990033

Department of Finance

1998 Performance Report

MISSION AND VISION

Minnesota Statutes, Chapter 16A gives the Department of Finance responsibility for *"managing the financial affairs of the state."* Within this broadest of charges, the department defines its vision by adding to it *"improving the performance of state government by providing leadership in statewide financial planning and financial resource management."* There are five major goals that span all department activities:

- Ensure the *integrity* of the state's financial resources;
- Provide statewide governmental financial management *leadership*;
- *Accurately* present the state's financial condition;
- Facilitate *informed decision making*; and
- Improve *accountability* and promote the prudent use of state resources.

The Department of Finance provides central direction to the state's financial management processes in order to ensure consistency, continuity, legal compliance and financial integrity. Core functions support both the policy making process and the management of state operations. These core functions are:

- Managing State business processes and systems;
- Providing access to financial and program information; and
- Providing analysis and consulting.

These functions support daily operating goals:

⇒ Providing consistent, accurate, reliable and useful financial information;
⇒ Administering business processes supported by cost effective, flexible systems;
⇒ Improving access to financial and program information by managers and the public;
⇒ Advancing statewide information management techniques and technologies;
⇒ Ensuring state employees are trained and informed in state business practices, and
⇒ Performing critical thinking about the use of public resources.

OUR CUSTOMERS

The department serves a varied customer base. State agencies and entities are the primary customers of the business processes and systems managed for daily operations: accounting, payroll, procurement, human resources. State employees, vendors, individuals, school districts and local governments receive payments through these business systems.

The financial management functions provide information not only to state agencies, but also to the Governor and executive branch, the Legislature, and the public.

The department regularly reports Minnesota's financial status to the public through financial forecasts, budget projections, executive budget summaries, adopted budget summaries, and quarterly economic updates.

CRITICAL SUCCESS FACTORS

Credibility and ***usefulness*** of information, analyses, and business systems that the department provides are critical success factors. That success is measured by the quality of the products and how well they meet user needs. When the department is successful, its products and processes are providing the *right information, to the right people, in the right form, at the right time*.

Financial management improvements are not solely the responsibility of the Department of Finance. Finance can provide policy guidance, help remove obstacles, and encourage inter-agency sharing of promising practices. However, the actions of state agencies, the executive branch and the Legislature continue to be key to fulfilling the vision of the department.

The department's financial management leadership has resulted in recognition such as the ***Certificate of Excellence in Financial Reporting***, has contributed to restoration of the ***State's AAA bond ratings***, and led to ***Minnesota's national ranking*** in 1995 as 4th best managed state by *Financial World* magazine.

SCOPE OF STATE FINANCES

Two Year Budget:

$21.5 billion general fund
$33.8 billion all funds

80% paid to schools, individuals, and local governments

Annual Business Processes:

140 State Agencies
48,000 Employees paid bi-weekly

4.5 million expenditure transactions
833,000 cash deposit transactions

1.3 million checks issued
670,000 purchase orders

HOW WE ARE ORGANIZED

The Finance Department is organized into two programs and six activities, roughly paralleling the way the state budget is developed and executed.

COMMISSIONER

- State Financial Management Program
  - Economic Analysis 3 fte
  - Budget Services 32 fte
  - Accounting Services 67 fte
  - Cash and Debt Management 2 fte
- Information and Management Services
  - Information Services 53 fte
  - Management Services 13 fte

6/30/98 TOTAL FTEs 170.0

Economic Analysis staff prepare the financial forecasts that begin the budget deliberations, both in the Executive Branch and the Legislature.

- develops economic forecasts
- projects multi-year forecasts of major state revenues

Budget Services supports both branches by coordinating the development of the Governor's operating and capital budgets and working with the various legislative committees in their deliberations. It also prepares financial analyses, coordinates fiscal notes and advises agencies on financial management policies.

- directs the state's operating and capital budget processes
- coordinates expenditure forecasts and develops financial reports and analyses
- assists agencies in implementing their budgets
- provides financial information and advice to the governor and legislature

Once the budget is passed, **Accounting Services** helps agencies manage their financial activities. They administer the accounting and payroll systems and report on the state's financial condition.

