LFA
LEGISLATIVE FISCAL ANALYST

INTERIM REPORT:
CASH FUNDS AND ACCOUNTING PROTOCOL

EXECUTIVE APPROPRIATIONS COMMITTEE NOVEMBER 18, 2008

EXECUTIVE SUMMARY

The purpose of this report is to examine and make recommendations regarding cash funds and accounting protocols. There are three major types of cash funds: petty cash funds, travel advance funds, and cash change funds. In FY 2008 the state had 452 cash funds totaling $477,000. Each fund had on average $1,000.

The Budgetary Procedures Act outlines the state's budget process as well as several accounting practices related to budgeting. While most of the accounting protocols contained in this chapter are straight-forward and reflect current practice, several sections could use clarification.

The report recommends that the Legislature:

1. urge agencies operating petty cash funds to consider using a purchasing card (P-card) in lieu of cash when practical.
2. consider revising the Budgetary Procedures Act to provide for the elimination or review of cash funds.
3. consider revising the Budgetary Procedures Act to reflect the current role of the Division of Finance in establishing petty cash funds or clarify the role the Governor should play.
4. replace the phrase "allotment or allotments in excess of regular monthly allotments" in Subsection (4a) of Section 405 of the Budgetary Procedures Act with the phrase "of funds."
5. consider rewriting Subsection (3) of Section 311 of the Budgetary Procedures Act and move it to a new Section.
6. define the term "work program" and clarify the role the Governor plays in work program adjustments.
7. consider deleting Subsection (8)(b) of Section 406 of the Budgetary Procedures Act or placing certain thresholds on the dollar amount of the requisitions that the Director shall approve and certify.

INTRODUCTION

Cash funds are technically an extension of the General Fund. An agency uses a cash fund for operational purposes, records the transaction to the appropriate account, and then requests that the cash fund be replenished. Though cash funds do not contain much money, when compared with other funds, they are nevertheless worth reviewing.

The Budgetary Procedures Act details several accounting practices used in state budgeting. Most of these procedures are commonplace in agency budgeting; however, a few sections of the Act require some clarification or change.

CASH FUNDS

The Budgetary Procedures Act requires the Division of Finance and the Governor to oversee the creation of new cash funds. There are three major types of cash funds:

1. Petty Cash Funds
2. Travel Advance Funds
3. Cash Change Funds

In FY 2008 the state had 452 cash funds totaling $477,000. Each fund had on average $1,000. See Appendices A, B, and C for detailed information.

Petty Cash Funds

Petty cash funds are accounts created with a fixed amount of money for the purpose of minor disbursements. Expenditures from petty cash funds are limited to small incidental items that are not available through state purchasing contracts. Such expenditures could include insufficient postage or court filing fees. State agencies may opt to use the State P-card (purchasing card) to purchase small incidental items instead of petty cash funds or may apply to the Treasurer for a non-interest bearing checking account.

Petty cash funds may not be used for:

1. employee travel or wages;
2. cashing of personal or payroll checks;
3. loans or IOUs to employees or others;
4. utility bills;
5. registration fees;
6. memberships and dues; or
7. services.

The Division of Finance requires agencies to complete a voucher record for each disbursement of the petty cash funds which includes the date, amount, nature, and purpose of the expense. Once a month, or when all the money in the fund is expended, the agency prepares a report substantiating the vouchers, charges the appropriate accounts for the expenditures, and replenishes the fund. The Division of Finance requires that the total of the cash remaining in the fund plus substantiating vouchers must at all times equal the fixed funds of the account. Furthermore, an employee other than the custodian of the fund performs periodic reconciliations of the petty cash funds.

Travel Advance Funds

Travel advance funds are accounts with a fixed amount of money that allow state agencies to provide funds in advance to employees who are required to travel. These funds are typically operated out of a non-interest bearing checking account. The Division of Finance requires that state agencies maintain records listing employees who receive travel advances and ensure that the total of cash plus outstanding advances equal the fixed amount approved for the fund. Agencies must also have an employee independent of the fund custodian periodically reconcile the funds. Travel advance funds may only be used for travel advance purposes and may not be used to make any expenditure. Employees must repay any outstanding advances.

Cash Change Funds

Cash change funds are used for making cash change in operations where cash sales and receipts are made. The largest users of cash change funds are the Department of Alcoholic Beverage Control, the Department of Natural Resources, and the Courts. The Division of Finance requires agencies to maintain the cash change funds intact and count and reconcile the funds at least each time the cash sales or receipts are deposited. The fund custodian is responsible for any shortages or irregularities in accounting for funds.

