Chapter 5: Budgeting and Accountability

Key Ideas in Chapter 5:

Budgeting and Performance Measurement

- Given the current and future economic condition of the country and Mississippi, it is incumbent upon the Governor, Legislature, and state agency managers to ensure that Mississippi's scarce financial resources are expended in the most efficient and economical manner possible.

- Through enactment of performance-based budgeting in 1994, the Legislature established a budgeting process that, if fully implemented and utilized, should achieve the goal of ensuring that Mississippi's scarce financial resources are expended in the most efficient and economical manner possible. However, the act has not been fully implemented as intended.

- Conditions such as limited technology and analysis capacity, a reduced emphasis on the process envisioned in state law, and unrealistic expectations for changing the political process are still factors that are surely to affect future reform efforts.

Financial and Human Resources Management Systems

- Mississippi is severely limited in meeting new functional requirements for its financial and human resources management information system, including federal and state mandates.

- MAGIC (Mississippi's Accountability System for Government Information and Collaboration) is Mississippi's pursuit of an Enterprise Resource Planning solution. MAGIC conceptually calls for implementation of a fully integrated solution to address the state's administrative needs.

Grants Management

- After dissolution of the Division of Federal-State-Local Programs in 1989, there was no longer a uniform process regarding the procurement and management of federal grants and the state presently lacks a central registry of grants received.

- The vision of Grant Operation and Lifecycle Solution (GOALS) is to establish a comprehensive, enterprise-wide automated grants management and reporting system integrated with the state's financial system to help managers administer grant programs more efficiently and make better-informed decisions.

Auditing and Fiscal Oversight

- Low staffing levels and high turnover in the Department of Audit's Financial and Compliance Audit Division have resulted in a decreased experience level of audit staff and reduced institutional knowledge to use in forming auditor judgment.

- Of the nineteen agencies required by state law to establish an internal audit function, thirteen have done so. Most of the eight internal audit functions PEER reviewed focus on reviewing agency programs rather than on reviewing and testing the internal control structure of the overall agency.

- State law requires that internal audit plans be reviewed and approved by the agency's executive director. As a result, the internal auditor's freedom to determine the internal controls tested and programs reviewed may be limited by the executive director.
Opportunities for Change: Budgeting and Accountability

Budgeting and Performance Measurement

- In order to improve Mississippi’s implementation of performance-based budgeting and enhance the state’s budgeting process, the Legislature should consider implementing the following:
  -- a biennial budget;
  -- collecting meaningful agency performance information;
  -- true performance monitoring and reporting;
  -- training in performance measurement;
  -- state agency incentives; and,
  -- publishing performance information for the public.

Financial and Human Resources Management Information Systems

- The Department of Finance and Administration should continue its efforts to develop a comprehensive Enterprise Resource Planning (ERP) solution to Mississippi’s current and future financial and human resources management information needs.

Internal Audit

- A Division of Internal Audit should be established within the State Auditor’s Office and each agency internal audit director and internal audit staff should report to the Director of the Division of Internal Audit. Such a reporting structure would improve the independence of the internal audit function.

Performance Review Analysts

- PEER proposes that a new type of internal auditor, Performance Review Analysts (PRAs), perform independent reviews of performance measures.

Performance Audit

- The Performance Audit Division of the State Auditor’s Office should be transferred to the Legislative Budget Office and should develop and implement the Performance Review Analyst function.
As has been previously stated, one of the overarching purposes of the statewide performance review is to challenge citizens and state officials to begin thinking about government in a different light. The proposed model is to think of the state of Mississippi as an enterprise, facing the same fiscal and resource challenges as any other major enterprise, either public or private in nature. To do so, greater efficiency and accountability must be achieved in management of the core responsibilities of government.

As has been outlined in the previous two chapters, two major keys to finding these efficiencies are a strategic planning process and state-of-the-art information technology services to support the collection and analysis of detailed management information. In this chapter, the PEER Committee takes a closer look at three specific core systems that will require improvement if the state is to reap the benefits of change:

- budgeting and performance measurement;
- financial and human resources management systems; and,
- auditing and fiscal oversight.

In broad terms, these three core functions allow managers to translate plans into action by defining the critical flow of resources needed to achieve a goal, accounting for those transactions, reporting results, and auditing where necessary to complete the needed feedback loop to perfect the planning process.

Mississippi’s Financial Condition

Mississippi’s total budget increased from approximately $12.8 billion in FY 2005 to approximately $19 billion in FY 2009, a 48% increase. While general fund appropriations increased by approximately 39% federal funds received by the state increased by 75% over the same period. A portion of each fiscal year’s budget is dedicated to the payment of outstanding principal and interest of debt issued to finance economic development projects, capital construction, revolving loan programs, and grant programs.

As of March 1, 2008, the state had outstanding general obligation debt (principal only) of approximately $3.5 billion. Section 115, paragraph 2 of the MISSISSIPPI CONSTITUTION of 1890 limits the amount of debt the state may incur by stating “neither the State nor any of its direct agencies, excluding the political subdivisions and other
local districts, shall incur a bonded indebtedness in excess of one and one-half (1½) times the sum of all the revenue collected by it for all purposes during any one of the preceding four fiscal years, whichever year might be higher.”

To mitigate the impact of economic fluctuations on state revenues, most states have established budget stabilization funds, commonly referred to as “rainy day funds.” Established in MISS. CODE ANN. Section 27-103-203 (1972), the balance in Mississippi’s “Working Cash-Stabilization Reserve Fund” can contain a maximum of 7½% of the total general fund appropriations for the current fiscal year. For example, the maximum balance in the state’s rainy day fund would be approximately $375 million based on the FY 2009 general fund appropriations of approximately $5 billion.

As noted in the Foreword to this report, according to the Center on Budget and Policy Priorities, nearly all states are facing a great fiscal crisis. Thirty-seven states, including Mississippi, face budget shortfalls for the current fiscal year. Budget shortfalls are already projected in twenty-eight states, again including Mississippi, for next fiscal year. In the first half of 2008, most states experienced flat or declining revenues relative to the previous year. Many states have already cut spending, used reserves, or raised revenues, or plan to take one or more of these actions, in order to balance their budgets.²³

Mississippi has not been immune to the country’s current economic climate. For example, general fund revenues for the first quarter of FY 2009 were $23.8 million, or 2.11% below the revenue estimate. Governor Haley Barbour’s office projected that Mississippi could miss its revenue estimate by more than $100 million for FY 2009. As a result, on November 12, 2008, Governor Barbour imposed spending cuts of approximately 2% for most state agencies.

According to the Center on Budget and Policy Priorities, thirty-seven states (including Mississippi) face budget shortfalls for the current fiscal year.

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National Association of State Budget Officers, the process used to develop the state budget has important implications on the final outcome. The authorities and restrictions on those who develop the budget influence each state's ability to achieve policy and funding objectives within the budget.

Most states, including Mississippi, use a budget method that is incremental—previous appropriations are increased or decreased by small increments. Due to ongoing funding requirements, a large portion of the previous year’s budget is assumed to be committed. Incremental budgeting tends to produce budget documents that include detailed information by line item.

Status of Performance-Based Budgeting in Mississippi

Through enactment of performance-based budgeting in 1994, the Legislature established a budgeting process that, if fully implemented and utilized, should achieve the goal of ensuring that Mississippi’s scarce financial resources are expended in the most efficient and economical manner possible. Performance-based budgeting is a budgeting process that links revenues to activities and programs. This allows public officials and managers to monitor more closely whether a specific department or program is meeting its goals from a fiscal and performance perspective. Performance-based budgeting also allows the budget to be used as a management tool. (See Exhibit 4, page 54, for definitions of terms associated with performance-based budgeting.)

