

**EB.00
State Treasurer**

Operating Budget Data

(\$ in Thousands)

	FY 01	FY 02	FY 03		% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$4,262	\$4,166	\$4,100	(\$66)	(1.6%)
Special Fund	354	420	362	(59)	(14.0%)
Reimbursable Fund	<u>16,446</u>	<u>18,078</u>	<u>19,415</u>	<u>1,336</u>	<u>7.4%</u>
Total Funds	\$21,062	\$22,665	\$23,877	\$1,212	5.3%

- Cost containment actions related to the hiring freeze and the 1.5% budget reductions total \$777,000 over the fiscal 2002 and 2003 budgets. In addition, \$11 million from the balance of the State Insurance Trust Fund is transferred to the general fund contingent on enactment legislation.
- While general and special funds decrease in fiscal 2003, reimbursable funds increase by \$1.3 million. The reimbursable fund increase is due almost entirely to increases in the cost of commercially purchased insurance.

Personnel Data

	FY 01	FY 02	FY 03	
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	53.00	54.00	54.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	53.00	54.00	54.00	0.00

Vacancy Data: Regular Positions

Budgeted Turnover: FY 03	2.29	4.24%
Positions Vacant as of 12/31/01	6.00	11.11%

- No new positions are added in the fiscal 2003 budget.
- There were six vacant positions as of December 31, 2001. Of these, no position had been vacant longer than six months.

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

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Analysis in Brief

Issues

Audit Report Identifies Four Major Issues: The most recent audit for the State Treasurer’s Office was released in June 2001. There were ten findings relating to six areas of operations. Four findings stand out: depository and disbursement accounts were not being reconciled in a timely manner; the office was not ensuring that interest earned on general funds in State agency accounts was being credited to the general fund; the office had not established an adequate process to ensure compliance with the Federal Cash Management Improvement Act; and the office used an interagency agreement to obtain information technology services from a private vendor, which resulted in the office bypassing State Procurement Regulations. **The State Treasurer should brief the committees on the actions being taken in response to the audit findings. The adoption of committee narrative is recommended to have the Treasurer report on whether all fiscal 2002 interest payments were credited to the general fund as required.**

Automated Account Reconciliation System Abandoned Four Years After Development Began: In 1997 the State Treasurer’s Office entered into two technology contracts for the development of an automated account reconciliation system. The initial value of the contracts was \$481,000, but the total cost (excluding State Treasurer’s Office IT personnel costs) grew to \$1.6 million before the project was cancelled in October 2001 and the system abandoned. **The State Treasurer should brief the committees on why the cost of this project increased by over 300% before the decision was made to abandon it; any procedural changes that have been made to ensure that IT projects are better managed in the future; and what actions are being taken to recover these funds given that the product was unusable.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add language restricting funds budgeted for banking fees to that purpose only.		
2. Reduce funds for out-of-state travel to the fiscal 2001 actual level.	\$ 3,850	
3. Adopt committee narrative to have the agency report on the transfer of interest earned on general funds.		
Total Reductions	\$ 3,850	

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State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. To carry out these responsibilities, the State 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 damage to State property and liability of State employees. The State Treasurer also administers the sale of Maryland general obligation bonds and serves as a member of the Board of Public Works. The State Treasurer's Office consists of four programs: treasury management, insurance management, insurance coverage, and bond sale expenses.

Fiscal 2002 Actions

Cost Containment

Cost containment actions in fiscal 2002 related to the hiring freeze and the 1.5% reductions totaled \$330,000. Of this amount, \$326,000 was general funds and \$4,000 was special funds. These reductions carry forward into the fiscal 2003 allowance, but the full year estimated savings from the hiring freeze is \$117,000 greater in fiscal 2003 than in the current year. Over the two year period, \$777,000 in reductions result from these cost containment actions. The Treasurer's Office indicates that the funds will most likely come from holding positions vacant. The office was given an exemption from the hiring freeze for five positions important to the operations of the office but will only recruit for the positions once it is clear savings from general operations will be sufficient to pay the salaries.