Recommendations for Cash Funds

Cash funds play an important role in state government and allow agencies flexibility in certain purchases and travel situations. Furthermore, cash funds allow agencies that provide direct services to citizens the ability to make change; thereby facilitating operations.

The Analyst recommends that agencies operating petty cash funds consider the use of a purchasing card (P-card) in lieu of cash. Purchasing cards are VISA cards designed specifically for small dollar purchases. Each card has a pre-established monthly credit limit and can have limits placed on the number or amounts of daily transactions. While cash funds may be needed for operational purposes, agencies should opt for P-cards when possible.

The current statute contains no provision for the elimination or review of cash funds. The Analyst recommends that the Legislature consider language to accomplish this.

Currently statute requires the Governor to establish new cash funds upon recommendation from the Director of Finance. In practice the Division of Finance both reviews applications for cash funds and establishes the cash funds. The Legislature may want to consider revising the Budgetary Procedures Act to reflect the current role of the Division of Finance or clarify the role the Governor should play in the process of establishing and eliminating petty cash funds.

ACCOUNTING PROTOCOLS

Chapter 1 of Title 63J is named the Budgetary Procedures Act and outlines the state's budget process as well as certain accounting procedures associated with budgeting. While most of the accounting practices described in this chapter are straight-forward and reflects current practice, several sections could use clarification. This report will examine Section 405 (4) on budget allotments, Section 311 (3) on allotments to higher education, and Section 406 on work programs.

Budget Allotments

Section 405 of the Budgetary Procedures Act prohibits state agencies from over-expending their budgets and details the actions to be taken if an agency does over-expend a line item of appropriation. Subsection (4a) states:

> *No department may receive any advance allotment or allotments in excess of regular monthly allotments that cannot be covered by anticipated revenue within the work program of the fiscal year, unless the Governor allocates moneys from the Governor's emergency appropriations.*

The Division of Finance states that the term "allotment," as used in this Subsection, is an archaic term that predates the current FINET accounting system. In a previous accounting system agency appropriations were allotted on a quarterly basis and funds were not available for expenditure until allotted. This is no longer the case. Under the current accounting system (FINET) agency budgets are established at the beginning of the fiscal year with funds available for expenditure throughout the year. Allotments from the General Fund no longer take place. The Analyst therefore recommends that the Legislature replace the phrase "allotment or allotments in excess of regular monthly allotments" in Subsection (4a) with the phrase "of funds," as follows:

> *No department may receive any advance ~~allotment or allotments in excess of regular monthly allotments~~ **of funds** that cannot be covered by anticipated revenue within the work program of the fiscal year, unless the Governor allocates moneys from the Governor's emergency appropriations.*

Allotment of Funds to Higher Education

Section 311 of the Budgetary Procedures Act concerns the establishment and operation of cash funds; however, Subsection (3) concerns advancing funds to higher education. Subsection (3) states:

> *The state fiscal officer may, in lieu of establishing petty cash, imprest cash, or revolving funds for state institutions of higher education, permit advances to be made from allotments to the institutions in sufficient amounts to provide necessary working bank balances to facilitate an orderly management of institutional affairs. The institutions shall make reports as required by the state fiscal officer for the expenditure of funds included in any advances.*

Though the Subsection contains the phrase "in lieu of establishing petty cash, imprest cash, or revolving funds," this Subsection does not concern cash funds. In fact, the Division of Finance

recommends that this phrase be stricken from the Subsection because it is irrelevant. The intention of the Subsection is to allow the Division of Finance to allot funds to higher education as necessary to facilitate operations. As described above, state agencies do not receive allotment of funds; however institutions of higher education *do* receive allotments because they operate independently of the state's financial system. In order to preserve the interest on state funds, the Division of Finance releases appropriations to institutions of higher education and applied technology colleges on a bi-monthly and quarterly basis. The Analyst recommends moving this Subsection to a new Section and rewriting it as follows:

> *The state fiscal officer may~~, in lieu of establishing petty cash, imprest cash, or revolving funds for state institutions of higher education,~~ permit advances to be made from allotments to ~~the~~* ***state*** *institutions* ***of higher education*** *in sufficient amounts to provide necessary working bank balances to facilitate an orderly management of institutional affairs. The institutions shall make reports as required by the state fiscal officer for the expenditure of funds included in any advances.*

Work Programs

The Legislature appropriates monies to appropriations items and provides a schedule of expenditure (63J-1-301). This schedule is a restriction upon the expenditure of the appropriations made. Monies may not be transferred from one item of appropriation to another item of appropriation and must be used for the purposes specified in the schedule. State agencies, however, may alter or change the schedule of expenditures from one purpose or function to another through the use of work programs [63J-1-301 (2)(e)].

