

Alabama Reorganization

By Elton C. Smith
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Office of
Public Service
and Research
Auburn University 1978



1977

**Governor's
Reorganization Committee**

1971

Cost Control Survey

1950

**Legislative
Reference Service**

JK
4538
1978
.S64

1932

Brookings Institute

**ALABAMA
REORGANIZATION**

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Number 3

ALABAMA REORGANIZATION

**by
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and
Henry C. Byrum**

**The Office of Public Service and Research
School of Arts and Sciences
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opportunity educational institution.**

The Office of Public Service and Research, established in 1976 to link Auburn University to the public sector, continues to contribute to the base of information necessary for informed public policy decision making. Unmet public service needs are responded to through an extensive program of training, research, evaluation, publication and policy management assistance. OPSR provides ongoing assistance in such public policy areas as government organization and administration, land use, energy, budgeting and finance, personnel, and criminal justice. Publications include the Monograph Series and the quarterly Public Sector.

Preface

During the very earliest days of the 1978 gubernatorial campaign each of the major contenders for that high office spoke of the need for reorganization of state government. The Office of Public Service and Research, therefore, undertook in January of 1978 to examine the issues of reorganization. Reorganization for reorganization's sake would not be fruitful for Alabama. Any reorganization effort should be conducted within the conceptual framework of improved service with efficiency and effectiveness well served. Efficiency refers to costs of government; are services worth the cost? Effectiveness refers to how well programs operate; does implementation achieve program objectives?

A first consideration in the reorganization effort must include what is expected, what goals and objectives can be clearly and succinctly stated. Further, the reorganization process should be conducted in such a manner as to reassure state government employees through involvement in the reorganization process.

Why should Alabama's elected leadership effect reorganization? Significant growth and increasing complexity are listed as obvious reasons, but Alabama has given consideration to reorganization since the depression days of the 1930's. Similar recommendations from multiple past studies have not been implemented. OPSR's study is intended to provide information on how the current situation in state government developed, what past reports have recommended, and provides a guide to the complexities, opportunities and pitfalls of the reorganization process. This report has been prepared to serve as a tool in the hands of political leaders. If the tool is useful as a beginning point its purpose will be well served.

Keith J. Ward
Director, Office of
Public Service and Research

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Chapter I

Introduction and Summary

The organizational problems of Alabama's state government are a study in contradictions. Most of the executive branch personnel and financial resources are concentrated in a handful of state agencies, but half of these agencies are beyond the governor's direct control. Beyond this organizational core lies a maze of small agencies requiring great expenditures of time and effort for effective supervision.

Alabama's state government has experienced substantial growth since the turn of the century as a result of increased citizen demands for more and better public services. In the absence of an overall organizational strategy, the legislature has reacted to these demands in an ad hoc fashion by creating a new state agency to deal with virtually every new demand. New responsibilities assumed by state government have often meant further agency proliferation. Today there are over three hundred separate state agencies ranging in size from the Department of Mental Health to the Board of Polygraph Examiners.¹

¹The number of state agencies (departments, offices, boards and commissions) varies according to who is doing the counting.

The 1977 report of the Governor's Committee on State Government Reorganization stated that as of 1976 some 93 percent of all state personnel and 98 percent of state spending was concentrated in fifteen major state agencies. However, the report further noted that only eight of these agencies representing 55 percent of state personnel and 42 percent of state spending were included in the governor's cabinet. The Committee concluded that the problem of reorganization in Alabama was not structural alignment because this had been largely achieved. The problem instead was the governor's limited influence over many of these agencies.²

The present study has its genesis in the growing concern about the administration of state government in Alabama. Evidence of this growing concern lies with recent proposals for reorganizing state government from the Governor's Cost Control Survey in 1971 and the Governor's Committee on State Government Reorganization in 1977. More recently the "King Bill" was introduced in the 1977 and 1978 state legislative sessions. If passed, the bill would provide a statutory basis for reorganization. Candidates in the 1978 Alabama gubernatorial election have without exception expressed concern about the organization and management of state government.

Most reorganization studies concern themselves exclusively with reorganizing the organization chart. This penchant for order and

² The Committee then proceeded to propose a new structural alignment for state government even though having concluded that this was not the problem.

neatness is rarely followed up with analysis or guidance on how to go about achieving this new structural arrangement. At best one finds exhortations that there should be a transition plan of some sort, but how to develop and carry out a transition plan remains a mystery. The same is true for how the newly rearranged structural elements are to be linked together in a functioning, operational system. Evaluations of reorganizations are seldom carried out. Business and public administrators are well aware that the organization chart does not accurately reflect the true operation of an organization, that linkages among elements of the organization and informal relationships are far more important than structural alignments. Yet reorganization studies typically do not consider the intricate problems of internal management, transition and evaluation associated with reorganization.

The intent of this study is to address the more difficult aspects of the reorganization process. It is concerned as much with structural realignment of state agencies, which is taken as a starting point, as with the ensuing detailed planning, implementation and assessment of reorganization. Viewing reorganization as a process allows one to move beyond the limits of structural realignment to consider such important questions as the goals and objectives of state reorganization, the internal management functions and processes which link the newly realigned service units together, the planning and implementation of the transition, and evaluating the reorganization to determine if the results were worth the effort. The following pages deal with these important questions and their implications for state government reorganization in Alabama -- the opportunities and problems which might arise in the reorganization process beyond the reorganization of the organization chart.

The present study is divided into four parts of which this introduction and summary is an overview. First, the history of executive powers in Alabama state government is reviewed. Next, the need for government reorganization is documented. Then, the process of government reorganization is examined, pointing out major tasks which must be accomplished and suggesting how to go about accomplishing these tasks. Finally, the concepts of reorganization are applied to business regulation in Alabama in order to illustrate just how the reorganization process might work in a specific organizational and policy setting.

History of Executive Powers

Alabama has had six state constitutions, dating from 1819, which divide the history of state executive powers into three phases -- legislative administration, elected executives, and administration by boards:

- Legislative administration: the period from statehood to the civil war when most executive branch agencies were responsible to the legislature rather than the governor.
- Elected executives: the period from the civil war to the turn of the century when administrative powers flowed increasingly to the executive branch but were divided among a number of elected executives.
- Administration by boards: the period from the turn of the century to the present when administrative powers were increasingly delegated to plural-headed agencies (agencies directed by independent or quasi-independent boards).

The Need for Government Reorganization

Alabama's state government has grown extensively in the twentieth century and especially since the 1940's. There are various ways to measure this growth, the three ways used in the present study being public finance, public employment, and agency creation:

- Public finance: per capita revenues and expenditures today are thirty-three times greater than their 1940 levels; federal aid, which was insignificant in 1900, now comprises nearly 20 percent of the state's total net revenues.
- Public employment: per capita state employment has increased twenty-fold since 1900; changes in state priorities, as measured by merit system employment, indicate a trend away from institutions and economic development toward an increased concern with human development and needs.
- Agency creation: 60 percent of all presently existing state agencies have been created since 1950; new state agencies are currently being established at an average rate of nearly ten per year.

Numerous reorganization studies of Alabama government have been conducted in this century. The five major studies and/or reorganization proposals have been the Brookings Institution (1932), the Legislative Reference Service (1950), the Governor's Cost Control Survey (1972), the Governor's Committee on State Government Reorganization (1977), and the "King Bill" (1977 and 1978).

The Reorganization Process

The four stages of the reorganization process are structural realignment, internal management, transition management, and evaluation. The process takes place at two levels: state-wide and for each reorganized department.

Structural realignment refers to the typical concern of most reorganization studies for a more rational organizational framework within which the activities of state government can be carried out. The three major approaches to structural realignment are functional, product and matrix organization. The three approaches are applicable to both government and the private sector.

Functional organization is found where there is a single product or service to be provided, and is organized according to such standard business functions as planning, engineering, production, marketing and evaluation. Product organization is used where there are several products or services, each arranged according to major functions, and where little or no coordination is required among the several separate products or services. Matrix organization is applied where coordination among several products or services is essential.

Internal management provides direction, support, supervision and control within a given structural alignment. The four core functions of program management, administrative support, client access and public participation comprise the management operations of the organization.

Program management encompasses the overall direction and coordination of the network of

working relationships among organizational elements. Administrative support provides operational services and resources to all organizational elements on a timely basis. Client access means a client-centered process/system which provides a central point for access to the organization and its services. Public participation provides information to the public on organizational activities and policies, and feedback through public involvement to assure that a public organization is both accountable and responsive.

Transition management concerns how to move from the existing arrangement of state government operations to the desired future arrangement. The question addressed here is how to organize and manage the process of planning, scheduling and implementing the reorganization.

The transition typically occurs on two levels. At the state-wide level emphasis would most likely be on coordination and control. The appropriate temporary form of organization would be project management. The emphasis at the departmental level would most likely be on cooperation and creativity, since it is here that the bonds of future working relationships must be formed. The appropriate temporary organizational form could therefore be the team organization.

Evaluation appears not to be a major feature of state government reorganization efforts. An evaluation might well conclude that reorganization had not been worth the cost in time and resources spent. Extraordinary executive (and political) courage is required to admit failures as well as to claim successes.

Evaluation encompasses both determining whether the transition plan has been faithfully executed, and analyzing the impact which reorganization might have had on state government

operations. With regard to the latter, valid evaluations can be made only if the reorganization goals and objectives are clearly spelled out in advance, and provision is made to collect data on which an analysis can be made. Both fiscal and program analysis should be utilized as part of the evaluation effort.

Business Regulation: An Illustrative Case

Alabama's state government regulates forty-nine occupations and commercial activities within the state. Critics argue that these regulatory agencies restrict competition and entry into the respective occupations, while supporters contend that business and professional standards can best be maintained through specialized and uniform peer regulation.

The Brookings Report cited problems of public accountability among the state's regulatory agencies over a half century ago. Recent audit reports by the Examiner of Public Accounts reveal that not only have these problems not been corrected, but they have in fact grown worse with the proliferation of regulatory agencies.

Three approaches to the organization of the business regulation activity are those found in Alabama, Georgia and Virginia. The current Alabama approach provides for both separate regulatory boards and staff for each occupation and commercial activity regulated. Georgia has moved to partially integrate business regulation activities by establishing a single department of business regulation with a central professional staff while retaining the separate regulatory boards. Virginia has a single consolidated regulatory board with a central professional staff.

Assuming the Georgia approach would be implemented as part of state government reorganization, the product organization would appear to be best suited to this approach. Internal management would place greatest emphasis on the program management and administrative support core functions. The transition would be carried out by a network of task groups linked to a central core team, with the entire transition under the overall guidance and supervision of a state-wide reorganization project management group. Evaluation would encompass both monitoring the transition, and assessment of pre- and post-transition costs and performance of the business regulation activity.

Chapter II

History of Executive Powers

Alabama achieved statehood in 1819 under the first of six state constitutions. Five of these were enacted during the nineteenth century, four of them products of the Civil War and its aftermath. The most recent state constitution was adopted in 1901.

An examination of the history of executive powers in Alabama state government suggests there have been three more or less distinct phases. The first of these, covering the period from statehood to the Civil War, can best be characterized as the legislative administration phase. Most of the executive branch agencies were responsible not to the governor but to the state legislature. During this period the governor was the head of the executive branch more in name than in fact.¹

¹Malcolm C. McMillan, *Constitutional Development in Alabama* (Chapel Hill: The University of North Carolina Press, 1955), is the definitive work on Alabama constitutional history, and interpretive material is drawn from this source; for a brief overview of Alabama's six constitutions see David L. Martin, *Alabama's State and Local Governments* (Dubuque, Iowa: Kendall/Hunt Publishing Company, 1975), pp. 23-33.

The second phase, covering roughly the period from the Civil War to the turn of the century, was the elected executives period of state government. While administrative powers flowed increasingly toward the executive branch, they were divided among a number of elected executives. Whereas previously the governor had been the only elected executive official, sharing his limited powers with no one, he now was compelled to share increased executive powers with other, independently elected, state officials. Thus executive power shifted away from the legislature but was diffused among independent, competing executive officials of which the governor was only one.

The third period, dating from adoption of the 1901 state constitution, has been the administration by boards phase. While certain state activities have always been administered by independent or quasi-independent boards and commissions, the situation has become particularly serious during this century. The danger here would seem to be one of accountability, as many of these boards are beyond the effective control of the state's top elected officials including the governor.

Legislative Administration Period, 1819-1861

The 1819 constitution provided the legal framework for state government as Alabama became the twenty-second state admitted to the union. The executive article of the "Frontier Constitution" was something of a paradox, however. It reflected the prevailing trend among state constitutions of that period for legislative government, yet gave the governor significantly greater powers than those enjoyed by other governors of that period. Limitations on executive power included legislative appointment of most executive branch

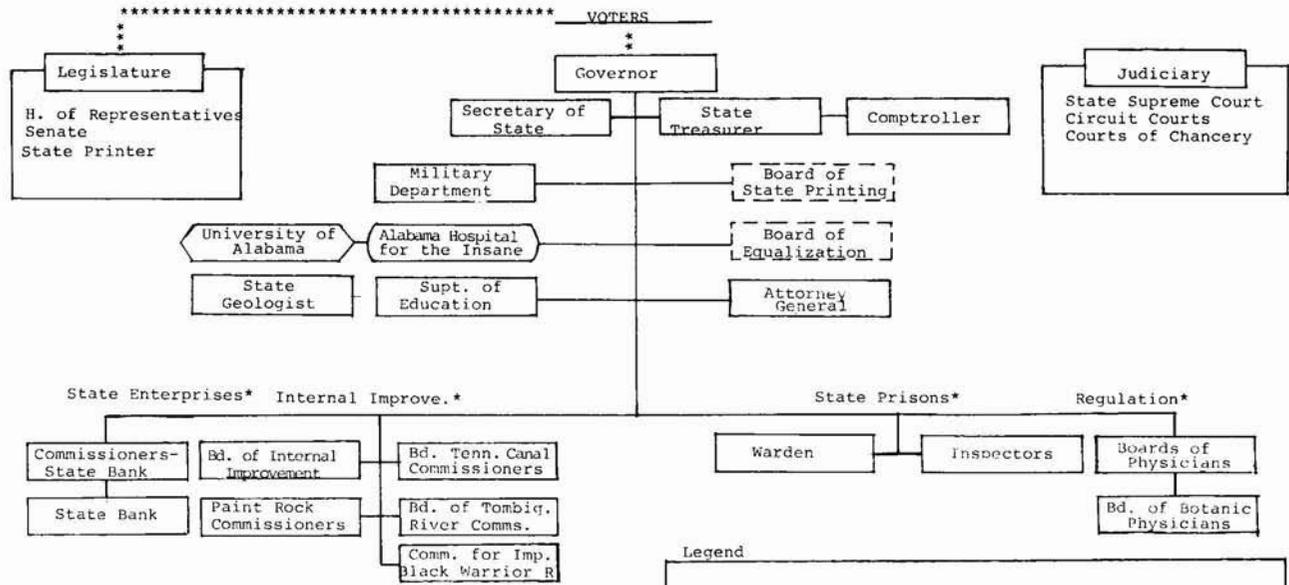
agency heads. The governor was directly elected by the people and enjoyed the veto power (with important restrictions), both not generally characteristic of other state governors at that time. The governor also enjoyed a fixed salary during his term in office, whereas the salaries of most governors of that period depended on the whims of their state legislatures. Overall the Alabama governor under the 1819 constitution was a weak executive by modern standards, but in some ways more powerful than many of his contemporaries.²

Term of Office

The 1819 constitution provided the governor with a term of two years and a limit of four years in every six years. Additional requirements for the position included that the governor be at least thirty years old, a resident of the state for at least four years prior to his election, and a native citizen of the United States.

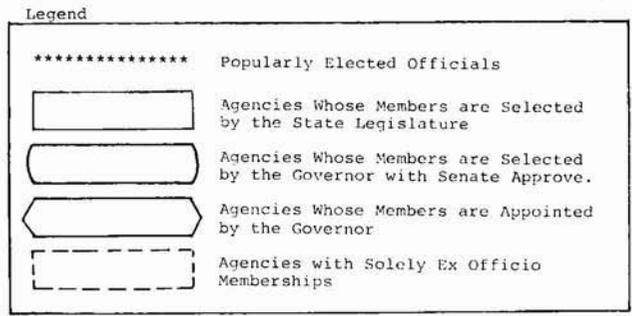
²*Constitution of the State of Alabama, 1819* (Washington: Galls and Seaton, 1918). At this point mention should be given as to the location of the constitutions cited herein. The Constitution of 1861 was located on microfilm supplied by the Alabama Archives and History Department. The Constitutions of 1865 and 1868 are contrasted in James D. Thomas, Jr., "Alabama's Constitutional Convention of 1867," unpublished Master's thesis, Auburn University, 1947, pp. 143-92. The Constitution of 1875 was taken from Thomas C. McCorvey, *The Civil Government of Alabama* (Philadelphia: Eldredge and Brother, 1895), pp. 79-121.

