

Office of the
Legislative Fiscal Analyst

FY 2004 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Department of Administrative Services
Finance Administration

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1.0 Summary: Division of Finance

The Division of Finance is divided into five programs to accomplish the following key functions:

- Produce the State's Comprehensive Annual Financial Report;
- Ensure compliance with generally accepted accounting principles;
- Review all State contracts;
- Pay all bills to vendors/contractors and issue payroll checks;
- Develop, operate, and maintain accounting systems to control spending, state assets and state loans;
- Account for revenues collected by all agencies.

	Analyst FY 2004 Base	Analyst FY 2004 Changes	Analyst FY 2004 Total
Financing			
General Fund	6,046,600	(140,600)	5,906,000
Transportation Fund	450,000		450,000
Dedicated Credits Revenue	1,512,500		1,512,500
GFR - ISF Overhead	1,490,000		1,490,000
Beginning Nonlapsing	108,900		108,900
Closing Nonlapsing	(59,100)		(59,100)
Total	<u>\$9,548,900</u>	<u>(\$140,600)</u>	<u>\$9,408,300</u>
Programs			
Finance Director's Office	308,900		308,900
Payroll	1,681,000		1,681,000
Payables/Disbursing	2,009,800		2,009,800
Technical Services	1,389,000		1,389,000
Financial Reporting	1,186,500		1,186,500
Financial Information Systems	2,973,700	(140,600)	2,833,100
Total	<u>\$9,548,900</u>	<u>(\$140,600)</u>	<u>\$9,408,300</u>
FTE/Other			
Total FTE	83		83

2.0 Issues:

2.1 Mileage Reimbursement

Beginning with the appropriations act passed during the 2000 General Session the Legislature tied mileage reimbursement to Fleet Operation's average per-mile cost for state sedans. This rate varied from twenty-five to twenty-eight cents, mostly affected by gasoline prices. The goal of this policy was to encourage employees to use vehicles already in the state motor pool. When employees request reimbursement for using a personal vehicle the state pays twice for vehicles – once for the employee's mileage and again for a vehicle anticipated to be put in use. Section 3.7 addresses this issue in further detail.

2.2 Status of New Statewide Payroll System

Since September, 2001, the Department of Administrative Services, Division of Finance has been developing a new statewide payroll system. Issues identified in three parallel tests of the new system will delay its implementation by six months and may result in more than \$100,000 in additional costs. Given the size of this project, and the critical importance of the payroll system, the Analyst supports the project steering committee's plan to delay implementation until March, 2003.

3.0 Programs

3.1 Director's Office

	2002	2003	2004	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
General Fund	317,100	308,900	308,900	
Total	\$317,100	\$308,900	\$308,900	\$0
Expenditures				
Personal Services	287,100	278,100	278,100	
Out of State Travel	2,000	3,200	3,200	
Current Expense	27,600	27,600	27,600	
DP Current Expense	400			
Total	\$317,100	\$308,900	\$308,900	\$0
FTE/Other				
Total FTE	3	3	3	
*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency				

The Director of the Division of Finance is the State's chief fiscal officer and is responsible for the accounting structure within State government. This responsibility includes establishment of procedures for allocation of appropriated funds, accounting control over fund assets, and approval of proposed expenditures for the purchase of supplies and services. These responsibilities involve directing and maintaining a financial control system in accordance with generally accepted accounting principles (UCA 63-1-12,13).

Intent Language

In the past, the Division has used nonlapsing funds for the enhancement of accounting systems. The Analyst continues to support this use for nonlapsing funds and recommends the following intent language:

It is the intent of the Legislature that funds for the Division of Finance not lapse.

It is the intent of the Legislature that funds for the Division of Finance which do not lapse are to be used for maintenance, operation, and development of statewide accounting systems.

