALANCE
 - # OTHERS REQUIRED BY LAW
- MANAGEMENT REPORTS
 - FINANCIAL AND STATISTICAL DATA
 - # ACTUAL VS. ESTIMATES
 - # PERCENTAGES
 - # COMPARATIVE AND HISTORICAL DATA
 - # RATIOS
 - # RELATIONAL TO DEMOGRAPHIC DATA
 - # TRENDS
 - PERFORMANCE MEASUREMENT
 - PROGRAM ACHIEVEMENT AND STATUS
 - EXCEPTION REPORTING
 - MANAGEMENT ANALYSIS
 - SPECIAL REPORTS
 - PUBLIC VS. INTERNAL REPORTS
- REPORTING HIERARCHY AND STRUCTURE
 - OPERATING AND WORKING REPORTS (detail)
 - MANAGEMENT REPORTS (summary)
 - DISTRIBUTION (who get what when?)
- REPORT FREQUENCY
 - DAILY
 - WEEKLY

MONTHLY
PERIOD
QUARTERLY
SEMIANNUALLY
ANNUALLY
AS NEEDED

- REPORTING EVALUATION AND ACTION
WHAT DOES THE REPORT TELL ME?
SHOULD ANY ACTION BE TAKEN?
WHO HAS THE RESPONSIBILITY?
MAKE BUDGETARY ADJUSTMENTS
PROGRAM DECISIONS, ETC.

THE MONITORING PROCESS

DEPARTMENT/CONTRACTOR CAPACITY/SYSTEMS	REPORTING AND REPROGRAMMING	FIELD VISITATION AND ASSISTANCE
<p>REVIEW ADMINISTRATIVE CAPACITY</p> <ul style="list-style-type: none"> • PERSONNEL/SKILLS • EQUIPMENT • PAST PERFORMANCE • ACCOUNTING SYSTEMS • PURCHASING • ASSET MANAGEMENT <p>INCORPORATE REQUIREMENTS WITHIN CONTRACTOR OR PERFORMANCE AGREEMENT</p>	<p>REVIEW REPORTS FOR ACCOMPLISHMENTS OF:</p> <ul style="list-style-type: none"> • TARGETS • MILESTONES • RATES OF EXPENDITURE • CONTRACT COMPLIANCE • CONFORMANCE TO LAW <p>PROVIDE INPUT TO MANAGEMENT DECISION TO ADJUST BUDGET/ OUTCOMES/ STRATEGY</p>	<p>PROVIDE TECHNICAL ASSISTANCE IN FIELD VISITATION TO:</p> <ul style="list-style-type: none"> • CORRECT DEFICIENCIES • OBSERVE ACTIONS • REVIEW PROGRESS <p>CONDUCT UNITED REVIEWS TO TEST COMPLIANCE WITH MANAGEMENT / PERFORMANCE ISSUES</p>

MODERNIZING FINANCIAL MANAGEMENT FOR HUNGARIAN LOCAL GOVERNMENTS

AN EXERCISE IN WORK PLAN FORMULATION **Workshop, Budapest, March 13, 1997**

Using the Worksheet provided, the Workshop participants will have an opportunity to formulate Work Plans for *monitoring* the implementation of the 1997-98 Program Budget by their respective local governments.

Resources

A Note On Work Plans

A Note On Performance Review Procedures

Work Plan - City of Padang, Indonesia

Work Plan Worksheets

Worksheet Instructions

Worksheet Instructions

Participants should refer to the Notes concerning Work Plans and Performance Reviews, especially the exhibits displaying sample Work Plans and the General Procedure for Formulating Work Plans and Budgets. Because it provides an example of a Work Plan which incorporates target dates, including dates for the conduct of periodic performance reviews, participants should also study the exhibit, *Work Plan - City of Padang, Indonesia*.

The Worksheet provided for this exercise is based on the sample format. As indicated in *A Note on Work Plans*, a Work Plan may be developed discretely by reporting periods, or cumulatively by reporting periods. The participants are free to choose which of these two methods they will use in formulating their Monitoring Work Plans.

Column A. For reference purposes, each Activity or Task listed in a Work Plan should be given a number starting with "1," or a letter starting with "A." Insert this number or letter in the box provided in Column A for each block of four (4) lines.

Column B. The worksheet provides four (4) blocks of four lines. In Column B, each block provides boxes for entering descriptions of 1) activities and/or tasks, 2) measures of effort in work hours and, if available, costs, 3) output targets, and 4) performance ratios. Use the first line to identify the activity or task. Please note that the first line may also be used to indicate measures of effort (work hours or cost), saving valuable space. Next, enter the descriptors of any measures of effort not listed on the first line. Then enter descriptors of targets and performance ratios appropriately on the remaining lines. If needed, use lines in the next block.

Column C. Because Work Plan data is always mixed (work hours, cost, targets, dates, ratios, etc.), the type of data entered on each line should be clearly identified by appropriate entries in Column C.