In response to recommendations included in a 1992 study of the state’s budgeting process conducted by the Joint Legislative Budget Committee, the Legislature passed the Mississippi Performance Budget and Strategic Planning Act of 1994. The act, codified at MISS. CODE ANN. §27-103-151 et seq. (1972), requires a performance-based budgeting process in Mississippi and requires the following:

- Beginning with FY 1996, appropriation bills for each state agency or institution shall include performance targets for each performance measure established annually by the Legislature.
- The Department of Finance and Administration shall provide accounting system services to each agency to allow both program expenditures and performance measurement data to be maintained and reported in such form and detail as required by the Joint Legislative Budget Committee.
- Beginning with FY 1995, the Legislature shall make available funds for the employment of such persons as may be required to conduct an evaluation of the
actual performance accomplishments of each agency and its programs in comparison to the targeted performance levels established within the appropriation bill for each agency and its programs.

- Beginning with FY 1996, the Legislative Budget Office and the Department of Finance and Administration shall review the five-year strategic plans submitted by each agency as an addendum to its budget request and make copies available to the Legislature for review and consideration.

- The Department of Finance and Administration is authorized and directed to establish an innovation incentive program whereby agencies that develop and implement innovative cost saving measures can receive both public commendation and monetary reward in recognition of their efforts.

This section of the report will provide the status of performance-based budgeting in Mississippi as a step in assessing the adequacy of available information systems needed to support an enterprise model of government.

Exhibit 4: Terms Used in Performance Based-Budgeting

Performance-based budgeting is a budgeting process that links revenues to activities and programs.

- Strategic Planning: the process of setting long-range, future-oriented goals for the agency. Strategic planning should take into consideration the agency’s mission, the agency’s resources, and all external factors affecting the agency’s ability to meet targeted outcomes. A strategic plan should address issues that are of interest to the public served and should focus on results rather than efforts. This planning should identify goals and outcomes that have been targeted for achievement. Strategic planning should be done at all levels of the agency and should include input from citizens who are served by the agency when possible.

- Performance Measures: quantifiable, enduring measures of outcomes, outputs, efficiency, or cost-effectiveness. Performance measures are typically related to an agency’s mission and programs and do not measure one-time or short-term activities.

- Program outcomes: measurable results of funding certain activities within a program. Performance can be determined by comparing actual outcomes to targeted outcomes of the agency.

- Program outputs: goods and services provided by an agency. Output measures are the means of quantifying the goods and services provided by an agency. The number of clients/customers served or the number of items processed/produced are used to identify program outputs.

- Program efficiencies: ratios that identify the effectiveness or productivity of a program. Cost per unit of goods or services is used to identify program efficiencies. The amount of time to complete a task could also be used to measure productivity.

SOURCE: “Budget Instructions/Forms” (Legislative Budget Office and Department of Finance and Administration, June 2, 2008); A Review of Performance-Based Budgeting in Mississippi (State Auditor’s Office, December 15, 2003).
State's Auditor's Assessment of Mississippi's Performance-Based Budgeting

Although the act was passed to reform Mississippi's budgeting process to require performance-based budgeting, two reports issued by the Performance Audit Division of the State Auditor's Office note that the act has not been fully implemented as intended. (Former State Auditor Phil Bryant and current State Auditor Stacey Pickering issued reports entitled A Review of Performance-Based Budgeting in Mississippi on December 15, 2003, and February 15, 2008, respectively.)

The State Auditor found several deficiencies in the implementation of the act. First, the State Auditor found problems with the development of performance measures and targets by state agencies. Although state law requires that performance targets be established annually by the Legislature and be based upon the funding level authorized for each agency within its appropriation bill, the State Auditor found that agencies set their own performance targets and submit them to the Legislative Budget Office for approval. Without annual evaluations of performance measures for accountability purposes, the risk exists that performance targets will be developed simply to satisfy the law, with little practical use to the Legislature. The State Auditor concluded that:

...[s]imply maintaining performance measures and targets in each agency's appropriations bill is not sufficient to achieve the results the law intended. The law currently in place maintains the potential to be extremely effective if implemented in its entirety; however, implementing only portions of the law will not yield results consistent with those originally envisioned.  

In addition, the State Auditor concluded that the cost-savings incentives program authorized in statute has not been fully utilized. Similar programs have been used in other states and have met with success.

PEER notes that although agencies may receive a monetary award under the program, individual employees may not be compensated. The Attorney General opined, in Opinion No. 2003-0426, that “we find no language in Section 27-103-157 which indicates an intent to authorize individual employees to receive monetary awards.” In addition, Section 66 of the MISSISSIPPI CONSTITUTION prohibits a “law granting a donation or gratuity in favor of any person or object [to] be enacted except by the concurrence of two-thirds of the members elect of each branch of the Legislature, nor by any vote for a sectarian purpose or use.” Therefore, state

employees may not receive a reward that constitutes a “bonus” under this section.

Finally, the State Auditor noted a lack of training for state agencies on four key areas in performance-based budgeting: adequate long-term planning, measurement and reporting, evaluation, and budgeting. Training would provide agencies with a better understanding of how performance-based budgeting works, as well as how to develop and evaluate performance measures.

Ultimately, the State Auditor recommended fully implementing all sections within the act.

PEER’s Assessment of Mississippi’s Performance-Based Budgeting

The PEER Committee also has knowledge of the utility of the information provided by the current budgeting system through use of this information in planning and conducting performance evaluations and expenditure reviews across a wide range of state programs.

In assessing the status of performance-based budgeting in Mississippi, PEER chose to compare Mississippi’s budgeting process with that of Texas. Given its long history with performance-based budgeting, Texas is frequently cited as having a model budgeting process by organizations such as the United States Government Accountability Office (GAO), Florida Office of Program Policy Analysis and Government Accountability, and Mississippi State Auditor’s Office. (See Appendix E, page 188, for a description of the Texas performance-based budgeting model.)

According to the State Auditor’s December 2003 report, the performance-budgeting system currently in place in Texas is called the Strategic Planning and Performance Budgeting System (SPPB). This system is described as a mission- and goal-driven, results-oriented system that combines strategic planning and performance budgeting in Texas into the state’s appropriations process. The primary purpose of the system is to allow the state’s funding decisions to be made based on whether state agencies are accomplishing expected results.

While Mississippi’s performance-based budgeting process has many of the attributes of the Texas model, Mississippi’s process has not been fully implemented. The following section assesses Mississippi’s performance-based budgeting process with regard to strategic planning, performance budgeting, and performance monitoring.

The Status of Strategic Planning within Mississippi’s Budgeting System

As noted previously, Mississippi requires each agency to complete a five-year strategic plan that is included as an addendum to the budget request. According to MISS. CODE
ANN. §27-103-129 (1) (a) through §27-103-129 (1) (e) (1972), strategic plans should contain at least the following information:

- a comprehensive mission statement;
- performance effectiveness objectives for each program of the agency for each of the five years covered by the plan;
- a description of significant external factors that may affect the projected levels of performance;
- a description of the agency’s internal management system utilized to evaluate its performance achievements in relationship to the targeted performance levels; and,
- an evaluation by the agency of the agency’s performance achievements in relationship to the targeted performance levels for the two preceding fiscal years for which accounting records have been finalized.

