

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 228

SPONSOR: Fiscal Policy Committee and Senator Webster

SUBJECT: Agency Financial Reporting

DATE: March 24, 1999 REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Hendon</u>	<u>Hadi</u>	<u>FP</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>RC</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

## I. Summary:

Florida state agencies currently report expenditures primarily by organizational unit, by type of expenditure, and by funding source. While this provides accountability for the proper expenditure of funds, it does not generally provide agency managers, the Governor's Office, the Legislature, or the public with information on the costs of products and services provided by agencies.

This bill requires state agencies to report the unit costs associated with producing output measures approved under performance-based program budgeting. Agencies and programs not operating under performance-based program budgeting must identify and report unit costs for the major products and services they provide. This reporting of the unit costs is to be included as part of the agency Annual Performance Report required by s. 186.022, F.S. The reported unit costs must total the agency annual expenditures. For those agencies that fail to meet these reporting requirements, the Legislature is required to reduce their appropriation for the ensuing fiscal year by an amount equal to or greater than 10 percent of the allocation for the agency in the preceding year.

This bill substantially amends sections 186.022 and 216.0235 of Florida Statutes.

## II. Present Situation:

Current law (Chapter 215, F.S.) states that it is the intent of the Legislature for the executive branch of government, in consultation with legislative fiscal committees, to design and implement the Florida Financial Management Information System (FFMIS) as the primary means by which state government managers acquire and disseminate information needed to plan and account for delivery of services to the citizens in a timely, efficient, and effective manner. FFMIS includes the Florida Accounting Information Resource Subsystem (FLAIR) that maintains the state's financial accounts and produces expenditure reports. Section 215.96, F.S., requires the Comptroller to establish a coordinating council (Florida Financial Management Information System Coordinating Council) to review and suggest changes to the state's financial management system.

The Executive Office of the Governor and the Departments of Banking and Finance, Management Services, and Insurance are currently working to revise FFMIS. The effort to date has concentrated on the human resources and payroll sub-system. Since 1997-98, the Legislature has appropriated \$12.5 million in general revenues to replace the existing human resources and payroll sub-system.

State agencies account for expenditures by organizational unit, appropriation category, and funding source. Organizational units may not equate to programs defined under performance-based program budgeting. In addition, indirect costs are rarely included in the cost of agency products and services.

In implementing performance-based program budgeting, pursuant to Chapter 216, F.S., the Legislature has defined agency programs, performance measures, performance standards, and associated appropriations each year in the state budget. This, along with the requirements of Chapter 186, F.S., for agencies to produce a strategic plan, has required agencies to identify their major products and services. Output measures for these products and services have been approved for some departments under performance-based program budgeting, but these measures vary in type and level of detail between agencies.

Chapter 186, F.S., requires agencies to produce a strategic plan and annual performance report. The Governor's Office of Planning and Budgeting writes the instructions for developing the plan and approves agency plans. The plans are not required to be comprehensive of an agency's operations. Instead, agencies select major issues that impact the public. Recent efforts by the Governor's Office and the Legislature (Chapter 98-73, Laws of Florida) have aligned the strategic plans with the agencies' approved performance-based program budgets. Agencies must update their strategic plans after the Legislature adopts performance measures and must report their performance annually.

Efforts are underway at the Federal level to institute program cost accounting. The Chief Financial Officers Act of 1990 includes, among the functions of chief financial officers in each federal agency, "the development and reporting of cost information" and "the systematic measurement of performance." In July 1993, Congress passed the Government Performance and Results Act which mandates performance measurement by federal agencies. In response to this act and the National Performance Review, the Federal Accounting Standards Advisory Board issued a set of cost accounting standards to be used by federal agencies. Those standards are currently being implemented by federal agencies, and this experience could provide some guidance for identifying the unit costs of Florida's government activities.

### **III. Effect of Proposed Changes:**

The bill amends s. 186.022, F.S., to require each agency to include in its Annual performance report a summary of all moneys that were expended or encumbered by the agency, or for which the agency was otherwise responsible, during the preceding year, and an estimate of such moneys to be spent in the current year. For agencies and programs operating under performance-based program budgeting, these expenditures must be further expressed as the unit cost for each of the approved output measures. For agencies and programs not operating under performance-based

program budgeting, the agency must identify its major products and services and report the unit cost for these major products and services. The total of these unit costs must equal the total amount expended or encumbered by the agency, or for which the agency was otherwise responsible. For those agencies that fail to provide the unit cost information, the Legislature is required to reduce the allocation for those agencies in the General Appropriations Act for the ensuing fiscal year by an amount equal to at least 10 percent of the allocation for the preceding fiscal year.

The Executive Office of the Governor, in consultation with the Office of Program Policy Analysis and Government Accountability, the Auditor General, the Department of Banking and Finance, and the legislative appropriations committees, must develop, as part of the budget instructions required under s. 216.0235, F.S., instructions on the calculation of the unit cost information and the format and presentation of the summary information required by the bill.

The bill also requires the Florida Financial Management Information System Coordinating Council to submit a report to the Governor, President of the Senate, and Speaker of the House by October 1, 1999, that makes recommendations on the feasibility and cost associated with enhancing the Florida Accounting Information Resource Subsystem (FLAIR) to report the unit-cost information required by the bill.

The bill should improve the ability of the Legislature to use performance information in budgeting by requiring agencies to report the costs of their major products and services. This could allow the Legislature to project the cost of different levels of performance prior to making appropriations. This is the case currently with components of the Florida Education Finance Program (FEFP). School districts track the direct and indirect costs associated with providing different types of instructional programs, such as basic education, drop out prevention, or exceptional student education. This allows the Legislature to know the level of funding needed to support an increase or decrease in the number of students served by type and amount of academic instruction.

The bill is to take effect July 1, 1999.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

##### **B. Public Records/Open Meetings Issues:**

None.

##### **C. Trust Funds Restrictions:**

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

None.

**B. Private Sector Impact:**

The approach that has been adopted for revising the Florida Financial Management Information System is based on purchasing computer software from the private sector. To accomplish the purposes of this bill, additional or expanded purchases may be made by the State from the private sector. Because the private sector provides many government services under contract, implementation of the bill could require private contractors to submit financial information in a different format.

**C. Government Sector Impact:****State Government**

The fiscal impact of the bill on state agencies cannot be determined. Agencies may or may not need to make one-time modifications in their financial reporting systems to produce unit cost information. Senate staff contacted seven agencies of varying sizes. Only one agency was able to estimate a fiscal impact. Most believed that unit cost information would have to be assembled manually until revisions were made to the state's accounting subsystem. The Governor's Office of Planning and Budgeting stated that costs associated with developing unit cost information could be "substantial."

The Governor's budget recommendations and the proposed Senate Appropriations Act include an appropriation in administered funds for \$12 million to continue implementation of the new human resources and payroll subsystem and \$3 million to begin work on the accounting subsystem. This expenditure would be for conducting a needs assessment of the current users relative to the capabilities needed in the new system.

**Local Governments**

To the extent that the state provides funding to or contracts with local governments to provide state services, implementation of the bill could require financial information to be submitted in a different format.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.

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This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

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