Columns D through G. The Worksheet is organized by quarters. As indicated, the appropriate data can be entered in a quarter as that quarter's discrete product, or it can be calculated cumulatively by quarter, and displayed as a year-to-date figure for that quarter.

Columns H and I. The boxes provided on each line provide for the insertion of year-end totals of hours and, where appropriate, target data. These two columns are not needed if Work Plan data is entered cumulatively, as pointed out in *A Note On Work Plans*.

Bottom of Worksheet. Work Hours entered in the Columns D through G and I should be totaled and entered in the appropriate boxes. Then add any hours paid, but not worked (vacation leave, sick time, etc.), to the totals for work hours in each column. Register the total of work hours and authorized leave hours to derive total paid hours. Total paid hours are figures of budgetary significance.

If more than one sheet is required to formulate a Work Plan, the calculations indicated at the bottom of the Worksheet need only be entered on the last page as cost center totals.

© 1996 Edward Anthony Lehan (Excerpt drawn from *Simplified Governmental Budgeting*, Manuscript of Revised Edition)

A NOTE ON WORK PLANS

Effective budget implementation depends on the integrated employment of 1) budgetary accounting 2) work plans, and 3) periodic formal performance reviews. This note concentrates on the construction of Work Plans, the second component of the budget implementation triad.

Performance responsibility is best secured by the formulation and execution of formal Work Plans, periodically reviewed and updated. Although they have proven merit at all levels of government organization, the preparation and execution of Work Plans are especially useful at basic levels of organization and supervision, the points of service and product delivery.

Work Plans provide a foundation for periodic formal Performance Reviews, an indispensable ingredient of results-oriented budgeting. By tracking progress, the work plan-based review process permits the implementation of timely corrective action to ensure goal attainment, if possible, in all cases of impending failure to reach stated targets set for the period in question.

The failure to formulate Work Plans, and to conduct periodic Performance Reviews thereon, represents a very serious management deficiency.

The preparation of a Work Plan, and the expenditure requirements to fund the activities and/or tasks set forth, represent the final step in the process of formulating and documenting a results-oriented budget, that is, a budget formatted to link input to indicators of production.

The steps preceding the formulation of a Work Plan, and its associated expenditure requirements, should clarify the problem to be addressed by the Work Plan, state the goal(s) to be attained, identify collaborators and affected parties and specify the conditions of performance. If the preceding steps are properly executed, Work Plans, and the associated expenditures, will have a firm programmatic justification. The procedures for the formulation of Work Plans, and the associated expenditure requirements, are displayed in the following exhibit:

General Procedures For Formulating Work Plans and Budgets

- 1) Identify work activities/tasks assigned to each cost center.
- 2) Identify and quantify desired output(s) units associated with activities/tasks
- 3) Determine and list the input units (work hours, kilowatt hours, square meters/feet, mileage, etc.) and other resources (e.g.: contracts) needed to attain the estimated number of output units.
- 4) Estimate input unit prices.
- 5) Multiply the required input units by their unit prices.
- 6) Price the other required resources.
- 7) Determine the total cost center allocation by adding all cost components.
- 8) Where applicable, calculate unit cost or cost per unit of output.
- 9) Where applicable, calculate output units per workhour or workhours per output unit, and any other pertinent performance ratios.

The following exhibit displays the ***desired tendency*** of selected ratios:

Cost per unit of output should go..... **DOWN**
Output units per cost should go..... **UP**
Staff time per unit of output should go ... **DOWN**
Units of output per staff time should go .. **UP**

Compare all ratios to past and current experience. If comparisons do not show movement in the desired direction, review production techniques and associated inputs, seeking improvements in productivity and/or lower input cost or work hours.

At minimum, Work Plans embrace the following elements:

- ! Activities/Tasks
- ! Effort (Workhours, and, if available, costs)
- ! Outputs (Targets).
- ! Checkpoints (Milestones)
- ! Performance Ratios

Schematically, these elements can be arranged in the following manner:

ACTIVITIES/TASKS	Period 1, 2, etc -->	Total Cost	Total Hours
1. Activity/Task (Work Hours)			
Cost			
Output			
Performance Ratios			
/—			
/			
N. Activity/Task			
Total Workhours	_____	_____	_____
Authorized Absences (Hours)	_____	_____	_____
Total Paid Hours			

Two versions of a sample Work Plan are displayed below. Alternative “A” displays data discretely, quarter by quarter, providing totals in the last column at the right. The second version, Alternative ‘B,’ is based on the same quarterly data, but displays the data cumulatively, with each quarter’s data added to the prior quarter. Consequently, each quarter provides a year-to-date totals, with the last quarter’s figures also serving as the year-end total.

If possible, both formats, the discrete quarterly totals and the cumulative year-to-date approaches, should be used simultaneously to provide maximum insight during the review process.

The sample Work Plan identifies reading proficiency as an activity/task in a primary school, designated as Alpha Primary. As noted, this Work Plan could be expanded to also incorporate additional activities and/or tasks, serving to mark Grade Four as a comprehensive center of performance responsibility in the Alpha Primary School.