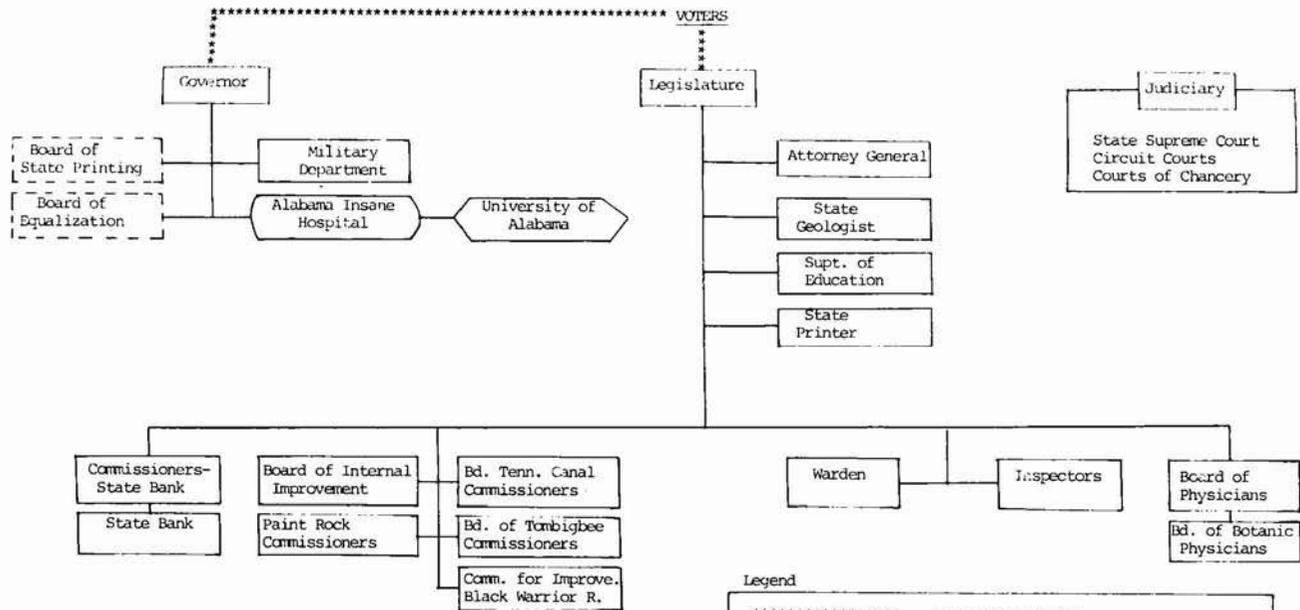
Constitution of the State of Alabama, 1819; constitutional references in this section are taken from this source.



* Titles used by author to denote areas of policy similarity.

Figure 2-1
State of Alabama
Legal Organization
1819-1860





* Titles used by author to denote areas of policy similarity.

Figure 2-2
State of Alabama
Appointment Organization
1819-1860

Legend

- ***** Popularly Elected
- Agencies whose Members are Selected by the State Legislature
- Agencies whose Members are Selected by the Governor with Senate Approval
- Agencies whose Members are Appointed by the Governor
- Agencies with Solely Ex officio Memberships

Veto Power

Alabama's governor has always enjoyed the veto power, a feature of executive authority which most states did not adopt until much later. An important limitation on the veto power which continues today is that only a majority of the whole membership of each house of the legislature is required to override the governor's veto. An extraordinary majority, such as a two-thirds vote, has never been required to override an Alabama governor's veto. Once legislation has been passed, the governor's opposition does not affect the mathematics of keeping a bill from becoming law.

Appointment Powers

The relatively large proportion of legislatively appointed state officials severely restricted the governor's ability to designate state personnel. The effects of this distribution of appointment powers is graphically demonstrated in figures 2-1 and 2-2. Figure 2-1 is a formal organization chart of state government during the period from 1819 to 1860. This shows how state government was organized in its theoretical form with the governor appearing at the top of a hierarchical structure. However, if figure 2-1 were rearranged to depict actual organizational responsibility, the resulting diagram would more closely resemble the view shown in figure 2-2, which is based upon a detailed analysis of the statutes and codes of Alabama composed between 1818 and 1860. With the majority of state agencies linked to the General Assembly, the governor was denied adequate supervisory influence to insure administrative compliance.

The governor had limited appointment powers. As commander in chief of the state army and navy, he was empowered to appoint certain military officials, including line and staff officers. The governor also filled, by issuing a commission, vacancies in positions filled by General Assembly appointment when the latter was not in session. These appointments were effective until the General Assembly reconvened.

Accountability

The 1819 constitution authorized the governor to require written reports from executive officials on the performance of their duties and related subjects. This gubernatorial power has been retained and strengthened in ensuing state constitutions.

Elected Executives Period, 1861-1901

The Civil War period and its aftermath witnessed a shift in executive powers within Alabama state government. The movement was away from legislative involvement in administrative affairs and toward a true separation of powers. Each of the four state constitutions enacted between 1861 and 1901 placed increased responsibility and authority for administration in the executive branch. However, this increased executive power was spread among a number of major elected executive officials including the governor. Of the forty state offices and agencies existing during the period, the most important ones were headed by independently elected officials including the attorney general, state auditor, commissioner of agriculture, and major educational offices. The

effect was to establish competing islands of power within the executive branch.

Four state constitutions were adopted during this period: 1861, 1865, 1868, and 1875. The Secession Constitution of 1861 and Reconstruction Constitution of 1865 departed little from previous practice. The 1865 constitution, however, was never effectively implemented. State representatives elected to Congress under the 1865 constitution were denied seating by that body, and the subsequent federal reconstruction plan made necessary the drafting of the third state constitution in six years. The Reconstruction Constitution of 1868 was written in a convention composed of "nineteen Negroes, many men newly arrived from the North, some Southerners who had opposed secession, and four men who represented the majority of the white population of the state."⁴ The 1875 Bourbon Constitution marked the return of control of state government to local hands, but following a pattern established in other states continued and reinforced the precedent of elected executives established by the 1868 constitution.

Gubernatorial authority underwent significant expansion during this period. Experience under the 1819 constitution had convinced many that a legislature was a necessary evil. Much of the length of ensuing constitutions can be traced to efforts to restrict the power and flexibility of the legislature. The governor benefited from this in several ways, including a line-item veto over appropriations, removal of the limitation on terms in office, an executive budget, and the authority to require written reports from other executive officials under oath.

⁴James D. Thomas, Jr., "Alabama's Constitutional Convention of 1867," unpublished Master's thesis, Auburn University, 1947, p. iv.

Term of Office

The two year term of office for Alabama governors was unaffected by any of the four state constitutions adopted during this period. The limitation on the number of terms which a governor could serve was removed by the 1875 constitution. It was not an effective means of increasing gubernatorial power, however, due to an informal agreement among Democratic Party leaders to restrict tenure to one term. Age and residency qualifications for governors were temporarily removed by the 1868 constitution, so that several of the Reconstructionists could be eligible for that office, but were restored in 1875.

Veto Power

The governor's veto power was expanded by the 1875 constitution to include line-item veto of appropriations. No longer was the governor required to veto the whole state budget in order to register opposition to individual items contained within that budget. The line-item veto has never been extended to non-budgetary legislative actions.

Appointment Powers

The constitution of 1868 (Reconstruction) removed from the legislature the power to designate executive officials.⁵ Several major

⁵ Except the Board of Immigration, but it too was replaced by a Commission of Immigration appointed by the Governor in 1875.

officials who had formerly been legislative appointees were now required to seek election to office in their own right. Thus while executives were being taken out of the hands of the legislature, this change did not necessarily strengthen the governor's control over state administration. Generally, the governor's appointment powers were restricted to state officials of lesser importance, such as the commissioner of swamp and overflowed lands.

Nationally, independent policy boards were becoming popular during this period. Alabama embraced this concept by making it a significant characteristic of state government. Such boards were frequently appointed by groups specified in the state enabling legislation rather than by the governor or other governmental official.⁶

The governor's authority to remove appointed officials was also strengthened somewhat after the Civil War. Whereas prior to the war not one executive official served at the pleasure of the governor, after 1875 the governor was empowered to remove at least six agency heads from office. The removal procedure for most executive officials was not specified by law, except for the impeachment process.

Accountability

The 1875 constitution significantly enhanced the governor's authority to obtain information on agency activities. The governor was empowered to require written information under oath from other state officials on any subject relating to their

⁶ The Board of Health, for example, was entirely composed of members of the Alabama Medical Association.

duties, including management practices and financial affairs. Officials submitting false reports could be charged with perjury and punished accordingly.

Administration by Boards Period, 1901-Present

The constitution of 1901 (twentieth century) perpetuated two significant organizational characteristics of Alabama state government. The first of these was the continued use of independently elected executives to manage the affairs of state government, a trend which had peaked at nine such elected executives. However, the number of plural-headed agencies was on an upward trend. The plural-headed agency was so named because it was administered by a board, commission or committee as opposed to a single executive. The numbers by themselves are impressive: eighteen such boards in 1875,⁷ sixty in 1932,⁸ and ninety-eight in 1974.⁹ State government in Alabama had indeed entered a period of administration by boards.

⁷This figure was arrived at through analysis of the constitutions of the State and the Acts of the Alabama Legislature between the years 1818 and 1875.

⁸Brookings Institution, *Report on a Survey of the Organization and Administration of the State and County Governments of Alabama* (Montgomery: Wilson Printing Co., 1932), p. 71.

⁹"Alabama State Government," an organizational chart prepared by the Bureau of Public Administration, The University of Alabama, 1974.

Term of Office

The 1901 constitution extended the governor's term of office from two to four years, in this way providing the governor with additional time in which to carry out his policy agenda for the state. However, the limitation on the number of terms which a governor could serve, removed by the 1875 constitution, was reimposed. Age and residency requirements were also imposed.

Veto Power

The gubernatorial veto power was extended once again. In addition to simply vetoing a bill the governor could return it to the legislature for reconsideration along with recommended changes which would make the bill acceptable to him. The legislature then could readopt the bill with the governor's recommended changes incorporated into it, in which case the bill would become law. Failing this the legislature could attempt to override the governor's veto. This feature of the 1901 constitution continues today.

Appointment Powers

The governor continued to appoint most executive branch officials. Exceptions were those who were independently elected, and board members of certain plural-headed agencies. The governor did receive authority to fill (subject to limitation) vacancies in certain elected executive positions and judicial posts. The major problem of gubernatorial control over executive branch operations shifted from having to work through a relatively large number of independently elected executives to working through plural-headed agencies.

Accountability

The 1901 constitution continued to grant the governor broad authority with respect to obtaining information from executive branch personnel. This authority was strengthened by making failure to comply with a gubernatorial request for information and false reporting constitutionally impeachable offenses.

Chapter III

The Need For Government Reorganization

Alabama's state government has experienced extensive growth since the turn of the century and especially since the 1940's. This growth seems to have been in response to the increased demands placed on government at all levels by an urbanizing society. New or vastly increased urban-type services, such as highways, health and sanitation, recreation, libraries and education, require ever increasing levels of support in order to meet the public's demands for these services. The acceptance of new responsibilities by state government has meant further organizational expansion, whether measured by changes in revenues and expenditures, personnel levels, or the creation of new agencies. This has led to a number of problems involving the management of a large, complex organization. Organizational expansion has meant fragmentation of the governor's supervisory powers over state spending and employment.

This chapter will review the growth of Alabama's state government, and the major findings and recommendations of previous Alabama state government reorganization studies.

Table 3-1: Selected Fiscal Indicators for Alabama State Government

ALABAMA STATISTICS

| YEAR | POPULATION | REVENUES | PER CAPITA | | |
|------|------------|----------|--------------|-----------|-------------|
| | | | EXPENDITURES | EDUCATION | FEDERAL AID |
| 1900 | 1,828,697 | 1.45 | 1.20 | .63 | .01 |
| 1910 | 2,138,093 | 2.51 | 2.67 | 1.42 | .02 |
| 1920 | 2,348,174 | 5.14 | 4.81 | 2.08 | .02 |
| 1930 | 2,646,248 | 16.75 | 18.11 | 4.51 | .51 |
| 1940 | 2,832,961 | 23.34 | 22.96 | 7.39 | 2.47 |
| 1950 | 3,061,743 | 75.99 | 76.72 | 24.29 | 13.02 |
| 1960 | 3,266,740 | 189.69 | 176.82 | 46.68 | 42.23 |
| 1970 | 3,444,165 | 344.62 | 339.43 | 135.97 | 114.51 |
| 1975 | 3,546,000* | 765.95 | 758.81 | 283.53 | 142.24 |

26

* Estimated

Sources: State of Alabama. Department of Finance. Annual Reports (Montgomery).
Prior to 1935 cited as the Annual Reports of the State Auditor's Office.

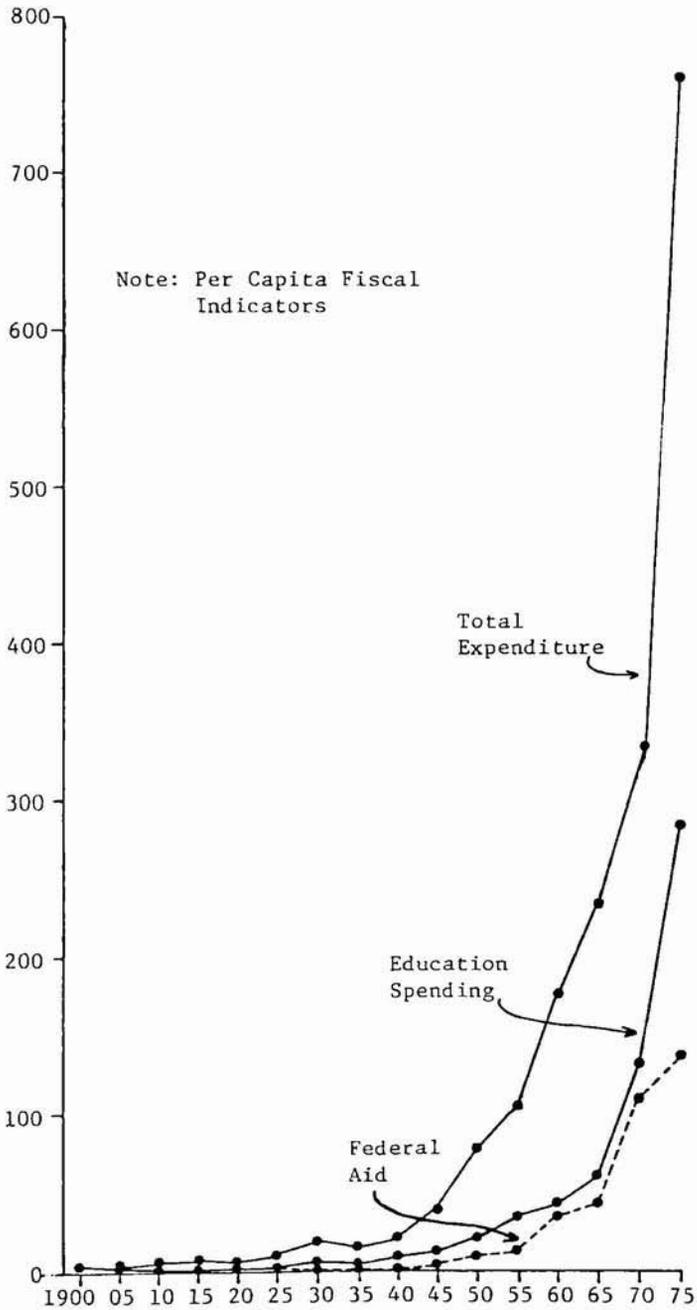


Figure 3-1: Trend Line Analysis of Alabama Fiscal Indicators

Table 3-2: State Government Disbursements by Major Policy Areas, 1900-1975
(Millions of dollars)

| YEAR | 1900 | 1910 | 1920 | 1930 | 1940 | 1950 | 1960 | 1970 | 1975 |
|---|------|-------|-------|--------|--------|--------|---------|---------|-----------|
| General Government | 162 | 407 | 803 | 1,544 | 2,578 | 5,584 | 12,752 | 28,825 | 75,975 |
| Protection to Persons & Property | 45 | 203 | 170 | 537 | 1,621 | 6,389 | 12,909 | 37,678 | 202,331 |
| Highways | | | 376 | 13,174 | 14,443 | 27,131 | 126,169 | 191,538 | 238,162 |
| Development & Conservation of Natural Resources | 55 | 91 | 165 | 1,035 | 596 | 3,953 | 8,256 | 21,103 | 34,475 |
| Health & Sanitation | 13 | 16 | 164 | 634 | 492 | 6,631 | 12,443 | 81,978 | 206,099 |
| Hospital & Institutions for the Handicapped | 213 | 396 | 663 | 1,281 | 1,214 | 4,076 | 9,238 | 27,792 | 58,191 |
| Pension & Securities | | | | | 3,358 | 26,926 | 81,217 | 157,438 | 141,221 |
| Correctional | 199 | 777 | 1,805 | 5,598 | 2,977 | 4,225 | 5,817 | 10,608 | 22,833 |
| Schools | 937 | 2,517 | 4,227 | 11,587 | 16,388 | 72,548 | 160,761 | 468,303 | 1,005,412 |

Table 3-2: State Government Disbursements by Major Policy Areas, 1900-1975 (cont'd.)
(Millions of dollars)

| YEAR | 1900 | 1910 | 1920 | 1930 | 1940 | 1950 | 1960 | 1970 | 1975 |
|----------------------------|-------|-------|--------|--------|--------|---------|---------|-----------|-----------|
| Libraries | | 6 | 18 | 31 | | 88 | 189 | 1,350 | 1,842 |
| Recreation | | | 12 | 4 | 2 | 70 | 164 | 745 | 2,547 |
| Public Service Enterprises | | | | | 2,007 | 2,083 | 4,663 | 11,377 | 17,483 |
| Debt Service | 449 | 357 | 1,216 | 4,504 | 8,958 | 6,683 | 12,840 | 49,059 | 76,721 |
| Payments to Counties | | | | 3,707 | 8,744 | 20,534 | 33,378 | 66,323 | 87,993 |
| Payments to Cities | | | | | 127 | 4,012 | 2,976 | 23,198 | 54,604 |
| Capital Outlay | | | | | | 1,321 | 566 | 16,463 | 18,716 |
| Miscellaneous | | | | 14 | 18 | 42,635 | 93,274 | 209,782 | 370,417 |
| Total Net Disbursements | 2,189 | 5,648 | 10,864 | 45,540 | 63,553 | 234,909 | 577,613 | 1,397,563 | 2,690,733 |

Sources: 1900-1935: Roscoe C. Martin, *The Growth of State Administration in Alabama* (Birmingham: Birmingham Printing Company, 1942).
1940-1975: Alabama. Department of Finance. *Annual Reports, 1940-1975* (Montgomery).

