Legislative Analysis

Phone: (517) 373-8080
http://www.house.mi.gov/hfa

Analysis available at
http://www.legislature.mi.gov

BUDGET PROCESS MODIFICATIONS;
STATE CHIEF INFORMATION OFFICER

Senate Bill 1051 (proposed H-1 substitute)
Sponsor: Sen. Dave Hildenbrand
House Committee: Government Operations
Senate Committee: Government Operations
Complete to 9-26-18

SUMMARY:

Senate Bill 1051 would amend the Management and Budget Act to do all of the following:

- Require the governor's annual budget to encompass two fiscal years.
- Require the governor to annually present a five-year strategic plan for the state.
- Require the state budget director to publish a financial report on the internet within nine months after the end of each fiscal year.
- Require the governor to designate an individual in the Department of Technology, Management, and Budget (DTMB) as the state's chief information officer.
- Revise in statute certain duties of the state budget director and other entities.

Executive budget

Section 363 of the Management and Budget Act currently requires the governor to transmit his or her annual budget, with explanations and recommendations, to the House and Senate Fiscal Agencies and each member of the legislature within 30 days after the legislature convenes in regular session (or within 60 days in a year when a newly elected governor is inaugurated into office). At the same time, the governor also submits to the legislature and the fiscal agencies executive budget bills to implement the budget legislatively.

The bill would require the governor's budget recommendations and budget bills to be for the upcoming two fiscal years (see **Background Information**, below). The bill would further specify that the budget must contain at least all of the following:

- Estimates of anticipated revenues by state funds.
- Line-item details of proposed expenditures, unrolled to show specific programs.
- Estimates of the year-end unrestricted fund balances for state funds.
- Any additional budget detail required by the act.

Strategic plan

The bill would require the governor annually to present, and publish on the state's website, a five-year strategic plan for the state. The deadline for the strategic plan would be the same as for the governor's budget, described above. The strategic plan would have to include the mission, vision, goals, strategies, and performance measures for each state department, including measures of the department's inputs, outputs, and output measures. A department's balanced scorecard could serve as its output measures. The strategic plan could also include, at the governor's discretion, inputs, outputs, and output measures for state agencies, bureaus, and divisions within a department.

Financial report

The bill would require the state budget director to publish on the internet an easy-to-understand financial report that communicates the state's current financial situation. The report would have to include at least the most recent five years of data for each of the following:

- Total state revenues and expenditures.
- Total general fund/general purpose revenues and expenditures and the unrestricted fund balance for the general fund.
- Total School Aid Fund revenues and expenditures and the unrestricted fund balance for the School Aid Fund.
- Total outstanding state debt, by major type.
- Total unfunded pension and other postemployment benefit obligations for the state employees', public school employees', judges', state police, and legislative retirement systems.
- Total revenues by major source, including taxes and federal grants.
- Total expenditures by major spending category.
- The number of state employees by department.
- Basic economic information for the state, including per capita income, nonfarm payroll employment, and the unemployment rate.

The report would have to be published within nine months after the end of the fiscal year (that is, by June 30 for the fiscal year ending the previous September 30).

Chief information officer

The bill would require the governor to designate an individual within the DTMB to serve as the chief information officer (CIO) for the state. The director of the DTMB could serve concurrently as the state CIO. The CIO would report to and advise the governor on matters related to ***information technology services*** and related technology.

> ***Information technology services*** would mean services that involve all aspects of managing and processing information, including at least all of the following:
>
> - Support and management of desktop computers, mainframe computers, servers, and local area networks, including wireless networking.
> - Information technology (IT) planning, project management, and budget management.
> - Development and maintenance of applications.
> - Telecommunication infrastructure, services, security, and support.

The DTMB, under the direction and guidance of the CIO, would have to do all of the following with regard to executive branch departments and agencies:

- Work to reengineer the information technology infrastructure to promote the use of common technology across all agencies.
- Coordinate a unified strategic IT plan.
- Identify and replicate IT best practices.
- Develop and implement uniform IT-related project management methodologies.
- Act as a general contractor for private-sector IT products and services.
- Develop and update IT service agreements.
- Standardize development of applications.

- Develop and implement a greater uniformity of data standards and formats.
- Develop methods to review and prioritize IT services projects.
- Assist the State Budget Office in developing IT services budgets, reviewing proposals, and making funding recommendations.

The bill would require all executive branch departments and agencies to cooperate with the CIO in developing and implementing the sharing of data and information throughout the executive branch. The CIO would work toward standardizing data elements and would also determine data ownership assignments among executive branch departments and agencies.

Other provisions

The bill would change, from the DTMB to the state budget office, statutory authority to issue directives regarding the central payroll system and proposals for payroll deductions or withholding, and would name the state budget office, rather than DTMB, the tax withholding agency for the state government payroll pursuant to local, state, or federal law.

The bill would also change, from the director of the DTMB to the state budget director, statutory authority to issue directives regarding inventory and accounting functions, including changes to accounting principles. The state budget director would be charged with determining and authorizing the most efficient manner possible for handling financial transactions and records in the state's financial management system necessary to implement executive reorganization orders.

The state budget director would be required to issue directives concerning payment processing to enable the budget director to certify to the state treasurer that a proposed payment is properly authorized and does not exceed the balance of the appropriation. Except for investment transactions, lottery prizes, and tax refunds, a payment could not be made from the state treasury without certification of the state budget director.

Under the bill, state agencies, upon being audited, would submit a plan to comply with audit recommendations to the state budget director, rather than, as currently, the DTMB. The state budget director would have to develop procedures for departments to follow for the development of corrective action plans, and departments would have to periodically report progress on remediating material weaknesses on a schedule provided by the state budget director.

Currently, principal state departments are required to maintain an "internal accounting and administrative control system," which is developed and can be modified by the director of the DTMB in consultation with the auditor general. The system makes sure that departments have measures in place "to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies."

The bill would change this to an "internal control system," to be developed and modified by the state budget director in consultation with the auditor general. The proposed control system would be a process designed "to provide reasonable assurance regarding the accomplishment of department objectives relating to operations, safeguarding of assets, reporting, and compliance."

Under the bill, rather than each principal department appointing an internal auditor, the state budget director would appoint internal auditors as need to audit principal departments. The internal auditors would have to report immediately to the state budget director and the department head any flagrant problems, abuses, or deficiencies in the administration or operations of a department. Internal auditors would have unrestricted access to all functions, records, property, and personnel relevant to state work activities, except if the access were clearly prohibited by law. Departments would establish incident reporting protocols to fulfill the reporting of all suspected serious problems by either internal audit or department management.

MCL 18.1113 et al.

BACKGROUND INFORMATION:

According to a February 9, 2011 opinion letter from the Department of Attorney General, while the governor is not precluded from submitting a two-year budget to the legislature, and the legislature is not prohibited from enacting a two-year budget, the appropriations for the second year "would be only an expression of an 'intent to appropriate,' not a binding or legally enforceable appropriation."

FISCAL IMPACT:

The bill would have negligible, if any, fiscal implications for the State Budget Office within the DTMB. The bill would codify current practice that has been in place since the FY 2011-12 Executive Budget Presentation. While the strategic plans and financial report are new practices required under the bill, the information required to compile the reports is currently available. Compiling the information into new reports would not increase costs for the DTMB.

The bill would have no fiscal impact on local units of government.

Legislative Analyst: Rick Yuille
Fiscal Analyst: Ben Gielczyk