

E20B
State Treasurer

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$4,989	\$4,995	\$5,283	\$288	5.8%
Deficiencies and Reductions	0	-2	-192	-189	
Adjusted General Fund	\$4,989	\$4,993	\$5,091	\$98	2.0%
Special Fund	1,091	1,926	2,028	102	5.3%
Deficiencies and Reductions	0	0	-5	-5	
Adjusted Special Fund	\$1,091	\$1,926	\$2,023	\$97	5.0%
Reimbursable Fund	33,392	37,095	37,327	232	0.6%
Adjusted Reimbursable Fund	\$33,392	\$37,095	\$37,327	\$232	0.6%
Adjusted Grand Total	\$39,472	\$44,014	\$44,441	\$427	1.0%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- There is a fiscal 2015 deficiency of \$97,503 related to providing funds for 2 new positions created through the Board of Public Works to manage the Injured Workers' Insurance Fund contract.
- The fiscal 2016 allowance increases by \$427,000 over the current year working appropriation. Most of the increase is due to increases in personnel expenses, especially due to 2 new positions approved and filled in fiscal 2015, and increases related to employee and retiree health insurance and the employee retirement system.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	57.00	59.00	59.00	0.00
Contractual FTEs	<u>0.24</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	57.24	59.00	59.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	3.30	5.60%
Positions and Percentage Vacant as of 1/1/15	8.00	13.56%

- The number of both regular positions and contractual full-time equivalents remains unchanged between the current year and the allowance.
- The State Treasurer's Office (STO) had 8 positions vacant as of the end of calendar 2014 for a vacancy rate of 13.56%. The agency has filled 2 positions since January 1, 2015. The agency is currently in the processing of recruiting and filling positions to match their necessary vacancy rate.

Analysis in Brief

Major Trends

Bank Accounts Are Reconciled Timely: For the first time since 2007, the total receipts and disbursements has dropped even as total transactions have steadily increased. The average number of days to reconcile accounts has remained under four days since fiscal 2007.

Investment Earnings Are Maximized: The economic downturn has reduced the rate of return on investments, but the State's return has continued to be greater than the 90-day U.S. Treasury Bill rate.

Claims Are Adjusted Accurately: In fiscal 2014, STO opened 288 more insurance claims than were closed during the year. This is the first year since 2008 that STO has had more open claims than closed claims. This was due to STO being inundated with claims during the extremely cold weather conditions during fiscal 2014.

Recommended Actions

1. Concur with Governor's allowance.

E20B
State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safeguards all State securities and investments, and provides insurance protection against sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State of Maryland general obligation bond issues, and through the Capital Debt Affordability Committee, reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. The Capital Debt Affordability Committee annually reviews the total amount of State debt that prudently may be authorized for the next fiscal year.

The key goals of the State Treasurer's Office (STO) are to:

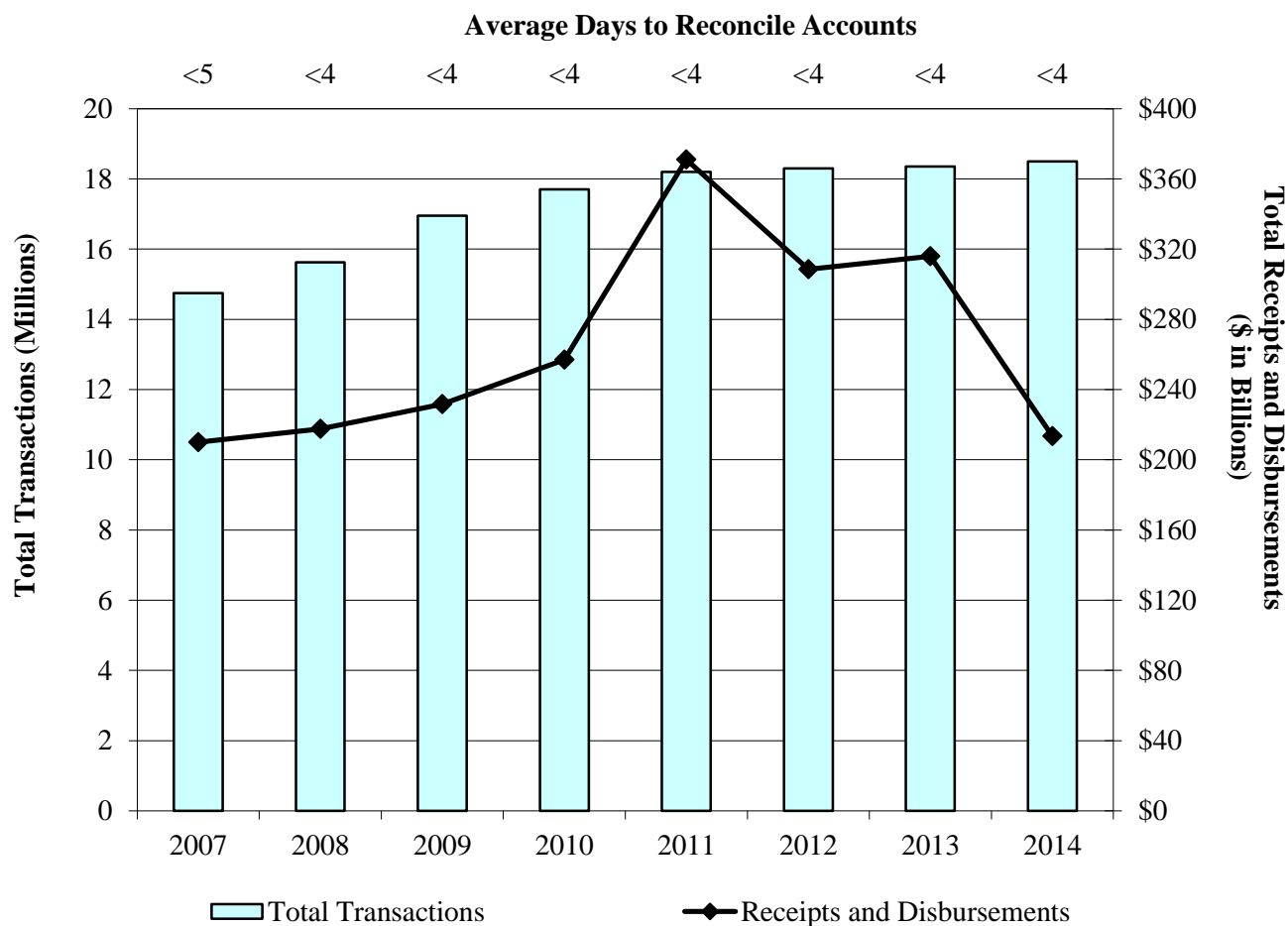
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State law;
- maintain and enhance the information technology capability and infrastructure to meet the diverse needs of STO and the agencies it serves; and
- process all agency and third-party claims submitted to the Insurance Division.

Performance Analysis: Managing for Results

1. Bank Accounts Are Reconciled Timely

As shown in **Exhibit 1**, the number of transactions and dollar value of total receipts and disbursements from the bank accounts administered by STO decreased to 2007 levels in fiscal 2014. Despite the continued increase in both the number and total dollar amount of transactions, the average number of days to reconcile accounts has remained under 4 days since fiscal 2008. This is a dramatic improvement over the 30 plus days it was taking for reconciliations at the beginning of that decade. The spike in fiscal 2011 in the dollar amount of receipts and disbursements reflects the policy adopted in response to the financial crisis to keep higher liquid balances. The value of receipts and disbursements dropped in fiscal 2014 because cash flow decreased during the year, and the average portfolio balance was lower as a result. Cash inflows and outflows include all investments purchased or matured during the year, and lower portfolio balances resulted in lower earnings and balances being reinvested.

Exhibit 1
Total Receipts and Disbursements and Days to Reconcile All Accounts
Fiscal 2007-2014