Growth of State Government

State government expansion can be described in many ways. The major conventional ways employ measures of public finance, public employment, and new agency creation.

Public Finance

State revenues and expenditures have increased rather rapidly since the 1940's. While total revenues and expenditures would be expected to increase along with increases in population, the per capita fiscal indicators -- how much the state takes in and spends for each resident -- have also shown substantial increases. Table 3-1 and figure 3-1 summarize this trend toward increasing state spending for each of its residents.

It is likely that this dramatic increase, which includes a quadrupling of state revenues and expenditures per capita since 1960, has resulted from a combination of several factors. One of these is inflation, which means that as personal and business income increases so do the taxes which are based on this income. Such increases hopefully compensate for the increased cost to state government of continuing existing service levels. A second factor, mentioned earlier, is the increased urban-type services demanded by an urbanizing population. Table 3-2 presents per capita expenditure figures for a variety of state services, indicating very clearly the growth which has taken place in such urban services as health and recreation. Finally, federal aid has become a significant part of Alabama's system of public finance. The combination of these three factors

has served to provide a giant thrust upward in state government revenues and spending in Alabama.

Examples of new or expanded state services include highway construction, education, recreation, and health and social services.

Prior to 1900 highway construction and repair was the responsibility of individual counties and was supported by county revenues. During the twentieth century, however, the state gradually accepted responsibility for highway development as dirt roads were replaced by interstate highways. In 1920 over \$300,000 was appropriated for highways, a figure which increased to over \$13 million by 1930. The State Highway Department was established in 1939 and was budgeted at over \$14 million in 1940. By 1975 the cost of highway construction and maintenance, including bridge construction and upkeep, totaled \$238 million.

The State Department of Education was established constitutionally in 1901. Budgeted at slightly over \$900,000 in 1900, state supported education increased to over \$1 billion in 1975. Education now accounts for over one-third of total state expenditures.

One new area of state government responsibility which increases in importance yearly is recreation. The cost of providing recreation facilities and tourist aides, which totaled a mere \$12,000 in 1920 (and dropped to as low as \$2,000 in 1940) totaled \$2.5 million in 1975.

Increased concern about the welfare of American citizens, and the growth of state pension plans coupled with the expansion of state employment, resulted in a pensions and securities expenditure of \$141.2 million in 1975. The Department of Mental Health has the largest budget of all state agencies.

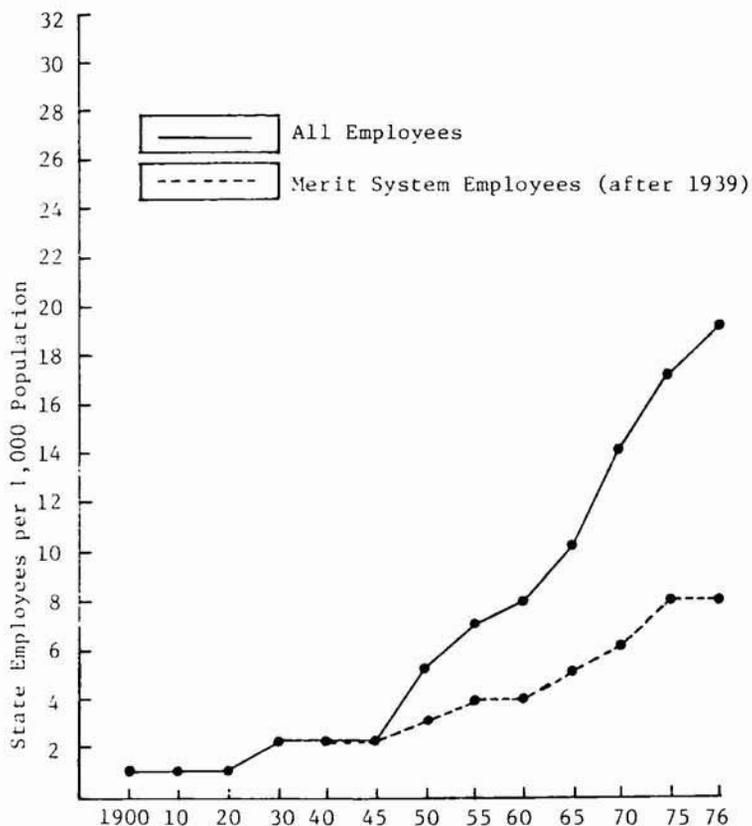
Public Employment

Total state government employment would be expected to increase along with the growth of the state. A more valid indicator of governmental expansion is to measure the number of state employees for every one thousand residents of Alabama. As figure 3-2 indicates there was one state government employee for every one thousand state residents in 1900; by 1976 there were nearly twenty state government employees for every one thousand state residents. Most of this growth in state government employment has taken place since World War II, and much of it outside the merit system. The latter, which was established in Alabama in 1939, accounted for virtually all state government employees until the post-war years; today the merit system covers less than half of all state employees.

Moving beyond the aggregate employment statistics, most state employees are found in the ten largest departments of state government, accounting for 93 percent of all merit system employees in 1940 and 82 percent of said employees in 1975:

| 1940 | 1975 |
|------------------------------|-----------------------------|
| 1. Highway | 1. Mental Health* |
| 2. Conservation | 2. Highway |
| 3. Industrial Relations | 3. Pensions and Securities* |
| 4. Corrections* | 4. Industrial Relations |
| 5. ABC Board | 5. Public Health |
| 6. Revenue | 6. ABC Board |
| 7. Public Safety | 7. Education* |
| 8. Finance* | 8. Public Safety |
| 9. Agriculture and Industry* | 9. Revenue |
| 10. Public Health | 10. Conservation |

*Deletions and additions from 1940 to 1975



Sources: United States of America. Department of Commerce. Statistical Abstract of the United States, vols. 1940-1977, (Washington, D.C.: Government Printing Office). State of Alabama. State Personnel Department. Annual Report, vols. 1939-1976, (Montgomery).

Figure 3-2: State Employment in Alabama, 1900-1976

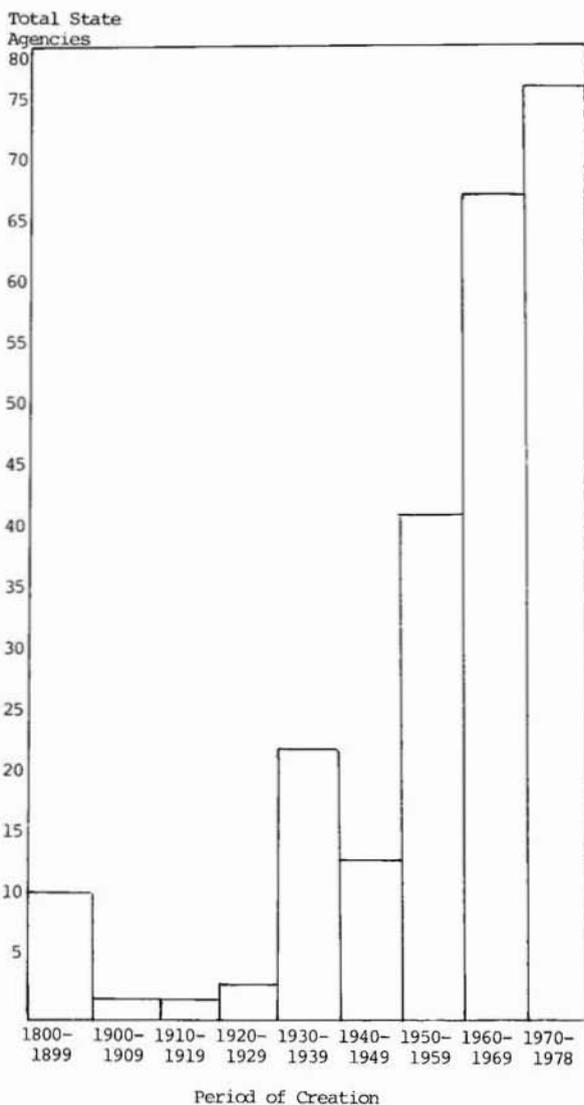
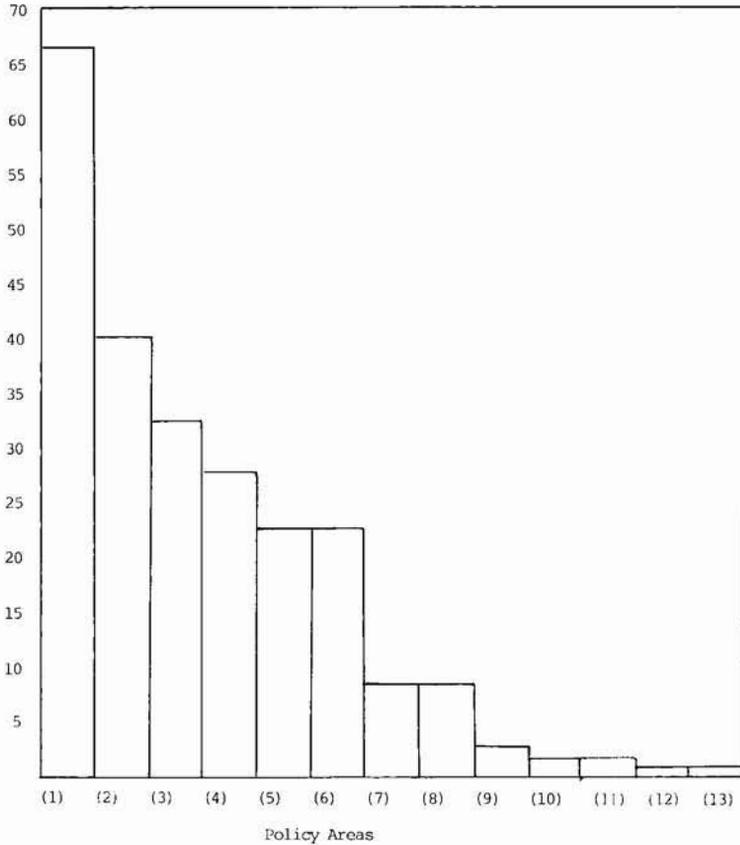


Figure 3-3: State Administrative Agencies by Period of Creation

Source: Alabama Senate Bill 2, prefiled June 10, 1977.

Total State Agencies



1. Protection of persons and property (including business regulation)
2. Development and conservation of natural resources
3. Preservation of historical sites
4. General government
5. Debt service
6. Health and sanitation
7. Schools
8. Pensions and securities
9. Corrections
10. Highways
11. State enterprises
12. Hospitals and institutions for the handicapped
13. Libraries

Figure 3-4: Number of State Agencies by Major Policy Areas

Source: Alabama Senate Bill 2, prefiled June 10, 1977

Changes in employment levels among state agencies may be taken as one indicator of changes in state priorities. For example, three of the ten largest departments in 1940 -- corrections, finance, and agriculture and industry -- were not on the list in 1975. They were replaced by mental health, pensions and securities, and education. This indicates a trend away from institutions and economic development, and toward an increased concern with human development and welfare. The biggest gainer among the carryovers was public health which moved from tenth to fifth; the biggest loser was conservation which moved from second to tenth. The highway department evidenced the greatest continuity by remaining the state's largest merit system employer throughout the 1940-1970 period until passed by mental health in 1975. Together mental health and highway merit system employees comprise more than one-third of all such state employees.

Agency Creation

The creation of numerous new state agencies underscores a guiding principle of Alabama state government -- to respond to new demands by creating an agency. Figure 3-3 shows the number of new state agencies -- boards, commissions and departments -- created for a given period since 1819. Once again, as with employment, it is the shifting trends in agency creation which are of the greatest interest.

Four state agencies were created between 1900 and 1929, or about one every seven years. Twenty-one state agencies were created during the depression era of the 1930's, or about two every year. The rate of agency creation slackened during the war years and their aftermath, about one every one-and-one-half years during the 1940's. Subsequently the pace quickened. Some 149 state

agencies, or 60 percent of all state agencies, were created between 1950 and 1977. By the 1970's new state agencies were being created at a rate of nearly ten per year.

The greatest amount of new agency creation by far has occurred in the area of protection of persons and property, including business regulation. Figure 3-4 reveals that agency creation has been active also in development and conservation of natural resources, preservation of historical sites, general government, debt service, and health and sanitation. Agency creation does not appear to be related to state priorities -- there are only two state highway agencies even though road building has been a major state activity for the past several decades.

History of Alabama Reorganization

Reorganization is not a new idea to Alabama. During the last half-century there have been five major reorganization studies and/or proposals for Alabama's state government:

- Brookings Institution, 1932
- Legislative Reference Service, 1950
- Governor's Cost Control Survey, 1971
- Governor's Committee on State Government Reorganization, 1977
- King Bill, 1977

Brookings Institution, 1932

Governor B. M. Miller won legislative approval in 1931 for a comprehensive analysis of state administration. Saddled with a large deficit of \$17 million, Governor Miller employed the

Brookings Institution to survey state and county governments and to make recommendations for administrative improvement. The Brookings Report, in one of the most elaborate administrative analyses of the time, uncovered numerous deficiencies in Alabama government.¹ Among the major administrative flaws indicated by the Brookings Report were:

- The office of the governor was not properly conceived; while the governor was given responsibilities and powers in respect to many minor matters of administration, he was not given those powers which would have enabled him to effectively perform the functions of a general manager in executing the administrative affairs of the government efficiently and economically
- The governor's supervisory powers were in part misplaced, in part incomplete and ineffective, and in part non-existent; in general, the administrative branches of the state government were uncoordinated, non-integrated, and headless
- The most noticeable feature of the administrative organization of the state was that the governor had no power to select or to remove the heads of the major departments, leaving them largely independent of him and beyond his control
- Program activities were assigned to a multiplicity of agencies in the form of departments, bureaus, boards, and commissions with

¹Institute for Governmental Research, The Brookings Institution, *Report on a Survey of the Organization and Administration of the State and County Governments of Alabama* (Montgomery: Wilson Printing Company, 1932), pp. 17-20.

little or no attempt at a logical grouping of such agencies, i.e., to bring together all services having to do with a general function or major purpose under a single head

The Brookings Report recommended twenty-three separate actions for improving state government organization and administration, focusing on increasing the governor's authority over subordinate executive branch officials. The recommendations were translated into a partial executive branch reorganization in the late 1930's, including the creation of departments of finance and personnel aimed at strengthening the internal controls over executive branch activities. *Many of the administrative weaknesses discussed in the Brookings Report were ignored, but they continue to be reexamined in subsequent reorganization studies.*

Implementation of the Brookings recommendations was not aggressively pursued until the election of Governor Frank M. Dixon in 1938. Following the election Governor Dixon quickly assembled a task force on reorganization and, with the assistance of roughly a dozen committees, initiated the only major reorganization of Alabama government to take place during this century.²

Reorganization legislation sparked by Governor Dixon and adopted in 1939 led to the creation of unified departments of Finance, Industrial Relations, Conservation, and Commerce. These four departments consolidated the activities of twenty-nine previously autonomous agencies. Departments

²The most complete report of Governor Dixon's reorganization efforts is found in Roscoe Martin, "Alabama's Administrative Reorganization of 1939," *Journal of Politics*, 2 (1940): 436-47.

of Revenue, Highways, and State Docks and Terminals were also established, each representing the replacement of plural-headed agencies by a department under singular supervision. Each new department was headed by a director appointed by the governor.

Governor Dixon's reorganization plan was also marked by the creation of a new Board of Pardons and Paroles and a Department of Corrections and Institutions. The Board of Pardons and Paroles replaced an outdated ex officio board composed of the Attorney-General, Secretary of State, and State Auditor which had been criticized by the earlier Brookings Report. The new board was organized to assure proper hearing schedules and parole allowances.

Perhaps the most significant accomplishment of Governor Dixon's reorganization effort was the creation of the Department of Personnel. For the first time in Alabama history the merit system of employment was introduced, replacing the old "spoils system." The Department of Personnel was placed under the supervision of a director appointed by the State Personnel Board. Members of the Personnel Board were in turn appointed by the governor with consent of the senate.

Despite consolidation and functional integration, Governor Dixon retained a state administrative structure containing around one hundred organizational units. Governor Dixon failed to enact many of the reforms suggested by the Brookings Report. Most noticeable among the reforms he did not pursue was that of reducing the number of popularly elected executive officers. Roscoe Martin has noted that failure to move in this area was a defensive maneuver, an attempt to avoid

creating "such a wave of protest as to endanger the whole program."³

Legislative Reference Service, 1950

Evaluation of state administration did not occur again in Alabama until 1950. In that year a relatively new state agency, the Legislative Reference Service (LRS), was called upon to make recommendations for reorganizing the state's executive branch.⁴ By that time state government consisted of 117 agencies and employed sixteen thousand persons, including seventy-three multi-headed agencies.⁵

Paralleling the Brookings Report, the LRS condemned Alabama's state government organization, reporting three fundamental defects in executive branch operations:

- A multiplicity of agencies performing similar or related functions
- A lack of centralized authority and responsibility in the chief executive
- An organization of many agencies ill-suited to the type of function performed, with purely administrative functions vested in multi-membered boards and commissions

The LRS study noted that a number of problems cited in the 1932 Brookings Report were still around -- few of the agency consolidations had taken place and the governor's supervisory powers

³ Martin, "Reorganization," p. 441.

⁴ State of Alabama, Legislative Reference Service, *The Reorganization of Alabama's State Government* (Montgomery, 1951).

⁵ Legislative Reference Service, *Reorganization*, p. 1.

remained limited. The study contained several recommendations for improving state government organization and management including those in table 3-3 and as follows:

- Change the status of certain administrative boards and commissions
- Abolish superfluous or obsolete agencies
- Convert elective offices into appointive offices
- Strengthen the independent position of certain agencies
- Relieve the governor of most ex officio memberships
- Combine existing agencies performing a similar function to form a single new department

In summary, the LRS Report restated many of the Brookings Report conclusions and recommendations. The LRS Report clearly demonstrated that problems of state administration discovered eighteen years earlier had worsened rather than improved.