In the selected strategic plans reviewed by PEER, inconsistency existed in the level of continuity and the value of the strategies, goals, and outcome measures developed by the agencies. The following problems were found, but may not be universal to all agencies.

- Vision and mission statements contained ideas and phrases that were vague or ill-defined.
- Strategic plans failed to provide performance measures that could be monitored and assessed throughout the five-year period in order to be beneficial in the budgeting process.
- Goals were not linked back to the overall mission of the agency and were not developed into clear strategies that could be measured to ensure compliance.

In addition, the elements of the plans did not build on each other to provide the reader with an overall picture of the performance targets of the agency and the method for achieving those targets.

The Status of Performance Budgeting within Mississippi’s Budgeting System

MISS. CODE ANN. Section 27-103-129 (1) (1972) requires that budget requests for Mississippi agencies contain “a definition of the mission of the agency, a description of the duties and responsibilities of the agency, financial data relative to the various programs operated by the agency and performance measures associated with each program of the agency,” as well as other information. Also, MISS. CODE ANN. Section 27-103-113 (1972) requires the “overall balanced budget” (i.e., the annual Legislative Budget Report) prepared by the Legislative Budget Office to contain
performance measurement data associated with the various programs operated by each agency. (See Exhibit 4, page 54, for a glossary of terms used in performance-based budgeting.)

Performance measures may be found in an agency’s budget request, strategic plan, and appropriation bill. However, in the strategic plans and appropriation bills reviewed by PEER, performance measures and targets could not be traced from one document to another. Unlike Texas, agency strategic plans did not contain the same goals, objectives, and strategies from the budget request to the strategic plan, and ultimately, the appropriation bill. If a question arose pertaining to a performance measure in an agency’s appropriation bill, the strategic plan does not necessarily provide insight into the connection between the performance targets and the goals and mission of the agency.

Another problem that exists is the lack of change in performance measures in an agency’s budget request over time. For example, performance measures for the Mississippi Department of Education have changed minimally since measures were required in 1996, despite a change in the department’s programs over the years.

Also, while several appropriation bills reviewed by PEER included a projected increase for each performance measure, the bills PEER reviewed did not include a baseline for the projected increase. Although, for example, an agency projected a raise in performance for a program to be two percent, the reader is not aware if the target is realistic or attainable in the time allotted. Does the agency need to raise the current rate of 30 percent to 32 percent or 98 percent to 100 percent? For accountability purposes, adequate performance targets and baseline data from the previous year should be provided to the public with information on programs that work, and those that are not meeting targets, throughout the state.

In Texas, an appropriation bill is structured around the agency’s performance measures, goals, and strategies. While the Texas Legislature appropriates funds by strategy, the Mississippi Legislature appropriates funds at the program level. In Mississippi, not all appropriation bills contain performance measures for agency operations.

The Status of Performance Monitoring within Mississippi’s Budgeting System

MISS. CODE ANN. §27-103-155 (1972) required the Legislature to make funds available, beginning with FY 1995, for the “employment of such persons as may be required to conduct an evaluation of the actual performance accomplishments of each agency and its
programs in comparison to the targeted performance levels established within the appropriation bill for each agency and its programs.” To date, no persons have been employed specifically to evaluate agencies’ compliance with performance measures.

While agencies report performance measure information to the Legislative Budget Office biannually, Mississippi, unlike Texas, does not require agencies to provide an explanation for variances in performance targets. (Texas requires agencies that vary from their performance targets by 5% or more to explain such variances.) Targets should be attainable within the specified period. Mississippi’s law does not require agencies to explain variances for each performance target. In addition, agency performance measures and internal controls have not been evaluated by an outside agency in Mississippi. In Texas, several agencies, including the Legislative Budget Board and State Auditor’s Office, are utilized to provide oversight regarding the accuracy of agency performance measures and the adequacy of the agency’s internal controls.

Legislative Support for Budgeting Change in Mississippi

Changing Mississippi’s budgeting process to conform fully to the types of procedures used by Texas would require both executive and legislative support and recognition. The information contained in the strategic plans, budget requests, and appropriation bills in Texas and other states has been used in tight budget years when budget reductions have been made.

During the appropriations process, performance measurement data is useful when assessing which programs are achieving performance targets and which programs could be eliminated or restructured based on poor performance. The Legislature could determine what an agency is doing with its funds by looking at the performance targets and would not have to rely on testimony from the agency as to the success of new initiatives. Funds could be reallocated based on the needs of a program and the probability of attaining the set performance targets. For all of this information to be useful, the performance-based budgeting process requires legislative support and an understanding with state agencies that performance measures and targets will be used in the budgeting process.

Involvement from the Legislature, state agencies, and the public would help to ensure that performance measures selected would be sustained through changing administrations. With consistent input from constituents and stakeholders, performance measures would reflect what the “customer” of the state agency expects the agency
to accomplish and would therefore likely remain consistent regardless of a change of elected officials.

Benefits of Performance-Based Budgeting for Legislators, State Agencies, and the Public

Legislators, state agencies, and constituents could all potentially benefit from a fully implemented performance-based budgeting system. According to the National Conference of State Legislatures (NCSL), performance information has the potential to provide the following results:

For the Legislature:

- Enable legislators to ask state agencies the right questions about their responsibilities—about both past performance and expected future results.
- Encourage program management to recognize the need to focus on results and the program’s accountability for results.
- Indicate that the Legislature is serious about considering service outcomes.
- Provide useful information about state programs that can be communicated easily and clearly to constituents.
- Enable legislators to ask meaningful questions about politically sensitive programs without being misinterpreted as opposition.
- Help identify areas for potential budget reductions, increases or reallocations, including identifying the estimated consequences of such changes.
- Provide a clearer link between appropriations and actual services provided.
- Identify programs and agencies that are seeking similar outcomes, thereby drawing such inter-relationships to the Legislature’s attention. Such situations create a need for coordination and sorting out the activities and responsibilities. Common goals and responsibilities then can be addressed.
- Improve oversight of state programs and policies.

For State Agencies

- Push state employees to focus on the goals and desired outcomes of their programs.
- Make clear which programs work and which ones do not.
• Improve decisions about whether to “privatize” a service or return a privatized service to state administration by providing information about both the past quality and the costs of the service.

To Improve Communication with Constituents:
• Provide objective evidence on outcomes of agency activities that inform the political debate.
• Assist legislators to develop policies by providing objective information about current conditions.
• Enhance state strategic planning efforts by encouraging a long-term focus on results.
• Provide legislators with objective information with which to address constituents’ questions and concerns.
• Provide information directly related to constituent concerns (citizen-focused outcomes), enabling improved constituent service and increasing citizen confidence that the Legislature is addressing citizen concerns.25

Officials in Texas contend that state agencies can benefit from performance information by using “performance information to better manage their services and to market themselves to both the decision-makers at the Capitol and to the public they serve.”26 NCSL also notes that the Legislature can use performance information to garner an overall picture of an agency’s performance and can be used as a guide to set priorities within the agency.27 In order for performance information to be beneficial to the Legislature, state agencies, and constituents, performance-based budgeting needs to be fully implemented, with performance information flowing from strategic plans to performance monitoring.

Obstacles and Challenges to Performance-Based Budgeting

Full implementation of performance-based budgeting continues to face obstacles and challenges in Mississippi. Initially, agencies reportedly were reluctant to undertake performance-based budgeting, fearing it would make them more vulnerable in the budget process. While Mississippi has not fully implemented performance-based budgeting,
this fear is likely to re-emerge should the Legislature push for a more direct connection between performance measures and appropriations.

