

MINUTES OF THE MEETING
GENERAL GOVERNMENT AND HIGHWAYS SUBCOMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

The meeting of the General Government and Highways Subcommittee was called to order by Chairman Rehberg on January 13, 1987 at 8:00 a.m. in Room 132 of the State Capitol.

ROLL CALL: All committee members were present, except Sen. Stimatz, who was excused. Sen. Gage arrived late as he had a bill before another committee. Also present were Flo Smith, Budget Analyst from the Office of Budget & Program Planning (OBPP) and Clayton Schenck, Senior Fiscal Analyst from the Office of the Legislative Fiscal Analyst. (LFA)

18A:1.02

STATE AUDITOR'S OFFICE

Flo Smith introduced the budget for the OBPP. (Exhibit No. 1) The office of the State Auditor has four main programs:

1. Central Management
2. Audit Division
3. Insurance Division
4. Securities Division

There was a reorganization within the agency during FY 86. They have three other programs that are covered by statutory appropriations:

1. Local Assistance Distribution Program
2. Forest Service Reserve
3. Pension Adjustment, Retired Firemen's Program

Flo gave the committee Exhibit No. 2, an outline of the cuts taken by the agency in regard to the sixty percent of the five percent cuts; also the pay plan reflected in the OBPP.

Central Management Program

The four percent vacancy savings was not applied to the personal services costs of the elected officials. The FTE

reduction from 86 to 88-89 of two was in accordance with the reductions taken by the agency for the sixty percent and five percent. The budget for the biennium has also been cut to reflect the one time expenditures related to the office automation project and the warrant writing system study.

Equipment included in the FY 88 budget: filing cabinet, microfiche reader, office dividers and a conference table.

In the review of the Auditor's Office, both the OBPP and the LFA overlooked some liability insurance and fidelity bond costs that were written into the personal services line-item rather than contracted services or operating expenses. Both offices overlooked moving these expenses into the operational budget, so the budget is understated by \$481 each year of the biennium for the Central Management Program.

The budget request is \$228,000 in FY 88 and \$220,000 in FY 89 and 100 percent general fund.

Audit Division

The FTE level authorized is 20.0 for the 87 biennium. During FY 86, 1.0 FTE was transferred to the Central Management Program. A payroll clerk position was received from Program 03; this was involved in the reorganization and brought the FTE level to 19.5. For FY 88 and FY 89, 1.0 FTE for the pay plan and sixty percent of the five percent cuts. Included in the budget is 1.0 FTE transferred from the Personnel Division, Department of Administration.

The general liability insurance and fidelity bonds were not included in the amount of \$1,098 per year. The funding requested in this budget is \$653,000 in FY 88 and \$612,000 in FY 89 of general fund and \$373,000 and \$364,000 in state special funds.

The payroll section is supported through payroll fees. A rate schedule was set for these fees and those funds will be coming from non-general fund sources. All agencies will be charged.

Donna Warner of the State Auditor's Office stated they had always billed non-general fund agencies for the payroll fees. A federal auditor picked up on an audit exception while performing an audit of the statewide allocation plan, and

they required them to come up with a more equitable way of billing the non-general fund agencies. They were concerned with the agencies either under-recovering or over-recovering from the federal government, and that money goes back into the general fund when they do recover. The auditor has to come up with a cost per warrant and bill each agency accordingly, whether it is general or non-general funds.

Warrant Writing System

This is 100 percent general fund. This is included in the statewide cost allocation plan, so there is a recovery of federal funds that are directly deposited in the general fund. Part of it is offset with general funds. So, they do contribute.

This budget also includes \$3,300 in equipment.

Insurance Division

The FTE level is cut by two in accordance with the agency's recommendation for the pay plan and sixty percent of the five percent cuts. This is an administrative officer in an unclassified position as well as cuts in operating expenses and equipment. Office equipment is also included in this budget.

General liability insurance was \$1,338 for each year of the biennium. Funding for the Insurance Division is the Insurance Regulatory Trust. Any balance at fiscal year end will revert to the general fund. They are requesting \$702,000 for FY 88 and \$691,000 for FY 89.

Securities Division

The FTE level remains constant at 9.0. The pay plan and sixty percent cuts include \$810 in operating expenses and \$300 in equipment. The general liability and fidelity bond costs would be \$512 additional each year. The funding for this program is a Securities Regulatory Account. Any balance at fiscal year end reverts to the general fund. This program has a dollar for dollar impact on the general fund. The source of funds for this account is the license fees charged for broker-dealer salesmen and registration fees.

Flo Smith referred to Exhibit No. 3, modifications submitted by the agency. These are not included in the OBPP budget.

Sen. Keating asked if they could take all the modifications at the very end.

Clayton Schenck presented the budget for the LFA. (Exhibit No. 4) He said that overall agency expenditures decreased 2.9 percent in the 89 biennium, due to the removal of one-time expenditures for systems development costs and the removal of one-time start-up costs for two new insurance laws, title insurance and non-vendors insurance. The state special revenue fund expenditure decreases 17 percent, while general fund decreased because of the utilization of the fund balance of over \$200,000 in the central payroll operating fund to fund the biennium expenditures and also increasing fees charged to users.

In the reorganization of the agency, two programs were combined to create the Audit Division.

Clayton reviewed the Central Management Program, the Audit Division, the Insurance Division and the Securities Division. He summarized the budget differences and the major issues.

Ms. Andrea Bennett, State Auditor, addressed the committee. (Exhibit No. 5) In the Central Management Program, the primary difference between the LFA and the OBPP figures is a cut of four FTE positions by the OBPP to meet the five percent cut request in October. In addition, salary request included a three percent salary adjustment for exempt employees to match the cost of living increases anticipated for classified employees during the upcoming biennium.

Ms. Bennett requested the two FTE positions be maintained and the LFA recommendation includes those positions. With the increased workload in all areas, they cannot process the work in a timely manner without these two positions.

Ms. Bennett continued. In the Audit Division, there is a difference in FTE. The OBPP included the reduction of 1.0 FTE in the warrant writing division. The agency requested that position be funded. This position is critical to the increased workload in processing warrants.

In the Insurance Division, the OBPP recommendation showed a reduction of 2.0 FTE in the Montana Insurance Assistance Plan. The agency requested that position not be cut. This position serves as the administrative hearings officer and arbitrator for the Insurance Division in all administrative actions against insurance companies or agents and also provides personnel services for the division in hiring and other duties. The other position currently staffs the Montana

Insurance Assistance Plan. It is essential that the efforts started by the division to help develop insurance markets in the state continue.

Ms. Bennett reviewed the agency's needs in equipment, communications and repair and maintenance.

Rep. Quilici asked Ms. Bennett if these cuts would have an adverse effect on the department. Ms. Bennett stated that was correct.

Rep. Quilici asked if there was a maintenance contract built in when the WANG system was purchased. Mr. Richard Hall said when a computer is purchased, there is a 90-day warranty and no more.

Sen. Keating asked Ms. Bennett how many exempt positions she had overall in her office. She stated fifteen. Sen. Keating asked if they were all given a three percent cost of living increase. She said yes, that was what she requested.

19A:9.07

In answer to Sen. Keating's question, Mr. John Beeby, Deputy Insurance Commissioner, said they held a hearing for rules to implement the non-gender law. That was held in conjunction with the human rights commission. He said the insurance companies had great difficulty in doing what they had to do daily as far as filing their forms for property and casualty and for property and health. A great deal of time is spent on the phone. He said there was a half-time person handling non-gender complaints.

Mr. Beeby stated if this law was repealed, they would have to go back and repeal some rules. He has a half-time employee that approves forms and she went crazy with all the form changes during the last two years. All companies will have to have their forms approved again.

Sen. Keating asked if the Montana Insurance Assistance Plan was handled in his department. Mr. Beeby stated it was attached to his department. Ms. Bennett said she handles that. She said they were in the process of completing the report to the Legislature they were mandated to do by the next to the last session of the Legislature.

Ms. Bennett said she would like to see the Montana Insurance Assistance Plan come to an end. She stated they have reached a plateau in the market. There will not be any lower costs

in insurance. Availability has not really improved, but people have gotten use to the situation.

Rep. Quilici asked Ms. Bennett if the smaller businesses were going without insurance.

Ms. Bennett said the employees in her office perform various duties and she did not feel they could let a person go, let alone take the budget reductions. The employees voted 100 percent to take leave without pay. This produced the savings they needed in this fiscal year. They do not wish to continue that in the next fiscal year.

Chairman Rehberg pointed out he did have a meeting with Judy Rippingale, LFA, because it concerned him to see current level LFA with budgets increasing, and it was the intent of the Legislature during the Special Session to cut the base. Ms. Rippingale explained to him this was one of those unfortunate cases wherein Ms. Bennett made the attempt within her budget to save the people, not get rid of the FTE, and to absorb it within other areas. Now she is being penalized because of that. The LFA's mission was to look at current level. This is their reason for the difference between the LFA and the OBPP budgets. The OBPP took it across the board.

(33.00)

Chairman Rehberg asked if there was going to be an additional appropriation for maintenance contract on the computer terminals and did the maintenance contract request include the additional terminals they purchased by using the maintenance contract money from before.

Mr. Hall said they did not use maintenance contract money to purchase the terminals. The funding requested will allow full maintenance of the system, including the terminals. Without the additional funding, there will not be a maintenance contract on the machines. If they do break down, they will remain down and it will decrease the efficiency.