Governor's Cost Control Survey, 1971

The Governor's Cost Control Survey (GCCS) was initiated in November, 1971.⁶ Composed of business, industrial and labor leaders, the Survey was commissioned to analyze state government organization and to propose plans for curbing the rising cost of government services.

The 117 agencies examined by LRS in 1950 had by 1972 grown to more than 140 agencies. The GCCS

⁶ State of Alabama. Governor's Cost Control Survey, *Study and Recommendations* (Montgomery, 1972).

Table 3-3: Legislative Reference Service
 Recommendations for Constitutional
 Officers, 1950

| Constitutional Officer | 1950 Status | LRS Recommendations |
|--|----------------|-----------------------------------|
| Governor | Elected | Relieve of ex officio duties |
| Lt. Governor | Elected | None |
| Public Service Commission | Elected | None |
| Superintendent of Education | Elected | None |
| Secretary of State | Elected | Abolish |
| State Auditor | Elected | Abolish |
| Attorney General | Elected | Gov/Sen* |
| Commissioner of Agriculture and Industry | Elected | Gov/Sen* |
| State Treasurer | Elected | Remove Consti- tutional status |

*Gov/Sen refers to appointment by the governor
 with senate confirmation.

found that the state administration lacked clear lines of accountability and efficient management, and had failed to establish a coordinated delivery system. According to the GCCS the governor could not justifiably be held accountable for executive branch actions. Nearly all of the 140 executive branch agencies reported to the governor, producing a span of control so broad as to make supervision nearly impossible. Further, the GCCS noted the inefficiency of state administration as a result of archaic organization. The evaluation team estimated that "as much as 25 percent of the average worker's time was spent in nonproductive activities."⁷ Between 1960 and 1970 state expenditures and administrative personnel increased 154.5 percent and 110 percent respectively. The comparative increase in the state's population during the same period had been only 5.4 percent.⁸

The main objective of the GCCS was to recommend managerial improvements, not to restructure state government. Therefore, the bulk of the 639 GCCS recommendations were aimed at specific areas of internal improvement within state agencies. These recommendations were primarily concerned with saving tax dollars and were projected to save the state nearly \$85 million dollars per year through increased efficiency.⁹ However, the GCCS evaluation did proffer a limited plan for reorganizing state government. GCCS recommended realignment of all executive agencies into five major organizational units: Finance and Administration; Human Resources; Education; Commerce, and Industry and Natural Resources. Each of these units, it was suggested, should be under the direction of a gubernatorially appointed

⁷ Cost Control Survey, *Study*, p. II.

⁸ Cost Control Survey, *Study*, p. I.

⁹ Cost Control Survey, *Study*, p. II.

executive. Realignment was offered by GCCS as a means of accomplishing the dual objectives of reducing both the governor's span of control and inefficiency spawned by the existing programmatic overlap of state agencies.

Governor's Committee on State Government Reorganization, 1977

Executive Order No. 66 created the Governor's Committee on State Government Reorganization in 1975.¹⁰ The committee's 1977 report cited several administrative defects in state government, the most important of which was the limited degree to which the governor influenced key executive agencies. Only eight of fifteen agencies representing 55 percent of the state's personnel and 42 percent of total funds were found to be directly under the governor's supervision.¹¹

The Governor's Committee investigated three alternative approaches to organization, labeled the program departments, cabinet alignment and coordinator models. The committee decided that the cabinet model would be the most appropriate for Alabama and, to implement the model, proposed to realign state administration into nine cabinet level departments.

The cabinet model was deemed the most appropriate for achieving the following objectives:

- Providing a program management system that clearly identifies responsibilities and accountabilities

¹⁰Governor's Committee on State Government Reorganization. *Report and Recommendations* (Montgomery, 1977).

¹¹Governor's Committee, *Report*, p. I.

- Expanding the chief executive's management role through the provision of appropriate authority to carry out constitutional mandates more effectively
- Facilitating the delivery of services by moving decision points closer to the ultimate user
- Permitting key managers to be selected and serve at the discretion of their immediate supervisors, thereby allowing agency heads to exert maximum influence on their individual organizations
- Producing substantial savings through more efficient methods of operation¹²

The Governor's Committee sought to establish a more streamlined organizational structure, yet it also strived for one which would be both flexible and responsive to citizen demands. Unfortunately, little attention was given to the internal management of state government and individual agencies, which the Committee had identified as the major problem. Salvation was to be achieved by structure.

The King Bill, 1977

Legislation was introduced in the 1977 and again in the 1978 general legislative sessions which would have reorganized the executive branch of state government. Called the King Bill, the legislation would realign the executive branch into twelve major departments. Existing agencies would become part of the new departmental structure or be abolished.

¹²Governor's Committee, *Report*, p. 11.

Summary

Alabama's organizational and administrative problems have persisted throughout this century. Evaluations of state government have repeatedly found (1) a general lack of administrative coordination, (2) programmatic duplication, (3) insufficient programmatic consolidation, and (4) inadequate gubernatorial authority to supervise and direct the state administration. Recommended changes in state government which have received the strongest support are: (1) the abolition of obsolete agencies, (2) programmatic consolidation, (3) single department heads appointed by the governor, and (4) the alignment of independent agencies within existing departments. These and other findings and recommendations from reports on Alabama's state government are summarized in figures 3-4 and 3-5.

Table 3-4: Summary of Reorganization Studies' Findings

| CONCLUSIONS ON THE STATUS OF ADMINISTRATION IN ALABAMA | REPORTS* | | | |
|---|----------|------|------|------|
| | 1932 | 1950 | 1971 | 1977 |
| 1. Impractical "span of control" for governor | X | | X | X |
| 2. Agencies beyond governor's control | X | X | X | X |
| 3. Overuse of multi-headed agencies for administrative purposes | X | X | | |
| 4. Too many ex officio memberships for governor | X | X | | |
| 5. Lack of programmatic consolidation | X | X | X | X |
| 6. Insufficient support services agency | X | | | X |
| 7. Programmatic duplication | X | X | X | |
| 8. Cooptative boards | X | X | | |
| 9. Too many elected executives | X | X | X | |
| 10. Inadequate financial system | X | X | | |
| 11. Weak appointment and removal powers over key officials | X | | | X |
| 12. Multiplicity of organizational units | X | X | | |
| 13. Weak gubernatorial veto | X | | | |
| 14. Uncoordinated administrative structure | X | X | X | X |

Table 3-4: Summary of Reorganization
Studies' Findings (cont'd.)

| CONCLUSIONS ON THE STATUS OF ADMINISTRATION IN ALABAMA | REPORTS* | | | |
|---|----------|------|------|------|
| | 1932 | 1950 | 1971 | 1977 |
| 15. Governor is unable to succeed himself in office | X | | | |
| 16. Unscientific personnel system | X | | | |
| 17. Minimum of gubernatorial accountability | X | | X | X |

- *1932 - Brookings Report
- 1950 - Legislative Reference Service
- 1971 - Governor's Cost Control Survey
- 1977 - Governor's Commission on State Government
Reorganization

Table 3-5: Summary of Reorganization Studies' Recommendations

| RECOMMENDATIONS FOR IMPROVING ADMINISTRATION IN ALABAMA | REPORTS* | | | | |
|---|----------|------|------|------|-------|
| | 1932 | 1950 | 1971 | 1977 | 1977† |
| 1. Abolish obsolete agencies | X | X | | | X |
| 2. Strengthen governor's veto | X | | | | |
| 3. Eliminate ex officio memberships of governor | X | X | | | |
| 4. Programmatic consolidation | X | X | X | X | X |
| 5. Create new agencies or departments for specific purposes | X | X | | | X |
| 6. Elected executive officers should be appointed | X | X | | | |
| 7. Allow governor to succeed himself | X | | | | |
| 8. Establish general services department | X | | | X | X |
| 9. Restrict policy boards to quasi-legislative, quasi-judicial duties | X | X | | | |
| 10. Broaden governor's powers of appointment and removal | X | | | X | X |
| 11. Reduce number of agencies | X | X | | | |

Table 3-5: Summary of Reorganization
Studies' Recommendations (cont'd.)

| RECOMMENDATIONS FOR IMPROVING ADMINISTRATION IN ALABAMA | REPORTS* | | | | |
|---|----------|------|------|------|-------|
| | 1932 | 1950 | 1971 | 1977 | 1977† |
| 12. Establish merit system of state employment | X | | | | |
| 13. Departments be headed by a single gubernatorial appointee | X | X | X | X | X |
| 14. Reduce number of ex officio boards | X | X | | | |
| 15. Place independent agencies within an existing department | X | X | | X | X |
| 16. All gubernatorial appointments to be confirmed by senate | | X | | | |
| 17. Biennial legislative sessions | X | | | | |

*1932 - Brookings Report

1950 - Legislative Reference Service

1971 - Governor's Cost Control Survey

1977 - Governor's Commission on State Government Reorganization

1977† - King Bill

Chapter IV

The Reorganization Process

The assumption of significantly increased responsibilities by Alabama's state government has led to the problem of how to manage a complex organization. The excessive division of administrative authority in state government severely limits the potential for effective executive action. These problems are not new to Alabama, having been cited in reorganization studies and reports since 1932.

Recommendations concerning the reorganization of Alabama state government have generally focused on structural realignment. A penchant for neatness and order has stimulated recommendations aimed at simplifying the structure of the state government's executive branch, in effect proposals to reorganize the organization chart. The present study is an attempt to move beyond this simplistic view of government reorganization by viewing reorganization as a process. Such a perspective forces one to consider some of the more difficult questions associated with government reorganization including the internal management functions which will link the newly realigned service units together, the transition from the present to the desired future state of affairs, and evaluating both process and product to determine if reorganization was worth the effort.

Structural Realignment

Three approaches to the organization of work are recognized in the management literature. While the functional, product and matrix organizational forms are sometimes referred to by other labels, it is clear that these are the basic forms of organizational design. The three approaches are presented diagrammatically in figure 4-1.¹

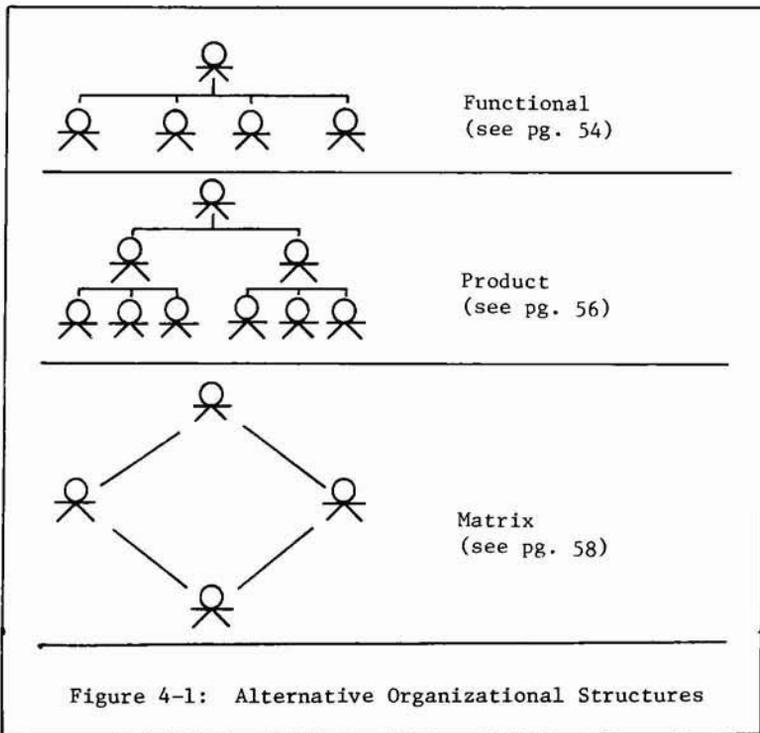
Functional Organization

Functional organization dates back to French industrialist Henri Fayol, who around 1910 organized the manufacturing business into a series of functional groups, including product design, engineering, manufacturing and marketing.² As conceptualized by Fayol, a given product moves from one functional group to another in a kind of assembly line process. In effect the product moves from one functional stage to another, while the workers within each functional group remain stationary. It is the production line model of organizations, with work organized into "selected bundles of skill."³

¹This discussion is taken from Peter F. Drucker, "New Templates for Today's Organizations," in *Control: Structure, Systems, and Corporate Reporting* (Cambridge: Harvard Business Review, 1974), pp. 5-13; Richard F. Vancil, "What Kind of Management Control Do You Need?" *Ibid.*, pp. 14-38; and Peter F. Drucker, *Management* (New York: Harper and Row, 1974).

²Drucker, "Templates," p. 6.

³Drucker, *Management*, p. 559.



The presumed advantage of functional organization is that it permits greater efficiency by concentrating specialized tasks on the production of a single product or service. Greater efficiency is attained as the volume of production increases, at least up to some point where no further economies of scale may be attained. Specialization of workers may also increase efficiency, as individual workers become more proficient at their specialized tasks. Functional organization also facilitates the ultimate substitution of capital for labor as machines are designed to perform the specialized, repetitive tasks of the workers.⁴

An analogy in the public sector is the processing of a client by a social service agency. Here the client moves from one specialized functional task to another -- intake, assessment, referral, treatment and followup. The client clearly is the product passing through the assembly line.⁵

Product Organization

Organizations frequently produce more than one kind of product. Social service agencies may provide a variety of services addressing human needs, such as financial assistance, day care, housing assistance, mental health, addiction treatment services, and vocational rehabilitation. Placing all of these services in a single agency

⁴Vancil, "Management Control," p. 34.

⁵The difficulty of coordinating social welfare agencies is evidenced by Georgia's Department of Human Services, which through eight years of reorganization has been unable to solve this problem.

makes it possible for the client to come to one place to find that service which is needed.

It would be extremely inefficient to send quite different products through a single production line of specialized functional tasks. The workers performing those tasks would be required to stop working every time a new product came to them, and to rethink how to perform their functional tasks in a different way, for example, placing a screw on the left side of a piece of equipment instead of on the bottom. A better approach, assuming there exists a sufficient volume of work, would be to create separate assembly lines for each product or service, in effect multiple functional organizations. Social service agencies are often organized according to their major service programs, such as financial assistance and day care.

This approach to the organization of work, called the product organization, was devised by Alfred P. Sloan, Jr., in the 1920's when he organized General Motors Corporation. Sloan built the individual divisions on Fayol's functional structure for a manufacturing business, such as engineering, manufacturing, and selling.⁶

Efforts at this type of structural realignment have been tested extensively at the federal, state and local levels with mixed results. The federal Departments of Defense; Health, Education and Welfare; Housing and Urban Development; Transportation; and Energy are good examples of how easy it is to structurally realign public

⁶ Drucker, "Templates," pp. 6-7. A clarification of terminology is in order. Most state government reorganization studies which use terms such as functionalism or structural-functionalism are in fact referring to product organization.

agencies, and then how difficult it is to get these agencies (now divisions of a major department) to work together. The Department of Defense annually faces intra-departmental disagreements over weapons priorities and service budgets, and the Department of Housing and Urban Development has not been able to develop a truly national urban policy after a decade of existence. At the state level both Georgia and Florida have spent nearly a decade trying to get product organization to work in the social and health services field. On the other hand, Georgia has had good success at establishing a centralized environmental permitting process, yet there is every indication that this is not a true product organization.

Matrix Organization

Drucker has pointed out that functional and product organizations are inappropriate to meet many of today's organizational needs.⁷ Functional organization, for example, works best in organizations with a single product line, but state government today provides literally dozens of services. Product organization is an effective way to organize work among multiple product lines only when coordination is unnecessary. Yet this approach has been applied where multiple products are in fact interdependent, where the day to day operations of any one assembly line affect those of the other assembly lines. Obviously the product organization was never intended to be used in this manner, and operational coordination in such organizations usually occurs in an ad hoc manner

⁷ Drucker, "Templates," p. 9.

which violates the much treasured hierarchical chain of command.

Matrix organization is a hybrid, a variation of the more traditional product organization. It is the only organizational design, however imperfect, which does what the product organization cannot do -- facilitate the programmatic integration (coordination) of product lines and public services which are not truly independent. In order to accomplish this, however, matrix organization violates the organizing principle of the traditional functional and product organizations -- the hierarchical chain of command. This hierarchy is broken because matrix organization is a two-boss, and in some cases, multiple-boss organization.

Under traditional organizational theory a line supervisor will have only one boss, who in turn will have only one boss, and so on until reaching the top of the hierarchy. Under modern matrix organization theory a line supervisor will have at least two bosses -- a product boss and a functional boss, both of whom report eventually to the head of the organization. In the same manner, managers of public services who work for different agencies can be brought together to solve common problems under the guidance of a project coordinator for whom they will work on assignment. Successful applications of matrix organization may be found in the aerospace industry, including the highly successful project management organizations developed by the National Aeronautics and Space Administration (NASA), primary care treatment teams in health services, project groups in advanced basic scientific research, and case management in the social services. Two variants of matrix organization, team organization and

project organization, are discussed below under transition.⁸

Put simply, the matrix organization describes role relationships which exist whenever coordination between two or more products and/or functions becomes necessary. This allows simultaneously for increased communication and activity across organizational boundary lines, but also for increased tension and anxiety among organizational members, especially among the two-boss managers.