3.2 Payroll

	2002	2003	2004	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
General Fund	1,901,200	1,740,600	1,621,200	(119,400)
Dedicated Credits Revenue	18,000	13,200	10,000	(3,200)
GFR - ISF Overhead	1,936,100			
Beginning Nonlapsing	1,926,400	2,171,000	49,800	(2,121,200)
Closing Nonlapsing	(2,171,000)	(49,800)		49,800
Total	<u>\$3,610,700</u>	<u>\$3,875,000</u>	<u>\$1,681,000</u>	<u>(\$2,194,000)</u>
Expenditures				
Personal Services	761,400	767,200	767,200	
In-State Travel	100	100	100	
Out of State Travel	5,200	5,200	5,200	
Current Expense	13,400	13,700	13,700	
DP Current Expense	1,220,200	1,926,500	894,800	(1,031,700)
DP Capital Outlay	1,610,400	1,162,300		(1,162,300)
Total	<u>\$3,610,700</u>	<u>\$3,875,000</u>	<u>\$1,681,000</u>	<u>(\$2,194,000)</u>
FTE/Other				
Total FTE	12	12	12	
*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency				

The Payroll System processes employee pay and benefits: regular wages, overtime, jury duty pay, retirement and health insurance, etc. It also processes individual deductions taken by employees such as life insurance, health and dental insurance, retirement, salary deferral programs, savings bonds, and contributions to the Annual Giving Program.

New Payroll System

The Division is currently rolling out a new payroll and time processing system. The current system has been in service for almost 30 years and is difficult to maintain. The new system is Internet-based and will eventually allow employees to view their own payroll data and to update some of that data, without involving a payroll technician. This is expected to reduce administration costs and to improve employee satisfaction in all agencies.

The \$4 million project began with a grant from the Information Technology Innovation Program, and received a supplemental authorization from the Legislature in FY 2002 using nonlapsing balances and Workers Compensation retained earnings. It was originally scheduled for full implementation in September 2002.

	2002	2003	2004	Est/Analyst
	Estimated	Estimated	Analyst	Difference
Financing				
General Fund		191,100	386,800	195,700
IT Innovation Program	400,000			
Risk Management Retained Earnings	1,836,400			
Sale of Assets to ITS	469,600			
ISF Overhead Allocation	100,000			
Beginning Nonlapsing	1,200,000	1,640,000		(1,640,000)
Closing Nonlapsing	(1,640,000)			
Total	<u>\$2,366,000</u>	<u>\$1,831,100</u>	<u>\$386,800</u>	<u>(\$1,444,300)</u>
Expenditures				
Payroll System Replacement	<u>2,366,000</u>	<u>1,831,100</u>	<u>386,800</u>	<u>(1,444,300)</u>
Total	<u>\$2,366,000</u>	<u>\$1,831,100</u>	<u>\$386,800</u>	<u>(\$1,444,300)</u>

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

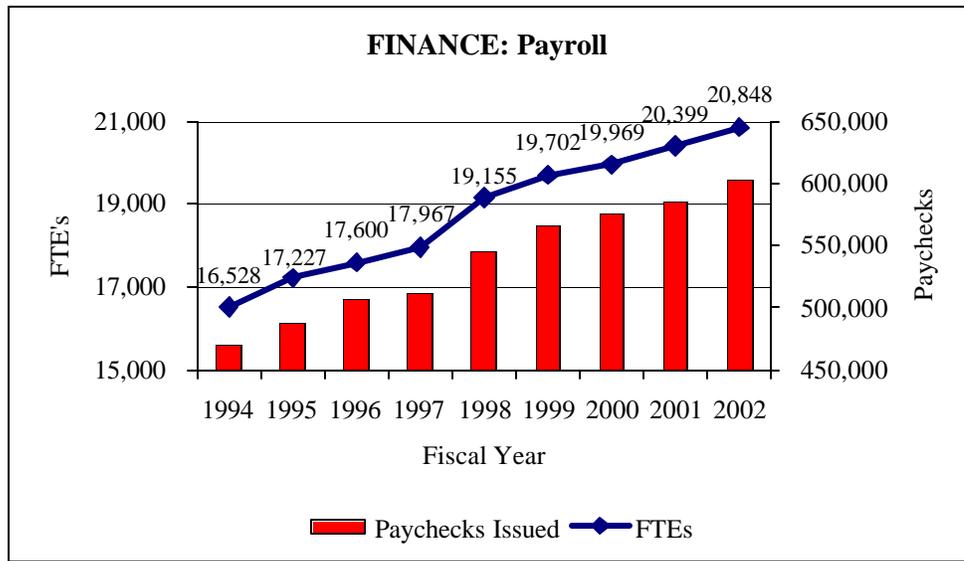
Using three tests run in parallel with the State's existing payroll system, the Division of Finance and its contractor have successfully identified and resolved a number of issues that generated errors in the new system. However, these issues have delayed implementation of the new system twice. The first launch date in September, 2002 slipped to December, 2002, and a more recent decision pushed implementation to March, 2003.