19B:0.01

Sen. Gage asked Ms. Bennett what the difference was between the Police-Firemens Retirement Fund and the Firemens Pension adjustment.

John Houth from the State Auditor's Office stated the \$959,100 is generated from a tax itself for firemen who were signed up for this particular fund prior to July 1975. After that, they were not eligible for this fund until deceased. Last year, there was not enough money generated to cover the fund and, as of right now, they owe PERS \$8,000 until they use this year's money to pay them back. This will continue unless the rate is increased until these members are deceased.

The Forest Reserve Fund is twenty percent of the collections by the forest system for road building, timber sales, etc. Twenty percent of that revenue reverts back to the counties where the forests are located. The State Auditor's Office is simply a pass-through agency. There is an interim payment in September or October and they, in turn, invest the money. (Over \$45,000 interest was earned). In December they receive the final payment based on the federal government's final figures and warrants are then issued to the counties for the principal, plus the interest.

Flo Smith from the OBPP presented the modified requests.

Terry Lazure clarified the modified requests. They agency is splitting the costs between the insurance and securities program for the disk storage and printer. (Exhibit No. 6)

(16.08)

Ms. Bennett told the committee the budget for the State Auditor's Office had been neglected for many years. The Warrant Writing System is beyond repair. She referred to the modified requests.

Richard Hall reviewed the requests: Central Payroll - Position Control: The agency needs everything in the request just to keep the system going; Central Payroll - PPP System On-Line Study: The on-line system would eliminate the errors by placing a lot of the workload in their section and statewide in the various agencies. This would not be cheap, but the savings would be realized in FTE. The study will determine the reasonable areas in which to create on-line systems and where the savings will be.

Sen. Keating asked why a system that only utilized one-third of its' capacity was now inadequate. Mr. Hall said he did not know where the one-third figure came from. The study could result in long-term savings and efficiency. The agency needs to find out the details of what is involved. He said he felt contracted services would increase and there would be

a reduction in FTE. The initial development costs would be returned in a few years. The study is simply looking for ways to cut long-term costs. Terry Lazure said there is a statutory requirement that payroll must be out so many days past the end of the pay period. The errors have to be cleaned up within a certain amount of time in order to get this done.

Mr. Hall said he expected the study to tell them the cost of developing specific functions on an on-line basis, the increase in operating costs, plus the reduction in FTE. Without the study, it would be impossible to make predictions in cost savings and FTE reductions.

20A:0.42

Sen. Gage asked if the source of state special funds was the same for all the modified requests. Ms. Bennett said there was a variety of sources.

Ms. Bennett addressed the modified request for a Warrant Replacement System. She referred to the State Auditor's Warrant Writing System Study. (Exhibit No. 7) The study sets out the process followed and the recommended alternative. The alternative allows for a system that best meets the requirements and processing needs for the warrant system. The Montana Code stipulates that monies can be paid out by the State Treasury only upon state warrants issued by the State Auditor. Her office is totally responsible and accountable for all funds paid out. The implementation of a new system is imperative and will allow them to meet the statutory authority and ensure all warrant system capability to carry them into the future. The current system is outdated and parts are no longer available for repair. A breakdown would put the system out of commission for an undetermined period of time and, in addition, there is no back-up system. This is the agency's number one priority item. According to the study, the bottom line is the new system will cost more than the savings realized through the reduction of FTE.

Jeff Brandt from the computer programming staff of the Department of Administration, referred to page 36 of the study detailing the annual maintenance costs for the system. Mike Trevor, Administrator of the ISD, Department of Administration, told the committee that, as with any computer system, there are always refinements to systems, but the processing will be

on the state mainframe and the unit costs have continually come down since 1976 and the trend will continue. It is a cost effective move. There will be more dollars spent for data processing, but there will be a better return on the dollar than an investment in more people being hired in state government in order to keep up with the increased workload.

Debbie VanVliet, Administrator of the Fiscal Management & Control Division, elaborated on the problems with the current system.

Sen. Keating said the legislators are aware of this problem and need some information to back up the proposal for a new system.

There was discussion with Mike Trevor regarding the capacity of the mainframe and the permanent reduction in FTE.

(27.00)

Insurance Division

Ms. Bennett reviewed the modified requests for the division. (Exhibit No. 6) The agency has requested seven additional FTE to regulate the insurance industry in order to provide protection for insurance consumers and to respond to problems. The modified request reflects the necessary additions to the department to fulfill the statutory responsibilities.

Bob Throssell, Chief Counsel of the Legal Unit, told the committee that during the last several years there have been three domestic insurance companies that have had financial problems. The department has had to go to court to protect the policyholders, resulting in a need for a .5 attorney in the Securities Division. Ms. Bennett continued her review of the modifieds. The .5 attorney is not included on the exhibit.

(36.49)

Richard Hall reviewed the other two modified requests relating to enhancements of the WANG computer system. These requests are split 50-50 between the Insurance and Securities Divisions. Today, there is an agencywide system. The information has been transferred from the old

system to the new system and the agency is in a better position. Instead of coming back to present a request to automate the divisions, the bulk has been completed and the agency needs a disk drive in order to complete this transfer and keep the system running. The agency has run out of room on the disk drive which maintains the information and they cannot continue to develop the systems or upgrade to the new features. Without the ability to upgrade, it is difficult to obtain help from the companies because they are not current with the situation. The main concern from an office automation point of view is the large amount of paperwork involved keeps the agencies from spending time on investigations for the protection of the consumer. If the department creates the automatic letters to save on manpower, they will need the printers. They could get by with less, if necessary.

20B:5.15

Securities Division

Ms. Bennett continued her review of the modified requests. The department has had an increase in the number of criminal cases handled and is, therefore, requesting the .5 attorney. There is also a need to revise the Administrative Rules in order to keep current with the new developments in the securities industry and insurance enactments. The department is also requesting an Lectriever File System to increase the space available for security documents and filings.

There was discussion regarding the increase in criminal investigations in the Securities Division.

(12.05)

Chairman Rehberg opened the meeting to public comment.

Bonnie Tippy, representing the Alliance of Amercian Insurers and the Montana Association of Life Underwriters, said the associations strongly supported the modified requests for the State Auditor's Office, particularly the need for an actuary in order to see that companies comply with laws imposed by the Legislature.

Randy Gray, Lobbyist representing State Farm Insurance Companies and the National Association of Independent Insurers, stated support for these requests and the belief the State

Auditor's Office should be adequately funded in order to carry out those statutory functions.

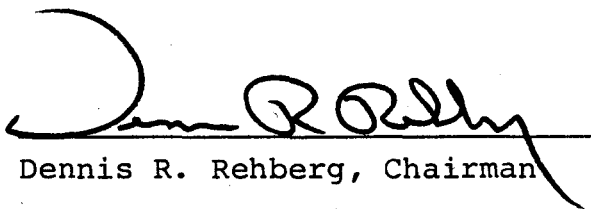
Sen. Keating asked Mr. Gray if it would require a raise in premiums to the buyer in order to fund the appropriation requests. Mr. Gray said they were not proposing more regulations, but adequate funding to allow her to carry out the statutory duties already imposed.

Ms. Tippy said fees currently being paid by insurers are not all going to the Insurance Commissioner's Office. The reason these fees are paid is for regulation. She said the money being charged for regulation of the companies should be used just for that purpose and should not go to the general fund.

Sen. Keating asked for historical figures that have reverted to the general fund. Clayton will provide this information.

Roger McGlenn, Executive Director of the Independent Agents Association of Montana, said they would like to go on record in support of adequate funding and staffing for the State Insurance Commissioner's Office. He said it was their opinion that the premium tax, sales tax on insurance, and the fees and assessments to the agents and insurers were, to a large degree, established to adequately fund the staff of a strong and consistent state regulatory division. The associations feel very strongly about this for the benefit of the Montana insurance consumer.

ADJOURNMENT: The meeting was adjourned at 11:10 a.m.



Dennis R. Rehberg, Chairman

DAILY ROLL CALL

GENERAL GOVERNMENT & HIGHWAYS

SUBCOMMITTEE

DATE 1-13-87

[illegible]