ALTERNATIVE “A” (Data displayed discretely by quarters)

ALPHA PRIMARY SCHOOL, Grade Four Workplan

	ACTIVITIES/TASKS	Q1	Q2	Q3	Q4	Total
1	Reading Proficiency					
	Cost (direct \$)	4,000	12,000	12,000	12,000	40,000
	Teaching Time (hours)	144	432	432	432	1,440
	Pupil Time on Task (hours)	3,600	10,800	11,800	12,800	39,000
	TOT/TT (hours)	25.0	25.0	27.3	29.6	27.1
	Cost/TT (\$/hour)	27.78	27.78	27.78	27.78	27.78
	Above Reading Norm (%)	70.0	75.0	79.0	82.0	
N	Other Activities, etc *					
	Total Work Hours	144	432	432	432	1,440
	Add Authorized Leave (hours)	36	36	36	36	144
	Total Paid Hours	180	468	468	468	1,584

* List additional activities/tasks, including related supporting services charged to the cost center but not easily or accurately assignable to the programmatic activities and/or tasks.

As demonstrated by this sample, Work Plans should incorporate performance ratios, or standards, whenever possible. Indeed, unit measures, such as, unit cost, cost per unit, output per workhour or workhours per unit of output provide the very strongest foundation for work plans.

Work Plans can be organized by periods other than quarters, monthly, for example.

ALTERNATIVE “B” (Data displayed cumulatively, providing year-to-date totals at the end of each quarter)

ALPHA PRIMARY SCHOOL, Grade Four Workplan

	ACTIVITIES/TASKS	Q1	Q2	Q3	Q4
1	Reading Proficiency				
	Cost (direct \$)	4,000	16,000	28,000	40,000
	Teaching Time (hours)	144	576	1008	1,440
	Pupil Time on Task (hours)	3,600	14,400	26,200	39,000
	TOT/TT (hours)	25.0	25.0	26.0	27.1
	Cost/TT (\$/hour)	27.78	27.78	27.78	27.78
	Above Reading Norm (%)	70.0	75.0	79.0	82.0
N	Other Activities, etc *				
	Total Work Hours	144	576	1,008	1,440
	Add Authorized Leave (hours)	36	72	108	144
	Total Paid Hours	180	648	1,116	1,584

* List additional activities/tasks, including related supporting services charged to the cost center but not easily or accurately assignable to the programmatic activities and/or tasks.

Also please note that work time forms the basis of Work Plans. Work time can be calculated by hour, week, month or year. As it reflects time-on-task, worktime embraces all forms of effort, regardless of payment concept, including that of staff, whether permanent, part-time or temporary, overtime contributions, and time of contractors, if used. In contrast, paid time forms the basis of budgets. Thus, at the bottom of the sample Work Plan, these two different concepts are reconciled with

the addition of a calculation of "authorized absences." This usually includes vacation leave, sick leave, holiday pay, etc.

Inevitably, Work Plans require adjustment as the work proceeds. As dynamic documents, Work Plans should always register the best current estimates of worktime commitments and output delivery dates. Therefore, Performance Reviews provide an opportunity to assess progress, and, if necessary, adjust future work time allocations, expected output, and, perhaps, output delivery dates. These reviews will provide the government with sequential opportunities to ensure goal attainment by encouraging, and/or authorizing timely corrective action in those cases where results are falling short of expectations. Frequently, the accountable officials will find it necessary to assign additional assistance to lagging activities, drawing on the unallocated work hours provided for such contingencies. Where lagging results reflect deficient inter-agency collaboration, also a common occurrence, corrective action will probably require the active intervention and assistance of accountable officials. Additionally, Performance Reviews tend to pinpoint recurring productivity problems - problems which can only be solved by systemic changes in assignments and/or operating procedures.

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A NOTE ON PERFORMANCE REVIEW PROCEDURES

Effective budget implementation depends on the integrated employment of 1) budgetary accounting 2) work plans, and 3) periodic formal performance reviews. This note concentrates on periodic formal performance reviews, the third component of the budget implementation triad.

Unless strong performance review procedures are established, budgeting degenerates into an annual estimating and accounting ritual. More than any other part of the budgeting repertoire, it is the institutionalization of formal reviews which invests the budget system with "managerial muscle".

PERFORMANCE REVIEW SPECIFICATIONS

- ◆ Formal performance review procedures established by regulations.
- ◆ Program leaders provided with a forum for oral, written and visual presentations.
- ◆ To provide program leaders with a supportive audience, reviews are conducted by a Committee selected for its ability to assist program leaders attain stated targets.
- ◆ Conducted periodically, 2/3rds through the selected period, to provide opportunity for corrective action in pursuit of targets.
- ◆ Review covers past milestone period (results related to intentions), current milestone period (estimates related to intentions), and next milestone period (projection of intentions).
- ◆ Review Committee secretariat documents proceedings, reporting formally to accountable officials regarding status of targets and recommended corrective actions.