Historically, matrix management originated with the aerospace industry:

...it is at the interface between military and industrial organization, in the aerospace industry, that today we most frequently find matrix organizations. The military, in its need to have a single liaison with any one project in industry, are responsible for prompting a second managerial line and hence a pluralist model of managing.⁹

The behavioral influence of the matrix organization is threefold:

- The focusing of undivided human effort on two (or more) essential organizational tasks simultaneously
- The human processing of a great deal of information and the commitment of the

⁸ Some twenty major books and articles are available on matrix organization, including Stanley M. Davis and Paul R. Lawrence, *Matrix* (Reading, Massachusetts: Addison-Wesley Publishing Company, 1977).

⁹ Davis and Lawrence, *Matrix*, p. 5.

organization to a balanced and reasoned response (a general management response)

- The rapid redeployment of human resources to various projects, products, services, clients or markets¹⁰

The matrix organization does emphasize problems of coordination because it acknowledges rather than glosses over problems of organizational interdependence. The resulting organizational tension takes place in an atmosphere of constructive conflict. Managers in one product or functional area know they are working toward the same goal and must cooperate with managers from the other areas. Such situations, if handled sensitively by a sophisticated top manager, can break down the parochialism of a complex organization.¹¹ Some of the pressure is taken off the two-boss manager because:

The manager who cannot reconcile the dual demands is expected to convene a meeting with the two bosses and present the problem for the two of them to solve. In the resulting debate neither boss can, according to the authority structure, overrule the other. They must search for mutually agreeable and timely solutions. While they can, if needed, have recourse to their respective bosses, they cannot refer too many such disputes upward without reflecting on their own managerial capacity. The

¹⁰Davis and Lawrence, *Matrix*, p. 21.

¹¹Vancil, "Management Control," p. 37; for example, a functional organization with several products but a low volume of work might avoid establishing inefficient product divisions through the creative application of a matrix.

matrix induces many peer debates on key trade-off decisions.¹²

The matrix organization is intended to address those problems of programmatic coordination which are beyond the scope of the functional organization and not appropriate for the product organization. *Yet because of its complexity matrix organization should be used only where absolutely necessary -- to coordinate service programs which are in some way interdependent.* Functional organization will be preferable for single-purpose organizations. Product organization should be applied where the various service programs can and should operate relatively independent of one another. Matrix organization should be reserved for only those situations, such as social welfare and environmental permitting, where it is really needed.

Internal Management

The majority of states attempting reorganization in this decade selected the product organization for the basic structural realignment of state government. This would seem a logical choice since agencies and boards working on related service programs might well find greater opportunities to eliminate program duplication and reduce administrative waste as part of a consolidated multi-purpose department than as fragmented and uncoordinated units. However, consolidation is not program integration. Locating agencies

¹² Davis and Lawrence, *Matrix*, p. 23.

within the same organizational framework does not guarantee that they will work together. Indeed, such consolidations in other states have sometimes led to intra-agency turf battles as formerly independent fiefdoms fight to maintain and perhaps enhance their programmatic territory.

The second phase of the reorganization process involves developing the specialized management processes which link together the various service programs and give them direction and support. The core functions of any organization, while they may vary in importance from one organization to the next, are (1) program management, (2) client access, (3) administrative support, and (4) public participation. These core functions in turn provide guidance to the service programs. The following discussion is intended to move beyond the reorganization of the organization chart by examining some of the tools available to effectively manage realigned state agencies.

Program Management

Program management is the process by which organizational goals are attained in a multi-jurisdictional setting. As one moves from the functional, to the product, to the matrix organization both the organizational structure and internal management linkages become increasingly complex. This is due to the increased diffusion of interests and centers of responsibility within the organization, thereby placing increased importance on the need for executive leadership, coordination and control. Consequently the need for

the specialized skills of the effective program manager becomes ever more important.¹³

Program management is a function rather than a formal position within an organization. Program management is found at all levels of an organization. Management duties differ in terms of the scope and complexity of the work program and the authority relationships (one-boss or two-boss?) required for effective organization interaction. Program management tasks include:

- Dealing with problems which are too complex to be dealt with by administrative technicians alone
- Understanding the dynamic nature of the organizational structure
- Managing the elements of the organization which fall within his domain
- Participating in solving problems which fall outside his domain, but the resolution of which he can contribute to
- Applying the resources at his disposal through the established administrative system

¹³The following discussion is taken from U.S. Department of Health, Education, and Welfare, Public Health Service, "The Program Management Officer," Monograph No. 75 (Washington, D.C.: U.S. Government Printing Office, 1965); Leonard R. Sayles and Margaret K. Chandler, *Managing Large Systems: Organizations for the Future* (New York: Harper & Row, 1971); and David I. Cleland and William R. King, *Systems Analysis and Project Management* (New York: McGraw-Hill Book Company, 1975).

- Attempting to modify the established administrative system when change will facilitate more effective program action¹⁴

Some ten years ago the Public Health Service identified the qualities, abilities, skills and knowledge deemed necessary for an effective program manager. The following summarizes the characteristics of program managers which the Public Health Service was seeking:

- Qualities: to be able to accomplish tasks without creating undue antagonisms, being forceful while exercising tact and diplomacy
- Abilities: to possess analytical and conceptual skills, along with a high tolerance for uncertainty and ambiguity
- Skills: to possess effective oral and written communication skills, along with a keen sense of timing and a capacity for hard-nosed negotiation
- Knowledge: to avoid narrow specialization through a broad-based education¹⁵

Georgia officials have indicated the importance of personnel, and especially of management personnel, to the reorganization process.¹⁶

¹⁴U.S. Department of Health, Education, and Welfare, "The Program Management Officer," pp. 1-2.

¹⁵U.S. Department of Health, Education, and Welfare, "The Program Management Officer," pp. 8-10.

¹⁶Interviews with Pete Hackney, Legislative Budget Office; Bill Roper, State Budget Office; and Ernest Davis, former State Auditor; State of Georgia, Atlanta, Georgia, 8 August 1978.

Reorganization means nothing without the people to make it work. Program managers must have the qualities, abilities, skills and knowledge listed above in order to be able to work across jurisdictional lines -- programmatic, functional, professional, technical, and political interest -- to accomplish program objectives. This holds for the program manager as governor, department head, division chief or line supervisor.

Client Access

Whereas program management concerns the broad questions of service programs, client access primarily concerns the consumers of those services. One of the most frustrating experiences for any consumer, whether it be with private or public organizations, is to attempt to find the one person or office which can solve his problem. Often no one office can. The problem will be compounded in Alabama when currently separate state agencies are consolidated under multi-purpose departments. How will the average citizen face these new, large and complex organizations?

Each department must provide some sort of client access mechanism so that people in need of services, whether that be information or something more extensive, will be able to obtain those services. Client access mechanisms run along a continuum from very simple information and referral offices to highly sophisticated diagnostic and treatment centers such as hospital emergency rooms.

The minimal client access mechanism is an information and referral office, essentially a telephone number and a booth or desk where consumers can get general questions answered and find out where to go to get more specific answers. Such an office should also be equipped to receive

complaints and to follow up complaints for expeditious disposition.

The more sophisticated client access mechanisms are those which encompass not only information and referral, but also case management, and diagnosis and multi-disciplinary treatment. Examples include hospital emergency rooms, mental health crisis intervention centers, and primary health care treatment teams.

Somewhere in between are the case management systems of social service agencies. Such systems are client-centered, provide information and referral services, counsel individuals and families in order to identify problems and develop a workable plan of service to respond to those problems, and track the progress of clients through the network of services.

The application of a particular client access mechanism will of course depend on the department involved. For the entire executive branch an information and referral office, modeled after federal information offices, might be appropriate. Client access is also an important program management tool as it provides an opportunity to monitor program responsiveness and to spot duplication and gaps in service programs.

Administrative Support

The activities grouped under this core function constitute the basic support activities necessary to the life and normal functioning of an organization. These include the non-policymaking aspects of personnel and finance, accounting, purchasing, payroll, inventory control, communications, data processing, and various housekeeping tasks such as building maintenance, utilities, and office supplies and equipment. Routine requests

for administrative actions, such as equipment purchases and personnel actions, would be routed through the administrative support function for clearance and action consistent with established policy. Policy exceptions would be referred to program management for additional review and action.

Public Participation

Like client access, public participation can best be conceptualized as a continuum. The activities of certain governmental agencies are much more intimately related to the public than those of other agencies, necessitating more openness to public opinion. Social services agencies, for example, need public participation for program development and guidance. Environmental agencies need citizen response to locate problem areas. Finance departments, on the other hand, are influenced less by public participation since they represent more or less mechanistic responses to established professional standards.

The thrust of public participation is a dual one -- to provide information to the public on service programs and to solicit feedback through public involvement to enhance program accountability and responsiveness. Client access overlaps with public participation to the extent that individual citizens may obtain information on program activities. However, whereas client access is service oriented, public participation focuses on the development and implementation of public policy.

Transition Management

Transition management concerns how to move from the present state of government operations to

new structural and managerial arrangements. Transition encompasses planning, scheduling and action. Structural realignment and internal management plans would have to be developed at both the state-wide and departmental levels. A schedule of transition events would also have to be laid out. The plans and schedule would then have to be acted upon and the new procedures and arrangements implemented.

Structural realignment and internal management have been addressed earlier in this chapter. The transition schedule is the proposed events and timetable to be followed in shifting operations from pre-reorganization status to the status sought under the structural realignment and internal management plans within each department. The transition schedule sets forth the sequence in which transition tasks will be addressed, who will be responsible, and the length of time allowed to complete each task. At the general governmental level the transition plan should be rather vague, setting forth general principles and parameters within which the far more detailed departmental plans can be developed.¹⁷ Further, transition schedules must have some flexibility built into them to accommodate unforeseen events which spring

¹⁷The 1971 reorganization of Georgia state government by then Governor Jimmie Carter included a meticulously defined schedule of events and timetable. This extended to the drawing up of a standardized memo form, both as to its content and when it would be ready. However, some state officials have commented on the limited use of the schedule and the information reporting problems associated with it. The forms used in implementing the schedule are contained in an informal notebook for executive department heads prepared by William Roper, Management Review Office, State of Georgia, Atlanta, Georgia.

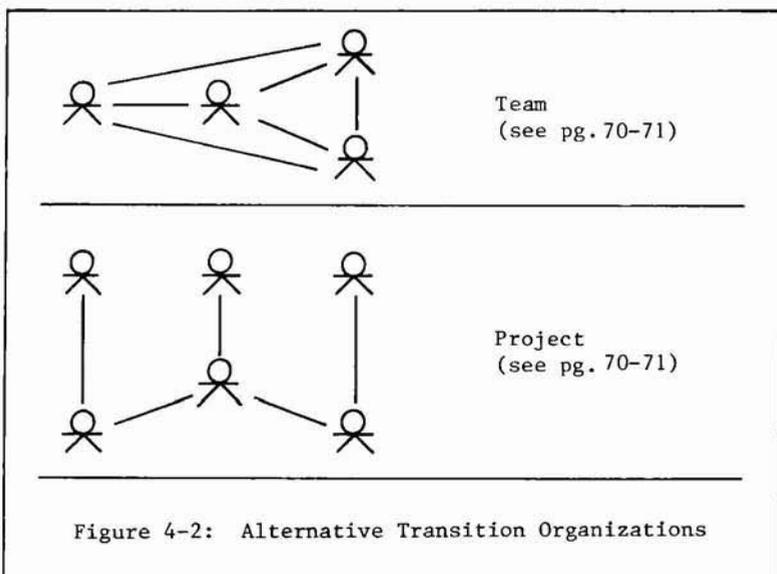
up during transition. This flexibility must be like a rubber band, in which timetables can stretch but cannot break.¹⁸

Project and Team Organization

The transition will depend heavily on team and project organization for its success. Both forms of temporary organization are intended to bring together people with diverse interests and skills to focus on a particular problem. These organizational forms are presented diagrammatically in figure 4-2.

The essential difference between team organization and project organization is the size and complexity of the task at hand. Teams are generally small groups, focusing on a problem or issue about which a handful of properly organized specialists can make some determination. A project is usually a vast undertaking requiring an infinitely greater variety of skills. Project organization is employed where direction and control are of paramount importance; team organization for smaller work groups involved in cooperative and innovative efforts:

¹⁸Georgia officials report considerable difficulty in establishing timetables for the transitions in that some of the time periods were too short and others too long. This suggests great difficulty in estimating completion dates for transition events, that care be taken in estimating time periods, and that some flexibility needs to be built into the implementation schedule. Nonetheless, Georgia officials report that the schedule was the primary criteria against which progress in the reorganization process was measured. Interviews.



The small venture team of five to ten members should not be confused with the more common project teams that have been employed primarily in the aerospace industry. The traditional project team is a relatively dependent group which is guided by government or production specifications and typically involves the coordination of hundreds of thousands of specialists and subcontractors. Therefore, it is understandable why the more common form of project management is largely concerned with coordination and control...The small venture team, in contrast, has minimal coordination problems and its mission or task is frequently as vague as to "create and develop new products."¹⁹

Project organization was the genesis of the matrix form and remains the most widely used variant:

The prototype for this design principle was NASA's space program, in which a large number of autonomous units -- large government bodies, individual research scientists, profit-seeking businesses, and large universities -- worked together, organized and informed by the needs of the situation rather than by logic, and held together by a common goal and a joint top management.²⁰

¹⁹James D. Hlavacek and Victor A. Thompson, "Bureaucracy and New Product Innovation," *Academy of Management Journal*, 16 (No. 3, 1973):367.

²⁰Drucker, "Templates," p. 9.

Project organization would most likely be applied to the central state-wide management of the transition process. A highly complex and interdependent set of tasks would have to be carried out within specified time frames, and the need for control and coordination virtually demands the management capabilities provided by project organization. A state-wide reorganization project manager and his staff would have to possess all the skills and abilities described earlier under the heading of program management, with emphasis on timely information gathering, analysis and decision making. The full support of the governor would be required for a reorganization project manager to complete his assignment within the parameters established for the transition process.

Another variant of the matrix organization is the team, a small and usually temporary group drawn together to accomplish a specific task. Major uses of the team are in certain highly specialized service settings such as emergency room and primary care teams in health services; government agency and corporate board rooms, where coordinating teams are called task forces; and planning and venture groups.²¹

Under the team concept diverse specialists and/or representatives of diverse interests are brought together to focus their talents on some problem. The team is a deceptively simple tool, for managing the decision making process of a team

²¹ Hlavacek and Thompson, "Innovation," pp. 361-372.

can be very tricky.²² Although traditionally thought to be useful only in temporary, transitory settings, the team is becoming a more permanent feature of organizational life.²³ The team survives as a more permanent unit by adjusting its membership to meet changing environmental and organizational needs.

Two types of teams would be used in transition at the departmental level -- the task group and the core team. The task group has several important roles to play in the transition. It provides opportunities for people who will work together in the new product-oriented departments to meet, exchange information and ideas, and generally form the basis of future working relationships. The task group will produce one or more products, including elements of the departmental structural alignment, internal management, and/or implementation plan. The knowledge gained through these activities will be used in the orientation of other members of the new department to the structures, processes, rules and procedures of their own and other service programs with which they will be working within the new department, and of the department as a whole. Finally, the task groups will stand ready to lend their special expertise to the actual implementation of the plans, including monitoring the transition to assure that it remains on schedule and providing technical assistance throughout the transition.

²²A good treatment of small group decision making is Irving Janis, *Victims of Group Think* (Boston: Houghton Mifflin Co., 1972).

²³Drucker, "Templates," p. 9; see also David I. Cleland and William R. King, *Systems Analysis and Project Management* (New York: McGraw-Hill Book Company, 1975).

The task group is designed to be the linchpin of the transition, but it is much more. It provides opportunities to familiarize future employees of the new department with the new organization and to solicit their contributions to the development of internal structures and processes. Providing a means for employees to help determine the shape and character of the organization in which they will work enhances the chances for a more efficient and effective organization.

The task groups themselves will form an intricate network, linked together by the group leaders who comprise a core team to plan, oversee and assess the new department's establishment. Each of the task groups will be concerned with only one or at most a few highly specialized functions or processes of the organization. Trade-offs will have to be made in order that the work of the various task groups will fit together in an efficient and effective manner. Thus the team leader's role of facilitator within the task groups is extended to incorporate the linkages among the groups. Team leaders will serve as information linkages by meeting together as a core team. Differences between task groups which cannot be settled through intergroup bargaining and negotiation will be decided by the core team.²⁴ The relationship between a core team and allied task groups is presented graphically in figure 4-3.

²⁴The core team/task groups model was successfully used by Metropolitan Dade County, Florida, in developing a multi-service center for social and health services.

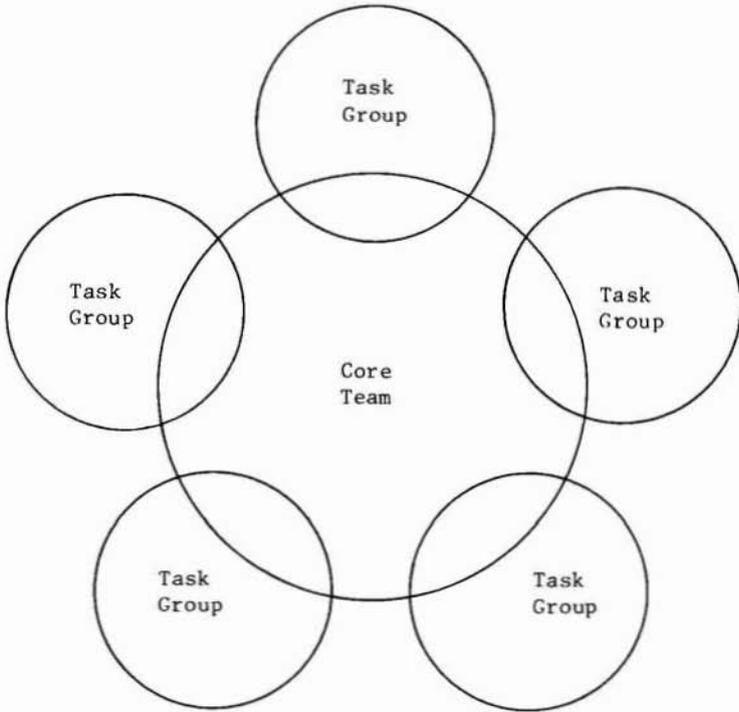


Figure 4-3: Core Team/Task Groups

Evaluation

Evaluation requires the executive and political courage to admit failures as well as to claim successes. The failure of other states to adequately evaluate their reorganization efforts means that no one can be certain whether reorganization will contribute to improved program performance or will save Alabama's taxpayers any money. A proper evaluation might possibly conclude that reorganization was ineffective and wasteful, and thereby lead to electoral repudiation of some state officials at the polls.

