arrangements for fuller consideration of the facts and issues behind expenditure authorization. Facilities in use for assisting appropriations committees include legislative councils and a variety of other legislative research organizations, legislative analysts and other staff assigned directly to the committees, and interim legislative committees. Executive personnel and outside groups provide testimony in public hearings and furnish information or assistance to the committees in other ways. Information so obtained is not always impartial or objective, although it sometimes takes the form — as in the case of executive agencies — of providing technically-trained budget office personnel to acquaint legislators with budget matters. To deal with problems associated with pressures exerted by outside groups, most legislatures have passed laws regulating lobbying activities. There is evidence that the states are by and large exerting continuing efforts aimed at further improvement of fiscal service to the legislators.
VI.

Budget Execution and Review

Following budget preparation and expenditure authorization, two steps remain to be completed in the budgetary cycle: budget execution and budget review. Budget execution is the process of carrying out the plan set forth in the budget, in accordance with the laws, policies, and regulations of the state. The final phase, review or post-audit, attempts to evaluate whether financial transactions—and generally substantive programs—have in effect conformed to the intent of the legislature and executive policy and regulations.

Budget Execution

Budget execution is primarily a function of the executive branch. In countries with the parliamentary system, as contrasted with the “separation of powers” concept in the United States, budget execution is entirely under executive jurisdiction. In the United States, at both the Federal and state levels, the division of functions has not been so sharply drawn, and legislative bodies often exert an influence on this phase of the budget process.

However, the growth in number and complexity of operating programs has almost of necessity increased the role of the executive.

“The ideal system of budget execution can be defined simply, but it is difficult of attainment. Budget execution should preserve the intent of the legislature but at the same time should maintain flexibility at all levels of administration.”

In the past, procedures for budget execution were set up primarily to avoid over-obligation of funds by administering agencies—the prevention of deficiencies—and to ensure adherence to legislative intent to spend specific amounts for particular purposes. Financial control certainly remains an important objective in any effective system for budget execution. In the final analysis, however, an agency exists to achieve certain substantive objectives; hence a major consideration is the administration of its finances so as to further, and not hinder, program goals. Under certain circumstances funds may, of course, be spent in exact accordance with precisely-defined stipulations, yet the program objectives for which the funds were authorized may not be substantially advanced.

“Conditions under which a budget plan is formulated change and may render the original plan either un-

1. Prior to enactment of the Budget and Accounting Act of 1921, Congress made repeated, but unsuccessful, attempts to control expenditures, through itemized appropriations bills and cuts on deficiencies. Burkhed, op. cit., p. 344.
3. The development of line-item budgets and appropriations bills during the early years of the twentieth century reflected the strong concern with preserving legislative intent in regard to specific expenditures.
workable or less effective in meeting program aims unless there is some provision permitting adjustment to the differing conditions. **Provision for flexibility may mean the difference between the mere expenditure of appropriations and the accomplishment of the purposes for which the budget is formulated.**" (Italics added.)

The problem is one of determining the proper blend of procedures for adequate financial control while permitting sufficient flexibility for program administrators to adjust to unforeseen conditions. The need for flexibility in spending funds might seem particularly important in states with biennial budget periods, where original estimates may be made at least 30 months prior to the completion of the budget period. Determining an “optimum mixture” of procedures will not always be easy, and will depend to a large extent on relationships between the branches of government, the balance of political forces, and the trust which the legislature places in the administrative wisdom and integrity of the executive branch and its component agencies. The point is well taken that:

“The rigidities in budget execution, like the rigidities in budget classification, will be relaxed as and if there is a further development of responsible administration in the public service. With this can come a renewed and strengthened concern with program benefits and program consequences, and some abatement of the now too-frequent over-concern with financial control in a narrow sense.” (Italics added.)

Central direction of budget execution can be cumbersome, unwieldy, and restrictive, and any system of budget execution may tend to become inflexible over time. However, increasing agency discretion in regard to budget execution represents an increased grant of power to officials and, as such, is of course subject to abuse. In such cases, increasing the degree of agency discretion to avoid inflexibility in budget execution might simultaneously increase the danger of agency irresponsibility in departing from legislative intent. Consequently, there is need for continuing examination of all patterns of budget execution procedures to assure the best possible balance between the needs of both control and flexibility.