Fund Transfer

The budget as introduced anticipates the transfer of \$11 million from the State Insurance Trust Fund to the general fund contingent upon enactment of legislation. This transfer will reduce the projected 2003 ending balance in the fund from \$21.3 million to \$10.3 million. The most recent actuarial study of the fund recommended a balance of \$21 million. This transfer, if carried out, will result in State agencies being assessed greater amounts in future budgets for insurance coverage in order to build the trust fund's balance back to the level recommended by the actuary. **The State Treasurer should brief the committees on the potential risks to the fund's ability to pay tort claims should the planned transfer be made and on the number of years that will be required to increase the fund back to the actuarially recommended balance.**

Governor’s Proposed Budget

As shown in **Exhibit 1**, the fiscal 2003 allowance for the State Treasurer’s Office increases by over \$1.2 million over the fiscal 2002 working appropriation. The increase is entirely in reimbursable funds with most of the increase due to an increase in the cost of commercial insurance. Commercial insurance premiums are increasing for two reasons. The first is as a result of the events of September 11, 2001, it is costing more to insure property. The second reason is that the State Treasurer’s Office is now procuring insurance based on detailed property and equipment inventories received from State agencies. These detailed inventories have generally been valued higher than the estimated values used in the past. General funds decrease by \$65,965 (-1.6%), and special funds decrease by \$58,753 (-14%). Most areas of the budget, other than insurance coverage, show declines or only slight increases.

Exhibit 1

	General	Special	Reimb.	
2002 Working Appropriation	\$4,166	\$420	\$18,078	\$22,665
2003 Governor’s Allowance	4,100	362	19,415	23,877
Amount Change	(\$66)	(\$59)	\$1,336	\$1,212
Percent Change	(1.6)%	(14.0)%	7.4%	5.3%
Where It Goes:				
Personnel Expenses				
Fiscal 2003 increments				\$35
Annualize fiscal 2002 general salary increase				57
Net fiscal 2003 cost containment				(117)
Employee and retiree health insurance cost increase				27
Retirement contribution cost increase				21
Other adjustments				11
Other Changes				
Insurance coverage - mainly commercial policies				1,242
Car replacement (100,000 miles at end of fiscal 2001)				9
Outside computer programming support				(117)
Department of Budget and Management paid telecommunications				30
Computer replacements				27
Other				(13)
Total				\$1,212

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

Performance Analysis: Managing for Results

Selected performance measures for the State Treasurer’s Office are shown in **Exhibit 2**. Committee narrative in the fiscal 2002 *Joint Chairmen’s Report (JCR)* requested the Treasurer’s Office to reformulate its Managing for Results objectives to be specific measurable targets toward accomplishing its goals. The office’s fiscal 2003 submission complies with the JCR request. Because some of the measures are new, past data is not available.

The measurements point out difficulties the State Treasurer’s Office has had in reconciling the State’s bank accounts. This topic is discussed in Issues 1 and 2. After meeting the goal of having fewer than 1,000 pending open insurance claims in fiscal 2001, the State Treasurer’s Office is projecting that it will not attain that goal in fiscal 2003. This is due in part to the expectation that the hiring freeze will prevent the office from operating with a full complement of claims adjusters.

Exhibit 2

**Program Measurement Data
State Treasurer’s Office
Fiscal 1999 through 2003**

	<u>Actual 1999</u>	<u>Actual 2000</u>	<u>Est. 2001</u>	<u>Actual 2001</u>	<u>Est. 2002</u>	<u>Est. 2003</u>	<u>Ann. Chg. 99-01</u>	<u>Ann. Chg. 01-03</u>
Average number of days to reconcile bank accounts	30	30	30	180	60	30	144.9%	-59.2%
Ratio of State return to 90-day Treasury Bill Rate	1.13	1.04	1.07	1.13	1.10	1.07	0.0%	-2.7%
Number of participants in the Local Govt. Investment Pool	n/a	253	n/a	266	275	280	n/a	n/a
Percent increase over 6/30/00 base in Local Govt. Investment Pool Balance	n/a	n/a	n/a	40%	45%	50%	n/a	n/a
Pending Open Insurance Claims	n/a	1,119	n/a	970	995	1,020	n/a	n/a

Source: State Treasurer’s Office

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Issues

1. Audit Report Identifies Four Major Issues

The Office of Legislative Audits (OLA) released in June 2001 the audit report for the State Treasurer's Office for the period beginning December 1, 1997, and ending September 30, 2000. The report listed ten findings relating to six areas of operations. Of these, four stand out:

- The State's main disbursement and depository accounts were not always reconciled in a timely manner. As of February 14, 2001, the office had not completed the reconciliation for months after July 2000. During fiscal 2000 these accounts were used to process receipts and disbursements totaling approximately \$73 billion. In an attempt to improve its reconciliation procedures, the office used its delegated procurement authority (which allows the office to approve and award banking services contracts without control agency involvement) to enter into information technology contracts for the development of an automated bank reconciliation system (see issue No. 2.) **The audit recommends that the office use its current procedures to reconcile the accounts within 30 days.**
- The office did not ensure that all interest earned on general funds in State agency bank accounts was transferred to the general fund. Beginning in fiscal 2000, contracts between the office and the banks used by State agencies to deposit funds require each bank to invest funds for the State agency accounts with balances exceeding \$30,000 and remit the interest earnings to the general fund. According to the office's records, 33 banks did not transfer interest earnings on such accounts for July 2000, the only month for which the office attempted to monitor this process. As of October 27, 2000, the office had not followed up on these results to determine the amount of interest due to the general fund or to determine if interest earnings had instead been credited to the respective agencies. Similar conditions were noted in the three preceding audit reports. **The audit recommends that the office ensure that all interest earned on State general funds on deposit in agency bank accounts is transferred to the general fund.**
- The office had not established an adequate process to ensure compliance with the Federal Cash Management Improvement Act. Federal regulations require State agencies to officially recertify the accuracy of check clearance patterns at least every five years and to ensure that clearance patterns are auditable. The office had not verified that the clearance patterns for which it was responsible were accurate since 1994. In addition, the office did not ensure that clearance patterns required to be recertified by other State agencies were accurate. Clearance patterns are used to determine the timing of transfers of funds to the State for federal assistance programs. A clearance pattern that is too short causes federal funds to be drawn before State funds are expended creating a situation where the State could owe interest to the federal government. Conversely, a clearance pattern that is too long could result in the loss of interest income to the State because of delays in requesting federal funds (the September 1999 audit report on the Department of Health and Mental Hygiene indicated that inaccurate check clearance patterns for the Medicaid program resulted in lost interest income of approximately \$775,000.) **The audit recommends that the office recertify clearance patterns, ensure that the calculations supporting the recertification are auditable, and that the office ensure clearance patterns developed by other State agencies are accurate and auditable.**

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- The office used an interagency agreement to obtain information technology services from a private vendor, which resulted in the office bypassing State Procurement Regulations. The office entered into an interagency agreement with a State university for information technology modernization support services. The agreement, with subsequent amendments, totaled approximately \$800,000. While the office procured these services via interagency agreement, a private vendor through a partnership with the university provided all the services. The university did not provide staffing or other support services under the contract. Since interagency agreements are specifically exempted from the State Procurement Regulations, the office did not solicit competitive bids for these services or obtain approval from the Board of Public Works. In addition, the agreement was not published in the Maryland Register or reported to the budget committees as required by State budget law. **The audit recommends that the office refrain from using interagency agreements to procure services from private vendors and comply with State Procurement Regulations.**

The State Treasurer should brief the committees on the actions being taken in response to the audit findings. The adoption of committee narrative is recommended to have the Treasurer report on whether all fiscal 2002 interest payments were credited to the general fund as required.

2. Automated Account Reconciliation System Abandoned Four Years After Development Began

In an attempt to improve its account reconciliation procedures, the State Treasurer's Office used its delegated procurement authority (which allows it to approve and award banking services contracts without control agency involvement) to enter into two information technology contracts for the development of an automated bank reconciliation system in April 1997. The two contracts, with amendments, were valued at over \$481,000 and provided for software, programming, training, and related professional consulting services. The system never performed as expected and after investing nearly \$1.6 million (not including the cost of IT personnel in the State Treasurer's Office) in the project, the State Treasurer's Office cancelled the project and has now gone back to its manual reconciliation process. Going back to the manual reconciliation process only will allow the office to meet its goal of reconciling accounts within 30 days of receiving bank statements. For the past two years the office has been unable to meet this goal as it attempted to run both the manual reconciliation and the automated reconciliation system simultaneously. The total loss on the project is nearly \$1.5 million after the value of equipment that can be used for other purposes is deducted. **The State Treasurer should brief the committees on why the cost of this project increased by over 300% before the decision was made to abandon it; any procedural changes that have been made to ensure that IT projects are better managed in the future; and what actions are being taken to recover these funds given that the product was unusable.**

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that funds budgeted for items related to the banking services contracts may be expended for that purpose only and may not be transferred by budget amendment or otherwise. Funds remaining at the close of the fiscal year shall revert to the general fund

Explanation: Banking fees are generally based on a per transaction cost. The budget is prepared by estimating both the per item cost and the number of items - the actual amount needed is not known. This language prohibits funds budgeted for banking fees from being used for any other purpose.

- | | <u>Amount
Reduction</u> | <u>Position
Reduction</u> |
|--|-----------------------------|-------------------------------|
| 2. Reduce funds for out-of-state travel to the fiscal 2001 actual level. | \$ 3,850 | GF |
| 3. Adopt the following narrative: | | |

Transfer of Interest Earned on General Funds: The last three fiscal compliance audits of the State Treasurer found that the office did not ensure that all interest earned on general funds in State agency bank accounts was transferred to the general fund. The budget committees are concerned that the agency has not taken appropriate corrective action despite agreement in each audit that the issue would be rectified. The agency shall prepare and submit a report to the budget committees by October 1, 2002, which indicates whether all interest in fiscal 2002 was properly credited to the general fund on a timely basis.