Evaluation ranges along a continuum from the very simple monitoring type to the very complex controlled experiment. Both the monitoring type and some type of mid-range evaluation should be applied to state government reorganization in Alabama. It will be necessary to determine the composition of evaluation prior to the actual transition, including personnel, budgetary, data analysis and specialized service needs.

The Evaluation Continuum

The range of types of evaluation extends from controlled experimentation at one extreme to simple monitoring at the other. Controlled experimentation addresses questions of effectiveness, and demands relatively sophisticated statistical and analytical methods. Monitoring is concerned with assessing the progress of some project or activity, essentially whether it is on schedule and within budgetary estimates.

Mid-range evaluations attempt to address efficiency issues, meaning performance assessment.²⁵

State government reorganization does not appear to lend itself to controlled experimentation, if for no other reason than the sheer complexity of the reorganization process itself. At the very least monitoring should be carried out to assure that the transition plan is being adhered to. Yet this is not sufficient by itself, because monitoring does not address important questions of whether reorganization has been worth the effort. It is therefore desirable to move into the mid-range evaluations.

The Urban Institute has identified five types of evaluation on the evaluation continuum:

Monitoring

- Comparisons of planned vs. actual performance: compares actual, post-program data to targets set in prior years, either before program implementation or at any period since implementation

Mid-Range

- Before vs. after program comparison: compares program results from the same jurisdiction measured at two points in time, immediately before the program was implemented and at some appropriate time after implementation
- Time trend projection of pre-program data vs. actual post-program data: compares actual post-program data to estimated data

²⁵Heilman, John G., *Evaluation* (Auburn: The Office of Public Service and Research, 1977), pp. 1-3.

projected from a number of time periods prior to the program

- Comparisons with jurisdictions or population segments not served by the program: compares data from the jurisdiction where the program is operating with data from other jurisdictions where the program is not operating

Experimentation

- Controlled experimentation: compares pre-selected, similar groups, some of whom are served and some of whom are not (or are served in different ways); the critical aspect is that the comparison groups are pre-assigned before program implementation so that the groups are as similar as possible except for the program treatment²⁶

The mid-range evaluations most appropriate to state government reorganization are before vs. after program comparison and time trend projection. These would have to be applied both in terms of agency responsiveness and accountability, and program costs. This requires establishing, for each agency, a data base of service and fiscal information, projecting this information to a future date on a hypothetical basis, and then measuring actual service and fiscal performance for each agency as of that future date. While this would be something of a massive undertaking, it is nonetheless desirable in order to learn whether the reorganization process has accomplished anything or simply wasted everyone's time.

²⁶ Hatry, Harry P.; Winnie, Richard E.; and Fisk, Donald M., *Practical Program Evaluation for State and Local Government Officials* (Washington, D.C.: The Urban Institute, 1973), pp. 39-40.

Application

No state has ever carried out a comprehensive evaluation of a reorganization effort. This includes perhaps the most publicized of state reorganizations, that of Georgia in the early 1970's under then Governor Jimmie Carter. Some monitoring of the reorganization was carried out by the management review section of the executive budget office. However, no attempt was made to track changes in personnel and funding levels, and the state auditor has been unable to verify any claims as to the savings or improvements in program performance brought about by reorganization.²⁷

Alabama will want to avoid this kind of situation by providing, prior to transition, for an effective evaluation of the reorganization. This includes establishing an evaluation team to carry out the actual data collection and analysis, preparation and approval of an evaluative research design, and allocating resources for evaluation including funds, data processing, and any needed outside consultants. The reorganization evaluation project should be given a specified life span in which to complete its work. The evaluation reports should be made available to the subject agencies, to the state officials responsible for reorganization, and to the general public.

²⁷ Interviews.

Chapter V

Business Regulation: An Illustrative Case

Some forty-nine occupations and commercial activities in Alabama are regulated by quasi-independent, plural-headed agencies. The impetus for regulation has come primarily from those who desired to be regulated rather than from public officials or the public at large. State involvement in business regulation in Alabama reached major proportions during the first half of this century and continues today.

The response of state lawmakers to demands for self-regulation has been the ad hoc establishment of regulatory boards and supporting agencies for each of the affected occupations and commercial activities. The result has been a proliferation of regulatory agencies. Critics of this proliferation point out the restraining influence which these agencies impose on given occupations. Supporters tend to take the position that occupational and commercial standards can best be maintained through specialized and uniform regulation of their respective activities.

Business regulation in Alabama will be used as an illustrative case of how to apply the reorganization concepts developed in chapter IV to one policy area of state government. The specific applications examined in this chapter do not and

are not intended to represent the final word on how business regulation should be reorganized. Rather it should be viewed as the basis for further discussion and analysis.

Business regulation was selected to illustrate the reorganization process because the issues are fairly straight-forward and because of the availability of easily accessed information. Problems of public accountability and administrative support are highlighted in audit reports prepared by the Examiner of Public Accounts and agency reports to the Alabama Sunset Review Committee.¹

Two types of regulatory agencies can be identified -- direct and indirect agencies. Direct regulatory agencies are those which regulate the actual provision of services or products to the public. That is, their authority over service and product quality is direct. Indirect regulatory agencies are those which regulate the people providing a service or product to the public. By regulating the people who work in a particular occupation these agencies indirectly regulate service and product quality.

Business Regulation: The Problem

State regulatory agencies are generally immune from executive branch supervision. These agencies provide forty-nine separate sets of

¹ This committee was established by the state legislature to periodically review the activities of state agencies and recommend whether they be reestablished or their statutory authority be allowed to expire.

technical services -- testing, licensing and investigation -- and forty-nine separate sets of public policy -- quasi-legislative and quasi-judicial -- relative to occupational and commercial activities. Business regulation agencies act with the full weight of state government authority behind their actions, yet it would appear that most of them are responding to the private interests of the regulated rather than the broader public interest. The problem here is clearly one of public accountability.

While a certain degree of independence may be desirable and even necessary to maintain acceptable business and professional standards, the extent to which such independence occurs among business regulation agencies in Alabama is inconsistent with the basic tenets of a democratic government. Alabama's regulatory agencies are generally not accountable to elected officials and thereby to the broader community of interests recognized as the public interest. Instead, these regulatory agencies are most accountable to the narrow band of interests which they regulate.

The governor's supervision over regulatory agencies is generally limited to the appointment of board members. Yet even here informal political processes operate to minimize his actual influence over agency operations. Typically the governor's appointments are made from a list of candidates compiled by the regulated interest. Where a governor might be inclined to appoint someone else the regulated interest may have recourse through appeal to the state senate which often has the power to confirm the governor's appointments. Frequently it does not go this far, for the governor may be required by law to make his appointment from a list supplied by the regulated interest.

Consequently, state regulatory agencies operate in an environment where they are essentially unaccountable to the public for their actions. The Examiner of Public Accounts has identified a number of problems resulting from this lack of accountability, including abuses of state travel limitations, improper purchasing practices, violation of state ethics laws, improper fee collection, or simply not performing any substantive regulatory function at all.

Each of the forty-nine regulatory agencies is responsible for providing their own administrative services, such as bookkeeping, purchasing, communications and personnel. No central administrative apparatus is available through which economies of scale could be obtained through, for example, bulk purchasing of certain supplies. Since each regulatory agency must provide for their own administrative support, the level of such support is limited by the amount of fees collected by that agency. The provision of staff assistance varies considerably from what would appear to be inadequate to excessive levels. In some instances staff support comes from other agencies, with no accounting for indirect costs.

Brookings Institution, 1932

The problems of plural-headed agencies are not new, but date back at least a half century. The emphasis of the Brookings Report was to severely criticize the long-standing practice in Alabama of relegating administrative responsibilities to plural-headed boards and commissions, and controlling these boards through ex officio representation. For example, Brookings evaluators enumerated over sixty commission-type (including business regulation) agencies functioning in Alabama. Multi-headed agencies represented over two-thirds of all state agencies in existence in

1932. *As indicated by the Brookings Report, boards and commissions are undesirable for administrative purposes.* Such agencies distract from the coordination and implementation of gubernatorial policy by virtue of their autonomy; they require the devotion of substantial time and energy to the performance of often menial tasks; they confuse any semblance of organization; and, as a rule, they assign the bulk of their chores to one individual. According to the Brookings Report:

The general principle to be followed is that a board or commission should be established for the exercise of quasi-legislative, quasi-judicial, or deliberative functions, or for general supervision in an important field where various interests or geographical sections require representation. The immediate direction of administration should be in the hands of a single individual.²

The use of boards and commissions to provide policy guidance, establish standards and rules, and to adjudicate differences also received tacit support. The actual provision of administrative and technical services -- such as purchasing, personnel, testing, licensing and investigation -- were deemed more appropriate as staff rather than board functions.

The Brookings Report sharply denounced the vesting of self-regulation powers in professional

² Institute for Governmental Research, The Brookings Institution, *Report on a Survey of the Organization and Administration of the State and County Governments of Alabama* (Montgomery: Wilson Printing Company, 1932), p. 73.

Table 5-1: Composition of Business Regulation Agencies

| Agency | No. | Selection | Term* | Staff** |
|--|-----|--|-------|---------|
| 1. Banking Board | 7 | 6 - Governor / Senate consent 1 - Ex officio | 6 | See #4 |
| 2. Savings and Loan Board | 5 | 4 - Governor 1 - Ex officio | 4 | See #4 |
| 3. Credit Union Board | 7 | 3 - Lt. Governor 3 - Speaker of House 1 - Ex officio | 6 | See #4 |
| 4. State Banking Department | 1 | Governor / Senate consent | 4 | 51 |
| 5. Alabama Public Service Commission | 3 | Elected | 4 | 86 |
| 6. Alabama Liquefied Petroleum Gas Board | 7 | 4 - Governor 3 - Ex officio | 4 | 6 FT*** |
| 7. Alabama Dairy Commission | 5 | 4 - Governor 1 - Ex officio | 4 | 14*** |
| 8. Department of Insurance | 1 | Governor | 4 | 68 |

Table 5-1: Composition of Business Regulation Agencies (cont'd.)

| Agency | No. | Selection | Term* | Staff** |
|---|-----|------------------------------|----------------|---------|
| 9. Real Estate Commission | 5 | Governor / Senate consent | 5 | 21 FT |
| 10. Board of Certification of Water and Waste Water Systems Personnel | 8 | State Health Officer | 2 @ 5 6 @ 3 | None |
| 11. Alabama Board of Cosmetology | 7 | Governor | 5 | 11 |
| 12. Alabama State Board of Public Accountancy | 7 | Governor | 4 | None |
| 13. Board of Physical Therapy | 3 | Governor | 3 | 1 PT |
| 14. Alabama Board of Funeral Service | 7 | Governor | 2 | 3 |
| 15. State Licensing Board for General Contractors | 5 | Governor | 5 | 8 FT |

Table 5-1: Composition of Business Regulation Agencies (cont'd.)

| Agency | No. | Selection | Term* | Staff** |
|---|-----|---|-------|--------------|
| 16. Board of Barber Examiners | 5 | Governor | 5 | 1 FT |
| 17. Alabama Peace Officers Standards and Training Commission | 7 | 4 - Governor 1 - State Fraternal Order of Police 1 - Alabama Peace Officers Assoc. 1 - Alabama Law Enforcement Planning Commission | 4 | 5 FT |
| 18. Board of Registration for Professional Engineers and Land Surveyors | 5 | Governor | 5 | 6 FT |
| 19. State Board of Registration of Architects | 6 | Governor | 4 | 1 FT 1 PT |

Table 5-1: Composition of Business Regulation Agencies (cont'd.)

| Agency | No. | Selection | Term* | Staff** |
|--|-----|---|-------|---------|
| 20. Board of Examiners of Nursing Home Administrators | 11 | Governor | 3 | None |
| 21. Board of Medical Technicians Examiners | 5 | Governor | 3 | 1 |
| 22. Alabama Board of Examiners in Psychology | 5 | Governor | 5 | 1 PT |
| 23. Alabama Firefighters' Personnel Standards and Education Commission | 7 | 4 - Governor 1 - Ex officio 1 - Alabama Fireman's Association 1 - Professional Firefighters' Association | 4 | 2 FT |
| 24. Board of Registration for Foresters | 5 | Governor | 5 | None |

Table 5-1: Composition of Business Regulation Agencies (cont'd.)

| | Agency | No. | Selection | Term* | Staff** |
|----|--|-----|---|-------|--------------|
| | 25. Alabama Boxing and Wrestling Commission | 3 | Governor | 6 | N/A |
| | 26. Board to Examine Entomologists, Horticulturists, Floriculturists and Tree Surgeons | 4 | Ex officio | N/A | None |
| 06 | 27. Alabama State Board of Podiatry | 5 | Governor | 5 | None |
| | 28. Alabama Board of Optometry | 5 | Governor | 5 | 1 PT |
| | 29. State Board of Chiropractic Examiners | 5 | Governor | 3 | 1 PT |
| | 30. Board of Dental Examiners | 5 | Alabama Dental Association | 5 | 2 FT 2 PT |
| | 31. Board of Nursing | 9 | Governor | 5 | 14 |
| | 32. State Board of Medical Examiners | 15 | 12 - Alabama Medical Assoc. 3 - Ex officio | 5 | 4 FT |

Table 5-1: Composition of Business Regulation Agencies (cont'd.)

| Agency | No. | Selection | Term* | Staff** |
|--|-----|--------------------------------|-------|--------------|
| 33. Alabama State Bar | 38 | Alabama Bar Association | 3 | 7 |
| 34. Alabama State Board of Pharmacy | 5 | Governor | 5 | 8 FT |
| 35. Alabama Board of Hearing Aid Dealers | 7 | Governor | 4 | None |
| 36. Alabama Board of Polygraph Examiners | 5 | Governor / Senate consent | 4 | None |
| 37. State Licensing Board for the Healing Arts | 6 | 3 - Governor 3 - Ex officio | N/A | 2 FT 2 PT |
| 38. Board of Examiners of Mine Personnel | 6 | 5 - Governor 1 - Ex officio | 3 | None |
| 39. State Pilotage Commission | 3 | Governor | 6 | None |
| 40. Alabama Board of Examiners of Landscape Architects | 3 | Governor / Senate consent | 3 | 1 PT |

Table 5-1: Composition of Business Regulation Agencies (cont'd.)

| Agency | No. | Selection | Term* | Staff** |
|---|-----|--------------------------------|-------|---------|
| 41. Board of Registration for Sanitarians | 7 | 3 - Ex officio 4 - Governor | 4 | None |
| 42. State Board of Auctioneers | 5 | Governor | 5 | None |
| 43. State Board of Veterinary Medical Examiners | 5 | Governor | 5 | None |
| 44. Alabama Board of Examiners for Speech Pathology and Audiology | 7 | Governor | 3 | None |
| 45. Department of Aeronautics | 7 | 5 - Governor 2 - Ex officio | 4 | 6 |
| 46. Department of Labor | 1 | Governor | GP | 13 |
| 47. Department of Industrial Relations | 1 | Governor | GP | 1995 |
| 48. Alabama Alcoholic Beverage Control Board | 3 | Governor / Senate consent | 6 | 1239 |

Table 5-1: Composition of Business Regulation Agencies (cont'd.)

| Agency | No. | Selection | Term* | Staff** |
|-----------------------------------|-----|-----------|-------|----------|
| 49. Office of Consumer Protection | 1 | Governor | GP | 11 FT*** |

* GP = governor's pleasure

N/A = not available

** Staff refers to total number of positions unless otherwise indicated. Data are taken from the governor's Executive Budget for fiscal year 1978-79 and audits by Examiner of Public Accounts. FT = full-time; PT = part-time.