**Role of Legislative Branch**

Carrying out programs in accordance with legislative intent may be difficult, both administratively and politically. The greatest difficulty may sometimes lie in determining what the actual intent of the legislature is. It has been remarked that legislative intent may at times be revealed to administering officials only after they have been charged with acting in violation of it.

The most important ways for expressing legislative intent are the organization of appropriations bills and the language of substantive legislation setting up programs. The form of the appropriations act will often determine the man-

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5. During a fiscal period, the relative costs of certain materials may change, a reorganization of work methods may permit savings in personnel expenditures, and therefore the comparative costs of particular programs may change. Given a sufficiently “flexible” system of budget execution, savings in certain areas may be transferred to other programs, or returned to the treasury. Burkhead, op. cit., p. 347.
6. Advocates of the “program,” as opposed to the “line-item” budget assert that program budgeting permits greater flexibility for program administrators to adjust to changing circumstances in allocating funds to achieve maximum goals with available resources.
ner in which funds approved for agencies are allocated to them by the central budget office. If agency appropriations are voted according to line-item, a close control of actual expenditures in stated amounts for specific purposes is indicated. If appropriations are made by major expenditure object, a more flexible manner of allocation of funds and spending control may be permitted. Considerable discretion may be given executive officials if the funds are appropriated in lump sums, either for programs or for entire agencies.

Line-item appropriations acts, combined with the traditional line-item budget, provide the greatest assurance that presumed intent of the legislature will be followed.

However, the line-item appropriation bill may be used in states which do not have a line-item budget. In such cases actual expenditures may be controlled by the format of the legislative appropriations act.

Other indications of legislative intent may appear in general provisions included in appropriations acts which spell out the powers and responsibilities of the chief executive and central budget office in supervising budget execution.

These stipulations may refer to particular use of funds, provisions for transfer of funds between appropriations items, establishment of an “allotment” system, or authorization to use receipts from dedicated funds in excess of amounts appropriated.

Role of the Executive Branch

At one time the role of the executive branch in budget execution was considered a conspicuous area of weakness. Writing at the end of the 1920's, A. E. Buck pointed out that:

"... the lawmakers... gave little or no thought to the position of the executive with respect to the various agencies of the administration. This was particularly true in the state governments where these agencies were often arranged in a haphazard and disjointed fashion, their administrative officers, in many instances, not being even remotely under executive control or supervision.... Although the executive might prepare a satisfactory financial plan for the legislative body under these circumstances, he could not hope to be able to enforce the plan once it had been adopted. No wonder the budget system in many of these cases has been little more than a farce...." (Italics added).

The present situation in most states hardly resembles the sorry state of affairs described above. In fact, state practices have been criticized as providing overly centralized spending supervision by the governor and the central budget office, and not always permitting operating agencies adequate

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9. As indicated in Section IV, 16 states appropriate by line-item; 26 by major expenditure object; 20 by lump-sum by program; and 20 by lump-sum by agency (some states use several methods).

10. Legislative approval of appropriations by broad categories or lump sums may not always result in operating agencies having the administrative discretion which this type of appropriation ostensibly provides. Central budget offices may establish administrative rules for allotment of funds according to more closely defined spending criteria. (See subsequent discussion on the role of the executive branch.)

11. Regardless of the form in which appropriations are authorized, it should be made clear that spending authorizations are "permissive," rather than "mandatory." Otherwise agencies are likely to view an appropriation as a "command" to spend, rather than as an "allowance" to spend. Thus it is necessary to provide for authority to restrain agencies during the actual expenditure operation. J. Wilmer Sundelson, Budgetary Methods in National and State Governments, Albany, J. B. Lyon Company, 1938, p. 618.


13. However, prior to January 1, 1964, the executive branch of government in Michigan, for example, was not under the control of a single elected official, and authority was diffused among more than 125 agencies (many of them semi-autonomous). Under the new constitution the executive branch is to be organized into not more than 20 departments under the direct supervision of the governor.
flexibility in program implementation. In recent years central "overcontrol" has been considered a continuing threat.  