At present, the agency response to performance-based budgeting remains mixed. Some agencies find utility in performance measurement, seeing the direct value of strategic planning and performance monitoring to improving agency management, regardless of its ultimate tie to budgets and appropriations. Others have been marginally compliant, especially when negative outcomes are involved. Interest has waned and public sentiment is not as visible in the process. Conditions such as limited technology and analysis capacity, a reduced emphasis on the process envisioned in state law, and unrealistic expectations for changing the political process are still factors that are surely to affect future reform efforts. In summary, fourteen years after passage, the full benefits of performance-based budgeting have not been realized.

While focused, consumer-oriented government that holds itself accountable to the taxpayers is a laudable objective, several caveats emerge which, if not properly addressed, will continue to be critical to the success of accountability efforts like the Performance Budget and Strategic Planning Act of 1994. These need to be kept in mind in any effort to bring performance measurement to higher levels of significance and value in the budget process.

1. Measurement may be abused by selecting favorable measures. One form of abuse occurs when the best performance measure is ignored in favor of a performance measure that could yield better political results. It is easy to envision an agency selecting a performance measure toward which it can show steady progress, but does not best reflect that agency's progress in meeting a given societal need.

2. Measurement may be abused by overstating the meaning of the results. Measurement reporting does not analyze cause and effect. One can look at an output report and see whether output has increased or decreased, but one cannot conclude why change has occurred without conducting a detailed program review. Agencies should be allowed to submit narratives to explain their performance.

3. Measurement requires proper training. Measurement is a difficult science that requires formal training to be understood and used properly. The success of using measurement to improve government hinges on front-line staff being responsible for defining objectives for which they will be held accountable and developing valid measures to determine how well they have accomplished these objectives; however, extensive
training must occur for these individuals to understand the different types of measures (e.g., process versus outcome) and to select the best ones for their line of work.

4. Measurement is only as reliable as its supporting data. Unless some entity evaluates the accuracy of the performance data collected and the agency’s interpretation of its data, agencies could create data to put themselves in a more favorable light. Without such review, agency indicators of performance may not be uniformly reliable or valid.

5. Measurement is expensive. The benefits of measurement must be considered in light of its cost. Performance measurement requires that systems be put into place to develop measures and capture data, to review and evaluate data, and report on the results. All of this activity is important, but requires resources.

### Opportunities for Change: Budgeting

In order to improve Mississippi’s implementation of performance-based budgeting and enhance the state’s budgeting process, the Legislature should consider implementing the following:

- a biennial budget;
- collecting meaningful agency performance information;
- true performance monitoring and reporting;
- training in performance measurement;
- state agency incentives; and,
- publishing performance information for the public.

### Biennial Budget

Some states, such as Texas and Ohio, appropriate agency budgets on a biennial basis. The off-budget year is used as a planning period to focus on performance measurement as an accountability tool. The Texas Legislature only meets biennially, while Ohio meets annually. The Mississippi Legislature could follow the Ohio example and appropriate funds on a biennial basis during even years, but continue to meet on an annual basis to implement policy legislation with shortened sessions.
One benefit of a biennial budget is that the Legislature would have the opportunity to increase oversight in the off-budget year, although a shortened session would reduce the time the Legislature has to conduct program reviews during session. According to NCSL, biennial budgeting has several benefits, such as the ability for long-term planning, more time in the off-budget year for program review and evaluation, and the process is less expensive and time-consuming, although opponents to biennial budgeting have disputed these points. Revenue forecasting tends to be more accurate in annual budget states than in biennial budget states, but a biennial budget lends itself more to long-term planning by the agency.

Since strategic planning is an important first step in performance-based budgeting, time during the off-budget year for planning would help alleviate time constraints felt by agencies in the production of their budget requests. Currently in Mississippi, strategic plans are required as an addendum to an agency’s budget request. Therefore, both the agency’s budget and strategic plan are being developed and revised during the same period. Shortly after the Legislature approves an agency’s upcoming fiscal year appropriation, which usually occurs in mid-April, the agency must begin preparing the next fiscal year’s budget request for submission to the Joint Legislative Budget Committee by August 1.

Implementing a biennial budget would require cooperation from both the Legislature and the Governor on how the off-budget year would be structured. The intent of having a biennial budget to use the off-budget year for planning would not be accomplished if agency budgets are adjusted each session. Both branches would need to commit to limiting budget adjustments in the off-budget year to avoid having a biennial budget in theory but an annual budget in practice.

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Agency Performance Information

In addition to the twenty-one agencies that already have performance measures included in their appropriation bills, the Legislature should ensure that all agencies’ performance measures are included in appropriation bills.

The Legislature should amend state law to require agencies to report on outcome measures in the agency’s strategic plan, budget request, and appropriation bill. Also, state law should require that performance information be uniform throughout all three documents, although only key measures should be reported in the agency’s appropriation bill. The agency’s strategic plan should include the agency’s strategies, goals, objectives, and performance measures that are interrelated and build off the previous element. The Legislature should be able to use the strategic plan as a supplement to the performance measures in the budget request by using the strategic plan to acquire more in-depth knowledge into the agency’s programs and strategies.

The Legislature should amend state law to require performance information to be reported by strategy as opposed to program. All agency appropriation bills should contain performance targets as envisioned in law and appropriations should be made at a strategy level, similar to the method used by Texas. (See Appendix F, page 196, regarding Texas’s appropriation bill.)

Agency strategic plans should encompass at least a five-year period with annual revisions, with agencies amending performance information based on changing circumstances not foreseen in the previous year. Agency strategic plans should encompass all sections required by law and agency performance measures should meet the definitions of outcome, output, etc. Performance targets should be tracked from year to year to determine compliance. In addition, agency employees should be knowledgeable as to the goals of the agency and of the contents of the strategic plans.

Rather than being submitted as addenda, strategic plans should be integrated into the agency’s budget request.

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The Legislature should ensure that all agencies’ performance measures are included in appropriation bills.

planning must be linked to the budgeting process; "otherwise most attention is given to budgeting at the expense of planning."  

If a “strategic plan defines the performance to be measured” and “performance measurement provides the feedback that keeps the strategic plan on target,” the strategic planning and budgeting processes must coincide.  

Performance Information Monitoring and Reporting

Currently, agencies are required to report on performance information to the Legislative Budget Office (LBO) on a biannual basis. In order to ensure that agencies are setting realistic performance targets and are working diligently toward achieving these measures, the Legislature should adopt a performance monitoring system similar to the one used in Texas. Agencies should be required to report performance information on a quarterly basis, with a requirement that the agency provide an explanation if the performance measure varies five percent or more from the projected target.

The Legislative Budget Office should develop a web-based system in order to capture information on performance targets that agencies are required to report on quarterly. Once an agency has submitted information using this system, changes may only be made after receiving approval from LBO, with a written explanation from the agency as to why the current information has changed. Acceptable explanations would include external factors over which the agency has no control and not simply that the agency’s projection was inaccurate. Requiring explanations prior to changing already reported information could eliminate the risk that agencies might misreport performance information in order to meet the target at the end of the year.