"Performance" is similar to the terms, "efficiency" and "effectiveness" in that it requires comparison to give it significance, or meaning. In the following abstract calculation, significance is given to a stated "performance" by deriving a "variance" by subtracting an ideal, standard or target from it, both stated, of course, in similar terms:

$$\frac{\text{Performance}}{\text{(Ideal/Standard/Target)}} \\ \text{Variance}$$

These terms can be absolute numbers, or unit measures or other performance ratios. In addition to revealing the magnitude of variance, the subtraction will provide an indication of the direction of the variance in that the stated performance will equal (zero), exceed (+) or fall short (-) of the stated ideal, standard or target.

Effective organizations attain stated goals. Efficient organizations attain stated goals at "minimum," or "lowest" cost, relative terms which acquire meaning only through comparisons. Assessing the effectiveness and efficiency of any activity requires the development and maintenance of data, and data arrays, as follows:

- ! Input data, expressed in terms of money and/or worktime,
- ! Output data, expressed by measures of production,
- ! A calculation dividing input by output, or output by input to derive a "unit measure," and
- ! One or more additional ratios based on comparable situations to provide a reference for evaluation of the subject unit measure.

To be readily available for the Work Plan formulation and Performance Reviews, the required input and output data must be (1) identified, and (2) recorded. As incurred, costs and worktime must be recorded by the activities and/or tasks identified in Work Plans, then summarized at pertinent milestones. Similarly, output data must be recorded and summarized. Over time, using unit measures as a guide, responsible officials can evaluate input-output relationships, and then encourage the formulation of plans to improve the relative efficiency of program operations, that is, reduce unit costs and unit times, and/or increase output per workhour and per amount expended.

Cost center managers should be granted periodic opportunities to address their colleagues and superiors concerning their performance, no later than every quarter. It should be a "stand up" presentation, supported by visual aids, when appropriate. All presentations should reference the input-output commitments registered in the current Work Plan, with significant variances indicated and explained. In general, experience indicates that cost center managers will trace variances between intentions and results to one, or more, of the following factors:

- A) Unanticipated changes in input prices
- B) Unanticipated changes in volume and type of applied resources, including staffing
- C) Unanticipated performance from assigned physical assets
- D) Unanticipated and uncontrollable changes in the production situation which invalidate original production assumptions.

E) Environmental contingencies

Variances in unit measures are most frequently traced to factors A and B. In an economy subject to inflation, unanticipated cost variances are to be expected, as prices cannot be accurately predicted, even for the near future. Factor C is often cited to explain variances from period to period, especially if new technology has been introduced. Equipment failure, and/or delays in equipment repair are also frequently cause negative variances. Most significant, Factor D considerations include shortfalls in services and/or good due from other units of the government. Factor E refers to accidents, including natural and man-made disasters, which interfere with the conduct of work.

By design, the reviews should be conducted by strategically constituted Performance Review Committees 2/3rds of the way through the selected milestone period, toward the end of the second month of each quarter, for example, if Work Plans are organized by quarters. Reviews provide formal opportunities for cost center managers to address their respective agencies as institutions, presenting results compared to intentions for the completed prior period, revised estimates of results related to intentions for the current period and a projection intentions for the upcoming period. The projections also form a solid basis for allotment requests, if used by the government, and for cash management planning. The six data elements involved in the typical Performance Review are displayed in the simplified model shown below:

Past Period	Present Period	Future Period
Original Forecast	Original Forecast	Original Forecast
Revised Forecast	Revised Forecast	
Actual Performance		

So placed, with 2/3rds of the period completed, responsible cost center managers have sufficient experience to present revised estimates for the current period, and conditioned on proposed action plans for the remaining portion of the period.

These timely reviews provide responsible program leaders with sequential opportunities to ensure goal attainment by encouraging, and/or authorizing timely corrective action in those cases where results are falling short of targets. At the 2/3rds point, if the projected unfavorable variances are deemed significant, the accountable officials still have time

remaining in the period to authorize corrective action (adjusted deployments, changed procedures, etc.) to put the performance for the period "back on target."

Reviewing the data on work plans and performance reports, Performance Review Committees can assess the reasons for significant "shortfalls" in performance, and encourage the formulation of recommendations for corrective action. As stressed before and repeated here for emphasis, the failure to formulate Work Plans, and to conduct periodic Performance Reviews thereon, represents a very serious management deficiency. If Work Plans and performance data is not available to facilitate an assessment of the effectiveness and efficiency of program activity, the Performance Review Committee should forcefully address this deficiency by recommending the formulation of the necessary Work Plans and the monitoring of planned activities and goals.

Representatives of significant staff units, especially planning, budget and personnel, and centralized auxiliary service units, are expected to participate in these periodic reviews to help each agency and its cost center managers solve production problems. This procedure encourages the attainment of performance targets during the year, via timely corrective action. Most importantly, frequent reviews pinpoint recurring productivity problems - problems which require systemic changes in operating procedures, cost center by cost center.