In all states budget execution is primarily a function of the executive branch, and in executive-budget states the execution phase is usually under the immediate control of the governor. In practice the authority which the chief executive exercises in budget execution will reflect the over-all power positions of the governor and the legislature, while the actual procedures which are employed will indicate the degree of control which the governor exercises over executive agencies.

Budget execution requires close cooperation between the governor, the central budget office, and the agencies administering particular programs. In some states, an administrative board also participates, and has authority to approve or disapprove agency requests for transfer of funds between appropriations items during the course of a fiscal period, to release funds for capital projects, and to approve allotment plans for allocation of monies for emergency purposes. The boards may also be empowered to approve agency regulations in regard to travel, purchasing, and personnel. The establishment of such boards reflects belief by the legislature in the need for having some authority invested with power to provide flexibility in budget execution, coupled with reluctance to entrust such power to the chief executive. As such, the presence of such boards represents a limitation on the role of the governor, and in the opinion of some observers an impingement on a prerogative of the executive branch.

The actual allocation of authorized funds to agencies is ordinarily the function of the central budget office, with the form of the appropriations act setting the guidelines for actual expenditures. In some instances, however, the budget office, through its own administrative decision, may impose stricter rules for allocation of monies and control of their use than are required by legislative enactment. For example, the budget office may require line-item control of expenditure by agencies, even though the legislature does not use line-item appropriations bills and may authorize spending in terms of broader categories which permit great administrative discretion and flexibility. Or the budget office regulations for transferring funds by agencies among appropriations items may be stricter than prescribed by the legislature.

The budget office may also have authority to permit agencies to allocate funds in a different way from that stipulated in appropriations acts, should economic developments, changes in program needs, or improvements in operating procedures make it desirable. Activities of the central budget office may also include evaluation of agency performance, and cooperation with agency officials in program implementation.

When appropriations are made in lump-sum amounts, and where budget execution is decentralized and governed by flexible regulations, agencies may exercise considerable discretion in using

15. These administrative boards may be composed entirely of elected administrative officials, entirely of legislators, or of a combination of the two. The Michigan administrative board is an example of the first type; the Oregon emergency board, of the second type; while the Kansas finance council and the Ohio controlling board are examples of the third type. Shadoan, Organization, Role, and Staffing of State Budget Offices, op. cit., p. 18.
allotted monies. For example, if changes in work methods indicate that less should be spent on personnel, and more on purchases of supplies and equipment, then the agency will be free to change its spending pattern without going through the cumbersome administrative process of securing higher echelon approval for such transfers. While freedom may lessen “control” over the precise determination of the objects of expenditures, it may strengthen “control” in regard to attainment of program objectives.

Program administrators will ordinarily need to interpret the detailed implications of legislative intent. They may at times permit themselves some leeway in carrying out authorized activities. However, officials have an obvious interest in maintaining good working relations with legislators to ensure favorable consideration of future spending requests, and will presumably have a strong incentive against departures from basic legislative guidelines.

Transfers within Agencies. Most states permit flexibility in the use of authorized funds by allowing intra-agency transfers among appropriations items. However, in almost all cases, an agency may make such transfers only with approval of the governor and/or the central budget office, some other supervisory body, or the legislature (see exhibit). Even in the 4 states in which all appropriations are made on a lump-sum-by-agency basis, 3 require the governor and budget office to approve internal transfers.

Transfers among Agencies and Programs. Most states allow the executive branch no discretionary authority for inter-agency and inter-program transfers. In the large majority of states where such transfers can be made, prior legislative approval is required (see exhibit). The number prohibiting them altogether, moreover, is considerably larger than the number prohibiting intra-agency transfers.

Transfers among Funds. While many states allow intra-agency transfers upon approval of the governor and/or budget office, and the majority permit inter-agency and inter-program transfers...
among appropriations items—though generally only with legislative approval—there is considerably less latitude in transfers among funds. Twenty-five states reported that no transfers can be made as between the general fund and special funds or from one special fund to another. Most of the states which permit such transfers do so only with prior legislative approval or under certain restricted circumstances, such as on a temporary “loan” basis. Finally, several states which do not restrict inter-fund transfers reported that transfers were made only on rare occasions (see exhibit).