- sets statewide accounting and payroll policies and procedures
- manages the accounting and payroll systems
- provides training and assistance to agencies on the state's financial systems
- reviews and helps agencies develop systems of internal controls
- produces the state's Comprehensive Annual Financial Report (CAFR)
- coordinates the collection of state agency Accounts Receivable

Cash and Debt Management is responsible for managing the state's general obligation debt.

- determines the size and timing of each bond sale
- estimates funding needed to repay investors

Information Services is responsible for operating the statewide administrative systems including the Information Access data warehouse for financial management reporting.

- manages the computer software applications that provide the state's accounting and procurement functions (MAPS), human resources and payroll processes (SEMA4), and statewide budget planning (BIS)
- maintains the state's information access data warehouse (IA) that provides access to detailed statewide accounting, payroll,

human resources, and procurement data used by agencies for operations, analysis, and reporting
- maintains the Department of Finance's internal network and desktop computers

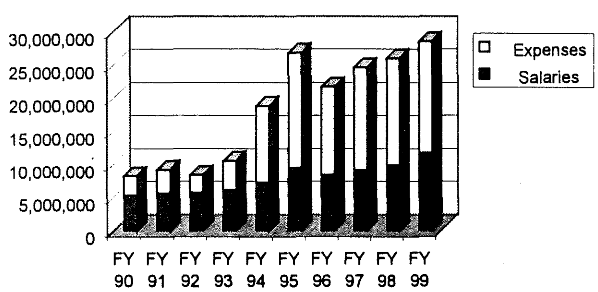
Management Services provides the department's internal management support.

- provides strategic direction for the department and primary contact and consultation to the governor and the legislature
- provides internal accounting, payroll, clerical support services, and office management for the department

EXPENDITURES

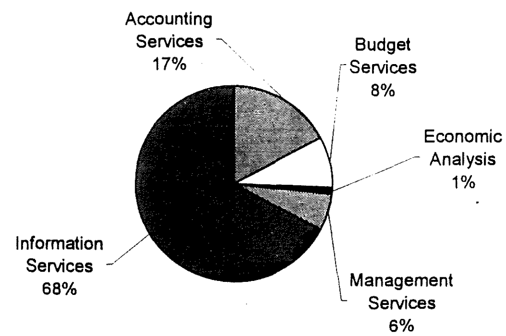
The Department of Finance's budget has grown from $8.2 million in F.Y. 1990 to $28.5 million in F.Y. 1999.

Department of Finance
Historical Spending



Much of the increase in expenditures is attributable to the development and implementation of the Statewide Systems Project. The project was an interagency effort to modernize four of the state's major business systems: accounting, procurement, payroll and human resource management. The new systems became operational in F.Y. 1996. The full operating costs for these systems are now included in the department's budget. In addition, the F.Y. 1998-99 budget includes $6.3 million in one-time spending to bring department systems into year 2000 compliance.

F.Y. 1998 Expenditures
$26,011.000



The department is funded by direct general fund appropriations. In addition, the legislature funded up to $6.8 million of the Statewide Systems operating costs by authorizing the department to bill of state agencies. The Information Services Division is the largest portion of the operating budget (68%) and represents the costs of operating the state administrative system.

Although the budget has grown substantially due to these systems, the department continually monitors procedures to increase efficiency and reduce cost growth.

MEASURING FINANCIAL MANAGEMENT FUNDAMENTALS

How do we compare nationally?

The broadest external measures of department performance and Minnesota's financial management are comparisons or benchmarks to other states.

Minnesota ranks nationally in the top tier of states in financial management

In recent years Financial World Magazine ranked states according to the soundness of their budgeting and financial management practices. Since the survey was created in 1991, Financial World consistently ranked Minnesota's financial management in the top ten states. In 1992, Minnesota ranked 9th, in 1994 Minnesota ranked 3rd. Finally in 1995, we were ranked 4th among the fifty states.

The criteria used to rank the states include key financial management fundamentals:

- Accounting and financial reporting
- Revenue forecasting
- Expenditure forecasting
- Rainy day and contingency funds
- Program evaluation and performance management
- Pensions management and funding
- Revenue-expenditure structural balance
- Bond ratings
- Infrastructure planning and controls
- Budget planning and management

In 1997, Financial World discontinued the evaluation of states' financial management. However, a new project will continue to compare state management systems every two years. The Government Performance Project is an enterprise of the Maxwell School of Citizenship and Public Affairs of Syracuse University, in partnership with Governing Magazine. The project is in part funded, in part, by a four-year grant from the Pew Charitable Trusts.