The term "work program" is not clearly defined in statute; though statute is clear on the function of a work program as set forth in Section 406 of the Budgetary Procedures Act. The department head of each agency must submit a work program for the coming fiscal year to the Director of Finance by May 15 (Subsection 2). A work program should include appropriations and all other funds from any source made available to the department for its operation and maintenance (Subsection 3). The Governor may make changes to a work program subject to available revenues and the Director of Finance will transmit a copy of those changes to the department concerned and the legislative analyst (Subsections 4 thru 6).

Again, Section 301 of the Budgetary Procedures Act clarifies that a work program is the mechanism that an agency should use to alter or change the schedule of expenditures stipulated by the annual appropriation. According to statute, if an agency wishes to transfer money from one purpose to another within the appropriation item, the agency must make the request by submitting a revised work program to the Director of the Governor's Office of Planning and Budget (GOPB). The Director of GOPB and the Director of Finance then review the change and submit their recommendation to the Governor, who may permit the transfer. The Director of Finance is then required to notify the Office of the Legislative Fiscal Analyst (LFA)of any change.

In practice the Governor does not formally sign off on work program budgets or work program modifications; however, in the past the Governor's Office of Planning and Budget informally monitored

budget changes. Currently, the Director of Finance and his staff play the primary role in monitoring and approving changes to work programs. Such changes occur frequently as federal revenues and dedicated credits fluctuate.

The FINET accounting system has made the budgeting process, including work program adjustments, mostly electronic. Several years ago GOPB made an agreement with the Division of Finance that GOPB would monitor budget changes through Finance's data warehouse and work with state agencies if it had concerns with transactions. Modifications to the State's financial systems ended work program monitoring in the data warehouse. During this same period formal reporting of authorized work program changes to the Legislative Fiscal Analyst ceased. Electronic monitoring is a passive rather than active strategy that has led to less budgetary oversight of work program adjustments. Both GOPB and the LFA would like more active involvement in work program adjustments and will work with the Division of Finance to develop a more effective method of monitoring.

The Analyst recommends that the Legislature define the term "work program" and clarify the role the Governor plays in work program adjustments. Many years ago a "work program" was an actual budget document sent to Finance. Today agencies submit budgets electronically and a "work program" is not common terminology in department budgeting. The Analyst recommends a definition such as:

> *"Work program" means a budget containing revenues and expenditures for specific purposes or functions within an item of appropriation.*

Department Requests for Expenditure

Subsection (8) of Section 406 of the Budgetary Procedures Act requires the Director of the Division of Finance to approve expenditures by state agencies. It states:

> (8) (a*) Except as provided by Subsection (c), the director shall, through statistical sampling methods or other means, examine and approve or disapprove all requisitions and requests for proposed expenditures of the departments.*
>
> *(b) No requisitions of any of the departments shall be allowed nor shall any obligation be created without the approval and the certification of the director.*
>
> *(c) Notwithstanding the requirements of Subsection (a), the director need only certify the availability of funds when the requisitions or proposed expenditures are for the judicial branch or to pay the salaries or compensation of officers fixed by law.*

As Subsection (8)(b) currently reads, the statute requires the Director of Finance to approve *all* expenditures for all state agencies. The Division of Finance currently observes Subsection (8)(a) which requires statistical sampling to examine and approve or disapprove expenditures. However, the Division is currently unable to comply with Subsection (8)(b). Though Subsection (8)(b) does not require examination of every expenditure, even the certification and approval of every requisition would require significant resources and oversight. Annually Finance oversees the disbursement of over 2.54 million payments. The Analyst recommends the Legislature consider deleting Subsection

(8)(b) or placing certain thresholds on the dollar amount of the requisitions that the Director shall approve and certify.

RECOMMENDATIONS

Based on the information and analysis of this report, the Analyst recommends that the Legislature:

1. urge agencies operating petty cash funds to consider using a purchasing card (P-card) in lieu of cash when practical.
2. consider revising the Budgetary Procedures Act to provide for the elimination or review of cash funds.
3. consider revising the Budgetary Procedures Act to reflect the current role of the Division of Finance in establishing petty cash funds or clarify the role the Governor should play.
4. replace the phrase "allotment or allotments in excess of regular monthly allotments" in Subsection (4a) of Section 405 of the Budgetary Procedures Act with the phrase "of funds."
5. consider rewriting Subsection (3) of Section 311 of the Budgetary Procedures Act and move it to a new Section.
6. define the term "work program" and clarify the role the Governor plays in work program adjustments.
7. consider deleting Subsection (8)(b) of Section 406 of the Budgetary Procedures Act or placing certain thresholds on the dollar amount of the requisitions that the Director shall approve and certify.

APPENDIX A - DOLLAR AMOUNTS OF STATE PETTY CASH FUNDS

Department	Petty Cash	Travel Fund	Change Fund	Other Fund	Total
Administrative Services	$ 850	$ 0	$ 200	$ 0	$ 1,050
Agriculture	300	0	200	0	500
Alcohol Beverage Control	150	0	114,900	0	115,050
Attorney General	7,250	0	0	1,500	8,750
Board of Education	1,500	1,000	400	0	2,900
Capitol Preservation Board	0	0	2,200	0	2,200
Career Service Review Board	50	0	0	0	50
Commerce	450	4,000	1,950	400	6,800
Community and Culture	1,700	0	125	0	1,825
Corrections	350	0	300	5,000	5,650
Courts	3,340	0	22,155	0	25,495
Environmental Quality	800	2,500	50	0	3,350
Financial Institutions	125	6,000	0	0	6,125
Governor	5,350	2,500	100	0	7,950
Health	1,100	0	1,615	0	2,715
Human Resource Management	500	0	0	0	500
Human Services	89,675	0	2,375	0	92,050
Insurance	0	0	200	0	200
Labor Commission	200	0	100	0	300
Legislature	650	0	150	0	800
Natural Resources	6,955	10,500	19,565	0	37,020
Public Safety	300	0	6,025	10,650	16,975
Tax Commission	40,740	16,000	0	6,000	62,740
Transportation	700	70,000	2,550	0	73,250
Treasurer	300	0	500	0	800
Trust Lands	900	0	0	0	900
Workforce Services	1,000	0	0	0	1,000
Grand Total	**$165,235**	**$ 112,500**	**$ 175,660**	**$ 23,550**	**$476,945**

APPENDIX B - NUMBER OF STATE PETTY CASH FUNDS

Department	Petty Cash	Travel Fund	Change Fund	Other Fund	Total
Administrative Services	3	0	1	0	4
Agriculture	1	0	1	0	2
Alcohol Beverage Control	1	0	38	0	39
Attorney General	10	0	0	2	12
Board of Education	3	1	3	0	7
Capitol Preservation Board	0	0	2	0	2
Career Service Review Board	1	0	0	0	1
Commerce	2	1	13	1	17
Community and Culture	6	0	1	0	7
Corrections	3	0	1	1	5
Courts	31	0	50	0	81
Environmental Quality	1	1	1	0	3
Financial Institutions	2	1	0	0	3
Governor	3	1	1	0	5
Health	7	0	13	0	20
Human Resource Management	1	0	0	0	1
Human Services	44	0	14	0	58
Insurance	0	0	1	0	1
Labor Commission	1	0	2	0	3
Legislature	2	0	2	0	4
Natural Resources	49	4	60	0	113
Public Safety	5	0	25	3	33
Tax Commission	1	1	0	2	4
Transportation	2	6	12	0	20
Treasurer	1	0	1	0	2
Trust Lands	4	0	0	0	4
Workforce Services	1	0	0	0	1
Grand Total	**185**	**16**	**242**	**9**	**452**

APPENDIX C – AVERAGE DOLLAR AMOUNTS OF STATE PETTY CASH FUNDS

Average Dollar Amount of State Petty Cash Funds

Department	Petty Cash	Travel Fund	Change Fund	Other Fund	Average
Administrative Services	$ 283	$ 0	$ 200	$ 0	$ 263
Agriculture	300	0	200	0	250
Alcohol Beverage Control	150	0	3,024	0	2,950
Attorney General	725	0	0	750	729
Board of Education	500	1,000	133	0	414
Capitol Preservation Board	0	0	1,100	0	1,100
Career Service Review Board	50	0	0	0	50
Commerce	225	4,000	150	400	400
Community and Culture	283	0	125	0	261
Corrections	117	0	300	5,000	1,130
Courts	108	0	443	0	315
Environmental Quality	800	2,500	50	0	1,117
Financial Institutions	63	6,000	0	0	2,042
Governor	1,783	2,500	100	0	1,590
Health	157	0	124	0	136
Human Resource Management	500	0	0	0	500
Human Services	2,038	0	170	0	1,587
Insurance	0	0	200	0	200
Labor Commission	200	0	50	0	100
Legislature	325	0	75	0	200
Natural Resources	142	2,625	326	0	328
Public Safety	60	0	241	3,550	514
Tax Commission	40,740	16,000	0	3,000	15,685
Transportation	350	11,667	213	0	3,663
Treasurer	300	0	500	0	400
Trust Lands	225	0	0	0	225
Workforce Services	1,000	0	0	0	1,000
Average	**$ 893**	**$ 7,031**	**$ 726**	**$ 2,617**	**$ 1,055**