*** Merit system employees only

Table 5-2: Functions of Business
Regulation Agencies

| Agency | Functions | | | | | |
|---|------------|---|---|------------|---|---|
| | Qualifying | | | Regulating | | |
| | E | L | C | P | I | R |
| 1. Banking Board (2) | | | | | | |
| 2. Savings and Loan Board (2) | | | | | | |
| 3. Credit Union Board (3) | | | | | | |
| 4. State Banking Department | | | X | | X | X |
| 5. Alabama Public Service Commission (5) | | | | | | |
| 6. Alabama Liquefied Petroleum Gas Board (4) | | X | | | X | X |
| 7. Alabama Dairy Commission (2, 4) | X | X | | X | X | X |
| 8. Department of Insurance | | X | | | X | X |
| 9. Real Estate Commission | X | X | | | X | |
| 10. Board of Certification of Water and Waste Water Systems Personnel (1) | X | | X | | | |
| 11. Alabama Board of Cosmetology (1, 4) | X | X | X | | X | X |
| 12. Alabama State Board of Public Accountancy | X | X | X | X | X | X |
| 13. Board of Physical Therapy | X | X | | | X | |

Table 5-2: Functions of Business
Regulation Agencies (cont'd.)

| Agency | Functions | | | | | |
|--|------------|---|---|------------|---|---|
| | Qualifying | | | Regulating | | |
| | E | L | C | P | I | R |
| 14. Alabama Board of Funeral Service | X | X | | | | X |
| 15. State Licensing Board for General Contractors | X | X | | | X | |
| 16. Board of Barber Examiners (1, 4) | X | X | | | X | X |
| 17. Alabama Peace Officers' Standards and Training Commission (1) | | | | | X | X |
| 18. Board of Registra- tion for Professional Engineers and Land Surveyors | X | | X | X | | |
| 19. State Board of Registration of Architects | X | | X | X | X | X |
| 20. Board of Examiners of Nursing Home | X | X | | X | X | X |
| 21. Board of Medical Technicians Examiners | X | X | | | X | X |
| 22. Alabama Board of Examiners in Psychology | X | X | | | X | |
| 23. Alabama Firefighters' Personnel Standards and Education Commission | | | X | X | X | X |

Table 5-2: Functions of Business
Regulation Agencies (cont'd.)

| Agency | Functions | | | | | |
|--|------------|---|---|------------|---|---|
| | Qualifying | | | Regulating | | |
| | E | L | C | P | I | R |
| 24. Board of Registration for Foresters | | | X | X | X | X |
| 25. Alabama Boxing and Wrestling Commission (1) | | X | | | | |
| 26. Board to Examine Entomologists, Horticulturists, Floriculturists and Tree Surgeons | X | X | | | | X |
| 27. Alabama State Board of Podiatry | X | X | | X | X | X |
| 28. Alabama Board of Optometry (1) | X | X | | | X | X |
| 29. State Board of Chiropractic Examiners | X | | | | X | |
| 30. Board of Dental Examiners (1) | X | X | X | X | X | X |
| 31. Board of Nursing | X | X | | X | | |
| 32. State Board of Medical Examiners (1) | X | | X | X | X | X |
| 33. Alabama State Bar (1) | X | X | | X | X | X |
| 34. Alabama State Board of Pharmacy | X | X | X | X | X | X |
| 35. Alabama Board of Hearing Aid Dealers | X | | | | X | |
| 36. Alabama Board of Polygraph Examiners | X | X | | | X | |

Table 5-2: Functions of Business
Regulation Agencies (cont'd.)

| Agency | Functions | | | | | |
|---|------------|---|---|------------|---|---|
| | Qualifying | | | Regulating | | |
| | E | L | C | P | I | R |
| 37. State Licensing Board for the Healing Arts | | X | | | | |
| 38. Board of Examiners of Mine Personnel | X | | X | | X | |
| 39. State Pilotage Commission | X | X | | | X | X |
| 40. Alabama Board of Examiners of Landscape Architects | X | X | | | X | X |
| 41. Board of Registration for Sanitarians | X | | X | | X | X |
| 42. State Board of Auctioneers | X | X | | | X | X |
| 43. State Board of Veterinary Medical Examiners (1) | X | X | | X | X | X |
| 44. Alabama Board of Examiners for Speech Pathology and Audiology | X | X | X | | X | X |
| 45. Department of Aeronautics | | | X | | X | X |
| 46. Department of Labor | | | | | X | X |
| 47. Department of Industrial Relations | | | | | | X |
| 48. Alabama Alcoholic Beverage Control Board (4) | X | | | | X | X |

Table 5-2: Functions of Business
Regulation Agencies (cont'd.)

| Agency | Functions | |
|---------------------------------------|------------|------------|
| | Qualifying | Regulating |
| 49. Office of Consumer Protection (5) | E L C | P I R |

* Qualifying and regulating refer to the following activities:

Qualifying

- E. examining
- L. licensing
- C. certifying

Regulating

- P. prescribes rules of professional conduct
 - I. investigation and revocation
 - R. establishing bylaws and professional regulations
1. Agency establishes curricula for institutions of professional learning and for related educational activities.
 2. Agency retains appellate powers over decisions of a related agency.
 3. Agency serves only in an advisory capacity.
 4. Agency inspects premises of professionals or regulated persons.
 5. See Appendix.

groups and self-perpetuating boards. Professional groups empowered to regulate their own professions were given a legitimate method of restricting free competition. Self-perpetuating boards were effectively beyond gubernatorial supervision since the essential control of appointment belonged to the board and not the governor.

Tables 5-1 and 5-2 summarize selected characteristics of Alabama's business regulation agencies relevant to the issue of accountability. This information is supplemented by the Appendix which provides a narrative description of each of these agencies.

Business Regulation: Reorganization Applied

The reorganization process should be planned and carried out in such a way as to resolve some of the problems of state business regulation in Alabama. This could be accomplished by applying the reorganization concepts developed in chapter IV to this specific policy area.

The purpose of reorganizing business regulation would be to improve the public accountability of these state agencies. Reports prepared by the Examiner of Public Accounts clearly document the problems of accountability. This is not a new problem, for the Brookings Institution reported similar findings over a half century ago. Structurally realigning state government would mean that one department would be concerned with business regulation, thereby clearly establishing responsibility and authority and assuring public accountability.

Three approaches to organizing business regulation are the unified (Virginia), integrated (Georgia), and pluralistic (Alabama):

- Unified: Virginia has a single state regulatory board for all but two regulated areas; an outgrowth of the railroad commission, the board is largely immune from legislative influence; the board has reportedly operated rather efficiently and with few if any delays in spite of the heavy workload placed on this single board³
- Integrated: Georgia has a single state regulatory agency servicing all of the regulatory boards, with the advantage of providing an adequate professional and more efficient central staff while retaining regulatory boards with their separate commercial and occupational identities⁴
- Pluralistic: Alabama has forty-nine business regulation agencies, each with their own staffs and policy boards, and largely unaccountable to the governor; audits and reorganization studies over the past half century have consistently cited the lack of public accountability and the inefficiency which this large number of independent agencies creates

Alabama's approach to organizing business regulation has clearly been determined as

³"Virginia Committee Regulates Everything from Banks to Boilers," *Wall Street Journal*, 16 August 1978, vol. CXII, no. 32, pp. 1, 39.

⁴Interviews with Pete Hackney, Legislative Budget Office; Bill Roper, State Budget Office; and Ernest Davis, former State Auditor; State of Georgia, Atlanta, Georgia, 8 August 1978.

unacceptable. The Virginia approach, which may be the most efficient, might be too radical a departure from current practice in Alabama. Therefore the Georgia approach, representing a more modest middle ground, would appear to be an appropriate approach for Alabama to consider. The following discussion of business regulation reorganization in Alabama assumes that the Georgia approach would be adopted here.

Structural Realignment

The structural configuration selected for business regulation should be one which realigns these state agencies within a single departmental structure in a way that (1) permits a central staff, working for the department, to provide technical and administrative support to the policy boards, and (2) permits the boards to discharge their statutory quasi-legislative and/or quasi-judicial authority in an administratively responsible way. The product organization appears to be the best suited to accomplish this end.

It will be recalled from chapter IV that the basic structural forms of organizational design are the functional, product and matrix organizations. It is possible, theoretically at least, to apply functional organization to business regulation. This would involve establishing a half-dozen functional divisions within a departmental framework -- one each for examining; licensing/renewal; certifying/registering; prescribing rules of professional conduct; investigation and revocation; and establishing regulations and bylaws. The wide range of commercial and occupational activities regulated by the state makes this approach unfeasible. It does not appear possible for one examining unit to be able to competently handle the variety of technical and professional

requirements throughout the range of business regulation activities.

The structural realignment of business regulation does not appear sufficiently complex to apply the matrix form of organization. Business regulation as practiced in Alabama is a fairly straightforward proposition, and the two-boss matrix approach would unnecessarily complicate the management of this activity.

The product organization is therefore the most appropriate for structurally realigning business regulation at the departmental level. Within the overall policy area of business regulation the new department would be divided into divisions which correspond to the major commercial and occupational regulatory activities of the state. In arriving at a recommended alignment the following organizational criteria could be applied:

- Programmatic association: performance of regulatory functions for similar or closely related program areas
- Resource requirements: a significant volume of work such that a unit could administratively stand as a separate division
- Direct/indirect regulation: distinction of the direct from indirect regulation of goods and services through regulation of occupations

Applying these criteria leads to a business regulation department consisting of from four to seven divisions depending on whether certain apparently regulatory activities ought to be assigned elsewhere:

- Banking and finance: would have jurisdiction over banks, credit unions, lending institutions, savings and loan institutions, insurance companies and the processing, sale and distribution of milk; regulation may be characterized as direct, since it is the services and not the occupations which are generally regulated
- Real estate: licenses some sixteen thousand real estate brokers and agents; regulation is indirect since the occupation is regulated
- Health: some fifteen state boards are concerned with various aspects of health and related professions; combining such boards into a division would permit the more effective servicing of the boards' administrative and programmatic needs by a single professional staff; similarity of the program areas (all involve health) and the terminology used would make health regulation a likely candidate for consolidation; regulation would be indirect
- General occupational licensing: intended to promote professional ethics and assure competency among the members of the various occupations; includes all indirect regulatory activities not incorporated into other divisions

Three other major regulatory areas might not prove appropriate for inclusion under the general rubric of business regulation:

- Labor: pertains to the enforcement of job safety regulations and the mediation of labor disputes; the importance of labor safety has been underlined in recent years by the federal government, whose industrial safety programs have substantially increased the role

of state government in promoting safe working conditions; the uncertain future of collective bargaining in Alabama, especially in the public sector, and the uncertain relationship of mediation to job safety require that careful consideration be given to the structural placement of these activities, a consideration which is clearly beyond the scope of the present study

- A.B.C. Board: Alabama's virtual monopoly over the sale and distribution of alcoholic beverages within state boundaries places the state in an excellent position to regulate the alcoholic beverage industry; the recent assignment of major drug enforcement responsibilities to this agency raises the question of whether it would be more appropriate to align the A.B.C. Board with the state's law enforcement programs, or as a separate department within state government

- Consumer protection: concerns deceptive trade practices; the removal of this agency from the governor's office might well result in a dilution of the agency's ability to do its job

The above suggested product organization of a business regulation department is only one possible arrangement. Under this arrangement four (or more) separate divisions would be established, one each for banking and finance, real estate, health, and general occupational licensing. Each division would in turn be organized functionally, with specialists in examination, licensing, certification, professional standards, investigation, writing regulations, and perhaps one or more other functions. The appropriate regulatory boards would then be attached to these divisions, becoming part of the new department. The boards would continue to exercise their policy authority as

provided by state statutes, with divisional staff employed by the department providing all necessary administrative and technical services to the boards.

Internal Management

Internal management describes the intra-agency linkages and functions which must be adopted if the activities of multiple organizational units are to be synchronized. For internal management to succeed not only must unit to unit activities be defined, but specific core functions must also be performed. These functions, it will be recalled from chapter IV, are program management, administrative support, client access and public participation.

Program management is the responsibility of the department head along with staff and key line personnel. The program management personnel will be responsible for seeing that the department's activities are carried out as efficiently and effectively as possible. Departmental activities must be planned, resources allocated, and the carrying out of assigned tasks supervised, coordinated and controlled. Personnel must be recruited, promoted, reassigned, demoted and fired. Departmental activities must be evaluated and this information fed back into the program management decision making process. Program management is, above all, making both the decisions which establish the routines of the department and the non-routine decisions as well.

Departmental personnel would report through the established chain of command to the department head. All professional and administrative personnel would be departmental employees. Board members would not be departmental employees, but would be treated as private citizens donating

their time and expertise to the regulatory process. In keeping with current trends in public service employment, the program management personnel should comprise an executive service of non-merit system employees who would serve at the discretion of the governor or the department head. This would assure that the department remains responsive to public demands for changes in public policy. All other departmental employees should most likely come under the state merit system. Control over personnel would be a major tool for use in achieving a measure of control over departmental activities.

Another major tool of program management would be control over resource allocation, meaning the budgetary process, financial reporting, accounting and auditing. Budget requests would be prepared by the respective divisions, including estimates for holding regulatory board meetings. The several regulatory boards would not submit budget requests, as they would be quasi-legislative, quasi-judicial and advisory arms of the department and not administrative subdivisions within it. The divisional budget requests would take any special or unusual regulatory board requirements into account. Divisional budget requests would be submitted to those program management personnel responsible for budgetary review and analysis. Subject to approval by the department head, a comprehensive departmental budget including divisional expenditure and revenue estimates would be submitted to the governor through the state's budgetary process. Collection and expenditure of funds would be recorded and reported according to state statutes and executive orders. Audits would be conducted internally by departmental personnel, and externally by the Examiner of Public Accounts and external auditors as required by law. The information thus gathered would be available to program management to direct

departmental activities and to correct administrative shortcomings.

Administrative support is one of the arms of program management. A current problem of business regulation is the great diversity among support services to individual agencies. The Examiner of Public Accounts reports that some agencies have extensive administrative support while others have little or none. Further, the problems of administrative accountability reported by the Examiner of Public Accounts, such as unnecessary travel expenditures and uncollected license fees, stems in part from this diversity of administrative support. Personnel, purchasing, accounting, data processing, communications and other support activities would be centralized for administrative clearance and program control purposes. A purchasing request originating within a division would flow through administrative support; if the requested item were not part of the division's approved budget, the request would be forwarded to program management for a decision. In this way divisional spending could be controlled.

Client access is another core function and another arm of program management. Confusion on the part of departmental clients and the public may very well result from the creation of a new, large and programmatically complex state agency. One means of alleviating this confusion would be an information and referral office, providing a one-stop (and one-telephone number) center where departmental clients and the public can have their questions answered about the new department. The center would provide information, accept complaints, hand out applications, and refer people to the appropriate departmental office for further information and assistance. This type of client access system would include divisional reports to program management on actions taken relative to grievances and complaints, and to informational

requests. Each division could designate certain personnel (and a single telephone number) for information and referral services for that division. Citizen complaints and professional grievances in particular could be easily tracked and expedited through such a system.⁵ More sophisticated client access systems do not appear to be warranted for business regulation.

The third major arm of program management and the fourth core function is public participation. Applying the lessons from chapter IV, there appear to be four possible approaches to public information/involvement:

- Public relations: providing a conduit between the department and the public by providing information on what the department is about and what it is doing; some limited citizen feedback may also be possible through this mechanism
- Citizen task force: an opportunity to provide direct citizen input to departmental policy and activities, either on an ad hoc or more permanent basis
- Government in the sunshine: open public hearings by regulatory boards at which citizens and professionals alike could comment on pending board actions; notices of public

⁵Based on information collected for occupational licensing agencies for 1975, complaints do not appear to be a serious administrative problem; the state's thirty-six occupational licensing agencies averaged less than three complaints each (109 total complaints) in 1975; however, easier access for filing complaints might cause this figure to increase somewhat.

hearings would have to be advertised well in advance of the hearing date

- Consumer representation: the statutes affecting the regulatory boards' memberships could be amended to provide direct citizen involvement in commercial and occupational regulation, as has been done in other states⁶

Careful consideration will have to be given to these public participation alternatives and their likely impact on departmental activities. Yet public participation provides program management with yet another source of information on and a different perspective of business regulation. In the end this allows for a more complete evaluation of the department and its management.

Transition Management

The principal means for moving from the presently fragmented status of business regulation to the hoped-for integrated department of business regulation will be the transition team. As noted in chapter IV, this team consists of a core team and various task groups assigned to work on specific transition problems (see figure 4-3). The members of the transition team would be designated by the department head and selected from among future employees of the department.

The transition team would likely develop the departmental structural realignment and internal management plans along with the transition schedule for the new department, and would provide

⁶ The Alabama Dairy Commission and the Public Service Commission are the only two state regulatory boards composed entirely of consumers.

assistance and guidance to all elements of the reorganization process along with a control mechanism for the department head. Core team members would chair the various task groups, thus providing a formal communication link among what might otherwise be a rather chaotic process. The task groups would perform the actual work of planning the transition, with clerical and backup support provided by the core team. For purposes of business regulation reorganization at least ten task groups are envisioned:

- Core functions (4): at least one task group would be required for each core function (program management, administrative support, client access and public participation); these task groups would work out the procedural linkages within each core function and, with assistance and guidance from the core team, among all four core functions
- Substantive regulatory areas (4): each regulatory policy area (banking and finance, real estate, health and general occupational licensing) would have a divisional plan drawn up by a task group encompassing the regulatory functions of that division; the core team would provide assistance and guidance in designing linkages between the divisions and the core functions
- Orientation and training (1): this task group would identify the employee orientation and training needs for the transition, including the appropriate role for the transition team to play; would likely include general employee orientation to the new department and its working environment, training in new procedures, and opportunities for joint problem solving by employees during and beyond the transition period

- Scheduling (1): this task group would take the work products of the other task groups and develop a recommended transition schedule, including the physical relocation of employees if this is found to be necessary; reporting requirements to the statewide reorganization coordinating group and to the core team should be addressed

Additional task groups would likely be created from time to time by the core team in order to address highly specialized and limited issues which will crop up during the transition. For example, it may become necessary to create a task force on standardized departmental licensing forms, or on data processing needs. The duration of these task groups would tend to be short, making it possible for core team members to assemble and chair several such groups simultaneously.

Evaluation

Evaluation of business regulation reorganization would occur in two stages, monitoring and assessment. The monitoring stage would take place during the transition, and be the responsibility of the core team and designated task groups. Monitoring would consist primarily of validating the progress of the actual implementation of reorganization -- of whether activities identified in the transition schedule have been completed on time. Task groups would be required to report regularly to the core team which in turn would compare progress reports with the appropriate schedule. Upon receiving regular reports of the core team, the department head would have the option of adjusting the transition schedule or taking remedial action if necessary.

Assessment, which occurs at the very end of the reorganization process, consists of comparing

the efficiency and effectiveness -- the performance -- of the new department with that of the former fragmented structure. Usually very little thought is given to assessment in reorganization planning, and by the time the question comes up it is too late to systematically collect baseline data on the performance of the pre-reorganization agencies.⁷ Also, just getting through the structural realignment, internal management and transition phases leaves most reorganization teams with little energy or resources with which to pursue evaluation.