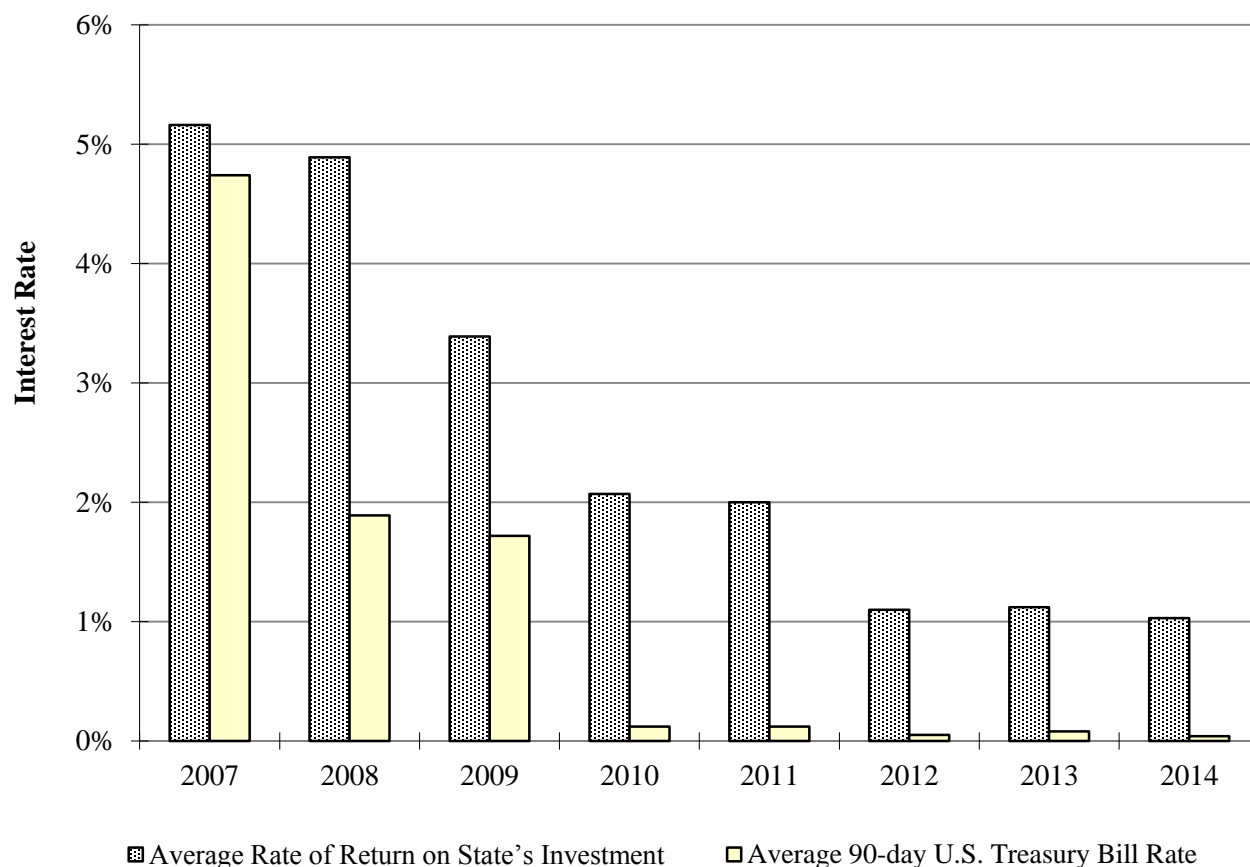


Source: Governor's Budget Books, Fiscal 2008-2016

2. Investment Earnings Are Maximized

STO is responsible for maximizing investment earnings for the State's surplus funds. It is limited by law in the types of investments it may make. **Exhibit 2** compares the rate of return on the State's investment portfolio to the average 90-day U.S. Treasury Bill rate. The economic downturn has reduced the rate of return (ROR) on investments, but the State's return has continued to be greater than the 90-day U.S. Treasury Bill rate. The average ROR on the State's investment was 1.03% in fiscal 2014, which is slightly lower than the 1.12% ROR in fiscal 2013.

Exhibit 2
Comparison of State's Investment Portfolio and 90-day U.S. Treasury Bill Rates
Fiscal 2007-2014