That project began collecting information last January. The results will be reported in February 1999. Rankings will evaluate both financial management and infrastructure management. However, unlike previous surveys, states will not be ranked numerically from 1 to 50. Rather, the rankings will be tiered. Our goal is to continue to be ranked in the top tier of all states for both overall financial management and infrastructure management.

Minnesota is ranked AAA by all national bond rating agencies

In July 1997, Standard and Poors joined Fitch and Moody's in rating Minnesota's bonds AAA. The state's bond rating has now been restored to the level it was prior to the financial problems of the early 1980's. Minnesota is one of only nine states to be rated AAA by all three bond-rating agencies.

The rating agency evaluations identified several factors contributing to the states high ranking:

- Limits on spending growth
- Conservative fiscal policies
- Strong financial management systems
- Comprehensive financial planning

Minnesota's ratings are periodically reviewed as part of state bond sales. In October 1998, the three major rating agencies reconfirmed the highest possible credit rating. All three rating agencies recognize the state's success in balancing ongoing spending demands with the need to maintain structural balance and adequate budgetary reserves.

Measure: Annual award for excellence in financial reporting.

Minnesota has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for thirteen consecutive years. The national award recognizes conformance with established standards for preparation of state and local government Comprehensive Annual Financial Reports (CAFR). These reports must comply with generally accepted accounting principles and applicable legal requirements. To be awarded the certificate, the reports must be easily readable in addition to meeting strict financial reporting requirements. External review of the CAFR by peer organizations identifies any deviation from standards and provides an independent qualitative evaluation.

How well do the statewide administrative systems meet user needs?

With the exception of the statewide telecommunications network, Finance is the only agency responsible for statewide business systems accessed by all state agencies and MnSCU. The department is highly dependent upon information technology with systems' operating and maintenance costs amounting to 68 % of the department's budget.

Five years ago, the Departments of Finance, Administration and Employee Relations jointly initiated rebuilding the state's twenty-year-old accounting, payroll, procurement and personnel information systems to improve financial control and management reporting, eliminate paper flows, and to use current technology to better serve the state's citizens and business partners. This $36 million project resulted in the statewide administrative systems, which went into operation on July 1, 1995.

Measure: User Satisfaction Survey – Percentage of users "satisfied" or "very satisfied"

Component	1996 Survey	Jan. 1998 Survey
Accounting	41%	58%
Procurement	35%	66%
Payroll	59%	78%
Human Resources	67%	77%

End user satisfaction is a critical assessment of outcomes. The department also relies upon workgroups organized to provide regular feedback to adjust operations.

Measure: Percent of scheduled time that systems are available

	F.Y. 1996	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000-01
Maps Availability					
Target	95%	96%	97%	98%	98%
Annual	86%	96.58%	97.15%		
SEMA4 Availability					
Target	95%	96%	97%	98%	98%
Actual	95%	97.97%	99.29%		
IA Availability					
Target	95%	96%	97%	98%	98%
Actual	96%	97.81%	91.77%		

On-line availability is the time systems are operational for the users to accomplish their entries, processing and reporting. Systems availability measures the operational availability of the Statewide Administrative Systems in supporting agencies in the business and personnel transactions.

Measure: Year 2000 readiness completed

The department has acted aggressively to upgrade systems to implement necessary Year 2000 changes. All changes were tested and completely operational by December 1998. However, because the accounting and payroll systems interface (exchange data) with 57 separate state agency systems, as well as banks and financial institutions, we will need to continue to work with our business partners to ensure that no disruptions occur.

How well is the integrity of the state's financial resources protected?

Measure: Number of internal control audit findings by the Legislative auditor within state agencies' units

	F.Y. 1996	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000-01
Target	70	63	54	52	50/year
Actual	77	56	*		

*F.Y. 1998 audits not completed yet.

Audit reports are prepared annually for approximately 20 of the largest state agencies. The legislative audit reports include internal control findings and recommendations. Internal control deficiencies could directly impact the reliability of the state's financial information and are objective measures of success in protecting the state's financial resources

Appropriations made to state agencies establish upper limits on spending. However, within those limits, *each agency head* is responsible for ensuring that funds are spent appropriately, consistent with legislative intent.