Performance Review Analysts within the Legislative Budget Office should review agencies’ performance measures, sampling these measures on an ongoing basis. (See page 83 for more on the proposed role of Performance Review Analysts.) In addition, agency internal auditors should monitor an agency’s internal controls to ensure that performance information reported to the Legislative Budget Office is accurate. The internal auditors should also be required to retain documentation on each performance measure for the Performance Review Analysts to evaluate during their audit of the agency’s reported performance information. Performance Review Analysts should

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30 John Barton, e-mail message to PEER, August 5, 2008.

31 Dusenbury, Governing, 1.
determine whether the reported information could be replicated through use of this documentation.

Performance Measurement Training

Training would provide agencies with a better understanding of how performance-based budgeting works, as well as how to develop and evaluate performance measures.

Training should be provided to state agencies on four key areas in performance-based budgeting: adequate long-term planning, measurement and reporting, evaluation, and budgeting. Training would provide agencies with a better understanding of how performance-based budgeting works, as well as how to develop and evaluate performance measures. Legislators should also be trained on performance-based budgeting and the benefits of full implementation. After each election year, new incoming legislators should be provided training on performance-based budgeting and how to use performance information. The Legislative Budget Office should conduct this training.

State Agency Incentive Program

The Legislature should create a constitutional means to provide incentives to state employees who identify cost-savings methods.

State law authorizes DFA to administer an innovation incentive program for agencies to develop and implement innovative cost-saving measures. This program has had virtually no participation from state agencies. Also, the Constitution prevents individual employees from receiving incentives for developing such cost-savings ideas. In following Texas's lead, the Mississippi Legislature should create a constitutional means to provide incentives to state employees who identify cost-savings methods and DFA should advertise and implement the program.

Publishing Performance Information for the Public

The public's primary source of agency performance information is the agency's annual appropriation bill; however, the information currently contained in these bills does not give the reader a full understanding of the goals and achievements of the agency. To help strengthen accountability and credibility of state government, performance information should be published to the public in a readily accessible and understandable manner.
In Virginia, the initiative “Virginia Performs” provides its constituents with easily accessible information on agency planning and performance measures. Provided through a single web site are agency strategic plans, agency performance measures, and a management scorecard that evaluates an agency’s human resources management, government procurement, financial management, technology, performance management, and resource stewardship. (See www.vaperforms.virginia.gov for more information.)

Mississippi should create a website that provides the public with agencies’ strategic plans and performance measures, as well as reports produced by the Legislative Budget Office’s Performance Review Analysts (see page 83 for more on the proposed role of Performance Review Analysts). Not only would citizens be able to understand how well the government is working and what their money is being used for, it would also give state agencies an incentive to meet goals and performance targets. The public would act as another layer of accountability for state agencies.

Financial and Human Resources Management Systems

According to a 2008 report entitled Mastering Finance in Government, “increasingly the role of the finance function in organizations is to provide the financial insights that enable leaders to navigate troubled waters.” Deloitte surveyed senior government officials representing more than 200 government organizations from twenty-eight countries and found that only one-third of the government leaders believed that they possessed the financial management capabilities to address critical challenges.

According to the report, survey respondents identified the following four areas in which financial management today fails to serve the larger government enterprise.

- Lack of up-to-date information for decisionmaking. Good decision-making requires access to timely, reliable, and accurate data, including financial data. Sixty-nine percent of the public officials surveyed cited a lack of up-to-date information as either a moderate or significant barrier to improving the organization’s performance.

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• Poor information on costs. More than 63% of survey respondents said that program managers do not understand the total cost of their services.

• Incomplete understanding of the relationship between investments and outcomes. More than half of those surveyed said that their organizations do not thoroughly understand the relationship between the investments they make in programs and the outcomes those programs produce.

• Inadequate risk management. Only 27% of survey respondents described their organization’s capabilities in this area as having moved beyond the basic level. This deficiency increases the risks of error and fraud and can mask the actual financial health of an organization.

In summary, Deloitte observed the following regarding an organization’s financial capabilities.

Finance is now strategic. The finance group’s contribution must move beyond its traditional role of support function to play a key role as the enabler of the complex missions for which government leaders are increasingly responsible. Public agency excellence is no longer defined merely as effective service delivery. More than ever, public organizations are being judged by their ability to achieve difficult undertakings, to successfully implement transformational changes. To do this requires sophisticated, proactive financial management. Moreover, when governments fail in their critical financial responsibilities, it undermines public credibility, perpetuates distrust, and makes citizens question whether public agencies are capable of performing their missions. In essence, poor financial management hurts the government brand.33

Mississippi’s Current Environment

The Department of Finance and Administration (DFA), office of the Mississippi Management and Reporting System (MMRS), is responsible for the design, implementation, and maintenance of Mississippi’s enterprise administrative applications. Customers of MMRS include all state agencies and include on a limited basis the institutions of higher learning, community and junior colleges, public school districts, and other governmental entities for some asset management and purchasing functions.

33 Deloitte, Mastering Finance, Foreword by Greg Pellegrino, 1.
The applications within MMRS's purview combine to form a central repository of management information ("the System"). MMRS is under the direction of a Steering Committee comprised of the executive directors of DFA, the State Personnel Board (SPB), and the Department of Information Technology Services (ITS).

While state agencies are discrete users of the System, DFA’s Office of Fiscal Management and the State Personnel Board are the primary owners of the System’s functions, information, and related processes. Other entities with functional and process ownership include DFA’s Office of Budget and Fund Management for appropriation implementation and budget escalations, the State Auditor’s Office for asset management, DFA’s Office of Purchasing, Travel and Fleet Management for certain purchasing controls and fleet management, and both ITS and SPB for other purchasing controls.

The System includes the following core applications:

- **Statewide Automated Accounting System (SAAS)**—an automated, mainframe-based, centrally controlled, and agency-discrete financial management system that includes both accounting and budget control functions. Records are maintained on both a budget and an accounting fiscal year basis. SAAS records transactions on a Generally Accepted Accounting Principles (GAAP) basis and a cash basis. The budget is controlled on a cash basis.

- **Statewide Payroll and Human Resource System (SPAHRS)**—an integrated, mainframe-based, centrally controlled enterprise payroll and human resources system. SPAHRS provides uniformity in the application of federal and state regulations and policies.

- **Mississippi Executive Resource Library and Information Network (MERLIN)**—an enterprise data warehouse of financial (including budget, revenue, and expenditures), payroll, human resources, travel, and property information. The data warehouse allows state agencies, government officials, and the public at large access to decision-critical information for reporting and analysis purposes. MERLIN is both web and client-server accessible.

**Weaknesses of Mississippi’s Current Environment**

In 2006, DFA began a structured analysis of the System to determine whether it could continue to meet the state’s accounting, financial reporting, and human resources management needs in the future. Although components of the System have been functional for almost twenty years, DFA concluded that:
• Underlying technology is dated and may soon be unsupported by the technology suppliers. SAAS was implemented as a tool for budget control and cash management in 1989 and was the first step toward true centralized administrative functions in Mississippi. SPAHRS is over eleven years old. Both systems were designed using late-1970s to mid-1980s information technology architecture.

• The System does not support effective and descriptive reporting of financial and programmatic information. For example, the number and types of contracts entered into by state agencies are not completely captured, nor are expenditures controlled against all contracts systematically. The System cannot segregate the accounting of federal funds versus other special funds, such as self-generated revenues. The System lacks sufficient detail to allow a descriptive analysis of purchases made by state agencies—e.g., number and types of computers, number and types of chairs.