REPORT EBSR99
DATE : 01/07/87
TIME : 17/23/43

OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

AGENCY : 3401 STATE AUDITORS OFFICE
PROGRAM : 01 CENTRAL MGMT
CONTROL : 00000

CURRENT LEVEL SERVICES ONLY

AE/OE	DESCRIPTION	ACUAL FY 86	BUDGET FY 87	OBPP FY 88	LFA FY 88	DIFF FY 88	OBPP FY 89	LFA FY 89	DIFF FY 89
0000	FULL TIME EQUIVALENT (FTE)	9.00	8.00	7.00	9.00	-2.00	7.00	9.00	-2.00
1100	SALARIES	174,151.21	165,944	151,738	184,431	-32,693	151,309	183,928	-32,619
1400	EMPLOYEE BENEFITS	37,370.85	29,177	22,983	27,683	-4,700	23,388	28,145	-4,757
1500	HEALTH INSURANCE		13,002	9,660	12,420	-2,760	9,660	12,420	-2,760
1600	VACANCY SAVINGS			-5,783	-8,956	3,173	-5,785	-8,946	3,161
	TOTAL LEVEL	211,522.06	208,123	178,598	215,578	-36,980	178,572	215,547	-36,975
2022	SUPPLIES & MATERIALS-INFLAT			1	-4	5	3	30	-13
2023	COMMUNICATIONS-INFLATION			11	18	-7	17	735	-735
2025	RENT-INFLATION				529	-529		6,331	720
2100	CONTRACTED SERVICES	34,980.07	113,867	9,883	9,163	720	7,051	2,915	236
2200	SUPPLIES & MATERIALS	5,119.63	2,501	2,915	2,915		2,915	19,908	
2300	COMMUNICATIONS	21,025.57	16,644	20,144	19,908	236	20,144	6,270	306
2400	TRAVEL	4,427.94						2,588	323
2500	RENT	6,270.52	3,485	6,336	6,270	66	6,576	1,715	-42
2700	REPAIR & MAINTENANCE	4,544.77	4,055	2,980	2,588	392	2,911		
2800	OTHER EXPENSES	2,540.07	1,017	1,673	1,715	-42	1,673	40,492	798
	TOTAL LEVEL	78,908.57	141,569	43,943	43,102	841	41,290		
3100	EQUIPMENT	73,680.15		5,713	423	5,290			
	TOTAL LEVEL	73,680.15		5,713	423	5,290			
	TOTAL PROGRAM	364,110.78	349,692	228,254	259,103	-30,849	219,862	256,039	-36,177
01100	GENERAL FUND	364,110.78	349,692	228,254	259,103	-30,849	219,862	256,039	-36,177
	TOTAL PROGRAM	364,110.78	349,692	228,254	259,103	-30,849	219,862	256,039	-36,177

EX. # 1-100-87

REPORT EBSR99
DATE : 01/07/87
TIME : 17/23/43

OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

AGENCY : 3401 STATE AUDITORS OFFICE
PROGRAM : 02 AUDIT DIVISION
CONTROL : 00000

CURRENT LEVEL SERVICES ONLY

AE/OE	DESCRIPTION	ACTUAL FY 86	BUDGET FY 87	OBPP FY 88	LFA FY 88	DIFF FY 88	OBPP FY 89	LFA FY 89	DIFF FY 89
0000	FULL TIME EQUIVALENT (FTE)	19.50	20.00	19.50	19.50		19.50	19.50	
1100	SALARIES	323,223.96	316,560	352,149	346,238	5,911	351,015	345,127	5,888
1400	EMPLOYEE BENEFITS	69,910.87	55,647	49,859	49,110	749	50,459	49,702	757
1500	HEALTH INSURANCE		28,074				27,600	27,600	
1600	VACANCY SAVINGS			-17,184	-16,805	-379	-17,163	-16,776	-387
	TOTAL LEVEL	393,134.83	400,281	412,424	406,143	6,281	411,911	405,653	6,258
2021	CONTRACTED SERVICES-INFLATION			-6,691	-6,691		-13,382	-12,964	-418
2023	COMMUNICATIONS-INFLATION			31	31		52	52	
2025	RENT-INFLATION				2,579	-2,579		3,581	-3,581
2100	CONTRACTED SERVICES	429,039.69	421,413	446,575	445,444	1,131	406,358	405,227	1,131
2200	SUPPLIES & MATERIALS	32,968.31	34,130	33,065	33,065		33,065	33,065	
2300	COMMUNICATIONS	74,217.57	60,982	73,444	73,767	-323	73,444	73,767	-323
2400	TRAVEL	1,779.54	117	1,780	1,780		1,780	1,780	
2500	RENT	36,224.74	35,218	36,746	36,224	522	37,926	36,224	1,702
2700	REPAIR & MAINTENANCE	23,735.29	16,043	24,801	22,878	1,923	24,464	22,878	1,586
2800	OTHER EXPENSES	947.01	270	948	948		948	948	
	TOTAL LEVEL	598,912.15	568,173	610,699	610,025	674	564,655	564,558	97
3100	EQUIPMENT	20,400.99		3,320	3,320				
	TOTAL LEVEL	20,400.99		3,320	3,320				
	TOTAL PROGRAM	1,012,447.97	968,454	1,026,443	1,019,488	6,955	976,566	970,211	6,355
01100	GENERAL FUND	708,472.03	700,423	653,086	552,066	101,020	612,466	512,046	100,420
02803	CENTRAL PAYROLL OPERATING	303,975.94	268,031	373,357	467,422	-94,065	364,100	458,165	-94,065
	TOTAL PROGRAM	1,012,447.97	968,454	1,026,443	1,019,488	6,955	976,566	970,211	6,355

REPORT EBSR99
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OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

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AGENCY : 3401 STATE AUDITORS OFFICE
PROGRAM : 03 INSURANCE
CONTROL : 00000

AE/OE	DESCRIPTION	ACTUAL FY 86	BUDGET FY 87	OBPP FY 88	LFA FY 88	DIFF FY 88	OBPP FY 89	LFA FY 89	DIFF FY 89
0000	FULL TIME EQUIVALENT (FTE)	22.67	23.00	21.00	23.00	-2.00	21.00	23.00	-2.00
1100	SALARIES	417,409.76	416,030	433,653	477,010	-43,357	432,290	475,528	-43,238
1200	HOURLY WAGES	-50.00							
1400	EMPLOYEE BENEFITS	88,439.32	73,176	62,754	69,050	-6,296	63,508	69,885	-6,377
1500	HEALTH INSURANCE		33,730	30,360	33,120	-2,760	30,360	33,120	-2,760
1600	VACANCY SAVINGS			-21,071	-23,087	2,016	-21,046	-23,048	2,002
	TOTAL LEVEL	505,799.08	522,936	505,696	556,093	-50,397	505,112	555,485	-50,373
2021	CONTRACTED SERVICES-INFLATI			-126	-126		-252	-244	-8
2022	SUPPLIES & MATERIALS-INFLAT			4	-31	35	20		20
2023	COMMUNICATIONS-INFLATION			306	143	163	520	245	275
2025	RENT-INFLATION				1,432	-1,432		1,988	-1,988
2100	CONTRACTED SERVICES	62,343.16	23,813	52,950	48,530	4,420	45,518	41,098	4,420
2200	SUPPLIES & MATERIALS	13,485.43	14,333	13,486	11,113	2,373	13,486	11,113	2,373
2300	COMMUNICATIONS	64,908.54	52,301	64,165	55,300	8,865	64,165	55,300	8,865
2400	TRAVEL	24,720.69	8,856	24,721	22,721	2,000	24,721	22,721	2,000
2500	RENT	16,924.85	17,614	17,226	16,425	801	17,882	16,425	1,457
2700	REPAIR & MAINTENANCE	6,555.26	6,430	15,673	6,056	9,617	15,485	6,056	9,429
2800	OTHER EXPENSES	4,245.88	822	4,246	3,589	657	4,246	3,589	657
	TOTAL LEVEL	193,183.81	124,169	192,651	165,152	27,499	185,791	158,291	27,500
3100	EQUIPMENT	5,680.83	1,000	4,056	2,891	1,165	288	288	
	TOTAL LEVEL	5,680.83	1,000	4,056	2,891	1,165	288	288	
8000	TRANSFERS	347,100.00							
	TOTAL LEVEL	347,100.00							
	TOTAL PROGRAM	1,051,763.72	648,105	702,403	724,136	-21,733	691,191	714,064	-22,873
02060	INSURANCE REGULATORY ACCOUN	1,051,763.72	648,105	702,403	724,136	-21,733	691,191	714,064	-22,873
	TOTAL PROGRAM	1,051,763.72	648,105	702,403	724,136	-21,733	691,191	714,064	-22,873

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OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

AGENCY : 3401 STATE AUDITORS OFFICE
PROGRAM : 04 SECURITIES
CONTROL : 00000

CURRENT LEVEL SERVICES ONLY

AE/OE	DESCRIPTION	ACTUAL FY 86	BUDGET FY 87	OBPP FY 88	LFA FY 88	DIFF FY 88	OBPP FY 89	LFA FY 89	DIFF FY 89
0000	FULL TIME EQUIVALENT (FTE)	9.00	9.00	9.00	9.00		9.00	9.00	
1100	SALARIES	177,264.82	174,562	198,088	198,088		197,503	197,503	
1400	EMPLOYEE BENEFITS	35,777.37	30,711	28,695	28,695		29,049	29,049	
1500	HEALTH INSURANCE		12,924	12,420	12,420		12,420	12,420	
1600	VACANCY SAVINGS			-9,568	-9,520	-48	-9,559	-9,504	-55
	TOTAL LEVEL	213,042.19	218,197	229,635	229,683	-48	229,413	229,468	-55
2022	SUPPLIES & MATERIALS-INFLAT								
2023	COMMUNICATIONS-INFLATION								
2025	RENT-INFLATION			2	-16	18	10	49	10
2100	CONTRACTED SERVICES	8,722.05	1,792	7,949	8,249	-240	5,101	333	-333
2200	SUPPLIES & MATERIALS	6,085.54	8,106	6,086	6,086	-300	6,086	6,086	-300
2300	COMMUNICATIONS	11,845.74	9,965	11,526	9,085	2,441	11,526	9,085	2,441
2400	TRAVEL	5,922.86	5,825	5,925	5,925		5,925	5,925	
2500	RENT	2,585.35	2,604	2,617	2,585	32	2,727	2,585	142
2700	REPAIR & MAINTENANCE	6,082.25	6,288	6,261	6,083	178	6,230	6,083	147
2800	OTHER EXPENSES	2,218.84	2,596	2,219	1,499	720	2,219	1,499	720
	TOTAL LEVEL	43,462.63	37,176	42,612	39,763	2,849	39,873	37,046	2,827
3100	EQUIPMENT	2,941.57		5,148	448	4,700			
	TOTAL LEVEL	2,941.57		5,148	448	4,700			
8000	TRANSFERS	1,723,269.00							
	TOTAL LEVEL	1,723,269.00							
	TOTAL PROGRAM	1,982,715.39	255,373	277,395	269,894	7,501	269,286	266,514	2,772
02044	SECURITIES REGULATORY ACCOU	1,982,715.39	255,373	277,395	269,894	7,501	269,286	266,514	2,772
	TOTAL PROGRAM	1,982,715.39	255,373	277,395	269,894	7,501	269,286	266,514	2,772