Further delays will mean additional direct costs

Resolution of the new system's errors has cost approximately \$100,000 on top of the system's budgeted \$288,400 contingency. These costs, related to contractor incidental expenses, are in addition to the cost of payroll clerks' time entering data into two systems during testing. Contractor salaries are covered by the contractor.

Given the critical nature of this application, the Analyst supports the steering committee's decision to delay implementation of the Payroll system. However, the Analyst cautions that postponement beyond March, 2003 could result in significant cost overruns.

Performance Measures: Payroll



The State issued 603,000 paychecks in Fiscal Year 2002, an average of 23,200 checks per pay period. More than seventy-five percent of payroll “checks” are actually electronic warrants automatically deposited into employee accounts. Processing cost per check in FY 2002 was \$1.54 per transaction, down from \$1.60 per transaction in FY 2001.

3.3 Payables/Disbursing

Recommendation

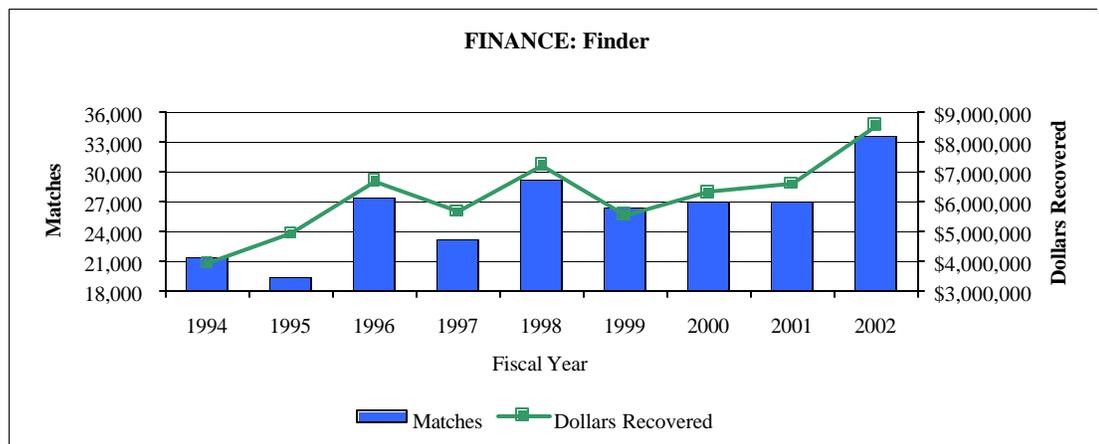
	2002 Actual	2003 Estimated	2004 Analyst	Est/Analyst Difference
Financing				
General Fund	952,000	1,147,300	1,147,300	
Dedicated Credits Revenue	674,900	862,500	862,500	
Total	\$1,626,900	\$2,009,800	\$2,009,800	\$0
Expenditures				
Personal Services	1,097,500	1,140,300	1,140,300	
In-State Travel	600	700	700	
Out of State Travel	800	1,000	1,000	
Current Expense	528,000	867,800	867,800	
Total	\$1,626,900	\$2,009,800	\$2,009,800	\$0
FTE/Other				
Total FTE	22	22	22	

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

The Payables/Disbursing program audits payment requests, enters transactions into computer systems and verifies that all transactions are properly accounted for by the central accounting system. This section also manages all checks redeemed by the bank and provides information to the public and other agencies about the status of lost, missing or cashed checks.