• Despite advances in information technology, the System is essentially paper-based. “Wet [manual] signatures” are required for most documents, including purchase orders, invoice approvals, payment vouchers, adjustments, and receipts. There is no statewide standard for document management, so the paper flows with the transaction and must be captured by DFA or SPB, as applicable, for audit purposes. MMRS has implemented a number of “building block” functions that support electronic processing for invoices, payments, purchasing, and which support the state’s employment processes. Use of these functions is growing and has proven that errors and processing time can be reduced and better information captured in a rules-based automated workflow with electronic approvals.

• Every application within the System has its own security controls that must be managed manually, thereby creating security risks.

• The System has only limited employee self-service via ACE (Access Channel for Employees). ACE does not provide real-time access to leave balances, allow for demographic updates and benefit updates, or reporting of time and requesting of leave.

• The System supports only limited vendor self-service. Vendors cannot electronically maintain their contact information, register for procurement opportunities, submit invoices electronically, or check the status of invoice payments from a single access point.

• The System is not presently configured to comply with upcoming federal vendor tax withholding requirements.
and recently enacted state transparency in government requirements.

- Inefficiencies exist in other processes, as summarized below:
  - While options for grant accounting presently exist in the System, no enterprise standards exist for grants management and reporting.
  - The System does not support performance based budgeting.
  - The System does not support the end-to-end process of budget planning from the lowest levels through implementation of appropriations.
  - The System does not support the purchasing rules imposed across agencies and for purchasing functions under different agency purview.
  - The System does not provide an integrated asset purchase to asset retirement process. While parts of the process are automated, the workflow is mostly accomplished on a delayed basis whereby the paper forms are moved from the purchase to payment to inventory management functions.
  - The enterprise applications in the System are inefficient, although loosely integrated, because they operate across multiple disparate operating platforms.
  - Inefficiencies are further exposed when considering the “shadow” systems maintained in agencies that support additional related functionality or even duplicate functionality that exists at the enterprise level. (For example, some agencies have procured software to serve as their internal accounting and asset assignment systems, although such functions are components of the state’s System.)

In summary, Mississippi is severely limited in meeting new functional requirements, including federal and state mandates. Because functions are supported within many System “building blocks,” changes in one “block” affect the functionality of others. Installation of new features and functions in every case requires significant rework and imposes considerable risk to stability of operations.
Proposed Restructuring of Mississippi’s Current Environment

In early 2006, DFA began planning for the replacement of the System described above. This strategic project, known as MAGIC (Mississippi’s Accountability System for Government Information and Collaboration) is Mississippi’s pursuit of an Enterprise Resource Planning (ERP) solution. MAGIC conceptually calls for implementation of a fully integrated solution to address the state’s administrative needs.

MAGIC will replace the state’s core applications (SAAS, SPAHRS, and MERLIN), as well as the supporting building-block applications for asset/fleet management and electronic purchasing. The plan includes adding new functionality to correct the inefficiencies and gaps discussed earlier.

MAGIC’s ultimate goal is to provide a more accurate, reliable, and less risky set of operational tools for state government. The vision further includes standardized rules-based processing, real-time transaction handling, improved reporting capabilities, fully integrated electronic processes, and overall improved system efficiency.

The following bullets describe the proposed functional areas for MAGIC:

- **Financial Management:** general ledger and budgetary control, accounts payable/travel, accounts receivable/cash receipts/cash management, budget development, cost accounting/allocation, grants management and accounting, and project management and accounting;

- **Procurement:** asset management, fleet management, surplus/inventory management, depreciation, contract administration, and electronic catalog based purchasing;

- **Human Resources/Payroll:** payroll administration, benefits administration, classification and compensation, employee self-service, position control, personnel administration, timekeeping/leave accounting, training/employee development, and recruitment and application services;

- **MAGIC+:** reporting and data warehousing, integration/interface requirements (BRICKS [Building and Real Estate Information Collaborative Knowledge Solution], GOALS [Grants Operation and Lifecycle Solution], programmatic systems such as Public Employees’ Retirement System, Tax Commission, and Treasury), support for Mississippi.gov based applications accepting electronic payment;
• Enterprise Readiness: general systems requirements and technical requirements, training, transition planning, change management, consolidated access and application security management.

The MAGIC team is presently completing the development of a business case analysis to include the following:

• exploration of alternatives, such as: (1) doing nothing other than managing risk areas, including database architecture, security, etc.; (2) maintaining the current process of providing new functionality through the acquisition of additional building blocks plus the management of key risk areas; or, (3) implementing a comprehensive ERP;

• identification of options for funding;

• identification of risks for all alternatives explored;

• costs for all alternatives;

• benefits/cost avoidance achieved through implementation of ERP; and,

• recommendations.

Assuming approval of funding for an ERP product, DFA plans to issue a request for proposals (RFP) in mid-2009 for ERP software. At least three major software suppliers have solutions that should meet the majority of the state’s requirements. After selection of the software provider, DFA then plans to issue a second RFP for implementation services. DFA projects that issuance of separate RFPs will result in a lower total acquisition cost. DFA plans to continue its engagement with Salvaggio, Teal & Associates, a consulting firm that has been assisting DFA with the MAGIC project, to provide independent quality assurance reviews throughout the implementation process.

The plan then calls for DFA to implement the acquired solution in stages. Finance and procurement, plus the underlying support functions (reporting, security, and workflow), are projected to be implemented over a twenty-four-month period. These modules are the initial implementation targets, since SAAS is the oldest existing application in operation today. Payroll and human resources modules are targeted for implementation immediately following the financial/procurement live implementation date and are projected to be completed within eighteen months.

DFA is now developing estimates of acquisition and ongoing operations costs both within DFA and across Mississippi government to determine the long-term impact of these strategic changes. Ongoing operational costs are expected to be higher than the costs required today for System operation and support.
Grants Management (GOALS)

A subcomponent of the state's financial management information system is grants management, which had its beginning in Mississippi in the late 1960s with the creation of the Division of Federal-State-Local Programs by executive order. The coordinator of that office was responsible for providing assistance to state departments, agencies, and institutions in the development of federal programs so that Mississippi citizens could be “assured of a fair, efficient, and coordinated planning and administration of these programs.” The Executive Order required the Coordinator to “inform the Governor of the fiscal requirements of the state departments, agencies and institutions for these [federal] programs so that a comprehensive plan can be developed which will be responsive to State needs and priorities.” In addition, the Coordinator was responsible for supervising the receipt and expenditure of federal, state and other funds made available to the Governor’s office for coordinating federal programs and for providing technical assistance to state and local agencies administering those programs.

During its 1989 Regular Session, the Mississippi Legislature transferred administrative responsibilities of the former Division of Federal-State-Local Programs to the newly created Department of Finance and Administration. The bill also transferred certain specific grants management functions to the newly created Department of Human Services, Department of Economic and Community Development (now known as the Mississippi Development Authority), and the Department of Public Safety.

Following that action, there was no longer a uniform process regarding the procurement and management of federal grants and the state presently lacks a central registry of grants received.

DFA staff, in 2008, conducted a needs assessment of the state’s grants process. The assessment was prompted by the Mississippi Development Authority (MDA), which was attempting to standardize and establish systemic control of the department’s grant processing—i.e., MDA wanted to establish “cradle to grave” control over its grants. While conducting its assessment, DFA learned that more than forty state agencies received and/or administered grants, with each of the agencies responsible for constructing its own accounting and management information structure for the grants.

While SAAS supports grant and sub-grant accounting, many agencies use other models for their grant accounting and no standard model exists for reporting and overall grants.
management. As a result, there is little consistency among agencies, with some agencies maintaining records on spreadsheets while others have constructed more sophisticated methods of accounting and reporting.