REPORT EBSR99
DATE : 01/07/87
TIME : 17/23/43

OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

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AGENCY : 3401 STATE AUDITORS OFFICE
PROGRAM : 06 LOCAL ASSISTANCE DISTRIBUTIONS
CONTROL : 00000

CURRENT LEVEL SERVICES ONLY

AT/OE	DESCRIPTION	ACTUAL FY 86	BUDGET FY 87	OBPP FY 88	LFA FY 88	DIFF FY 88	OBPP FY 89	LFA FY 89	DIFF FY 89
5000	LOCAL ASSISTANCE	5,009,339.54							
	TOTAL LEVEL	5,009,339.54							
	TOTAL PROGRAM	5,009,339.54							
02401	POLICE/FIRE RETIREMENT FUND	5,009,339.54							
	TOTAL PROGRAM	5,009,339.54							

REPORT EBSR99
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OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

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AGENCY : 3401 STATE AUDITORS OFFICE
PROGRAM : 08 FOREST RES & FPCA TO COUNTIES
CONTROL : 00000

CURRENT LEVEL SERVICES ONLY

AE/OE	DESCRIPTION	ACTUAL FY 86	BUDGET FY 87	OBPP FY 88	LFA FY 88	DIFF FY 88	OBPP FY 89	LIA FY 89	DIFF FY 89
5000	LOCAL ASSISTANCE	5,921,758.63							
	TOTAL LEVEL	5,921,758.63							
	TOTAL PROGRAM	5,921,758.63							
03821	FOREST RESERVE	5,921,758.63							
	TOTAL PROGRAM	5,921,758.63							

REPORT EBSR99
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OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

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AGENCY : 3401 STATE AUDITORS OFFICE
PROGRAM : 09 PENSION ADJ RETIRED FIREMEN
CONTROL : 00000

AE/OE	DESCRIPTION	ACTUAL FY 86	BUDGET FY 87	OBPP FY 88	LFA FY 88	DIFF FY 88	OBPP FY 89	LFA FY 89	DIFF FY 89
5000	LOCAL ASSISTANCE	959,100.22							
	TOTAL LEVEL	959,100.22							
	TOTAL PROGRAM	959,100.22							
02802	FIREMEN/PENSION ADJUSTMENT	959,100.22							
	TOTAL PROGRAM	959,100.22							

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1-13-87

STATE AUDITORS OFFICE

	<u>60% of 5%</u>	<u>PAY PLAN</u>	<u>TOTAL</u>
General Fund	\$32,737	\$20,868	\$ 53,605
All Other Funds	39,085	27,377	66,462
TOTAL	<u>\$71,822</u>	<u>\$48,245</u>	<u>\$120,067</u>

AGENCY'S RECOMMENDED CUTS

Central Management - Program 01

General Fund:	Position No. 0004	\$22,012
	Position No. 0005	<u>18,141</u>
		\$40,153

Audit Division - Program 02

General Fund:	Position No. 0019	\$15,026
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Insurance Division - Program 03

Other Funds:	Position No. 0030	\$30,157
	Position No. 0060	22,256
	Operating Expenses	4,570
	Equipment	<u>6,285</u>
		\$63,268

Securities Division - Program 04

Other Funds:	Operating Expenses	\$ 810
	Equipment	<u>300</u>
		\$ 1,110

TOTAL CUTS \$119,557 DIFFERENCE \$510

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1-15-87

STATE AUDITORS OFFICE

AUDIT DIVISION

Modification Requests

Central Payroll - Position Control

This modified request changes to the payroll, personnel and position control (PPP) system to allow flexibility in the method of grouping personnel service budgets within a program. This would be especially beneficial to the larger, multi funded agencies. 64% general fund and 36% state special.

Cost: \$42,800 FY88 only

Central Payroll - PPP System On-Line Study

A study will be conducted to determine the feasibility and cost effectiveness of putting payroll, personnel and position control (PPP) system on-line. 64% general fund and 36% state special.

Cost: \$15,000 FY88 only

Warrant Replacement System

The forty-ninth Legislature provided funding to the State Auditor's Office for a feasibility study on the replacement of the current warrant writing system. The study was completed September 1986. The agency is now requesting funds for the design, development and implementation of a new system. 63% general fund and 37% state special.

Cost: \$199,250 for the biennium

INSURANCE DIVISION

Modification Requests

Examiners Office - Administrative Aide 1.00 FTE

An individual is needed to assist the chief examiner and compliance specialist with typing, filing, answering telephones, reviewing and distributing mail. State special.

Cost: \$17,149 FY88 \$15,998 FY89

Legal Unit - Lawyer 0.5 FTE

The department requests the addition of a staff attorney to research legal questions referred to the Legal Unit and to prepare and prosecute insurance violation cases at the administrative hearing and District Court. State special.

Cost: \$15,342 FY88 \$14,724 FY89

INSURANCE DIVISION Continued

Policyholder Services - Field Investigative Officers 2.00 FTE

Field investigative officers perform field investigations, audits and examinations to ensure compliance with Montana Insurance Codes. State special.

Cost: \$78,444 FY88 \$76,056 FY89

Insurance Department - Compliance Specialist II 0.5 FTE

The compliance specialist responds to informational inquiries, investigates and resolves complaints. State special.

Cost: \$11,411 FY88 \$11,370 FY89

Licensing Division - Administrative Aide 1.00 FTE

The additional FTE would enable the Licensing Division to handle all licensing for the Insurance Department. State special.

Cost: \$17,149 FY88 \$15,998 FY89

Office Automation needs to include a high speed line printer for data processing output from WANG VS 65 computer and a high speed laser printer for high volume letter quality output. State special.

Cost: \$25,400 FY88 \$2,900 FY89

Additional disk storage for WANG VS 65 computer would be provided with the purchase of a 288 megabyte removable disk drive and backup disks. State special.

Cost: \$16,250 FY88 \$1,250 FY89

Examiners Office - Compliance Specialist II 1.00 FTE

The compliance specialist directly assists the chief examiner in the financial oversight of insurers operating in Montana. State special.

Cost: \$32,450 FY88 \$31,219 FY89

Examiners Office - Actuary 1.00 FTE

The actuary reviews the adequacy of insurer's loss reserves, evaluates the adequacy and/or appropriateness of premium rate filing, and assists in the examination of insurers located in the state. State special.

Cost: \$59,756 FY88 \$58,416 FY89

SECURITIES

Modification Requests

Legal Unit - Lawyer 0.5 FTE

This modified provides a staff attorney to research legal questions referred to the Legal Unit. The position will prepare and prosecute security violation cases at the administrative hearing and District Court. State special.

Cost: \$15,342 FY88 \$14,724 FY89

A high speed line printer for data processing output from WANG VS 65 computer and a high speed laser printer for high volume letter quality output are requested for the office automation system. State special.

Cost: \$25,400 FY88 \$2,900 FY89

SECURITIES Continued

The department requests the purchase of a 288 megabyte removable disk drive and backup disks to provide additional disk storage for WANG VS 65 computer. State special.

Cost: \$16,250 FY88 \$1,250 FY89

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STATE AUDITOR'S OFFICE
COMPARISON OF EXECUTIVE BUDGET AND LFA CURRENT LEVEL

	FTE FY '89	----- Biennium ----- General Fund	----- Total Funds
Executive Budget	56.50	\$1,713,668	\$4,391,400
LFA Current Level	60.50	1,579,254	4,479,449
Executive Over (Under) LFA	<u>(4.00)</u>	<u>\$__134,414</u>	<u>\$__ (88,049)</u>

The executive budget is \$88,049 lower than LFA current level. The reason for the lower executive budget is that it has 4.0 fewer FTE than LFA current level and a total savings of over \$162,000 in personal services. This savings is partially offset by higher operating expenses and equipment allowances in the executive budget. Table A indicates the differences by type of expenditure and funding source for the 1989 biennium.

Table A
Executive Budget Amounts Over LFA Current Level
1989 Biennium

<u>Budget Item</u>	<u>Increase (Decrease) Over LFA Current Level</u>
Personal Services	\$(162,289)
Operating Expenses	63,085
Equipment	<u>11,155</u>
Total Expenditures	<u>\$ (88,049)</u>
<u>Funding Sources</u>	
General Fund	\$ 134,414
State Special Revenue	<u>(222,463)</u>
Total Funding Difference	<u>\$ __88,049__</u>

The following explanation of major differences has three sections: personal services, operating expenses, and equipment.

PERSONAL SERVICES

The executive budget has 4.0 fewer FTE and \$162,289 fewer total funds for personal services than LFA current level. The executive budget has \$12,500 higher personal services in the Audit Department than LFA current level due primarily to the shift of 1.0 FTE administrative clerk I grade 6 to a personnel technician II grade 10. The remainder is due to FTE reductions, as explained in the following issues.