When conducted as formal affairs, performance reviews tend to stimulate desirable organizational behavior, as follows:

- ! Anticipation of periodic formal performance reviews influences behavior in the intervals between reviews.
- ! Conduct of the review, itself, influences behavior as the participants reach understandings and agreements concerning actions to be taken by particular parties.
- ! Reviews promote collaboration among units *upstream* and *downstream* of the cost center manager in question which have the resources or responsibility to assist the manager solve problems defined during review proceedings.
- ! The reviews stimulate corrective action

WORK PLAN - CITY OF PADANG, INDONESIA

PROGRAM: Revenue Collection SUB-PROGRAM: Hotel and Restaurant Tax

ACTIVITIES/TASKS	FY92 Q4	FY93		TOTAL WORK HOURS
		Q1	Q2	
A Patron Billing Format - Work Hours	100			100
Locations	424			
Format Effective		1/04		
B PBN 1. "Manual of Practice" - Work Hours	100			100
Number of Manuals	500			
Distribution Complete		1/04		
Manuals Per Work Hour	5			
C Training Program - Work Hours		100		100
Trainees		1,200		
Certificates Per Work Hour		12		
Training Complete		30/06		
D Continuous Training Program - Work Hours			60	60
Trainees			120	
Certificates Per Work Hour			2	
E Billing Machine Program - Work Hours	50	100	250	400
Number of Machines		10	30	
Total Work Hours Per Installation			4	
Installation Complete			30/09	
F Hotel Audit Program - Work Hours	215	215	215	645
Locations	43	43	43	
Work Hours Per Location	5	5	5	
G Restaurant Inspection Program - Work Hours	3,810	3,810	3810	11,430
Locations	381	381	381	
Inspections	11,430	11,430	11,430	
Inspections Per Work Hour	3	3	3	
Inspections Per Location	30	30	30	
H Contingent Action Proposal	?	?	?	?
Performance Review	28/02	30/05	31/08	
Unallocated Work Hours	100	100	100	300
Total Work Hours	4,375	4,325	4,325	13,135
Authorized Absences (Work Hours)				262
Total Paid Hours				13,397

MODEL PERFORMANCE REVIEW REGULATIONS

1. RATIONALE. Defined as goal attainment, “performance” requires teamwork, and timely adjustment of the means of attainment to solve production problems as they emerge. These regulations establish procedures for securing the required teamwork and work plan adjustments by providing a forum for the conduct of performance reviews and a process for implementing recommendations for corrective action resulting therefrom.

2. PERFORMANCE REVIEW COMMITTEE. Effective immediately, these regulations shall be implemented by a Performance Review Committee. The following officials shall be members of the Committee:

_____, Chairman

(Committee membership depends on the organization in question, and the technical basis of its programs and projects. In complex organizations, the leaders of key “centralized process” units, such as purchasing, personnel, centralized equipment maintenance, etc., deserve consideration for membership because the effectiveness and efficiency of such units strongly condition the ability of accountable managers to attain their targets.)

Furthermore, to foster goal attainment, the chairman may require the participation of other officials in the review process who, by virtue of their knowledge and function, can help the accountable managers define and solve production problems.

3. SECRETARIAT. The Budget Director’s Office shall serve as the Committee Secretariat. The Secretariat will prepare the Committee’s quarterly Report, including recommendations for corrective action and proposed allotment requests.

4. COMMITTEE DUTIES. The Performance Review Committee shall conduct formal, periodic performance reviews. To this end, the Committee shall:

- ! Define the reporting units and the accountable managers. (cost center, project, program, activity, task, etc.)
- ! Establish the form and content of performance reports.
- ! Establish and maintain a schedule of field inspections by the internal audit staff and other appropriate personnel to verify information submitted to the Committee.
- ! Establish a schedule of formal quarterly Performance Reviews covering all designated reporting units, these reviews to be completed prior to the preparation of periodic allotment requests.
- ! To be conducted during the first week of the last month of each quarter, these reviews shall cover
 - ! Actual results in the last completed quarter, measured against performance targets, and expenditure and, where applicable, revenue expectations.
 - ! Estimated results in the current quarter, measured against performance targets, and expenditure and, where applicable, revenue expectations.
 - ! Projected performance, expenditure, and, where applicable, revenue estimates for the next quarter
- ! Submit Performance Reports and recommended allotment requests to _____ (insert name of responsible official), outlining 1) performance to date, 2) problems encountered, 3) recommended corrective actions and, 4) performance targets for the period to be covered by allotment requests.

5. DUTIES OF THE COMMITTEE CHAIRMAN. Assisted by the Secretariat, the Chairman shall:

- ! Pursuant to consultation with the Committee, set Performance Review schedules and agendas.
- ! Secure timely reporting of financial and performance data.
- ! Require performance analysis by the Secretariat for the consideration and the Committee.
- ! Assist with the implementation of work plans and corrective actions recommended by the Committee, ensuring the timely transmission of decisions to all affected officials.