DFA incorporated a grants management module within the MAGIC project described previously. However, some of the agencies with grant management responsibilities conveyed to DFA that a comprehensive solution to grants management could not wait until MAGIC came to fruition. Further exploration discovered that the top-tier ERP solutions supported grant accounting, but do not fully support grants management and reporting. Considering the urgency of the agencies’ needs, DFA initiated the Grant Operation and Lifecycle Solution (GOALS) project in May 2008 in an attempt to address the agencies’ needs.

The vision of GOALS is to establish a comprehensive, enterprise-wide automated grants management and reporting system integrated with the state’s financial system to help managers administer grant programs more efficiently and make better-informed decisions.

According to DFA staff, the benefits of an enterprise grants management system are as follows:

- makes it easier, faster, and less costly to prepare, submit, and review grant applications; monitor projects; and process payments;
- provides a rich source of project and financial information for strategic planning, benchmarking, performance-based budgeting, proactive management of grant programs, and responding to ongoing requests from legislators, executive managers, and program staff;
- facilitates exchange of information to promote knowledge sharing and collaboration across grant making agencies and make informed decisions regarding billions of dollars available through grant and loan funds;
- provides visibility into the entire sub-grant management process from beginning to end, with more proactive project monitoring;
- allows sub-grantees improved methods for grant compliance and reporting and visibility to new grant opportunities and programs;
- reduces time spent responding to public disclosure requests to the extent that data can be made directly available to the public or can be more easily compiled via an enterprise grants system, thus supporting the requirements for the Mississippi Accountability and
Transparency Act and the Federal Funding Accountability and Transparency Act;

- ensures that available funds of approved grants are visible to ensure that no opportunities for programmatic support are lost; and,

- provides the ability to quantify and demonstrate unmet service delivery needs, because data about eligible applications that exceed available funding can be easily captured.

On behalf of DFA, the Department of Information Technology Services advertised a request for proposals for the GOALS application in October 2008 with December 30, 2008, as the deadline for response submissions. DFA plans to begin the implementation phase, assuming successful awarding of the contract, in April 2009.

### Opportunities for Change: Financial and Human Resources Management Information Systems

The Department of Finance and Administration should continue its efforts to develop a comprehensive Enterprise Resource Planning (ERP) solution to Mississippi's current and future financial and human resources management information needs. The state's ERP solution should be comprehensive in scope and functionality and should encompass all agencies of state government, including the institutions of higher learning. Also, the department should develop detailed cost and funding proposals of the system for presentation to and consideration by the Legislature.

This system should capture not only funds expended by state agencies from appropriated funds but funds expended by IHL from all sources to ensure complete detailed information on the public funds expended.

In addition to including grants management within the state's comprehensive Enterprise Resource Planning solution, the Department of Finance and Administration should determine the feasibility of establishing an Office of Grants Management to assist state entities with grant writing, grant application, and grant administration.

### Auditing and Fiscal Oversight

As with any sole proprietorship, partnership, or corporation, Mississippi state and local government must have a fiscal oversight and accountability system in which public funds are collected, expended, and accounted for in an accurate and legal manner. State law, in MISS. CODE ANN. § 7-7-1 et seq. and § 7-7-201, establishes the State...
Fiscal Officer and the Department of Audit ("State Auditor") as the responsible parties for Mississippi’s fiscal oversight and accountability structure. In general terms, the Department of Finance and Administration, under the supervision of the State Fiscal Officer, serves as the state’s general accounting office and prepares the state’s financial statements, known as the Comprehensive Annual Financial Report (CAFR). The Department of Audit audits the state’s financial statements and offers an opinion as to whether they accurately reflect the financial position of the state.

Department of Audit’s Role in Fiscal Oversight

The Department of Audit’s role in the state’s fiscal oversight and accountability system is of paramount importance because various users rely upon audited financial statements to make economic and programmatic decisions. For example, bondholders and potential bondholders can assess risk and judge the state’s ability to repay indebtedness. Financial institutions can determine whether to make loans to an entity. Vendors can assess the credit risk of the state or an entity.

In its December 20, 2006, report entitled A Review of the Operations of the Department of Audit and the Department's Role in Fiscal Oversight and Accountability, the PEER Committee found that the department's Financial and Compliance Audit Division focused its resources on performing the CAFR and Single Audit audits to address primary risks to the state and on performing education audits and county audits to address risks to local governmental entities. (A “single audit” is an audit of state and local governmental entities expending more than $500,000 in federal funds to ensure funds are expended in accordance with federal laws and regulations.) PEER determined that low staffing levels and high turnover in the Financial and Compliance Audit Division have resulted in a decreased experience level of audit staff and reduced institutional knowledge to use in forming auditor judgment. This situation also increased the time required to perform audits due to training and supervising inexperienced staff and caused parts of the CAFR audit, Single Audit, education audits, and county audits to be contracted to outside certified public accounting firms. From FY 2002 through FY 2006, seventy-one staff members terminated from the Financial Compliance Audit Division, which represented an eighty percent turnover rate. As of October 31, 2008, the State Auditor’s Office had thirty-seven vacant positions, with twenty-two (59%) of the vacant positions being auditing accountant positions.

Due to a combination of the amount of time required for performing the CAFR audit and the Single Audit and the shortage of staff, the Financial and Compliance Audit...
Division does not perform audits of agencies not material to the CAFR. Even though an agency may not be audited for CAFR purposes, it is important to maintain accountability of taxpayer funds entrusted to the agency. To maintain accountability, the Department of Audit performs Limited Internal Control and Compliance Reviews (LICCR) of agencies not audited during the CAFR audit. A LICCR evaluates an agency's compliance with state laws, its own internal controls, state policy and procedures, and its own policy and procedures.

Primarily due to staffing shortages, the Financial and Compliance Audit staff performed eighteen LICCRs during FY 2004, twenty-two during FY 2005, one during FY 2006, and eight during FY 2007. Additional staffing would allow more LICCRs to be performed, increase the accountability of agencies not audited during the CAFR audit, and provide further safeguards of taxpayer funds.

Internal Auditors’ Role in Fiscal Oversight

Although independent reviews such as those provided by the Department of Audit through its CAFR audit are vital to the proper operation and oversight of an enterprise, large operations also need an ongoing internal review performed by a viable, professional internal audit function. In recent years, the importance of the internal audit function was evidenced by passage of the Sarbanes-Oxley Act of 2002, which was Congress’s response to the large corporate frauds of the late 1990s and early 2000s. Under Sarbanes-Oxley, internal audit plays a crucial role in testing and documenting a corporation’s internal control structure. Also, the Security and Exchange Commission requires all companies listed on the New York Stock Exchange to maintain an internal audit function.

Recognizing the importance of internal auditing, the Mississippi Legislature enacted House Bill 650 during its 2003 Regular Session. Known as the Mississippi Internal Audit Act, the purpose of House Bill 650 (codified as MISS. CODE ANN. Section 25-65-1 et seq. [1972]) is to “establish a full-time program of internal auditing to assist in improving university, community/junior college and agency operations, to verify the existence of assets and to identify opportunities for cost savings and revenue enhancement.”