ISSUE 1: FTE REDUCTION - CENTRAL MANAGEMENT DIVISION

The executive budget deletes 2.0 FTE positions, an administrative assistant II and a data processing control technician, for a cost reduction of approximately \$73,900 including an allowance for vacancy savings. Both positions were filled as of August 1986 and are included in LFA current level.

ISSUE 2: FTE REDUCTION - INSURANCE DEPARTMENT

The executive budget deletes 2.0 FTE positions, an administrative officer III and an unclassified position, for a cost reduction of approximately \$100,700 including an allowance for vacancy savings. The unclassified position is the position created by House Bill 16 in Special Session II as part of the Montana Insurance Assistance Plan. Both deleted positions were filled as of August 1986 and are retained in LFA current level.

OPERATING EXPENSES

The executive budget has \$63,085 more in operating expenses than LFA current level. Minor differences account for approximately \$7,000 of the total differences, including higher allowances in the executive budget of \$4,880 for postage and telephone system changes in the Securities Department. The balance of the differences are explained in the following issues.

ISSUE 3: DEVELOPMENT COSTS - INSURANCE DEPARTMENT

The executive budget is higher in all second level expenditure categories in the Insurance Department. LFA current level took reductions in those categories for one-time development costs appropriated by the Forty-Ninth Legislature for new insurance laws personnel. For costs associated with development of the non-gender insurance law, \$22,000 was taken out of LFA current level. An additional \$16,000 was taken out for costs associated with development of the new title insurance regulation laws.

ISSUE 4: COMPUTER MAINTENANCE COSTS - INSURANCE DEPARTMENT

The executive budget includes \$18,000 more than LFA current level for maintenance contracts on the WANG computer system, installed as part of a \$200,000 office automation project. Maintenance costs on the new WANG system were to be largely, if not completely, offset by cancellation of maintenance contracts on the System Six being replaced. During the interview between the LFA and State Auditor's Office, documentation was requested of maintenance cost comparisons for the old and new systems. The agency did not provide documentation or justification for the increase, and it is not included in LFA current level.

EQUIPMENT

The executive budget has \$11,155 more in equipment than LFA current level. The additional equipment includes \$5,290 for room dividers and a conference table in Central Management Division, \$1,165 for small office equipment in the Insurance

Department, and \$4,700 to buy a WANG personal computer in the Securities Department.

FUNDING

The executive budget utilizes \$134,414 more general fund and \$222,463 less state special revenue funds. LFA current level uses more state special revenue funds by utilizing a large fund balance in the central payroll operating account to fund current level.

STATE AUDITOR'S OFFICE

Budget Item	Actual	Appropriated	- - Current Level - -		% Change 1987-89 Biennium
	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	
F.T.E.	60.17	61.00	60.50	60.50	(0.50)
Personal Service	\$1,323,499	\$1,365,049	\$1,407,497	\$1,406,153	4.7
Operating Expense	914,471	904,759	858,042	800,387	(8.8)
Equipment	102,705	1,000	7,082	288	(92.9)
Total Expenditures	<u>\$2,340,675</u>	<u>\$2,270,808</u>	<u>\$2,272,621</u>	<u>\$2,206,828</u>	<u>(2.9)</u>
<u>Fund Sources</u>					
General Fund	\$1,072,584	\$1,059,975	\$ 811,169	\$ 768,085	(25.9)
State Special	<u>1,268,091</u>	<u>1,210,833</u>	<u>1,461,452</u>	<u>1,438,743</u>	<u>17.0</u>
Total Funds	<u>\$2,340,675</u>	<u>\$2,270,808</u>	<u>\$2,272,621</u>	<u>\$2,206,828</u>	<u>(2.9)</u>

The Office of the State Auditor, established by Article VI, Section 1 of the Montana Constitution, has statutory responsibility to superintend the fiscal concerns of the state, suggest plans for improvement and management of public revenues, keep an accounting system of all state funds, and pay into the state treasury all funds and fees received. The state auditor is both ex-officio commissioner of insurance and ex-officio securities commissioner. The state auditor is charged with the duty of licensing and regulating insurance companies and agents within the state. The state auditor also is assigned the responsibility of regulating and registering issuers, broker-dealers, and investment advisors, and licensing all securities salesmen. The auditor is the director of the central payroll system which is responsible for paying state employees.

Authorized expenditures decrease 2.9 percent in the 1989 biennium largely due to removal of one-time expenditures for systems development costs and equipment costs for office and program automation, which exceed \$100,000 per year in the 1987 biennium, and the removal of one-time start-up costs for the non-gender insurance and title insurance law implementations.

The state special revenue fund expenditure increases 17.0 percent while general fund decreases in the 1989 biennium primarily as a result of utilizing a fund balance of over \$200,000 in the central payroll operating fund to fund biennium expenditures and increasing the fees charged to users of the fund by over \$100,000 per year over 1987 biennium fee levels.

The Office of the State Auditor is divided into four program and functional categories: Central Management Division, Audit Department, Insurance Department, and Securities Department. The agency underwent a functional reorganization in fiscal 1986, and the former Central Payroll Bureau and Management Control Bureau were combined to form the Audit Department. Some FTE were shifted between programs with no effect on total FTE.

CENTRAL MANAGEMENT DIVISION

Budget Item	Actual	Appropriated	- - Current Level - -		% Change
	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	1987-89 Biennium
F.T.E.	9.00	8.00	9.00	9.00	(1.00)
Personal Service	\$211,522	\$208,123	\$215,578	\$215,547	2.7
Operating Expense	78,908	144,461	43,102	40,492	(62.6)
Equipment	73,681	-0-	423	-0-	(99.4)
Total Expenditures	<u>\$364,111</u>	<u>\$352,584</u>	<u>\$259,103</u>	<u>\$256,039</u>	<u>(28.1)</u>
Fund Sources					
General Fund	<u>\$364,111</u>	<u>\$352,584</u>	<u>\$259,103</u>	<u>\$256,039</u>	<u>(28.1)</u>

The Central Management Division of the State Auditor's Office is responsible for centralized services, including personnel, payroll, accounting, data processing assistance, mail service, administrative and budgeting functions for the agency.

Operating expenses and equipment costs decrease sharply as a result of moving over \$100,000 in office automation costs, resulting in an overall 28.1 percent decrease in the 1989 biennium.

Fiscal 1986: Comparison of Actual Expenses to the Appropriation

The following table compares fiscal 1986 actual expenditures and funding to appropriations as anticipated by the 1985 legislature.

Table 1
Comparison of the Appropriation to Actual Expenses - Fiscal 1986

Budget Item	Legislature	Actual	Difference
F.T.E.	8.00	9.00	(1.00)
Personal Service	\$229,915	\$211,522	\$18,393
Operating Expense*	70,022	78,908	(8,886)
Equipment	64,990	73,681	(8,691)
Total Exp. & Gen. Fund	<u>\$364,927</u>	<u>\$364,111</u>	<u>\$ 816</u>

*The biennial appropriation for the Legislative Audit cost does not include \$2,892 which was not expended in fiscal 1986.

The 1.0 difference in appropriated versus actual FTE is due to an agency reorganization which shifted one FTE to this program from the Audit Insurance Department. Personal services were overbudgeted in the 1987 biennium. Operating expense and equipment expenditures were increased with the excess personal service dollars. Operating expenses were expanded approximately \$4,200 for contract services, \$2,100 for postage, and \$2,000 for rent to the Department of Administration. The major equipment purchased but not budgeted for was \$10,057 for an automobile.

Current Level Adjustments

Central Management Division gains one FTE over the 1987 biennium appropriation as a result of an agency reorganization, which did not affect total agency FTE. Operating expenses decrease \$35,806, or 62.6 percent, because one-time costs of \$38,530 appropriated by the 1985 legislature for warrant writing system improvements and for office automation feasibility study, development, and partial implementation were removed from current level. The office automation project was fully funded in the 1987 biennium, but the warrant writing system improvements were not budgeted for full implementation in the 1987 biennium. One-time operating expenses of \$2,545 for consulting and professional services were also removed from current level. Bonds and insurance costs increase \$3,557. Audit fees of \$2,832 are in fiscal 1988 only. Audit costs were \$3,864 in the 1987 biennium, of which only \$972 were expended in fiscal 1986. Other minor adjustments decrease operating expenses \$691, while inflation adds \$543. Equipment is budgeted at \$423 for a file cabinet and microfiche reader.

AUDIT DEPARTMENT

<u>Budget Item</u>	Actual	Appropriated	- - Current Level - -		% Change 1987-89 Biennium
	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	
F.T.E.	19.50	20.00	19.50	19.50	(0.50)
Personal Service	\$ 393,135	\$400,281	\$ 406,143	\$405,653	2.3
Operating Expense	598,913	575,141	610,025	564,558	0.0
Equipment	20,401	-0-	3,320	-0-	(83.7)
Total Expenditures	<u>\$1,012,449</u>	<u>\$975,422</u>	<u>\$1,019,488</u>	<u>\$970,211</u>	<u>0.1</u>
<u>Fund Sources</u>					
General Fund	\$ 708,473	\$707,391	\$ 552,066	\$512,046	(24.8)
State Special	303,976	268,031	467,422	458,165	61.8
Total Funds	<u>\$1,012,449</u>	<u>\$975,422</u>	<u>\$1,019,488</u>	<u>\$970,211</u>	<u>0.1</u>

The Audit Department is comprised of two divisions, Fiscal Management Division and Central Payroll Division. The Fiscal Management Division is responsible for

preparing and mailing state warrants and for depositing all monies received by the state auditor. The Central Payroll Division is responsible for preparing the state payroll for all state agencies. The bureau is responsible for maintaining the data base for the Payroll/Personnel/Position Control System (PPP), which is an integrated data base system incorporating all the requirements and data elements of three systems -- payroll, personnel, and position control.