Finder Program

Finance administers a separate program called *Finder* with the aim of improving the collection of funds owed to the State. State Agencies and Colleges send finance a list of past-due debts owed them that the *Finder* program matches to tax refunds. If a match is made, the payment or tax refund is intercepted and paid to the entity. A fee of \$15 per transaction funds the program.



3.4 Technical Services

	2002	2003	2004	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
General Fund	1,353,100	1,207,500	1,389,000	181,500
Beginning Nonlapsing	100,000	215,000	25,900	(189,100)
Closing Nonlapsing	(215,000)	(25,900)	(25,900)	
Total	\$1,238,100	\$1,396,600	\$1,389,000	(\$7,600)
Expenditures				
Personal Services	707,400	682,200	682,200	
In-State Travel		400	400	
Out of State Travel	2,200	2,000	2,000	
Current Expense	15,600	16,600	16,600	
DP Current Expense	418,200	630,400	622,800	(7,600)
DP Capital Outlay	94,700	65,000	65,000	
Total	\$1,238,100	\$1,396,600	\$1,389,000	(\$7,600)
FTE/Other				
Total FTE	9	9	9	

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

The Technical Services Section within the Division of Finance evaluates the possible use of current and new technology for other sections within the division. It attempts to ensure technologies selected are consistent with the State's mission and support the business objectives of the Division. These objectives are met by providing technology direction and coordination, preparing and monitoring an information technology plan, conducting regular information technology coordination meetings and exploring/evaluating new technologies.

Technical Services also develops computer tools that enable personnel in state agencies to access the division's Data Warehouse, a database with more than sixty-five million rows of information available on-line to managers and financial analysts. The Data Warehouse contains financial, personnel, and payroll information used by financial managers throughout the state. Legislative staff use the Warehouse for auditing, tracking expenditures and verifying budget performance measures.

3.5 Financial Reporting

	2002	2003	2004	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
General Fund	751,400	746,500	746,500	
Dedicated Credits Revenue	446,200	440,000	440,000	
Total	\$1,197,600	\$1,186,500	\$1,186,500	\$0
Expenditures				
Personal Services	1,154,700	1,143,400	1,143,400	
In-State Travel		100	100	
Out of State Travel	1,500	1,200	1,200	
Current Expense	35,800	35,900	35,900	
DP Current Expense	5,600	5,900	5,900	
Total	\$1,197,600	\$1,186,500	\$1,186,500	\$0
FTE/Other				
Total FTE	17	17	17	

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

Financial Reporting issues the *Comprehensive Annual Financial Report (CAFR)* to financial managers in other states, bond rating agencies, financial institutions, the public and managers within State government. In addition, they set accounting standards and policies to ensure compliance with State law and generally accepted accounting principles. This program provides information for marketing long term debt (bond sales) and monitors compliance with SEC regulations.

Financial Reporting provides service in the following areas:

- *Cash management*: to maximize interest earnings and comply with federal cash regulations.
- *Loans receivable*: track loans that fund water quality and development projects, low income housing, and community development.
- *Revenue accounting*: establishing more detailed state revenue reporting.
- *Warrant reconciliation*: reconcile all warrants with bank statements and the treasurer’s system.

The Division provides electronic versions of the *CAFR* and *Fiscal Focus*, the *CAFR* summary, on its website at www.finance.utah.gov.

3.6 Financial Information Systems - FINET

	2002	2003	2004	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
General Fund	801,100	895,800	693,100	(202,700)
Transportation Fund	450,000	450,000	450,000	
Dedicated Credits Revenue	200,000	200,000	200,000	
GFR - ISF Overhead	1,483,300	1,489,500	1,490,000	500
Beginning Nonlapsing		290,200	33,200	(257,000)
Closing Nonlapsing	(290,200)	(33,200)	(33,200)	
Total	\$2,644,200	\$3,292,300	\$2,833,100	(\$459,200)
Expenditures				
Personal Services	1,517,500	1,455,500	1,495,900	40,400
In-State Travel		300	300	
Out of State Travel	5,800	3,700	3,700	
Current Expense	21,200	21,200	21,200	
DP Current Expense	1,099,700	1,811,600	1,312,000	(499,600)
Total	\$2,644,200	\$3,292,300	\$2,833,100	(\$459,200)
FTE/Other				
Total FTE	21	21	21	