State Agencies’ Implementation of the Internal Audit Act

PEER analyzed state agencies’ implementation of the Internal Audit Act and concluded that of the nineteen
agencies required by law to establish internal audit functions, the following thirteen agencies have done so:

- State Tax Commission;
- Department of Education;
- Department of Health;
- Department of Mental Health;
- Department of Agriculture and Commerce;
- Department of Wildlife, Fisheries and Parks;
- Division of Medicaid;
- Department of Rehabilitation Services;
- Department of Public Safety;
- Department of Employment Security;
- Public Employees’ Retirement System;
- Department of Transportation; and,
- Department of Human Services.

Of the thirteen agencies listed above, the internal audit director position was vacant in five agencies (State Tax Commission; Department of Health; Department of Agriculture and Commerce; Department of Wildlife, Fisheries and Parks; and Department of Public Safety) during the summer of 2008 when PEER performed its review. Agency officials cited the low pay associated with internal audit positions as the primary reason for the difficulty in filling these positions. In reviewing the internal audit work performed within the eight agencies with an active internal audit function, PEER determined that each internal audit operation was staffed by competent, qualified individuals.

Most of the eight internal audit functions PEER reviewed focus on reviewing agency programs rather than on reviewing and testing the internal control structure of the overall agency. Of the thirteen agencies listed above, the internal audit director position was vacant in five agencies (State Tax Commission; Department of Health; Department of Agriculture and Commerce; Department of Wildlife, Fisheries and Parks; and Department of Public Safety) during the summer of 2008 when PEER performed its review. Agency officials cited the low pay associated with internal audit positions as the primary reason for the difficulty in filling these positions. In reviewing the internal audit work performed within the eight agencies with an active internal audit function, PEER determined that each internal audit operation was staffed by competent, qualified individuals.

PEER found that most of the eight agencies with active internal audit functions focus on reviewing agency programs rather than on reviewing and testing the internal control structure of the overall agency. For example, a significant portion of the time spent in the internal audit function of the Department of Mental Health is spent pre-auditing payments to department grantees. Although this is an important function that should be performed within the agency, the internal audit function should review and test the internal controls associated with the payment of grants rather than actually performing this function. In other words, the internal audit function should serve as a checkpoint to determine compliance with internal controls rather than executing the internal controls. In situations in which auditors perform administrative tasks, there is no one “auditing the auditors.”
In some other agencies, although the internal audit function is performing internal auditing functions, important areas of the agency are not reviewed. For example, in the Mississippi Department of Transportation (MDOT), the internal audit function reviews payments to external engineering firms to ensure documentation is present, complete, and complies with federal regulations. However, the internal audit function does not review payments to highway construction contractors, which constitute the majority of expenditures by MDOT—e.g., the department expended 71% of its FY 2008 appropriation on payments to contractors for infrastructure projects. Instead, MDOT relies on reviews by district-level officials, the contract monitoring division, and reviews by federal highway officials to ensure documentation is accurate, complete, and complies with federal requirements. However, the purpose of internal auditing is to review and test the internal controls associated with the payment process rather than deferring to the work of others to ensure the accuracy and appropriateness of payments.

Frequently, agency officials and internal audit officials stated that they rely on the State Auditor for the agency's review of internal controls. However, as noted on page 78, the State Auditor's focus is to ensure that the CAFR fairly presents the financial position of the state. Although some review of internal controls is associated with the State Auditor's CAFR work, such review does not cover all internal controls within an agency and should not serve as a substitute for a continual review and evaluation of agency internal controls.

One contributing factor to this diversity of internal audit functions is that MISS. CODE ANN. Section 25-65-13 (1972) requires that long-term and annual audit plans be approved by the agency head. The internal auditor’s freedom to determine the internal controls tested and programs reviewed may be limited by the agency head’s wishes and preferences for the type of work performed by the internal auditors. In a worst-case scenario, an internal audit function could be prevented from reviewing an area or program entirely.

The following six agencies required by the act to establish internal auditing units had not established such a function as of the summer of 2008:

- Department of Finance and Administration;
- Mississippi Development Authority;
- Department of Environmental Quality;
- Department of Corrections;
- Department of Information Technology Services; and,
- Gaming Commission.
Executive directors of agencies without an internal audit function frequently noted the lack of a specific appropriation of funding as cited in MISS. CODE ANN. §25-65-9 (1972) as the reason for not having established an internal audit function. The CODE section states the following:

. . . subject to specific appropriation of available funding, employ an agency internal audit director who shall be appointed by the university president or chancellor, the community/junior college president, elected official or executive director or his counterpart of a state agency without a governing board or commission.

Although agencies that have established internal audit functions have not received funds specifically appropriated for internal audit, these agencies have funded an internal audit function through the use of funds appropriated by the Legislature for general operation of the agency.

Another difficulty encountered by agencies in establishing an internal audit function and retaining experienced personnel for that function is the current salary range assigned to the internal auditor classification—i.e., $39,436 to $69,014 annually. In an effort to recruit individuals for internal auditor positions, some agencies have reclassified the internal auditor director position as another job classification with a higher salary range. This practice has resulted in salary disparities of internal audit directors among agencies with an internal audit function.

Opportunities for Change: Auditing and Fiscal Oversight

Appropriations are the lifeblood of state agencies and the appropriations process begins with the legislative budget process. Legislators serving on the Joint Legislative Budget Committee need information regarding the effectiveness and success of programs when determining recommended budgets.

Internal Audit

To improve the independence of internal auditors, the reporting structure for internal audit directors should be changed. A Division of Internal Audit should be established within the State Auditor’s Office and each agency internal audit director and internal audit staff should report to the Director of the Division of Internal Audit. Such a reporting structure would improve the independence of the internal audit function, help ensure that all areas of an agency are reviewed, and help ensure that internal audit functions are performing auditing tasks. Further, the six agencies that have not yet established an
internal audit function should use existing resources to establish the necessary internal audit positions no later than the end of Fiscal Year 2011.

Performance Review Analysts

Traditionally, internal auditors test internal controls and compliance with policies and procedures. Such a role is vital in the fiscal review of agencies and programs and should not be diminished. However, measuring the performance of agencies and programs in achieving the goals and objectives of strategic plans is also important because an independent review of performance measures is critical in determining the success of programs and agencies in achieving the goals of strategic plans. PEER proposes that a new type of internal auditor, Performance Review Analysts (PRA), perform the independent reviews of performance measures. (See Exhibit 4, page 54, for a glossary of terms used in performance-based budgeting.)

The focus of PRAs would be to provide decisionmakers with the information necessary to make strategic decisions, evaluate the degree of success in achieving strategic goals and objectives, understand the key drivers of performance, evaluate the efficient and effective use of public funds and resources, and identify the critical points at which decisions need to be made regarding the modification of strategic plans. The independent reviews would serve two purposes: to ensure the performance measures are appropriate for identified goals and to measure the level of success in achieving those goals.

A continual review of the performance measures used in determining the effectiveness and efficiency of agencies and programs will provide valuable feedback to decisionmakers. In turn, decisionmakers could use this information in modifying and designing strategic plans and in determining the success of agencies in meeting the goals of strategic plans.

Performance Audit

The Performance Audit Division of the State Auditor’s Office should be transferred to the Legislative Budget Office and should develop and implement the Performance Review Analyst function.

To accomplish this, the Performance Audit Division of the State Auditor’s Office should be transferred to the Legislative Budget Office and tasked with the responsibilities of developing and implementing the Performance Review Analyst function. Such an arrangement would facilitate the flow of information regarding performance measures to the decisionmakers tasked with the responsibility of establishing the state’s budget.
The Legislature should amend state law to reflect the removal of this authority from the Department of Audit.