The state special revenue central payroll operating fund expenditures increase nearly \$200,000 per year as a result of utilizing nearly \$100,000 per year of the existing fund balance for biennium expenditures and increases in payroll service fees by over \$100,000 per year.

Fiscal 1986: Comparison of Actual Expenses to the Appropriation

The following table compares fiscal 1986 actual expenditures and funding to appropriations as anticipated by the 1985 legislature.

Table 2
Comparison of the Appropriation to Actual Expenses - Fiscal 1986

<u>Budget Item</u>	<u>Legislature</u>	<u>Actual</u>	<u>Difference</u>
F.T.E.	20.00	19.50	0.50
Personal Service	\$ 413,003	\$ 393,135	\$ 19,868
Operating Expense*	603,010	598,913	4,097
Equipment	750	20,401	(19,651)
Total Expenditures	<u>\$1,016,763</u>	<u>\$1,012,449</u>	<u>\$ 4,314=</u>
<u>Funding</u>			
General Fund	\$ 709,852	\$ 708,473	\$ 1,379
State Special	306,911	303,976	2,935
Total Funds	<u>\$1,016,763</u>	<u>\$1,012,449</u>	<u>\$ 4,314=</u>

*Does not include \$6,968 of the biennial appropriation for the Legislative Audit cost which was not expended in Fiscal 1986.

The 0.5 FTE reduction from appropriated occurs due to a reorganization that shifted a 1.0 FTE administrative aide position from this department to central management, while a 0.5 FTE payroll clerk position was gained from the Insurance Department. Personal service dollars not utilized were expended for multi-user computers. The major changes in operating expense were that consulting and professional services were underspent by \$141,251, while overspending of \$100,804 occurred in Department of Administration systems development and computer processing. The appropriation in both areas is for system development and operation of the central payroll system and warrant writing system. The difference is primarily an offset, as the agency uses Department of Administration services instead of outside services. Other areas where overspending occurred were printing costs of \$12,400, postage and mailing of \$6,739, and repair and maintenance on office equipment of \$10,288.

Current Level Adjustments

Operating expenses are decreased by \$9,760 in professional services, primarily in one-time office remodeling costs. Audit fees increase to \$40,217 in fiscal 1988, which includes an allocation of the agency audit as well as audits of the central payroll and warrant writing systems. Audit fees for the 1987 biennium are \$21,000, of which \$14,032 was expended in fiscal 1986. Other minor adjustments to operating expenses reduce costs by \$1,231, while inflation/deflation results in a net decrease of \$4,082. Equipment costs of \$3,320 are included for replacement of small office equipment.

Funding

The program obtains funds in the form of payroll service fees from agency non-general fund operations. These fees are deposited into the state special revenue central payroll operating fund. The state auditor receives a general fund appropriation for general fund supported payroll services. Fees are based on the number of payroll warrants issued per user agency.

INSURANCE DEPARTMENT

<u>Budget Item</u>	Actual	Appropriated	- - Current Level - -		% Change
	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989	1987-89 Biennium
F.T.E.	22.67	24.00	23.00	23.00	(1.00)
Personal Service	\$505,801	\$538,448	\$556,093	\$555,485	6.4
Operating Expense	193,183	145,257	165,152	158,291	(4.4)
Equipment	5,681	1,000	2,891	288	(52.4)
Total Expenditures	\$704,665 =====	\$684,705 =====	\$724,136 =====	\$714,064 =====	3.5 =====
<u>Fund Sources</u>					
State Special Revenue	\$704,665 =====	\$684,705 =====	\$724,136 =====	\$714,064 =====	3.5 =====

The Insurance Department is responsible for regulating activities related to the insurance industry in the state. The duties of the division include licensing of insurance agents, monitoring of trade practices and insurance rates, and the investigation of insurance-related consumer complaints. Section 33-30-105, MCA, requires the audit of non-profit health service organizations once every four years.

Operating expenses decrease primarily as a result of removal of one-time start-up costs of \$11,000 for the non-gender insurance law, \$8,000 for the new title insurance regulation law, and one-time remodeling expenses associated with the reorganization.

Fiscal 1986: Comparison of Actual Expenses to the Appropriation

The following table compares fiscal 1986 actual expenditures and funding to appropriations as anticipated by the 1985 legislature.

Table 3
Comparison of the Appropriation to Actual Expenses - Fiscal 1986

<u>Budget Item</u>	<u>Legislature</u>	<u>Actual</u>	<u>Difference</u>
F.T.E.	23.17	22.67	0.50
Personal Service	\$533,101	\$505,801	\$ 27,300
Operating Expense*	173,494	193,183	(19,689)
Equipment	2,664	5,681	(3,017)
Total Exp. & State Spec.	<u>\$709,259</u>	<u>\$704,665</u>	<u>\$__4,594__</u>

*Does not include \$8,268 of the Legislative Auditor biennial audit which was not expended in fiscal 1986.

The 0.5 difference in appropriated versus actual FTE is due to agency reorganization, which shifted a payroll clerk position to the Audit Department. Personal services were overbudgeted in the 1987 biennium and some of these extra personal service dollars were expended to increase operating expenses. Operating expenses increased approximately \$5,500 in contract services, \$10,000 in postage/phone costs, and \$4,000 in other expenses. The primary equipment not budgeted for but purchased was multi-user computers.

Current Level Adjustments

Operating expenses are decreased \$10,973 in fiscal 1988 for professional services, primarily for costs of remodeling the agency's offices. Legal fees and court costs are decreased \$2,179 at the agency's request, as are \$1,520 in computer production and support costs. One-time telephone expenditures of \$2,607 for reorganization and office automation are taken out of the base. Payroll service fees are added, costing \$1,436 and \$1,400 in fiscal 1988 and 1989 respectively. Audit fees are increased to \$7,396 in fiscal 1988. This level represents a decrease from the 1987 biennium audit fees, as audit fees for the 1987 biennium are \$9,240, but only \$972 was expensed in fiscal 1986. Other minor adjustments to operating expenses decrease the base \$1,030, and inflation adds \$1,418. An additional \$19,000 was taken out of current level for one-time set-up costs related to new laws for regulation of non-gender insurance provisions and title insurance. The agency did not separately account for these one-time cost provisions appropriated by the Forty-Ninth Legislature, so the reductions were made in the categories listed in Table 4 based on estimates.

Table 4
Current Level Reductions for Set-up Costs
Non-Gender and Title Insurance Laws

	<u>Non-Gender</u>	<u>Title Insurance</u>	<u>Total</u>
Legal Fees	\$4,000	\$3,000	7,000
Copying	1,000	1,000	2,000
Postage	---	3,000	3,000
Long Distance Calls	4,000	---	4,000
Out-of-State Travel	1,000	1,000	2,000
Meeting Rooms	500	---	500
Repair and Maintenance	500	---	500
Total	<u>\$11,000</u>	<u>\$8,000</u>	<u>\$19,000</u>

Budgeted equipment of \$2,891 in fiscal 1988 and \$288 in fiscal 1989 is for small office equipment.

SECURITIES DEPARTMENT

<u>Budget Item</u>	<u>Actual Fiscal 1986</u>	<u>Appropriated Fiscal 1987</u>	<u>- - Current Level - -</u>		<u>% Change 1987-89 Biennium</u>
			<u>Fiscal 1988</u>	<u>Fiscal 1989</u>	
F.T.E.	9.00	9.00	9.00	9.00	0.00
Personal Service	\$213,041	\$218,197	\$229,683	\$229,468	6.5
Operating Expense	43,467	39,900	39,763	37,046	(7.9)
Equipment	2,942	-0-	448	-0-	(84.8)
Total Expenditures	<u>\$259,450</u>	<u>\$258,097</u>	<u>\$269,894</u>	<u>\$266,514</u>	<u>3.6</u>
<u>Fund Sources</u>					
State Special Revenue	<u>\$259,450</u>	<u>\$258,097</u>	<u>\$269,894</u>	<u>\$266,514</u>	<u>3.6</u>

The Securities Department is responsible for the administration of the Securities Act of Montana. The division carries out licensing, regulation, and enforcement duties related to securities and investments.

Fiscal 1986: Comparison of Actual Expenses to the Appropriation

The following table compares fiscal 1986 actual expenditures and funding to appropriations as anticipated by the 1985 legislature.

Table 5
Comparison of the Appropriation to Actual Expenses - Fiscal 1986

<u>Budget Item</u>	<u>Legislature</u>	<u>Actual</u>	<u>Difference</u>
F.T.E.	9.00	9.00	0.00
Personal Service	\$217,923	\$213,041	\$ 4,882
Operating Expense*	42,358	43,467	(1,109)
Equipment	-0-	2,942	(2,942)
Total Exp. & State Spec.	<u>\$260,281</u>	<u>\$259,450</u>	<u>\$ 831</u>

*Does not include \$2,724 of the unexpended biennial legislative audit appropriation.