Information Request	Author	Due Date
Report on whether all fiscal 2002 interest was credited to the general fund	State Treasurer	October 1, 2002

Total General Fund Reductions	\$ 3,850
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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 2001					
Legislative Appropriation	\$4,128	\$354	\$0	\$17,493	\$21,974
Deficiency Appropriation	117	0	0	0	117
Budget Amendments	18	0	0	0	18
Reversions and Cancellations	0	0	0	(1,047)	(1,047)
Actual Expenditures	\$4,262	\$354	\$0	\$16,446	\$21,062
Fiscal 2002					
Legislative Appropriation	\$4,492	\$424	\$0	\$18,078	\$22,995
Budget Amendments	(326)	(4)	0	0	(330)
Working Appropriation	\$4,166	\$420	\$0	\$18,078	\$22,665

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

The fiscal 2001 budget was increased by a \$117,000 deficiency appropriation to allow the lease-purchase of a high speed check printer and by a budget amendment for the general salary increase. These increases were offset by cancellation of just over \$1 million in reimbursable funds resulting from the purchase of less commercial insurance than estimated. The fiscal 2002 budget decrease reflects round one of cost containment.

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Appendix 2

Object/Fund Difference Report
State Treasurer

Object/Fund	FY02		FY03 Allowance	FY02 - FY03 Amount Change	Percent Change
	FY01 Actual	Working Appropriation			
Positions					
01 Regular	53.00	54.00	54.00	0	0%
Total Positions	53.00	54.00	54.00	0	0%
Objects					
01 Salaries and Wages	\$ 3,097,094	\$ 3,000,119	\$ 3,033,938	\$ 33,819	1.1%
02 Technical & Spec Fees	25,102	21,000	21,000	0	0%
03 Communication	78,566	96,276	127,509	31,233	32.4%
04 Travel	22,115	36,800	33,800	(3,000)	(8.2%)
07 Motor Vehicles	3,225	23,816	17,891	(5,925)	(24.9%)
08 Contractual Services	2,471,592	2,869,263	2,772,948	(96,315)	(3.4%)
09 Supplies & Materials	273,870	262,572	249,361	(13,211)	(5.0%)
10 Equip - Replacement	200,720	311,000	337,736	26,736	8.6%
11 Equip - Additional	9,262	6,699	5,671	(1,028)	(15.3%)
13 Fixed Charges	14,880,320	16,037,492	17,276,951	1,239,459	7.7%
Total Objects	\$ 21,061,866	\$ 22,665,037	\$ 23,876,805	\$ 1,211,768	5.3%
Funds					
01 General Fund	\$ 4,262,304	\$ 4,166,459	\$ 4,100,494	(\$ 65,965)	(1.6%)
03 Special Fund	353,518	420,428	361,675	(58,753)	(14.0%)
09 Reimbursable Fund	16,446,044	18,078,150	19,414,636	1,336,486	7.4%
Total Funds	\$ 21,061,866	\$ 22,665,037	\$ 23,876,805	\$ 1,211,768	5.3%

Note: Full-time and contractual positions and salaries are reflected for operating budget programs only.

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Fiscal Summary State Treasurer		FY02		FY01 - FY02		FY03	
Unit/Program	FY01	FY02	FY02	FY01 - FY02	FY03	FY02 - FY03	
	Actual	Legislative Appropriation	Working Appropriation	% Change	Allowance	% Change	
01 Treasury Management	\$ 4,680,494	\$ 5,122,189	\$ 4,792,189	2.4%	\$ 4,832,590	0.8%	
01 Insurance Management	1,248,514	1,584,848	1,584,848	26.9%	1,504,215	(5.1%)	
02 Insurance Coverage	14,852,858	16,008,000	16,008,000	7.8%	17,250,000	7.8%	
01 Bond Sale Expenses	280,000	280,000	280,000	0%	290,000	3.6%	
Total Expenditures	\$ 21,061,866	\$ 22,995,037	\$ 22,665,037	7.6%	\$ 23,876,805	5.3%	
General Fund	\$ 4,262,304	\$ 4,492,459	\$ 4,166,459	(2.2%)	\$ 4,100,494	(1.6%)	
Special Fund	353,518	424,428	420,428	18.9%	361,675	(14.0%)	
Total Appropriations	\$ 4,615,822	\$ 4,916,887	\$ 4,586,887	(0.6%)	\$ 4,462,169	(2.7%)	
Reimbursable Fund	\$ 16,446,044	\$ 18,078,150	\$ 18,078,150	9.9%	\$ 19,414,636	7.4%	
Total Funds	\$ 21,061,866	\$ 22,995,037	\$ 22,665,037	7.6%	\$ 23,876,805	5.3%	