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency

The FINET program group is responsible for coordinating financial data processing systems, processing information and distributing reports to departments each month. Because of the large amount of data processed for cost accounting at the Department of Transportation, a portion of this program is funded from the Transportation Fund. Financial Information is also responsible for:

- *FINET operation*: provide a Help Desk for State agency personnel and review and make recommendations for changes.
- *FINET development*: develop, test and implement changes to the accounting system.
- *User coordination*: coordinate agency interfaces with the Statewide accounting system.

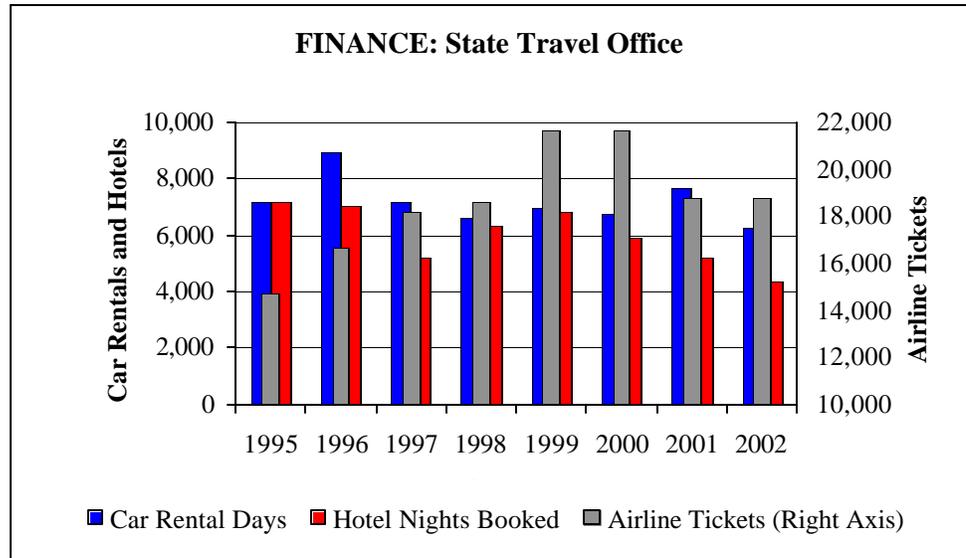
3.7 State Travel

Travel Office

The travel office is managed by a private vendor dedicated to arranging travel for State of Utah employees. With the elimination of airline commissions the user agency pays a fee to the vendor for each reservation.

Finance rules require all state agencies to use state travel for booking airline flights. In some cases a traveler may find a lower fare through an internet discounter. However, discount internet rates are non-refundable tickets that must be purchased in advance, often require a Saturday night stay and can not be changed without additional charges.

Discount rates may be cheaper for one individual, but prices often escalate as more travelers are added to an itinerary. The state contract for airline tickets sets prices that are not subject to Saturday night stays and do not require advance purchase. The negotiated rate is usually less than half that charged to business users. Most importantly, though, the tickets are fully refundable and may be changed without penalty. **Even though state agencies may be able to find lower airfares in certain circumstances, the Analyst believes that the requirement to use state travel for airline tickets provides lower costs and greater value for the state as a whole.**



The Travel Office issued 18,787 airline tickets for the state, universities and local governments in FY 2002. Of those, 7,380 were for state employees, an average of 0.36 tickets per FTE. State agencies are not required to use the State Travel Office for hotel or car rental bookings, so a comparison of booking to FTE is not possible.