The underexpenditure in personal services is due to vacancy savings. Operating expenses were over the appropriation due primarily to an increase in postage and mailing expenses from \$990 to \$4,572. Travel was down about \$2,000. Equipment purchased included multi-user computers for \$2,414 and office equipment of \$528.

Current Level Adjustments

Consulting and professional services are reduced \$1,974 to reflect the agency's anticipated 1989 biennium expenditures. Education and training costs of \$920 are reduced to zero, as this was unbudgeted in prior years. Postage and mailing costs were reduced \$2,051 to reflect a three year average of costs. One-time expenditures of \$1,431 for phone system charges and registration fees for training were deleted from current level. Payroll service fees of \$562 and \$549 are added in fiscal 1988 and 1989 respectively, and audit fees of \$2,835 are added in fiscal 1988 only. Audit costs were \$3,696 in the 1987 biennium, of which only \$972 were expended in fiscal 1986. Inflation adds \$247 to the budget. Equipment budgeted is for a paper shredder and filing cabinets.

#5
1-13-87

Comments

State Auditor's Budget Request

Sub-committee on General Government Appropriations

January 13, 1987

Chairman Rehberg and members of the sub-committee:

Let me review the State Auditor's budget request on an area-by-area basis, beginning with Central Management. I would first like to point out that the primary difference between the LFA figures and the Budget Office figures provided for you is a cut of four (4) FTE positions by the Budget office to meet the 5% budget cut request in October. In addition, salary requests from this office include a 3% salary adjustment for exempt

employees to match cost-of-living increases anticipated for classified employees during the coming biennium. With those differences in mind, let me go over our budget requests.

CENTRAL MANAGEMENT

1. FTE: Budget Office figures show a reduction of two FTE positions in this area, an administrative assistant and a data processing technician. My office is requesting that these positions be maintained, and the LFA recommendation includes these positions. The administrative assistant position serves as the budget management position in charge of purchasing supplies and equipment, maintaining property inventory, equipment maintenance and repair, and assisting with payroll and warrant writing. This position is responsible for the preparation of SBAS documents for the office and assists in budget preparation and control. The data processing position fills a critical need in processing "service of process" notifications and preparing garnishee notices, notice of execution or other assignments for State of Montana employees. With the increase in workload in all areas of the Auditor's office, we cannot continue to process our work in a timely manner without these two key positions.

2. Salaries: As I mentioned previously, our salary request is somewhat higher than either the LFA or the Budget office because our request includes a 3% salary adjustment for exempt employees

to match cost-of-living increases which we anticipate would be received by classified employees.

3. Equipment: The LFA's recommendation has cut a portion of our request for the purchase of equipment. The request shown includes a micro-fiche reader and file cabinet. In addition, we are requesting office partitions for our word processing area, and a conference table. Currently, six word processing employees, their desks, file drawers and computer terminals share one working area, which also includes three computer system printers. Partitions for this work area are critical in order to provide better concentration, noise reduction and improved efficiency. The conference table now in use in our office seats only six people. Since the conference room is used for administrative hearings, for investigative meetings, and other meetings with consumers and industry representatives, we must have a conference table large enough to accommodate these needs.

AUDIT:

The main points of difference in this area include:

1. FTE: Budget office figures include the reduction of one FTE position in the warrant writing division. We are requesting that this position of Administrative Clerk be funded. This position is critical to the increased workload of processing warrants. Presently, all warrants processed through our system

are hand-processed. In order to complete our warrant responsibilities in a timely manner, we cannot afford to lose this position.

2. Supplies and Materials: Our request of \$33,438 includes only an inflation factor of 1%. A more accurate inflation factor in this area is approximately 6%. With the increasing numbers of warrants being processed by our office, the portion of this request for warrant stock and envelopes for the coming biennium is \$2000.00. (\$1000 per year - total request \$35,438) This figure reflects increased costs of \$540 for warrant supplies and \$460 for envelopes.

3. Communications: To accurately reflect our estimated communications costs in the Audit area, we are requesting an additional \$11,400 for each year of the biennium. As you know, we appeared before this same committee last week to request a supplemental budget request of \$11,400 to meet increased mail costs in the warrant writing system. We do not see that such costs will decrease in the coming biennium, and may, in fact, continue to increase. Our request reflects this anticipated increase in mail costs due to the increasing number of warrants processed.

Audit - Modified Budget Requests:

The State Auditor's office has submitted three modified budget requests for approval in the Audit Division. Two involve

the payroll, personnel, and position control system, or PPP, which would directly benefit state agencies. The first request seeks changes to the system to allow flexibility in the method of grouping personnel service budgets, and the other requests a study to determine the feasibility and cost effectiveness of putting the PPP system on-line. I would like to ask Richard Hall, our Data Management Specialist, to describe the benefits of these actions:

Our third modified budget request is for the design, development and implementation of a new warrant writing system. As the members of this committee are aware, the 49th Legislature funded a feasibility study for replacing the present warrant writing system. We have provided you with a copy of the completed study which sets out the process followed and the recommended alternative.

Our recommended alternative allows for a system which best meets the statutory requirements and processing requirements for the warrant system. The Montana Code stipulates that moneys can be paid out by the state treasurer only upon state warrant issued by the state auditor. My office is totally responsible and accountable for all funds paid out. The implementation of a new system will allow me to meet this statutory authority and insure a warrant system capable of carrying us into the future.

The implementation of a new warrant system is imperative. Card stock now used for warrants is becoming increasingly more

scarce as the federal government and others have switched to paper. In fact, there is now only one vendor who still supplies card stock and we have no assurance that they will continue offering the card stock needed for the present system. The equipment itself is antiquated to a point that each day we hold our breathe and keep our fingers crossed that we'll make it through the day without a breakdown. Parts are no longer available for the equipment, and technicians are no longer trained in how to repair it. A breakdown of any sort would effectively put the warrant system out of commission for an undetermined period of time. In addition, there is no backup system in case of such breakdown.

The new warrant system is our number one priority budget item. Members of my staff and others familiar with both the system and the study are present, and we will be happy to answer any questions the committee may have.

INSURANCE

1. FTE: Again, the Budget Office's recommendations shows a reduction of two FTE positions in the Insurance Department, while the LFA proposal includes those positions as current level. The two FTE positions mentioned are an administrative officer III, and one unclassified position from the Montana Insurance Assistance Plan (MIAP). Again, we are requesting that these positions not be cut. The administrative officer position

serves as the administrative hearing officer and arbitrator for the insurance department in all administrative actions against insurance companies or agents. This position also provides personnel services for the insurance department in hiring, and provides some assistance in agent licensing examinations. The other position is currently staffing the Montana Insurance Assistance Plan. While it is anticipated that this program will not continue statutorily beyond this fiscal year, the recent liability insurance crisis has pointed out the need to continue providing marketing assistance to Montana agents and their consumers in their efforts to locate insurance of all types. It is essential that the efforts the department has begun to help develop insurance markets in the state of Montana continue. We have made headway in establishing a strong communication link between our department, the insurance companies, insurance agents and insurance consumers in this state. Given the continuing problems in the insurance market and the increasing demands from the public, it is necessary that these positions are funded.

2. Communications: The figures for the insurance communications budget show reductions in both postage and telephone areas. Our budget supplemental requests, presented to this committee last week, did include a \$6000 request for insurance communications, reflecting an increase in that budget resulting from the ongoing liability insurance crisis. Our budget request in this area reflects those increased costs.

3. Repair and Maintenance: The LFA's recommendation for repair and maintenance reflects a sizeable decrease in anticipation that maintenance contracts for equipment no longer in use would reduce this budget area. While we have gotten rid of Systems 6 equipment, maintenance contracts for the WANG computer system more than offset any reductions. Our request includes an additional amount for maintenance of WANG terminals now in use in the office. At present time, two terminals are in need of repair and we ~~are~~ do not have maintenance contracts. Richard Hall can provide additional details if you have further questions.

4. Equipment: Our request included dividers for the policyholders services division. That appropriation has been deleted from the LFA's recommendation. There are 6 persons sharing one office in the policyholders services division. Since consumers frequently meet with staff members in this office to discuss consumer complaints, some measure of privacy is needed. Partitions in this work area would increase efficiency, provide a more confidential and private meeting place for consumers, and reduce the overall noise level in the office.

INSURANCE - MODIFIED REQUESTS

We are requesting 7 FTE positions in the insurance department. To effectively regulate the insurance industry in

this state, to provide protection for insurance consumers, and to respond to problems like the current liability insurance crisis, it is imperative that our department be adequately staffed and funded. Our modified requests reflect necessary additions to let our department fulfill its statutory responsibilities. Our modified requests include:

Legal Unit - .5 FTE attorney - In 1985, the legal division represented the insurance department in 9 administration actions. In 1986, that number more than doubled. We receive complaints routinely that we should take administration action in other violations, but we simply do not have the staff necessary to complete those actions. In addition to responding to a wide range of routine legal requests from insurers, the legal division has dealt with significant workloads in actions involving Glacier General, Intermountain Insurance and Life of Montana, and the precedent-setting Belthe case, all of which are still on-going.

Policyholders' Services Division:

2 FTE - Field Investigative Officers to insure compliance with the Montana Insurance Code and investigate possible code violations; to investigate company use of rates to insure that companies are not violating filed rates and using artificially low or high rates. This would greatly strengthen our rate filing law, and give us the means to enforce insurance laws in this state.