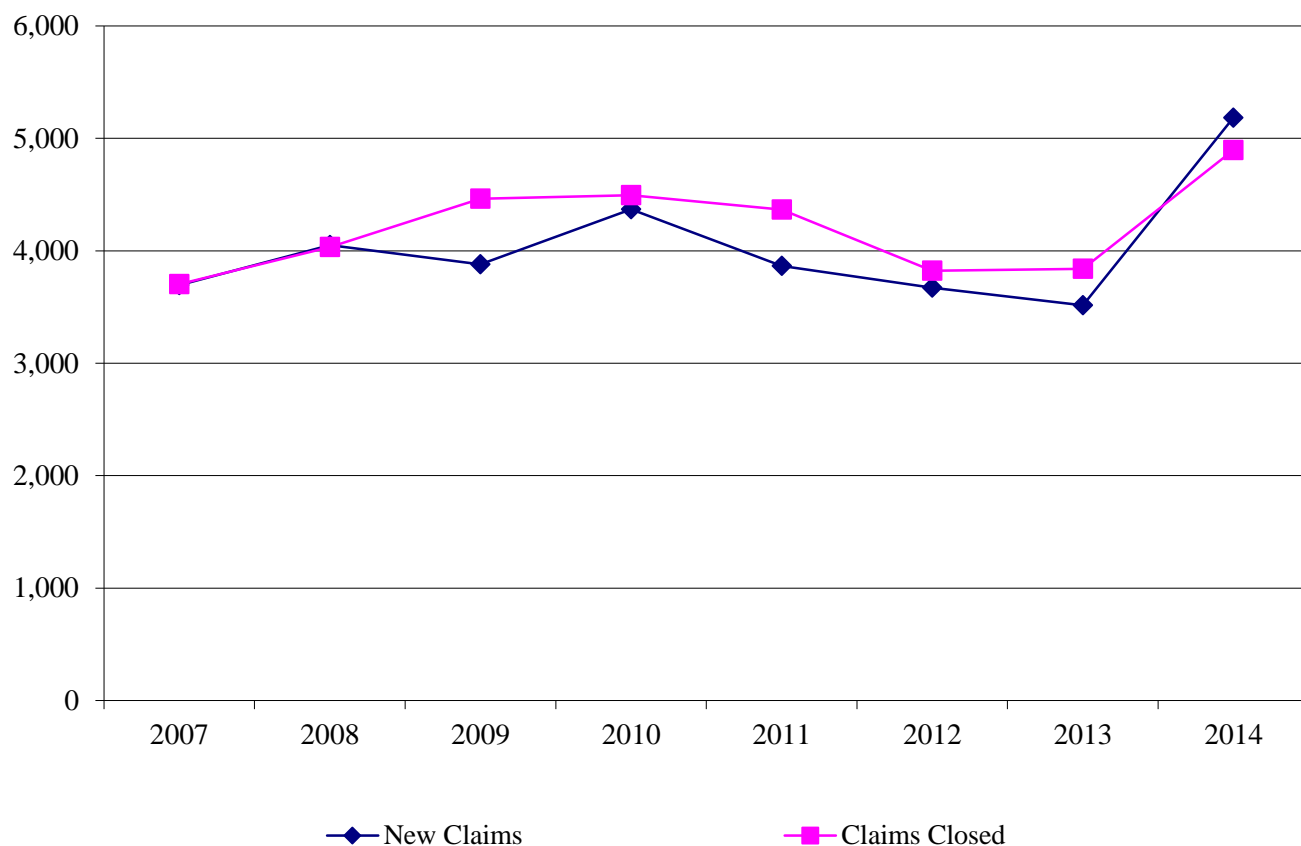


Source: Governor's Budget Books, Fiscal 2008-2016

3. Claims Are Adjusted Accurately

STO is responsible for the efficient and cost-effective administration of the State Insurance Program that includes self-insurance and procurement of commercial insurance. **Exhibit 3** compares the number of new claims received with the number of claims closed. In fiscal 2014, there were 288 more claims open than were closed. STO was inundated with claims in fiscal 2014 because of the extreme winter weather. Both citizens and agencies entered increased claims due to potholes, significant property losses due to freezing pipes, and more road hazards and auto collisions during the freezing winter months.

Exhibit 3
New Insurance Claims vs. Claims Closed
Fiscal 2007-2014



Source: Governor's Budget Books, Fiscal 2008-2016

Fiscal 2015 Actions

Exhibit 4 shows the overall impact of the cost containment actions on the fiscal 2015 appropriation.