6. DUTIES OF ACCOUNTABLE MANAGERS. Accountable managers are expected to make “stand-up” presentations, supported by visual aids, where appropriate. As work is normally beset by difficulties, accountable managers are encouraged to furnish the Committee with an explanation of problems encountered, and, most important, corrective actions taken, or recommended. It is also expected that all program leaders will conduct monthly performance reviews covering the work of accountable managers reporting to them.

7. SANCTIONS. Only unusual circumstances will excuse the failure to report accurately, and on time. If not expressly excused by the Committee Chairman, failure to report on time, or inaccurate performance reports, will result in disciplinary action.

EXAMPLE OF PERFORMANCE REVIEW REPORT

The following exhibit provides an example of a performance report. It relates to a work plan for primary health care in St. Elizabeth Province in Jamaica, which incorporated 47 targets spread over 6 cost centers. The table indicates the status of targets in terms of direction of variance rather than magnitude of variance. The symbols key follows:

Under target (-)

On target =

Over target +

ACCOUNTING SUPPORT FOR RESULTS-ORIENTED BUDGETING

By
Edward Anthony Lehan
February, 1997

This paper outlines key accounting issues affecting government budget processes, with special reference to the practice of results-oriented budgeting.

The struggle to enhance the utility of governmental accounting for public officials, the investment community and the general public, including the provision of appropriate accounting support for budgets and budgeting, began early in this century - and the struggle continues to this day.

Attempts to replace the traditional line-item approach with results-oriented budgeting began in earnest around 1950 with the introduction of performance and program budgets in a spectrum of jurisdictions across the United States. At that time, accounting professionals clearly perceived the impact on traditional accounting procedures. The following comment by James M. Cunningham, a Certified Public Accountant and a former president of the Municipal Finance Officers Association (MFOA), may serve as a representative sample of opinion:

“The adoption of the performance budget by a municipality requires a major change in accounting procedures in order to develop the possibilities of the new method to the fullest advantage.” Accounting Publication Series, 11-2, MFOA, May 1, 1954.

Over the years since that time, the literature concerned with public budgeting has included frequent references to the critical role of accounting, often citing inadequate accounting support as a key factor limiting the advance of alternatives to the traditional “line-item” approach to budgeting.

Acknowledging the lessons of experience since 1950, therefore, appropriate accounting support must be considered a "condition precedent" for successful implementation of results-oriented budgeting. Unquestionably, results-oriented budgeting presents public officials with complex problems of accounting organization and procedure, which, in the opinion of the author, can only be satisfactorily solved by adopting a broad institutional solution based on the policy and management requirements of the budgeting concept, rather than the reverse.

THE REGISTRATION OF BUDGETS WITHIN ACCOUNTING SYSTEMS

In a seminal move in 1934, the Governmental Finance Officers Association of the United States and Canada (GFOA) issued the first of its influential series of manuals (known universally as the blue books) embracing the recommendations of the then newly established National Committee on Governmental Accounting (NCGA) for the improvement of government accounting. Several of these recommendations directly and indirectly affected the accounting-budgeting relationship. NCGA suggestions included 1) establishment of a set of separate, but inter-related, “funds” as the basic accounting organization of governmental jurisdictions, effectively tying budgets to funds, 2) adoption of the “double entry” accounting methodology, 3) incorporating budgetary accounts as an integral component of governmental accounting systems, and 4) recognition of expenditures and revenues on a “modified accrual” basis, except for governmental enterprises which should use the accrual approach.

According to NCGA recommendations, jurisdictions adopting procedures reflecting generally accepted accounting principles (GAAP) should register their budgets in the general ledgers of appropriate funds, as follows:

- ! Total estimated revenues posted as a debit to an asset control account.
- ! Total appropriations posted as a credit to a liability control account.

(Note: if a difference between the two totals is positive (credit) or negative (debit), the amount is accordingly posted to fund balance.)

A subsidiary ledger supports each of these general ledger control accounts:

- ! A Revenue Ledger for recording the details of revenue estimates and revenues as received.
- ! An Expenditure Ledger for recording details of appropriation allocations and allotments, if used, and disbursements and encumbrances, as incurred.

Because coded classification schemes and the associated figures are embedded within it, expenditure ledgers are of the greatest significance to program managers and budget officers, especially if they are working with results-oriented budgets.

With reference to the use of this ledger, the location of pre-audit controls on the incurrence of encumbrances and disbursements proved to be an important, and contentious, issue. In each jurisdiction, the resolution of this issue determines the fundamental design of its expenditure ledger. If the control points are associated with results-oriented “lump-sum” summaries (program, project, activity or task), rather than to expenditure summaries or objects of expenditure, these latter entries will be identified as *analytical* rather than *control* identifiers and codes, providing information only. In those governments where the leading accounting officials are unwilling to establish controls at a programmatic level (lump-sum), the managerial assumptions of results-oriented budgeting are seriously compromised.