### Authority of executive branch to transfer funds among agencies or programs

<table>
<thead>
<tr>
<th>Number of states</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At discretion of governor</td>
<td>3</td>
</tr>
<tr>
<td>Among programs, but not among agencies</td>
<td>9</td>
</tr>
<tr>
<td>With approval of legislature</td>
<td>15</td>
</tr>
<tr>
<td>With approval of administrative board or commission, or legislative committee</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
</tr>
<tr>
<td>Not at all</td>
<td>20</td>
</tr>
</tbody>
</table>

a. In several states more than one procedure may be used.
b. In Connecticut, the governor may transfer appropriations between agencies during a reorganization of program responsibility, but only with approval of the finance advisory committee; in Florida, the appropriations act sometimes makes specific provision for limited transfers between institutions within the same area of governmental functions—in the absence of such specific authority, neither governor nor budget commission can make transfers between agencies or programs; in Hawaii, if functions are transferred from one department to another, appropriations may also be transferred; in Kentucky, the governor may reorganize agencies or programs, although the transfer must be approved by the next legislative session; in New Jersey, transfers may be made by the executive budget director, subject to approval of the legislative budget and finance director.c. The 20 states which make no provision for these transfers are: Alabama, Alaska, Georgia, Idaho, Massachusetts, Michigan, Missouri, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Washington, West Virginia, Wisconsin, and Wyoming.

### Authority to make inter-fund transfers

<table>
<thead>
<tr>
<th>Number of states</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer allowed</td>
<td>16</td>
</tr>
<tr>
<td>Transfer allowed under certain conditions</td>
<td>9</td>
</tr>
<tr>
<td>Transfer not allowed</td>
<td>25</td>
</tr>
</tbody>
</table>

a. Five of these states reported that the practice is rarely used: Delaware, Maryland, Mississippi, South Carolina, and Virginia. Nine of the 11 remaining states indicated that such transfers were made subject to legislative approval.
b. States indicating that transfers can be made only under certain circumstances, or on a temporary “loan” basis are: Arkansas, California, Colorado, Florida, New Jersey, North Dakota, Pennsylvania, Washington, and Wisconsin.

### Allotments

Probably the most important method of apportioning funds to agencies is the allotment system. This may be operated by a central budget office to enforce legislative rules concerning distribution of authorized amounts. In some cases, however, the allotment system provides budget offices with a device for imposing more stringent regulations on the use of funds than are required by appropriations acts or other legislative measures.

Through an allotment system the budget office apportions authorized appropriations to agencies according to a time-table, dividing the fiscal year, or biennium, into allotment periods. For example, distribution of funds during a fiscal year may be made on the basis of four allotment periods, each comprising three months. Distribution may also be made according to the use to which the
money is to be put. Thus, the budget office may allocate monies both for each quarter of a fiscal year, and according to the program, expenditure category, or detailed expenditure object for which the funds are to be spent. The budget office normally requires an agency to spell out in detail the specific ways in which it will use funds.

Allotments are used primarily to regulate spending during the course of the fiscal period and to prevent operating deficits or an excessive recourse to deficiency appropriations, the use of reserve funds, or other stop-gap devices for preventing over-obligation. Allotments are a safeguard against lax financial management by agencies, and in some states the method may be used only for agencies which have not exhibited a capacity to handle funds to accomplish program objectives while remaining within appropriations limits. The allotment system may be especially useful in states which do not have a working capital fund, or its equivalent, or in states where fiscal experience has been marked by recurring "peaks" and "troughs" in either revenues or expenditures.

According to survey respondents, the allotment system is widely used among the states for distributing authorized funds to all, or at least some, agencies (see exhibit).

Avoiding Deficits. During the depression of the 1930's, a number of states with strict constitutional stipulations for a "balanced budget" were faced with a severe decline in revenues. They therefore adopted regulations requiring governors to institute sharp reductions in spending programs to avoid deficits.