Exhibit 4
Fiscal 2015 Reconciliation
(\$ in Thousands)

<u>Action</u>	<u>Description</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Legislative Appropriation with Budget Amendments		\$5,149	\$1,926	\$0	\$37,095	\$44,170
July BPW	Hold positions vacant, reduce printing costs and align bond sale expenses with prior year actuals.	-154	0	0	0	-154
Working Appropriation		\$4,995	\$1,926	\$0	\$37,095	\$44,016
January BPW Across the Board	2% across-the-board reduction.	-100	0	0	0	-100
Deficiency Appropriations	Fund 2 positions to manage the Injured Workers Insurance Fund contract.	98	0	0	0	98
Total Actions Since January 2015		-\$2	\$0	\$0	\$0	-\$2
Adjusted Working Appropriation		\$4,993	\$1,926	\$0	\$37,095	\$44,014

BPW: Board of Public Works

Source: Department of Legislative Services

Proposed Deficiency

There is one general fund deficiency appropriation in fiscal 2015 for \$97,503. The deficiency is necessary to provide funds for 2 positions created through the Board of Public Works (BPW) to manage the Injured Workers' Insurance Fund contract.

Cost Containment

On July 2, 2014, BPW withdrew \$77.1 million in appropriations and abolished 61 positions statewide as fiscal 2015 cost containment. This agency's share of the reduction was \$154,000 for the

following purposes: holding positions vacant; reducing printing and software costs; and aligning bond sale expenses with prior year actuals.

On January 7, 2015, BPW withdrew an additional \$198 million in general fund appropriations. STO's share of the reduction was \$99,908 in general funds due to a 2% across-the-board reduction that impacted all agencies.

Proposed Budget

As shown in **Exhibit 5**, the fiscal 2016 allowance for STO increases by \$427,000 million over the current year working appropriation. Personnel expenses add a net \$439,347 with increases driven by new positions filled in fiscal 2015, retirement contributions, increments and other compensation, and employee and retiree health insurance. The bulk of the nonpersonnel-related increases occurs in insurance coverage and bond sale expenses, which increase by \$33,283 and \$32,325, respectively.

Exhibit 5 Proposed Budget State Treasurer (\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2014 Actual	\$4,989	\$1,091	\$33,392	\$39,472
Fiscal 2015 Working Appropriation	4,993	1,926	37,095	44,014
Fiscal 2016 Allowance	<u>5,091</u>	<u>2,023</u>	<u>37,327</u>	<u>44,441</u>
Fiscal 2015-2016 Amt. Change	\$98	\$97	\$232	\$427
Fiscal 2015-2016 Percent Change	2.0%	5.0%	0.6%	1.0%

Where It Goes:

Personnel Expenses

Increments and other compensation (prior to cost containment)	\$361
Employee and retiree health insurance	98
Employee retirement	80
Accrued leave payout	-42
Section 20: Abolition of prior year 2% salary increase	-46
Section 21: Abolition of employee increments	-46
Other fringe benefit adjustments	34

Where It Goes:

Other Changes

Insurance coverage.....	33
Bond sales expenses.....	32
Legal services contract.....	10
Section 19: difference in 2% across-the-board reduction	-5
Computer maintenance contract cost alignment	-10
Check printing costs.....	-17
Other miscellaneous changes	-55
Total	\$427

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes a general 2% reduction, elimination of employee increments, and a revision to the salary plan, which reflects the abolition of the 2% general salary increase provided on January 1, 2015. This agency's share of these reductions is \$197,249.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets State Treasurer (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative Appropriation	\$5,119	\$2,486	\$0	\$34,907	\$42,512
Deficiency Appropriation	-144	-6	0	0	-151
Budget Amendments	40	5	0	0	45
Reversions and Cancellations	-26	-1,393	0	-1,515	-2,934
Actual Expenditures	\$4,989	\$1,091	\$0	\$33,392	\$39,472
Fiscal 2015					
Legislative Appropriation	\$5,129	\$1,924	\$0	\$37,095	\$44,147
Cost Containment	-154	0	0	0	-154
Budget Amendments	20	3	0	0	23
Working Appropriation	\$4,995	\$1,926	\$0	\$37,095	\$44,016

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

The fiscal 2014 appropriation for STO has decreased by \$3 million below the legislative appropriation. The agency reduced the appropriation by \$99,600 in negative deficiencies due to reductions in health insurance, retirement, and the State personnel system allocation. There was one negative general fund deficiency totaling \$51,000 that was necessary to implement cost containment reductions for contractual services.

Budget amendments reflected \$40,391 in general funds and \$4,631 in special funds for employee increments and the 2% general salary increase.