Department of Finance executive budget officers approve agency spending plans in the accounting system to prevent unauthorized transfers or overspending and broadly monitor spending for compliance with legislative direction. Individual purchases, grants and payment transactions (4.5 million annually) cannot be effectively monitored.

Post-audit by the Legislative Auditor determines whether spending was in accordance with legal requirements and state policies. Finally, the Department of Finance ensures that corrective action is taken on all audit findings.

How well does the state manage its accounts receivable?

The Department of Finance manages the state's accounts receivable practices, established related policies and procedures, and revises and advises state agencies' collection activities.

Measure: Percentage of accounts receivable older than 90 days

	F.Y. 1996	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000-01
Target	63%	61%	59%	69%	67%/65%
Actual	66%	71%	74%		

The state collected $1.77 billion in total receivables in the past year. The table above excludes loans and child support collections. The percentage of receivables more than 90 days old exceeded targets due to difficulties in referring debt electronically to the Minnesota Collection Enterprise (MCE).

Agencies are required to use the (MCE) for debts more than 120 days past due. Agencies are also encouraged to use the Attorney General's staff to maximize recovery of funds in specific cases. The Department of Finance issues a complete analysis of Accounts Receivable annually in January. The January, 1999 report, available upon request, provides additional measures and explanations of performance in this area.

How quickly does the state pay its bills?

State law requires that payments be made to vendors within 30 days. Beyond that period vendors are entitled to interest on their payment. The state's vendors represent a broad cross section of both large and small businesses as well as individuals.

Measure: Percentage of vendor payments within 30 days

Target - 97% of all payments will be made within 30 days of invoice.

Results: During F.Y. 1994-96 the average was 97.7%, F.Y. 1997 was 97.8%, and F.Y. 1998 was 97.1%.

The department reports annually in the *Prompt Payment Report* on the success in meeting this target. The report provides detail on all state agencies and prompt payment records.

How accurate are the state's economic and budget forecasts?

The Governor and legislature rely upon the department's economic and budget forecasts to develop and enact state tax and spending measures. Probably, one of the most publicly visible products of the department, formal forecasts are released twice a year – in November, and during the legislative sessions in February

Measure Percentage variance between actual and forecast revenues.

	F.Y. 1996	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000-01
Target	4.5%	4.5%	4.5%	4.5%	4.5%
Actual	5.8%	9.7%	9.4%		

The table above displays forecast revenue changes as a percentage – comparing estimate at the beginning of a fiscal year to the year-end actual revenues. The smaller the variance, the more reliable for budgeting purposes – avoiding large surpluses or deficits. Perfectly accurate forecasts are impossible to achieve because of underlying business cycles in the economy and unanticipated taxpayer behavior.

Some forecasters assign confidence intervals to their forecast. The target of 4.5% used above is the confidence interval generated by the Minneapolis Federal Reserve Bank's vector auto regression model of the U.S. economy. In the past two years national forecasts, including those of the Minneapolis Federal Reserve Bank, have failed to meet that standard.

Measure: Percentage variance between actual and forecast expenditures

	F.Y. 1996	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000-01
Target	3.0%	3.0%	3.0%	3.0%	3.0%
Actual	1.5%	2.4%	1.4%		

The table above compares estimated general fund spending at the beginning of a fiscal year to actual year end expenditures. As with revenues, the possibility of a perfect forecast is unlikely. The largest areas of the state budget, K-12 education finance and human services programs are subject to the demographic changes, and, in the case of human services, economic changes. Changes in projected enrollments or caseloads are often the source of the majority of forecast expenditure variances.

Does the state get the best possible rate when selling its bonds?

The Debt and Cash Management unit within Finance determines the size and timing of state bonds sales. The bond market is affected by supply and demand. It is possible that the state may sell bonds in the market on the day when the supply of bonds is too large or to small resulting in rates that vary from the index.

Measure: bond sales at or below market rate

	May 1996	Nov. 1996	Aug. 1997	June 1998	Nov. 1998
Index Rate	5.24%	5.18%	4.72%	4.50%	4.27%
Actual Rate	5.39%	5.18%	4.72%	4.50%	4.31%
Variance	0.15%	0.00%	0.00%	0.00%	0.04%

The Delphis Hanover Index, published daily, lists interest rates by the credit rating of the issuers. It is the most valid benchmark to measure the effectiveness of the state in the bond market. A positive variance represents additional costs, a negative variance represents savings over the life of the bond.