<table>
<thead>
<tr>
<th>Use of allotment system</th>
<th>Number of states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used for all agencies</td>
<td>33a</td>
</tr>
<tr>
<td>Used for some agencies or in some instances</td>
<td>12</td>
</tr>
<tr>
<td>Not used at all</td>
<td>5b</td>
</tr>
</tbody>
</table>

a. In 2 of these states—Alaska and North Dakota—new legislation (still to be implemented at the time of this study) provides for this procedure.
b. States which do not use the allotment system are: Georgia, New Hampshire, South Carolina, South Dakota, and Wyoming.

A number of southern states established rigid requirements for reductions in case of a fall-off in revenues. The governor was directed to reduce all appropriations in proportion to the decline in receipts, and was ordinarily not permitted to exercise discretion as to the agencies or programs where the cuts were to be applied.18 Some other states which established control machinery during this period did permit the chief executive some degree of choice in applying cut-backs in spending.19 or empowered the governor, the board of finance, or the finance department to reduce particular types of programs under certain specified circumstances. Permitting the executive branch to exercise this discretion may well promote more efficient fiscal management.

At present the majority of states still require an across-the-board reduction in allotments to all agencies in the face of a threatened deficit, a procedure which has at times been criticized for its excessive rigidity. A sizable minority, however, permit discretionary application of the cuts to particular operations. Many states employ other methods for avoiding a gap between revenues and ex-

18. However, in these states some programs, such as those for institutional care, were exempted from the requirement for across-the-board spending reductions.
19. Examples of these states were: Iowa, Maryland, Oregon, Utah, and West Virginia.
penditures. Perhaps the most important of these other procedures is the moratorium on hiring new personnel or purchasing new equipment (see exhibit). Some states use several methods, or employ different procedures under varying conditions.

<table>
<thead>
<tr>
<th>Procedure for avoiding a threatened deficit</th>
<th>Number of states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in allotments to all state agencies</td>
<td>29</td>
</tr>
<tr>
<td>Reductions in allotments to some state agencies</td>
<td>22</td>
</tr>
<tr>
<td>Moratorium on hiring personnel and purchasing equipment</td>
<td>19</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
</tr>
</tbody>
</table>

a. In 1 additional state, Michigan, the governor, with approval of the legislative appropriations committee, is to reduce authorized appropriations, except for operation of the legislative and judicial branches or from constitutionally dedicated funds. However, implementing legislation had not been enacted at the time questionnaire information was obtained.

b. These other methods include: appeals by the governor for agencies to reduce expenditures voluntarily (Delaware); the automatic going into effect of a state property tax (Iowa); use of a "de-escalator" clause (Kentucky); issuance of limited bond issues (Mississippi); use of special reserve funds (New York); and appropriations from the general fund (Oklahoma). In the last-named state the governor is also empowered to issue deficiency certificates; however, this method has never been used in practice.

Many states have special emergency, or contingency, funds which may be drawn upon to offset threatened deficits between legislative sessions. These funds are sometimes under the jurisdiction of the governor; more often, however, they appear to be administered by some form of commission, board, or committee. The extent to which an emergency fund can offset a deficit will obviously depend on the amount in the fund in relation to the size of the deficit. Should sizable deficits continue over protracted periods, longer-term remedies will be required.

Finally, a state government may offset an operating deficit by means of deficiency or supplementary appropriations. As indicated in Section IV, all states, except Alabama, North Carolina, and Virginia, have used these forms of spending authorizations.

Disposition of Surplus. State procedures for controlling budget execution are generally more concerned with preventing deficits than with providing for disposition of surpluses. The prevailing practice is to carry over any surpluses remaining at the end of the fiscal period into the next period, with no specific regulations as to the particular purposes for which they may be used. Of course, in some states a projected surplus is used prior to the end of the period in which it occurs, being allocated through supplemental or deficiency appropriations.

Surpluses which accumulate in special funds may also at times be spent as they accrue, with or without special permission of the legislature. Apparently, only a relatively small number of states have prescribed specific purposes for which any surpluses can be used.