Data is available on dollars spent statewide on in-state and out of state lodging. The table below compares the last two years with actual expenditures:

	FY 2001	FY 2002
In State Lodging	\$2,761,721	\$2,505,625
Out of State Lodging	2,818,003	1,986,482
Total Lodging	\$5,579,724	\$4,492,107
FTE Count	20,399	20,848
In State Per FTE	\$135.39	\$120.19
Out of State Per FTE	\$138.14	\$95.28
Total Per FTE	\$273.53	\$215.47

*Mileage
Reimbursement*

Beginning with the appropriations act passed during the 2000 General Session the Legislature tied mileage reimbursement to Fleet Operation’s average per-mile cost for state sedans. This rate varied from twenty-five to twenty-eight cents, mostly affected by gasoline prices. The original intent language read as follows:

It is the intent of the Legislature that the Department of Administrative Services develop and implement a mileage reimbursement program that requires agencies to reimburse employees for personal vehicle use at a rate equal to, or less than, the per mile cost of a mid-size sedan operated by the Division of Fleet Operations. It is also the intent of the Legislature that these rules be applied to Legislative Staff, the Judicial Branch and to the Utah System of Higher Education. The rule should make exception for instances where a State fleet vehicle is not available to the employee, for mileage reimbursements for Elected Officials of the State and members of Boards and Commissions who do not have access to the State fleet for use in their official duties.

The goal of this policy was to encourage employees to use vehicles already in the state motor pool. When employees request reimbursement for using a personal vehicle the state pays for a vehicle twice – once for the employee’s mileage and again for a vehicle anticipated to be put in use.

Last year the Analyst reported that the program seemed to be effective at least in the Department of Administrative Services, where total reimbursement declined over a two year period.

	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003 (projected)
Reimbursed Amount	\$2,970,247	\$2,711,630	\$2,755,902	\$2,262,133

As gasoline prices rise, the cost of operating a state sedan rises. Data obtained from the Division of Finance shows a drop in expenditures for FY 2001 that remained steady in FY 2002.

4.0 Additional Information: Division of Finance

	2000	2001	2002	2003	2004
Financing	Actual	Actual	Actual	Estimated*	Analyst
General Fund	6,260,700	6,171,300	6,075,900	6,046,600	5,906,000
Transportation Fund		450,000	450,000	450,000	450,000
Dedicated Credits Revenue	1,267,700	1,225,500	1,339,100	1,515,700	1,512,500
GFR - ISF Overhead	1,318,700	1,470,900	3,419,400	1,489,500	1,490,000
Transfers	450,000	400,000			
Beginning Nonlapsing	1,009,100	1,106,200	2,026,400	2,676,200	108,900
Closing Nonlapsing	(1,106,200)	(2,026,500)	(2,676,200)	(108,900)	(59,100)
Total	\$9,200,000	\$8,797,400	\$10,634,600	\$12,069,100	\$9,408,300
Programs					
Finance Director's Office	299,500	313,300	317,100	308,900	308,900
Payroll	2,040,200	1,769,000	3,610,700	3,875,000	1,681,000
Payables/Disbursing	1,611,600	1,674,100	1,626,900	2,009,800	2,009,800
Technical Services	1,371,000	1,226,600	1,238,100	1,396,600	1,389,000
Financial Reporting	1,084,500	1,139,700	1,197,600	1,186,500	1,186,500
Financial Information Systems	2,793,200	2,674,700	2,644,200	3,292,300	2,833,100
Total	\$9,200,000	\$8,797,400	\$10,634,600	\$12,069,100	\$9,408,300
Expenditures					
Personal Services	5,325,600	5,397,000	5,525,600	5,466,700	5,507,100
In-State Travel	1,500	600	700	1,600	1,600
Out of State Travel	16,400	10,200	17,500	16,300	16,300
Current Expense	663,000	681,900	641,600	982,800	982,800
DP Current Expense	3,032,000	2,687,800	2,744,100	4,374,400	2,835,500
DP Capital Outlay	154,600	19,900	1,705,100	1,227,300	65,000
Capital Outlay	6,900				
Total	\$9,200,000	\$8,797,400	\$10,634,600	\$12,069,100	\$9,408,300
FTE/Other					
Total FTE	86	87	83	83	83

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency.