

Office of the
Legislative Fiscal Analyst

FY 2005 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;
- 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 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
General Fund	6,100,800		6,100,800
Transportation Fund	450,000		450,000
Dedicated Credits Revenue	1,678,000		1,678,000
GFR - ISF Overhead	1,272,400		1,272,400
Beginning Nonlapsing	989,900		989,900
Total	\$10,491,100	\$0	\$10,491,100
Programs			
Finance Director's Office	333,500		333,500
Payroll	2,262,200		2,262,200
Payables/Disbursing	2,038,500		2,038,500
Technical Services	1,607,900		1,607,900
Financial Reporting	1,227,300		1,227,300
Financial Information Systems	3,021,700		3,021,700
Total	\$10,491,100	\$0	\$10,491,100
FTE/Other			
Total FTE	81		81

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

The Division completed rollout of a new payroll and time processing system, eliminating an aging system that lasted almost 30 years and became difficult to maintain. Section 3.2 provides details of the implementation.

2.3 Statewide Financial System

American Management Systems (AMS) – the vendor from whom the state bought its current financial system in 1994 – will no longer support the state’s version beginning in 2005. The state’s system, FINET, is written in obsolete programming language and runs on older generation computers. The Analyst recommends that the CFAS Committee make this a priority for consideration by the Executive Appropriations Committee.

General Fund (tentative)\$3,000,000

3.0 Programs

3.1 Director's Office

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
General Fund	323,300	333,400	333,500	100
General Fund, One-time		1,000		(1,000)
Total	\$323,300	\$334,400	\$333,500	(\$900)
Expenditures				
Personal Services	293,200	301,400	300,500	(900)
Out of State Travel	3,100	5,100	5,100	
Current Expense	26,600	27,900	27,900	
DP Current Expense	400			
Total	\$323,300	\$334,400	\$333,500	(\$900)
FTE/Other				
Total FTE	3	3	3	0

*Non-state 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

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
General Fund	1,825,100	1,737,800	1,789,900	52,100
General Fund, One-time		2,900		(2,900)
Dedicated Credits Revenue	10,800	5,700	10,000	4,300
Beginning Nonlapsing	2,171,000	661,200	462,300	(198,900)
Closing Nonlapsing	(661,200)	(462,300)		462,300
Total	\$3,345,700	\$1,945,300	\$2,262,200	\$316,900
Expenditures				
Personal Services	793,600	757,000	766,700	9,700
In-State Travel	500	500	500	
Out of State Travel	4,600	8,000	8,000	
Current Expense	10,300	25,800	23,800	(2,000)
DP Current Expense	1,093,100	1,146,000	1,455,200	309,200
DP Capital Outlay	1,443,600	8,000	8,000	
Total	\$3,345,700	\$1,945,300	\$2,262,200	\$316,900
FTE/Other				
Total FTE	12	12	12	0

*Non-state funds as estimated by agency

The payroll program processes employee pay and benefits: regular wages, payroll taxes, 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.

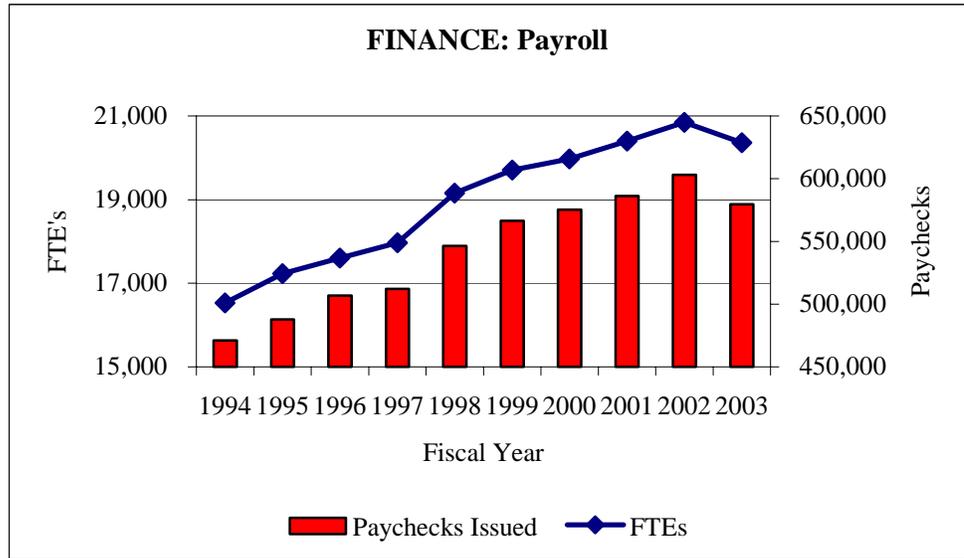
New payroll system successfully implemented

The Division completed rollout of a new payroll and time processing system, eliminating an aging system that lasted almost 30 years and became 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.

While the payroll system came in slightly behind schedule, its cost was less than originally anticipated. Savings from the payroll system, as well as good management of other computing resources, allowed the Division of Finance to carry-forward \$1 million into FY 2004.

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.

Performance Measures: Payroll



The State issued 579,634 paychecks in Fiscal Year 2003, an average of 22,293 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 2003 was \$1.48. In FY 2002 the amount was \$1.54 per transaction, down from \$1.60 per transaction in FY 2001.

3.3 Payables/Disbursing

Recommendation

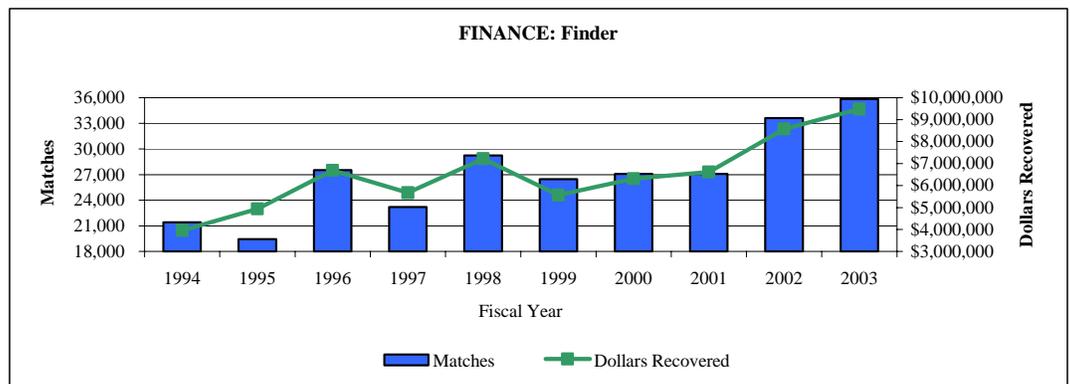
	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
General Fund	733,900	1,011,600	1,018,500	6,900
General Fund, One-time		3,600		(3,600)
Dedicated Credits Revenue	1,236,200	1,020,000	1,020,000	
Total	\$1,970,100	\$2,035,200	\$2,038,500	\$3,300
Expenditures				
Personal Services	1,068,000	1,123,800	1,127,100	3,300
In-State Travel	700	700	700	
Out of State Travel		1,000	1,000	
Current Expense	901,400	909,700	909,700	
Total	\$1,970,100	\$2,035,200	\$2,038,500	\$3,300
FTE/Other				
Total FTE	20	20	20	0

*Non-state 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 the Division 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

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
General Fund	1,261,500	1,459,800	1,376,600	(83,200)
General Fund, One-time		2,300		(2,300)
Beginning Nonlapsing	215,000	346,000	231,300	(114,700)
Closing Nonlapsing	(346,000)	(231,300)		231,300
Total	<u>\$1,130,500</u>	<u>\$1,576,800</u>	<u>\$1,607,900</u>	<u>\$31,100</u>
Expenditures				
Personal Services	688,700	701,500	699,100	(2,400)
In-State Travel			4,400	4,400
Out of State Travel		3,900		(3,900)
Current Expense	13,300	21,000	20,000	(1,000)
DP Current Expense	417,900	554,400	819,400	265,000
DP Capital Outlay	10,600	296,000	65,000	(231,000)
Total	<u>\$1,130,500</u>	<u>\$1,576,800</u>	<u>\$1,607,900</u>	<u>\$31,100</u>
FTE/Other				
Total FTE	9	9	9	0

*Non-state 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. This section also manages the division's LAN system, office automation and software systems. They provide technical support for payroll hardware and operations

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

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
General Fund	737,700	777,000	779,300	2,300
General Fund, One-time		2,700		(2,700)
Dedicated Credits Revenue	458,500	448,000	448,000	
Pass-through	7,500			
Beginning Nonlapsing		7,500		(7,500)
Closing Nonlapsing	(7,500)			
Total	\$1,196,200	\$1,235,200	\$1,227,300	(\$7,900)
Expenditures				
Personal Services	1,157,000	1,187,400	1,184,000	(3,400)
Out of State Travel		2,500	1,500	(1,000)
Current Expense	33,500	39,500	36,000	(3,500)
DP Current Expense	5,700	5,800	5,800	
Total	\$1,196,200	\$1,235,200	\$1,227,300	(\$7,900)
FTE/Other				
Total FTE	16	16	16	0

*Non-state 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*, on its website at www.finance.utah.gov.

3.6 Financial Information Systems - FINET

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
Financing				
General Fund	1,024,500	781,200	803,000	21,800
General Fund, One-time		5,800		(5,800)
Transportation Fund	450,000	450,000	450,000	
Dedicated Credits Revenue	200,000	200,000	200,000	
GFR - ISF Overhead	1,489,500	1,490,000	1,272,400	(217,600)
Beginning Nonlapsing	290,200	1,136,700	296,300	(840,400)
Closing Nonlapsing	(1,136,700)	(296,300)		296,300
Total	\$2,317,500	\$3,767,400	\$3,021,700	(\$745,700)
Expenditures				
Personal Services	1,535,700	1,533,800	1,528,300	(5,500)
Out of State Travel	1,500	1,500	1,500	
Current Expense	20,600	21,600	21,600	
DP Current Expense	759,700	2,210,500	1,470,300	(740,200)
Total	\$2,317,500	\$3,767,400	\$3,021,700	(\$745,700)
FTE/Other				
Total FTE	21	21	21	0

*Non-state 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.

3.6.1 Upgrade Statewide Financial System

Recommendation **The Analyst recommends the Capital Facilities and Administrative Services Subcommittee add \$3 million to its Executive Appropriations prioritization list to upgrade the state’s financial system.**

Background

Following upon the successful implementation of a new statewide payroll system, the Division of Finance needs to upgrade Utah’s financial system.

In March 2003 the division installed a new payroll and time processing system from SAP. According to the Division of Finance website, “the new system will eventually include employee self-service. Employee self-service will allow employees to view their own payroll data and to update some of that data, such as W-4 information, without involving a payroll technician. This is expected to reduce administration costs and to improve employee satisfaction.”¹

New payroll system successfully implemented

While the payroll system came-in slightly behind schedule, its cost was less than originally anticipated. Savings from the Payroll system, as well as good management of other computing resources, allowed the Division of Finance to carry-forward \$1 million into FY 2004.

With the initial phase of payroll behind it, the Division of Finance is planning to replace Utah’s current financial system, known as FINET.

FINET was originally procured in 1994. The system runs on a mainframe computer, and is written in an obsolete programming language. American Management Systems (AMS), the vendor from whom FINET was purchased, will no longer support Utah’s version in 2005.

Financials could be anchor tenant for centrally managed statewide ERP

The Analyst supports the Division of Finance in its efforts to upgrade FINET. However, the Analyst believes that Utah should build upon its recent installation of a payroll module. Payroll is part of a fully integrated suite of Enterprise Resource Planning (ERP) applications – including financials – which the state could pursue. An ERP could significantly streamline Utah’s financial, payroll, procurement, human resources, and capital assets systems – leading to better information for state managers, as well as economies of scale on system development, support, and execution.

While Utah’s executive branch has in the past touted its own efforts to implement enterprise information technology projects, the Analyst found little support for an ERP that would have FINET and payroll as anchor tenants. Concerns over timing, cost, and insufficient statewide planning for an ERP led state information technology officials to select an independent FINET upgrade in favor of a financial system that would be natively integrated into an ERP.

¹ Utah Division of Finance. *Division of Finance – Organization – About Us*. October 31, 2003. Viewed January 19, 2003. <http://www.finance.utah.gov/organization/aboutus.htm#payroll>

Analyst defers to expertise of state financial and IT managers

In deference to the opinions of state IT leaders, the Analyst supports Finance's request for \$3,000,000 from the General Fund, plus an additional \$2 million in division base resources, to upgrade FINET. The Analyst recommends the Capital Facilities and Administrative Services Subcommittee add to its Executive Appropriations Committee prioritization list a \$3 million one-time General Fund appropriation to upgrade FINET.

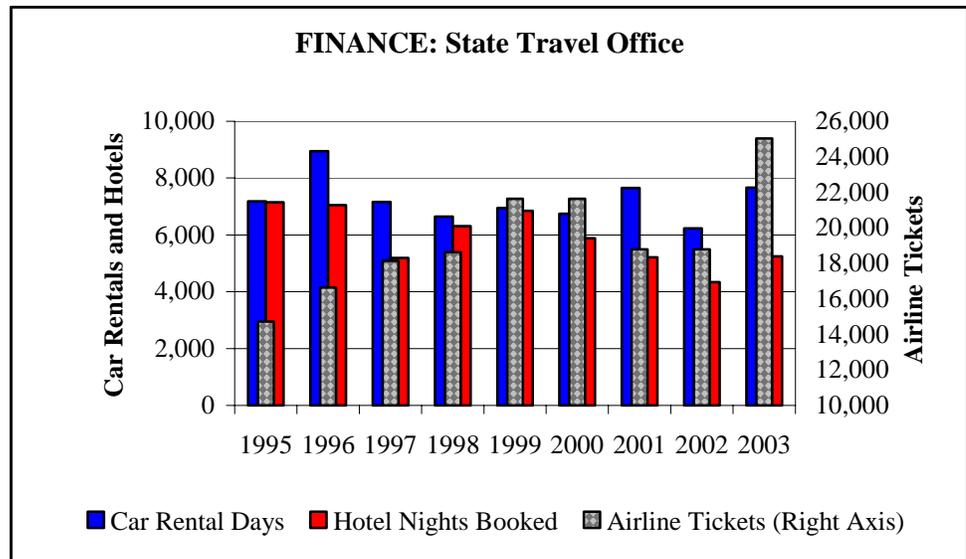
3.7 State Travel

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 25,000 airline tickets for the state, universities and local governments in FY 2003. Of those, 6,801 were for state employees, an average of 0.33 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 three years of actual expenditures:

	FY 2001	FY 2002	FY 2003
In State Lodging	\$2,761,721	\$2,505,625	\$2,088,166
Out of State Lodging	2,818,003	1,986,482	1,771,078
Total Lodging	\$5,579,724	\$4,492,107	\$3,859,244
FTE Count	20,399	20,848	20,360
In State Per FTE	\$135.39	\$120.19	\$100.16
Out of State Per FTE	\$138.14	\$95.28	\$84.95
Total Per FTE	\$273.53	\$215.47	\$185.11

*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.

<i>Personal Vehicle Mileage Reimbursement</i>	
Fiscal Year 2000	\$2,970,247
Fiscal Year 2001	\$2,711,630
Fiscal Year 2002	\$2,755,902
Fiscal Year 2003	\$2,321,533
Fiscal Year 2004 (est)	\$2,352,616

As gasoline prices rise, the cost of operating a state sedan rises and the reimbursement rate is adjusted accordingly. Even with increases in fuel prices, total reimbursement is down approximately twenty percent since FY 2000.

4.0 Additional Information: Division of Finance

	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated*	Analyst
General Fund	6,171,300	6,075,900	5,906,000	6,100,800	6,100,800
General Fund, One-time				18,300	
Transportation Fund	450,000	450,000	450,000	450,000	450,000
Dedicated Credits Revenue	1,225,500	1,339,100	1,905,500	1,673,700	1,678,000
GFR - ISF Overhead	1,470,900	3,419,400	1,489,500	1,490,000	1,272,400
Transfers	400,000				
Pass-through			7,500		
Beginning Nonlapsing	1,106,200	2,026,400	2,676,200	2,151,400	989,900
Closing Nonlapsing	(2,026,500)	(2,676,200)	(2,151,400)	(989,900)	
Total	\$8,797,400	\$10,634,600	\$10,283,300	\$10,894,300	\$10,491,100
Programs					
Finance Director's Office	313,300	317,100	323,300	334,400	333,500
Payroll	1,769,000	3,610,700	3,345,700	1,945,300	2,262,200
Payables/Disbursing	1,674,100	1,626,900	1,970,100	2,035,200	2,038,500
Technical Services	1,226,600	1,238,100	1,130,500	1,576,800	1,607,900
Financial Reporting	1,139,700	1,197,600	1,196,200	1,235,200	1,227,300
Financial Information Systems	2,674,700	2,644,200	2,317,500	3,767,400	3,021,700
Total	\$8,797,400	\$10,634,600	\$10,283,300	\$10,894,300	\$10,491,100
Expenditures					
Personal Services	5,397,000	5,525,600	5,536,200	5,604,900	5,605,700
In-State Travel	600	700	1,200	1,200	5,600
Out of State Travel	10,200	17,500	9,200	22,000	17,100
Current Expense	681,900	641,600	1,005,700	1,045,500	1,039,000
DP Current Expense	2,687,800	2,744,100	2,276,800	3,916,700	3,750,700
DP Capital Outlay	19,900	1,705,100	1,454,200	304,000	73,000
Total	\$8,797,400	\$10,634,600	\$10,283,300	\$10,894,300	\$10,491,100
FTE/Other					
Total FTE	87	83	81	81	81

*Non-state funds as estimated by agency.