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Budget Execution

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Budget execution

- The central budget office works with line agencies to implement the revenue and spending plans approved by the legislature.
- Budget execution involves turning those plans into day-to-day operations.
- Legislative intent expressed in law is legally binding during execution.
- Agencies in general prefer as much flexibility as possible to manage daily operations effectively.
- The budget office must work with agencies to ensure they do not exceed appropriation limits and that funds are used only for their intended purposes.

Control during budget execution

- Federal and state governments use several tools to keep agencies within the spending limits established by the legislature, including apportionment and allotment.
- Apportionment requires agencies to submit spending plans showing how funds will be used by quarter or month for specific programs, projects, or activities.
- Allotment further divides apportioned funds among specific programs, departments, or activities; funds may also be divided into suballotments and allocations.
- Pre-audit is the process by which an agency submits a request to spend funds, and the request is reviewed against the unit's spending plan to confirm that the expenditure is authorized and that funds are available before release.
- Revenues and expenditures are tracked and reported throughout the year through monthly, quarterly, and midyear reports.
- Supplemental or revised appropriations may be needed if unexpected circumstances arise.

Four subsystems of the execution stage

- Tax administration
- Cash management
- Procurement
- Risk management

Tax Administration and Debt Collection

Main steps

- Determining which goods, services, activities, or income will be taxed (the tax base)
- Applying the tax by using the tax rate to calculate the amount owed
- Collecting tax revenues
- Enforcing tax laws
  - Verification: confirming that reported tax information is accurate
  - Audits: examining the records of individuals to check compliance
  - Debt collection: recovering unpaid taxes, penalties, and interests
  - Legal enforcement: taking legal action against violations

Cash management

- Cash management is the process of ensuring that funds are available when needed to meet expenditure obligations. When cash is not immediately needed, it may be invested to earn interest.
- Cash inflows (revenue collections) and outflows (expenditures) are forecasted and incorporated into a cash management plan.
- When projected expenditures exceed expected revenues, governments may use short-term borrowing. Common options include bond anticipation notes (BANs), revenue anticipation notes (RANs), and tax anticipation notes (TANs).
- Governments may also draw on reserves, rainy-day funds, contingency funds, or borrow from other funds (with caution).
- A common rule of thumb is to maintain rainy-day funds at about 5% of the budget.

Investing

- When forecasts show periods during the year in which revenues exceed expenditures, governments can invest idle cash to earn interest.
- Several factors should be considered when making investment decisions:
  - Security: How safe is the investment? Is there a risk of losing principal?
  - Maturity: How long will the money be invested before it is returned?
  - Liquidity: How easily can the investment be converted to cash, and at what cost?
  - Return: What level of return is expected on the investment?
  - Legal authority: Laws may restrict or prohibit certain types of investments.

  Note: The textbook discusses additional factors, but these are the main ones.

Investment options

- Federal securities: Treasury bills (T-bills), notes, and bonds. Generally safe investments with different maturity periods, good liquidity, and relatively low returns.
- Corporate securities: Bonds issued by private companies. Risk and returns vary depending on the company's credit rating.
- Money market instruments: Short-term financial instruments such as checking accounts, savings accounts, certificates of deposit (CDs), and repurchase agreements (repos).
- Financial derivatives: Options, futures, and swaps. These instruments derive their value from underlying assets and should be used with caution because they can involve higher risk.
- Other investment options may include stocks, real estate, and alternative investments (often used in pension or retirement funds).
- Risk and return tradeoff: Higher potential returns generally involve higher risk.
- Risk management: When investing public funds, risks should be carefully disclosed, evaluated, and managed.

Procurement

- Governments acquire resources (supplies, equipment, vehicles, facilities, etc.) needed to deliver public services.
- Procurement can be centralized (handled by a central purchasing office such as the General Services Administration – GSA) or decentralized (individual agencies have authority to purchase items).
- Procurement objectives include:
  - Ensuring materials and supplies are available when needed
  - Reducing costs and improving efficiency
  - Maintaining appropriate inventory levels
  - Ensuring the process is fair, open, and transparent
  - Governments may also pursue policy or socioeconomic goals through procurement, such as supporting local vendors, small businesses, or minority-owned businesses.

The contracting process

- Conduct market analysis and use Requests for Information (RFI) to help determine specifications for what will be purchased.
- Solicit bids through Invitations for Bid (IFB), Requests for Proposals (RFP), or Requests for Quotations (RFQ).
- Evaluate bids and select vendors, often using a best-value approach that considers both price and quality.
- Sometimes a multiple-award system is used (contracts awarded to several firms). This ensures goods and services are available on a standby basis, allowing agencies to order them when needed.
- Many government contracts are competitively bid. No-bid contracts may be used in exceptional circumstances, such as when specialized expertise is required or when time is critical.

Two common types of contracts

- Cost-reimbursable contracts: the government reimburses allowable costs incurred in delivering the service (often with a cost ceiling).
- Fixed-price contracts: the price is predetermined and negotiated in the contract.

Possible “strategies” for fraud and corruption in procurement

- Biased specifications written to favor certain contractors or suppliers
- Conflicts of interest involving procurement or acquisition officials
- Collusive bidding or price fixing: vendors agree in advance on who will win the contract or what prices to bid.
- Manipulated or questionable documentation, such as altering key information about contractors’ qualifications
- Substitution of lower-quality materials or products during production or delivery
- Misreporting or overcharging costs for materials and labor

Risk management

- Risk management begins by identifying potential risks and, where possible, eliminating or reducing them.
- Risks can arise from natural or human-made disasters, economic downturns, employee errors, fraud, investment losses, lawsuits, and other events.
- Risk management involves assessing:
  - What threats exist
  - The probability that each threat will occur
  - The likely consequences if the threat or disaster occurs
- Risks can be reduced or managed through insurance, including commercial insurance, self-insurance, and self-insurance pooling.
- Risks should also be appropriately communicated and reported to stakeholders, both internally and externally.