According to survey respondents, in 34 states surpluses are simply carried over into the subsequent fiscal period or periods. In an additional 12 states, sur-

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20. The regular submission to the legislature of requests for deficiency appropriations might reflect an ineffective system for supervision of budget execution in the state involved. However, all deficiency appropriations are not necessarily to be regarded as indicative of inadequate rules of procedure or faulty administrative practice. According to Hurkhead, there are two kinds of deficiency appropriations: the "good" ones and the "bad" ones. The latter are the result of faulty planning on the part of agencies and inadequate review by the central budget office, or of faulty management and inadequate cost control during program execution. The "bad" ones also may be the result of legislative attempts to make a "display of economy" in the original appropriation, authorizing less funds than are known to be required for a particular operation. However, the "good" deficiency appropriations arise from circumstances beyond control as when costs increase because of inflation, when low-cost materials become unavailable and materials of higher cost must be substituted, or when personnel costs rise. The "good" deficiencies are often said to reflect original tight budgeting, which could only be avoided by an original over-estimate of program costs. Hurkhead, op. cit., p. 344.

21. Three of these states—Kansas, Montana, and North Dakota—did report that surpluses remain in special funds for which the legislature, thus, use of the funds is restricted to the purposes for which these funds are permitted.
### Disposition of Surpluses

<table>
<thead>
<tr>
<th>State</th>
<th>Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecticut</td>
<td>First $1.5 million is transferred to state employees’ retirement system fund; the next $1 million remains in the general fund; any balance remaining is transferred to bond retirement fund.</td>
</tr>
<tr>
<td>Florida</td>
<td>Surplus in general revenue fund goes into working capital fund until balance in that fund reaches $50 million (present balance is $3 million).</td>
</tr>
<tr>
<td>Idaho</td>
<td>Surplus generally remains in general fund; however, it has led to a reduction in tax rates, and on one occasion was used for capital improvements.</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Surpluses from appropriations from special funds must be returned to those funds within 120 days of the close of the fiscal year. Surpluses accruing from restricted funds may be retained. If there is a surplus, the legislature will appropriate it at the next regular or special session.</td>
</tr>
<tr>
<td>Missouri</td>
<td>Excess balances in a large number of specified funds are transferred to the general revenue fund at the end of the biennium.</td>
</tr>
<tr>
<td>New York</td>
<td>Surplus which has not been appropriated during fiscal year in which it occurs is transferred to tax stabilization reserve funds.</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>Any amount of surpluses not carried over to next fiscal year must be transferred to the sinking fund for debt service.</td>
</tr>
<tr>
<td>South Carolina</td>
<td>Surplus is allocated to local governmental units for public school expenditures.</td>
</tr>
<tr>
<td>Tennessee</td>
<td>Surplus is carried over to succeeding fiscal period; however, a $25 million reserve must be maintained as “working capital” in the general fund.</td>
</tr>
<tr>
<td>Texas</td>
<td>Any surplus which accumulates in special funds “spills over” into general fund; otherwise, surpluses accumulate for disposition by legislature.</td>
</tr>
<tr>
<td>Washington</td>
<td>Surplus used for reduction of indebtedness, reduction of taxation, or other purposes recommended by the governor.</td>
</tr>
</tbody>
</table>

Surpluses are carried over or other procedures are used. Another 3 states reported that there were no provisions for the disposition of surpluses; apparently they are also simply carried over. For 1 state, information was unavailable, and 1 state reported simply that the legislature usually approves sufficient projects to use up any possible surplus. Respondents in 11 states, however, did indicate that surpluses are used, or have been used, for certain specific purposes (see table above).

In those states (the great majority) which simply forward surpluses into the next fiscal period with no restrictions as to their use, the existence of such surpluses may cause the state to engage in questionable fiscal operations. If the surplus is the result of temporary conditions, then it is a “non-recurring revenue.” To use “non-recurring revenues” for current operations, or to initiate new programs, expand existing programs, or reduce taxes would seem to be unwise. Nevertheless, some states have engaged in such practices. Preferred uses of such funds would appear to be to earmark them for capital improvements funds, to