The agency reverted \$25,958 in general funds budgeted for several subobjects. In special funds, \$148,005 was cancelled because of cost savings in bank fees and an excess of appropriated salaries and benefits. Approximately \$1.2 million in special funds was cancelled because of unspent costs of issuance included in the appropriation to cover variable rate costs. Of the \$1.5 million cancelled in reimbursable funds, \$599,093 were cancelled because of savings due to vacancies, the nonprocurement of a high-speed check printer, and savings for check printing supplies due to a change in the replenishment cycle. The rest of the reimbursable fund cancellation is due to a surplus in commercial premiums as appropriated.

Fiscal 2015

The fiscal 2015 working appropriation for STO is decreasing by \$130,470 below the legislative appropriation. Employee increments and the 2% general salary increase totaling \$20,809 in general funds and \$2,721 in special funds were added by budget amendments. On July 2, 2014, BPW withdrew \$77.1 million in appropriations and abolished 61 positions statewide as fiscal 2015 cost containment. This agency's share of the reduction was \$154,000 for the following purposes: holding positions vacant; reducing printing and software costs; and aligning bond sale expenses with prior year actuals.

Audit Findings

Audit Period for Last Audit:	July 1, 2009 – August 29, 2012
Issue Date:	July 2014
Number of Findings:	4
Number of Repeat Findings:	3
% of Repeat Findings:	75%
Rating: (if applicable)	n/a

Finding 1: **STO has not implemented recommendations made by the Maryland Insurance Administration to safeguard the State’s interest in its relationship with the Insurance Workers Insurance Fund (IWIF).**

Finding 2: **The services provided by IWIF have not been the subject of a competitive bid process for more than 23 years.**

Finding 3: **STO did not ensure interest earnings on State agency bank accounts were transferred to the State’s general fund.**

Finding 4: **STO has not implemented recommended automated processes to improve controls over disbursements.**

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	57.00	59.00	59.00	0.00	0%
02 Contractual	0.24	0.00	0.00	0.00	0.0%
Total Positions	57.24	59.00	59.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 4,967,864	\$ 5,437,543	\$ 5,969,139	\$ 531,596	9.8%
02 Technical and Spec. Fees	4,424	2,650	2,650	0	0%
03 Communication	67,730	74,487	82,492	8,005	10.7%
04 Travel	28,023	10,700	11,200	500	4.7%
07 Motor Vehicles	4,239	4,570	4,570	0	0%
08 Contractual Services	3,970,934	5,082,950	5,148,903	65,953	1.3%
09 Supplies and Materials	110,879	166,318	149,593	-16,725	-10.1%
10 Equipment – Replacement	17,410	0	0	0	0.0%
13 Fixed Charges	30,300,904	33,237,023	33,269,673	32,650	0.1%
Total Objects	\$ 39,472,407	\$ 44,016,241	\$ 44,638,220	\$ 621,979	1.4%
Funds					
01 General Fund	\$ 4,989,214	\$ 4,995,418	\$ 5,283,142	\$ 287,724	5.8%
03 Special Fund	1,090,868	1,926,262	2,028,386	102,124	5.3%
09 Reimbursable Fund	33,392,325	37,094,561	37,326,692	232,131	0.6%
Total Funds	\$ 39,472,407	\$ 44,016,241	\$ 44,638,220	\$ 621,979	1.4%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

**Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 Treasury Management	\$ 6,249,363	\$ 6,611,832	\$ 6,991,799	\$ 379,967	5.7%
01 Insurance Management	2,292,922	2,856,978	3,023,236	166,258	5.8%
02 Insurance Coverage	30,263,224	33,206,956	33,240,385	33,429	0.1%
01 Bond Sale Expenses	666,898	1,340,475	1,382,800	42,325	3.2%
Total Expenditures	\$ 39,472,407	\$ 44,016,241	\$ 44,638,220	\$ 621,979	1.4%
General Fund	\$ 4,989,214	\$ 4,995,418	\$ 5,283,142	\$ 287,724	5.8%
Special Fund	1,090,868	1,926,262	2,028,386	102,124	5.3%
Total Appropriations	\$ 6,080,082	\$ 6,921,680	\$ 7,311,528	\$ 389,848	5.6%
Reimbursable Fund	\$ 33,392,325	\$ 37,094,561	\$ 37,326,692	\$ 232,131	0.6%
Total Funds	\$ 39,472,407	\$ 44,016,241	\$ 44,638,220	\$ 621,979	1.4%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.