It should be possible to develop baseline evaluation data for business regulation using reports from the Examiner of Public Accounts. This could be supplemented by special studies perhaps performed by state agencies or private evaluation contractors. Departmental and state auditors could then track agency changes, producing at least rough comparisons of costs and benefits of the reorganization. This would require collection of pre-reorganization data on regulatory policy areas, such as health, and comparing this with data from the new divisions after assigning overhead costs from the core functions and adjusting for reorganization costs such as evaluation.

⁷ Georgia made no attempt to track agency changes, making before and after performance comparisons impossible; as a result the costs and benefits of Georgia's reorganization cannot be documented. Interviews.

Appendix

Alabama's Business Regulation Agencies*

The information and conclusions contained herein are taken from reports to the Sunset Committee and audits by the Examiner of Public Accounts. Legal references in brackets at the close of each business regulation agency narrative are for the Code of Alabama, 1975. Available fiscal data are drawn from the governor's Executive Budget for fiscal year (FY) 1978-79 and audits by Examiner of Public Accounts.

1. Banking Board. The Board was established in 1939 to hear appeals from decisions of the Superintendent of Banks. Appeals are limited to banking matters only [Title 5, Sec. 2(40-44); Sec. 3(4)].

2. Savings and Loan Board. The Board was established in 1943 to hear appeals from decisions of the Savings and Loan Commissioner [Title 5, Sec. 16(2-52)].

3. Credit Union Board. Established in 1971 the Board advises the Governor and Superintendent

* See also tables 5-1 and 5-2.

of Banks on credit union regulations [Title 5, Sec. 2(100-103)].

4. State Banking Department. The Department was established in 1955 to regulate banks, credit unions and savings and loan institutions. Encompasses Banking, Savings and Loan, and Credit Union Boards. Total funds for FY 1977-78, \$1,332,079 [Title 5].

5. Public Service Commission. The Commission was established in 1881 to regulate public utilities. Total funds for FY 1977-78, \$2,109,184 [Title 37, Sec. 1(1-157)].

6. Alabama Liquefied Petroleum Gas Board. Established in 1965 the Board regulates the liquefied petroleum gas industry. Total funds for FY 1977-78, \$83,239 [Title 9, Sec. 17(101-110)].

7. Alabama Dairy Commission. The commission was established in 1939 to regulate the fluid milk industry. Total funds for FY 1977-78, \$374,654 [Title 2, Sec. 13(42-60)].

8. Department of Insurance. The Department was established in 1951. Its chief responsibility is to regulate the insurance industry in Alabama although it is responsible for several related duties. Total funds for FY 1977-78, \$1,493,976 [Title 10, Sec. 2(250); Title 27, Sec. 2(1-32), Sec. 3(1-29), Sec. 30(23); Title 35, Sec. 16(1-3)].

9. Alabama Real Estate Commission. The Real Estate Commission was established in 1927 to regulate real property business transactions. As of September 1977, the Commission employed twenty-three persons to regulate some 13,500 brokers, salesmen and corporations. The Commission issues five separate licenses. Brokers and salesmen must pass a written examination consisting of questions

from a national testing institution and the Commission. The Commission receives an annual appropriation from the General Fund, but it annually reverts funds exceeding the appropriation to the General Fund. Total funds for FY 1977-78, \$408,968 [Title 34, Sec. 27(1-10)].

10. Board of Certification of Water and Wastewater Systems Personnel. This Board was created to fill a growing need in Alabama for competent persons to operate water and wastewater systems. There are approximately 1600 approved water systems in the state. Administrative functions of the Board are currently performed by the State Department of Public Health. Total funds for FY 1977-78, \$4,505 [Title 22, Sec. 25(3-4)].

11. Alabama Board of Cosmetology. This Board regulates the cosmetology industry in the state, an industry composed of roughly 12,000 cosmetologists and some 3,400 beauty shops. The Board uses a standard written examination. Total funds for FY 1977-78, \$237,539 [Title 34, Sec. 7(1-23)].

12. Alabama State Board of Public Accountancy. The Board of Public Accountancy was created to register Certified Public Accountants and Public Accountants. Registration as a CPA is pursuant to passing a standardized national examination while PA qualifications are determined by an in-state test. Most of the services required by the Board in administering its functions are obtained through limited contracts with outside sources. Total funds for FY 1977-78, \$118,000 [Title 34, Sec. 1(1-22)].

13. Board of Physical Therapy. The Board of Physical Therapy was established in 1965 to license and regulate physical therapists and their assistants. The qualifying examination used by the Board is a standardized test obtained from the

Professional Examination Service of the American Public Health Association. The Board presently employs a part-time Executive Secretary for administrative purposes. Total funds for FY 1977-78, \$13,270 [Title 34, Sec. 24(190-196)].

14. Alabama Board of Funeral Service. This Board regulates funeral services in the state by licensing funeral establishments and professionals. The Board prepares its own examinations but recognizes examinations given by the Conference of Funeral Service Examining Boards as well. Total funds for FY 1977-78, \$77,182 [Title 34, Sec. 13(20-23)].

15. State Licensing Board for General Contractors. Established in 1935 to promote the public welfare by licensing only qualified general contractors, the Board has yet to officially adopt rules and regulations for the profession. Other discrepancies included large numbers of blank licenses previously signed by Board members; and investigations which are not accompanied by complete reports. Overall, the EPA found this office to be well managed. Total funds for FY 1977-78, \$160,209 [Title 34, Sec. 8(1-27)].

16. Board of Barber Examiners. Created in 1971, the Board today suffers from a failure to follow sound administrative practices, including failure to remit fee overpayments unless requested; undocumented expense claims for Board members; borrowing funds in the name of the state without authority to do so; repeated acceptance of personal checks for license fees despite holding \$1,775 in previous bad checks; purchase of equipment without utilizing the services of the Division of Purchases and Stores; and issuance of one license certificate to cover all license categories. Total disbursements for FY 1975-76, \$62,829.02 [Title 34, Sec. 5(1-15)].

17. Alabama Peace Officers Standards and Training Commission. The primary function of the Commission is to upgrade law enforcement personnel in the state. The Commission provides a public service by maintaining minimum standards for all law enforcement officials. Total disbursements for FY 1975-76, \$78,778.96 [Title 36, Sec. 21(40-49)].

18. Board of Registration for Professional Engineers and Land Surveyors. This Board is one of the largest indirect regulatory agencies in Alabama, having jurisdiction over some ten thousand professionals. The workload of the Board increased nearly 100 percent between 1974 and 1976 alone. The Board utilizes six full-time employees and a varying number of part-time employees to administer its programs. Total funds for FY 1977-78, \$251,863 [Title 34, Sec. 11(2-14)].

19. State Board for Registration of Architects. This Board has responsibility for registering architects who successfully complete a standardized test of the National Council of Architectural Registration Boards. The Board has one full-time employee who administers its programs. Total funds for FY 1977-78, \$38,158 [Title 34, Secs. 2(1) through 3(3)].

20. Board of Examiners of Nursing Home Administrators. The Board has been operating illegally, at least since the EPA audit, with only two members of a required eleven and a required quorum of six (1977). Licenses have not been regulated because there are no employees to do the work. All records have been moved to the office of the Alabama Nursing Home Association, the professional organization of the nursing home industry which the board is supposed to regulate. Receipts from fees for applications and temporary permits, which are not clearly authorized by state law, comprise 30 percent of the Board's revenues.

Meanwhile, the Board's financial stability is threatened by declining revenues and increased expenses. Total funds for FY 1977-78, \$10,800 [Title 34, Sec. 20(1-7)].

21. Board of Medical Technicians Examiners. The Board of Medical Technicians Examiners was established in 1937 to license and regulate medical technicians. The Board has no full-time employees and is restricted in its enforcement ability by limited revenues. Total disbursements for FY 1976-77, \$436.29 [Title 31, Sec. 18(40-47)].

22. Alabama Board of Examiners in Psychology. The Board was created in 1963 to license and regulate psychologists. The Board has no full-time assistance and should such assistance be required, the Board probably could not absorb the cost. Spending has increased 158 percent in the last four years while revenues have increased 74 percent. Since the Board does not maintain formal accounting records, general fund appropriations are based on estimates of fee revenues received and deposited in the general fund. The Board has overspent this appropriation for at least the last five years. Total funds for FY 1977-78, \$8,750 [Title 34, Sec. 26].

23. Alabama Fire Fighters' Personnel Standards and Education Commission. The Commission was established in 1975 to certify fire department instructors and fire fighters in Alabama. The Commission is funded by an annual grant from the Alabama Special Education Trust Fund. Total disbursements for FY 1975-76, \$26,751.67 [Title 36, Sec. 32(2)].

24. Board of Registration for Foresters. The Board was established in 1957 to register foresters in Alabama. Administration of the Board's policies is presently carried out by the

Alabama Forestry Commission. Total funds for FY 1977-78, \$9,725 [Title 34, Sec. 12(2-12)].

25. Alabama Boxing and Wrestling Commission. The Commission supervises boxing and wrestling events held in the state. It grants permits, which number 300-500 per annum, to hold boxing and wrestling events and licenses the various persons involved in staging such events [Title 41, Sec. 9(120-126)].

26. Board to Examine Entomologist, Horticulturist, Floriculturist and Tree Surgery Work. The Board was established in 1939 to regulate the above named professions. By its own admission, the Board's workload has become overbearing. The Board has been forced to hire outside assistance from Auburn University for grading its qualifying examinations [Title 2, Sec. 28(2-12)].

27. Alabama State Board of Podiatry. The Board regulates the practice of podiatric medicine in Alabama through the examination and licensure of podiatric physicians. The Board had no office or staff in July 1977 [Title 34, Sec. 24(250)].

28. Alabama Board of Optometry. The Board was created in 1975 to license and regulate optometrists. The Board employed no full-time help in July 1977 and its administrative duties were performed by the Board's Secretary-Treasurer. The Board has licensed approximately 220 optometrists. EPA has revealed problems with the Board's past operations, problems which include: premature signing of Board checks by the President, payments in advance to the Secretary-Treasurer for his services, employment of private legal assistance (\$6,000 in 1977) when an Assistant Attorney General is assigned to the Board for legal advice and using legal counsel to record the minutes of the Board's meetings (a statutory duty of the

Secretary-Treasurer). The Board is financially solvent. Total disbursements for FY 1976-77, \$21,074.05 [Title 34, Sec. 22].

29. State Board of Chiropractic Examiners. Since 1960 the Board has examined chiropractors for practice in Alabama. In October 1977, the Board had no full-time employees. In 1976 the Board approved licensing for 535 Chiropractors. Total funds for FY 1977-78, \$16,550 [Title 34, Sec. 24(120-121)].

30. Board of Dental Examiners of Alabama. The Board, created in 1881, insures that only qualified dentists are allowed to practice in Alabama. The Board in July 1977 employed two persons full-time and two persons part-time, but also utilized a certified Public Accountant and a private law firm on occasion. In recent years the board has refused to accept examinations of the National Board of Dental Examiners, opting instead to create its own testing instruments. At the end of FY 1976-1977 the Board was financially solvent. Total disbursements for FY 1976-77, \$103,739.04 [Title 34, Sec. 9(2-28); Title 20, Sec. 2(1-75)].

31. Board of Nursing. The Board of Nursing licenses and regulates professional and practical nurses. In July 1977 the Board employed nine persons and was anticipating expanding its staff by five employees in FY 1977-1978. The duties of the Board are enormous and the number of professional and practical nurses in the state is growing. The Board licensed 29,358 professional and practical nurses in 1976, and has recently computerized several of its operations. Total funds for FY 1977-78, \$545,400 [Title 34, Sec. 21(2)].

32. State Board of Medical Examiners. One of the oldest professional regulatory agencies in the state, the Board of Medical Examiners examines and regulates the practice of medicine. The Board

employed four persons full-time and one person part-time in July 1977 and utilized limited computer services. An additional duty of the Board is to issue Controlled Substance Certificates to qualified physicians. A total of 3,850 physicians were registered to dispense controlled substances in 1976. Total disbursements for FY 1975-76, \$56,150.46 [Title 34, Sec. 24(53-58)].

33. Alabama State Bar. The Alabama State Bar has jurisdiction over the practice of law in the state. In November 1977, the Bar employed six persons to administer its programs. The number of persons taking the State Bar exam has continued to rise in recent years, and in 1976, 2,636 persons were either licensed or relicensed to practice law in Alabama. Total funds for FY 1977-78, \$330,397 [Title 34, Sec. 3(1-108)].

34. Alabama State Board of Pharmacy. The Board enforces state drug laws and examines and licenses pharmacists. Total disbursements for 1 Jan. 1976-31 Dec. 1976, \$172,221.62 [Title 34, Sec. 23(2-11); Title 20, Sec. 2(1-2)].

35. Alabama Board of Hearing Aid Dealers. The major duty of this Board is the examination of hearing aid dealers. The Board has no authority to make rules, regulations or standards and has no administrative assistance. The bulk of hearing aid dealer regulation (licensing) is carried out by the Department of Public Health which issues all licenses and receives all fees. The majority of licensing time is spent on renewals, and, in fact, the Board has averaged only 19 new licenses per year since 1972. Total funds for FY 1977-78, \$14,337 [Title 34, Sec. 14(1-14)].

36. Alabama Board of Polygraph Examiners. The Board was established in 1971 to register polygraph examiners in Alabama. Among the administrative problems of the Board were: (1) the

failure to complete records on members (only 61% were found to be complete); (2) no minimum passing grade for the qualifying examination; (3) posting errors in license payments, and (4) the licensing of polygraph examiners without obtaining evidence of their qualifications and/or examination. Total disbursements for FY 1976-77, \$2,683.20 [Title 34, Sec. 25(1-6)].

37. State Licensing Board for the Healing Arts. This Board licenses professionals for practice as medical doctors, chiropractors and osteopaths on the successful completion of examinations given by the State Board of Medical Examiners and the State Board of Chiropractic Examiners. Although the Board is not a "rubber-stamp" for the examining boards, it has no power to independently examine professionals. Its existence depends upon the actions of the examining boards. Total funds for FY 1977-78, \$91,502 [Title 34, Sec. 24(1-50)].

38. Board of Examiners of Mine Personnel. The Board's chief responsibility is to examine and certify mine foremen and fire bosses. Fee receipts were being deposited in the chairman's personal bank account from which he wrote a check to be deposited in the state's general fund. Total expenditures for FY 1975-76 (Auditor's estimate), \$879.36 [Title 25, Sec. 9(1-19)].

39. State Pilotage Commission. The State has regulated harbor piloting since the mid-1800's through the State Pilotage Commission. Unlike most indirect regulatory agencies, the Commission retains the legal power to limit the number of pilots to meet the needs of commerce. The Commission examines and licenses harbor pilots, yet it is without any written rules or regulations on which to base its decisions. Furthermore, the Commission maintains no record of its financial activities. The number of ships entering the

coastal area of the state has declined since 1960, thereby reducing the need for pilots [Title 33, Sec. 4(1-56)].

40. Alabama Board of Examiners of Landscape Architects. This Board licenses and regulates a limited clientele of between 150-200 persons. Without donated office space and equipment the Board would probably have experienced financial deficit in 1976. Total funds for FY 1977-78, \$5,126 [Title 34, Sec. 17(1-27)].

41. Board of Registration for Sanitarians. The bill for the creation of the Board of Registration for Sanitarians was drafted by a local sanitarian group. The Board licenses sanitarians upon successful completion of the State Personnel Office's merit system examination for environmentalists. The Board plans to move to a national standardized exam. Total funds for FY 1977-78, \$3,471 [Title 34, Sec. 28(1-45)].

42. Alabama State Board of Auctioneers. The Board was established in 1973 to regulate the practice of auctioneering in the state. Information concerning the Board filed with the Sunset Review Committee indicates that there were 235 licensed auctioneers and 90 apprentices in the state in 1976. [Title 34, Sec. 4(1-28)].

43. State Board of Veterinary Medical Examiners. Operating in its present form since 1951, the Board has responsibility for regulating the veterinary medicine industry in Alabama. Regulation consists of examining and licensing veterinarians and animal technicians. The Board has no power of inspection over the premises of licensed practitioners. During FY 1976-1977, the Board licensed 117 veterinarians and 17 animal technicians. Qualification as a veterinarian is based on successful completion of a written national standardized examination and an oral examination

by the Board. The Board employs one person on a part-time basis. Total funds for FY 1977-78, \$14,215 [Title 34, Sec. 29(1-46)].

44. Alabama Board of Examiners for Speech Pathology and Audiology. The Board was established in 1975 to examine and qualify persons practicing speech pathology and audiology. Total funds for FY 1977-78, \$5,400 [Title 34, Sec. 28A(1-44)].

45. Department of Aeronautics. Assists in financing, building and regulating public airports in Alabama. Total funds for FY 1977-78, \$586,539 [Title 4, Sec. 2(30-51)].

46. Department of Labor. Promotes voluntary settlement of labor disputes through mediation and conciliation. Also encompasses prevailing wage compilation, wage collection, regulating labor organizations, and collecting occupational safety and health statistics. Total funds for FY 1977-78, \$257,972 [Title 25, Sec. 3(1-4)].

47. Department of Industrial Relations. Enforcement of state laws regarding working conditions, including hours of work, child labor and working conditions. Total funds for FY 1977-78, \$246,819,743 [Title 25, Sec. 2(1-26)].

48. Alcoholic Beverage Control Board. Operates retail and wholesale stores, and regulation and enforcement of alcoholic beverages and dangerous drugs. Total funds for FY 1977-78, \$20,094,655 [Title 28, Sec. 3(40-53)].

49. Office of Consumer Protection. Purpose is to eliminate deceptive trade practices through investigation and education. Total funds for FY 1977-78, \$218,021 [Executive Order of Governor Wallace (number 17), 17 February 1972].*

* Information from "Executive Budget: Fiscal Year 1978-1979," p. 112.