In 1984, the NCGA was succeeded by the Government Accounting Standards Board (GASB), which has continued the effort to enhance the utility of governmental accounting, including accounting support for results-oriented budgets and budgeting. Summing up at this point, after almost fifty years of effort, adherence to the standards adopted by the NCGA-GASB has increased significantly within the United States. However, it is generally acknowledged that an unknown, but, substantial number of governments in the United States do not, at the present time, conduct their accounting and financial reporting in compliance with the recommended standards. For example, many jurisdictions do not maintain proper fixed asset records, basic information which enters into cost calculations through depreciation allocations.

With specific reference to budgetary accounting, knowledgeable public officials, especially experienced budget officers, identify the rigidity of accounting arrangements, and the uncooperative attitude of government accountants, with the failure to effectively practice results-oriented budgeting in many United States jurisdictions. In this connection, in 1994 GASB published a concept statement related to government reporting of service efforts and accomplishments (SEA), indicating that it is considering the issuance of standards for the inclusion of performance information in year-end financial reports of state and local governments in the United States. Significantly, this proposal has met with significant resistance by various interests, including organizations representing government accountants. *In general, it is safe to say that accounting professionals do not want to be held accountable for the collection, validation and dissemination of performance data.*

As a practical matter, it has proved very difficult to introduce and maintain results-oriented budgeting, with its heavy demands on the accounting system, without the leadership and enthusiastic support of governmental accountants. As pointed up by the following list, the shift from line-item budgets to budgets featuring "lumpsum" activity allotments, work plans and periodic formal performance reviews requires a great deal of cooperation from governmental accountants. The accounting ramifications of results-oriented budgeting include the following:

- ! Accounts and classifications proliferate, including identification of fixed and variable costs.
- ! Transactions and entries increase in number and complexity.
- ! Reconciliation problems increase.
- ! Accounting systems reflect fewer continuities as accounts and classifications change from period to period to meet changing issues. (This situation may also result in demands for restatement of accounting data to illuminate new issues.)
- ! Accountants and auditors are assigned increased responsibility for the entry and integrity of "non-monetary" data (work load, performance indicators and program benefit information) and the calculation of relationships of this data to expenditure and revenue information.

With reference to budgetary accounting in other regions of the world, the reported situation seems to be even less favorable. An unknown, but substantial, number of governmental jurisdictions across the world still use "line-item" budgets, that is, budgets which relate departmental appropriations directly to expenditure summaries (e.g., personal services, contractual services, etc.) or objects of expenditure (e.g., salaries, electrical charges, etc.). An unknown, but substantial number of

these jurisdictions, Indonesia, for example, rely on “single entry” cash accounting procedures. To prepare their interim and year-end budget reports, these jurisdictions compare actual cash disbursements to budget allocations and to actual receipts. They also refer to records of budget allocations and available cash to control the flow of disbursements. Additionally, these governments may attempt to control the flow of obligations (contracts and purchase orders) by reference to budget allocations and projections of cash availability, but the frequency of reports concerning deficit spending point to serious lapses in basic budget control procedures.

REQUIREMENTS FOR FORMAT ELABORATION AND FLEXIBILITY

The introduction of “performance” and “program” budgeting focused attention on the expenditure classification scheme. Both these forms of results-oriented budgeting require that expenditures be aggregated, or summarized, by expressive titles. Grouped by five classification “families,” the following exhibit displays the diversity of classification concepts found in various budget documents:

Organization	Accounting	Configuration	Performance	Policy
Ministry	Fund	Class	Function	Goal
Agency	Account	Category	Cost Center	Objective
Department	Cost Center	Component	Responsibility Center	Service
Division	Object	Element	Activity	Program
Bureau	Item		Task	Project
Section			Job	
Unit			Time	
			Space (area)	
	Use of the prefix sub-, as in Sub-Object, etc.	Use of the prefix sub-, as in Sub-Component, etc.	Use of the prefix sub-, as in Sub-Function, etc.	Use of the prefix sub-, as in Sub-Program, etc.

Typically, jurisdictions mix their identifiers, drawing terms from more than one classification family. For example, organizational terms are often associated with accounting and performance concepts, as shown in the following exhibit based on the format used in the 1983-84 budget of the City of Chelsea, Massachusetts:

Classification Concept	Classification Family	Title
Fund	Accounting	General
Function	Performance	Public Safety

Because programs frequently involve more than one organizational unit within a government, the classification schemes employed in program budgets are more complicated than those needed by performance formats. As a case in point, in FY85, the family planning program of the Government of Jamaica (GOJ) involved a Family Planning Board (FPB), the coordinating agency, and four ministries, including the key delivery system provided by the Ministry of Health through its extensive Maternal and Child Health Clinic System. For management purposes, within the FPB and the ministries, family planning was identified and coded as an integrated array of cost centers, similar to the fire protection example shown immediately above. Additionally, using the "cross-classification," or "cross-walk" technique, the FPB budget officer prepared a program perspective summarizing the entire family planning budget, including all participating units of government. As shown below, this Program Perspective cross-classified the allocations to the participating institutions to indicate their relative impact on the three key operating thrusts of the program.

FY85 Program Perspective: Jamaica's Family Planning Program (000's J\$)

IMPACTS >	Maintaining Current Practitioner s	Recruiting Lapsed Practitioner s	Recruiting New Practitioner s	Total
Family Planning Board	3,423.2	615.6	3575.2	7,614. 0
Ministry of Health	3,000.0	75.4	835.5	3910.9
Ministry of Education			392.3	392.3
Youth & Community Development			1,107.6	1,107. 6
Ministry of Agriculture	82.3		400.0	482.3
Total	6,505.5	691.0	6,310.6	13,507 .1
Number of Acceptors	114,000	20,000	43,000	177,00 0
Cost per Acceptor	57.06	34.55	146.76	76.31
Estimated Births				61,000
Estimated Births Averted				17,700
Cost per Averted Birth				763.31

At that time, it should be noted, the GOJ was using a decentralized, non-computerized single entry cash accounting system, therefore, the program perspective was prepared manually. With the availability of computer technology, the cross-classifications required to support program budgeting can be produced by reference to codes assigned for that purpose, prepared, as needed for analysis and/or decisions, by using spread-sheet programs. Computer technology makes it possible

to formulate and implement budgets with multiple formats. In contrast to mono-value formats, cross-classified formats permit policy officials to explore more than one dimensions of an expenditure proposal, facilitating insight and understanding.

In addition to permitting an elaborate and flexible format, expenditure ledgers should be designed to assist program managers with the implementation of their budgets. This includes the following facilities:

- ! Coding and timely reporting of the variable costs of activities/tasks listed in those Work Plans which are subordinate to controlling cost center allocations.
- ! Coding and timely reporting of work hours charged to activities/tasks listed in Work Plans. (Because Work Plans are fundamentally based on work time calculations, this facility is of even greater value to program managers than variable cost reporting.)
- ! Permitting program managers to enter budget reservations into the accounting system as contingent liabilities, especially requisitions for goods and services which have not yet reached the status encumbrances, that is, contracts and purchase orders. (Because it tracks the status of obligations from source to settlement, this arrangement is especially useful in jurisdictions with centralized purchasing units with their inevitable service queues. The ability to reserve portions of available budget balances also facilitates the planning of operations.)

PERFORMANCE DATA PROBLEMS

Thus far, this paper has centered on problems related to the accounting foundations of results-oriented budgeting, which are serious, but are thought to be amenable to technical accounting solutions. However, problems with the collection, validation and the use of performance data are equally serious, perhaps even more so, given the fact that results-oriented budgets claim to be justified on the consequences of budget allocations.

Accounting concerns figures representing money. In contrast, performance data is almost always non-monetary data. It is almost always unique to the program in question, and is almost always developed and recorded by the concerned program personnel. This latter characteristic tends to render performance data suspect (especially to accountants) because it is collected and presented by program personnel who have a compelling interest in "looking good." In most governments, performance data is captured "catch-as-catch-can," stored in ad-hoc filing systems and occasionally related to expenditure and revenue reports by program leaders. Typically, performance data is originally formulated at work sites by program personnel who count, register and report events judged useful in evaluating performance. Typically, performance data is entered into records which make up a fairly elaborate set of files, including original source documents, reporting forms and ledger-like records. Typically, reporting and tabulation errors are rife in such "uncontrolled" recording systems, where money is not involved.

Of course, many of the problems associated with performance data can be mitigated if governments are willing to take steps to guarantee data validity, such as, strictly enforced internal controls on the collection of data, independent surveys, sampling studies and field audits. But, because performance data is so difficult and expensive to validate, all too many governments

do not even try. Certainly, it is fair to state that the expense of validating performance is deemed a sufficient deterrent by most governments to inhibit the development and maintenance of credible performance data arrays.

PRACTICAL ALTERNATIVES

Cost Finding. With regard to input side of results-oriented budgets, it is generally agreed that cost accounting systems would provide the best accounting support. However, in contrast to profit-oriented enterprises, governments lack compelling incentives to invest in this expensive elaboration of their accounting systems, especially for the service programs assigned to its general fund. Earlier, in the discussion of the Jamaica Family Planning Program, it was suggested that the “cross-classification” technique could be used on an as-needed basis. Similarly, when cost estimates, especially statements of total, or “full” cost are required to make important decisions, cost finding procedures can yield acceptable results. As research and analysis, rather than accounting, cost finding requires the assembly, evaluation and adjustment of relevant information drawn from various sources, including data provided by the formal accounting system, to derive the desired costs.

Monetizing Performance Indicators. Associating fees and/or service charges with performance indicators is the best way to ensure the validity of performance data, because where money is involved, reporting procedures will fall under the scrutiny of accountants and auditors. With the fee schedule known, revenue reports can be organized to provide evidence of the volume of use, service or activity. Additionally, if performance data can be made subject to internal accounting controls, responsible program managers will be much more likely to foster the use mechanical and electronic counting devices, and establish and enforce administrative controls, such as, double entry or cross-footed data recording and tabulations and calculations to reduce the possibility of error.