.5 FTE - Compliance Specialist II to handle consumer inquiries and investigate and resolve complaints dealing with non-gender insurance. We coordinate with the Human Rights Commission on non-gender complaints, and there is no reason to believe the such complaints will stop in the coming biennium.

Licensing Division:

1 FTE - Administrative Aide to assist in licensing agents, administrators and consultants, and surplus lines agents. The addition of this FTE would allow the licensing division to consolidate all licensing functions. Currently, different areas of the department are responsible for the different types of licensing requirements. If all licensing were handled by the Licensing Division, there would be increased efficiency concerning inquiries, complaints and agent regulation.

Examinations Division

1 FTE - Actuary to review the adequacy of insurer's loss reserves, evaluate the adequacy of premium rates and assist in examining insurers in the state of Montana. This position is critical since we do not presently have the technical expertise necessary to evaluate if premium rates are inadequate or excessive. This position would also expand the department's ability to detect insurers with inadequate loss reserves, and take the necessary corrective action.

1 FTE - Compliance Specialist II would assist the Chief Examiner

in the financial oversight of insurers operating in Montana, including review of examination reports, financial analysis and the review and development of audit programs. The addition of this FTE would allow the examinations department to carry out these vital functions.

1 FTE - Administrative Aide to handle typing, filing and other clerical and administrative duties. At present, these tasks must be handled by the Chief Examiner or the two compliance specialists. This position would free up their time, and allow the department to eliminate backlogs in filing and other administrative functions.

Our other two modified requests relate to enhancements of the WANG computer system which are essential to the system. I would like to again call on Richard Hall to provide you with further details about these requests. (RICHARD SPEAKS)

SECURITIES

The primary areas of difference in the securities budget are:

1. Communications: The LFA proposes to reduce the postage budget by \$2000. We have no reason to believe that our postage costs will decrease, and we are asking that our request be fully funded.

2. Equipment: Our request includes an appropriation for a WANG

PC system to allow the department to use the software program LOTUS in order to complete financial analyses in connection with securities fraud investigations. These records must now be prepared and analyzed by hand, on ledger paper. Since most other states have now incorporated the LOTUS system into their investigations processes, the addition of this equipment would mean that such information could be shared reducing both time and cost involved in such fraud investigations.

SECURITIES - MODIFIED REQUESTS

We have two modified budget requests in the securities department.

.5 FTE - Lawyer (to be shared with insurance Department)

The department has had a marked increase in the number of criminal cases it handles. In 1985, 2 criminal cases were processed. In 1986, 4 were filed, and this far in 1987 we ^{are} ~~have~~ conducting 7 criminal investigations which we expect to be filed within a few months. The department also needs substantial revisions to its administrative rules, in order to keep current with new developments in the securities industry and legislative enactments. The current staff has not had time to draft the rules or hold public hearings. In 1985, 26 administrative actions were handled as a result of securities investigations. In 1986, that number rose to 45.

Lektriver File System: We are also requesting one Lektriever filing system. This request simply reflects our current lack of filing space for securities documents and filings. The current filing system holds about 9 months worth of files. The remaining three months must be stacked on the floor or on top of other filing cabinets. This is not only an ineffecient system, but we do have confidential documents which must be filed. This system takes up the space of 6 filing cabinets, but holds the records of 14 regular filing cabinets.

.5 FTE - Compliance Specialist II to handle consumer inquiries and investigate and resolve complaints dealing with non-gender insurance. We coordinate with the Human Rights Commission on non-gender complaints, and there is no reason to believe that such complaints will stop in the coming biennium.

Licensing Division:

1 FTE - Administrative Aide to assist in licensing agents, administrators and consultants, and surplus lines agents. The addition of this FTE would allow the licensing division to consolidate all licensing functions. Currently, different areas of the department are responsible for the different types of licensing requirements. If all licensing were handled by the Licensing Division, there would be increased efficiency concerning inquiries, complaints and agent regulation.

Examinations Division

1 FTE - Actuary to review the adequacy of insurer's loss reserves, evaluate the adequacy of premium rates and assist in examining insurers in the state of Montana. This position is critical since we do not presently have the technical expertise necessary to evaluate if premium rates are inadequate or excessive. This position would also expand the department's ability to detect insurers with inadequate loss reserves, and take the necessary corrective action.

1 FTE - Compliance Specialist II would assist the Chief Examiner

#6
1-13-87

STATE AUDITORS OFFICE
JANUARY 13, 1987

INSURANCE DEPARTMENT FTE BUDGET MODIFICATION REQUESTS

The Insurance Department is requesting the addition of 6.5 FTE. An explanation of each position follows:

Policyholders Services

		<u>FY88</u>	<u>FY89</u>	<u>Bienniu</u>
A) Title:	2			
Field Investigative Officers	2 (X FTE)	\$78,444	\$76,056	\$154,500

Priority:

General Description: Perform field investigation, audits and examinations as follows:

- 1) Agents and Agencies
 - a) audit books and records of agencies and agents to insure compliance with the Montana Insurance Code and investigate possible code violations.
 - b) examine agency/agent conduct of business to insure code compliance and investigate possible code violations.
 - c) review actions taken by other states and whether similar action is warranted in this state.
- 2) Rate Compliance - Would investigate company use of rates and possible code violations. This would be extremely important particularly in soft market situations for determining which companies were violating filed rates and using artificially low rates. Puts some teeth into rate filing law.
- 3) Liaison - Serve as liaison with various law enforcement entities. Would be important in:
 - a) Cases where there are criminal as well as insurance code violations.

Justification:
New Program

Need - no adequate field program to insure compliance with Montana Insurance statutes.

Consistency with goals & objectives - provide more adequate regulation of insurance business in this state as we are required to do under the Montana Insurance Code.

Consistency with statutory obligations - Enforcement of the following: 33-1-311, 33-1-402, 33-1-403, 33-1-501, 33-16-203, 33-17-1101 et seq, MCA.

Funding: Insurance earmarked

Long-term outlook: Continuation of program would involve two (2) FTE's at anticipated grade 14. Would help insure Montana residents have fair and reasonable insurance rates.

Estimated expenditures:

Additional Comments: Field investigators would cover assigned areas

- 1) Western Montana
- 2) Eastern Montana

Would require knowledge of accounting, rate making and investigation techniques. Computer fraud detection skills would be helpful as program develops.

<u>Title:</u>	Compliance Specialist II (non-gender)	FY 88 \$11,411	FY 89 \$11,370	Biennium \$22,781
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Priority: Insurance Department

General Description: Handle consumer inquiries and investigate and resolve complaints against or involving insurance companies, agents, adjusters, administrators or other industry organizations. Respond to insurance informational inquiries from the general public, industry, professional bodies and other governmental entities. Insure compliance in various insurance transactions with policy provisions, state law regulation, court decisions; and industry standards.

Justification: The position is currently filled full time. This position handles inquiries and complaints from Montana residents concerning non-gender insurance and title insurance. An investigation of a complaint is made and carried through to resolution.

Non-gender complaints are closely coordinated with the Human Rights Commission. The non-gender insurance law and title insurance law both became effective October 1, 1985. The department has received both non-gender and title insurance inquiries every month. There is no reason to believe that non-gender inquiries and complaints will cease after January 1, 1987.

Without this half time position, non-gender complaints and inquiries will not be addressed as they are currently.

Funding: Earmarked, Insurance funds.

Long-term Outlook: There would be a need for this half time position after the 1987 biennium. No reason to believe complaints on non-gender will stop.

Licensing Division

FY 88
\$17,149

FY 89
\$15,998

Biennium
\$33,147

Title: Administrative Aide

Priority: Insurance Department

General Description: The Administrative Aide would be responsible for various clerical duties in the division.

Justification: The addition of an administrative aide would enable all licensing to be handled by the Licensing Division. Currently, the Examiners Division handles administrators and consultants licensing. Policyholders Services Division licenses surplus lines agents.

If all licensing were handled by the Licensing Division, there would be increased efficiency concerning inquiries, complaints and agent regulation. The other Divisions would be able to direct more time to completion of their tasks.

Additionally, in the licensing division, every day tasks go uncompleted in lieu of priority licensing. These every day tasks include the up date of important information used in completing the priority licensing. The three FTE currently in the Insurance Division do not have the time to complete these secondary tasks on a daily or weekly basis. They are completed as time permits.

The tasks which they try to incorporate into the everyday routine are filing, termination report processing, return mail updating, agent deletions, address changes and form requests. These duties also could easily be handled by an administrative aide. The aide would also be instrumental during the licensing renewal period for attaining on-time completion.

Funding: Insurance earmarked

Long-term outlook: Continuation of position, 1 FTE grade 6

Examiners Division

FY 88
\$59,756

FY 89
\$58,416

Biennium
\$118,172

Title: Actuary

General Description: This person would review the adequacy of insurer's loss reserves, evaluate the adequacy and/or appropriateness of premium rate filings and assist in the examination of insurers domiciled in the state of Montana.

Justification: At the present time, the Montana Insurance Department has no one with the technical expertise to evaluate whether premium rates charged by insurers in Montana are either inadequate or excessive. The addition of an actuary would permit such review on a selective basis. Furthermore, an actuary would greatly expand this office's ability to detect insurers with grossly inadequate loss reserves. The timely identification of such insurers would permit the department to take regulatory action against such insurers before they become insolvent. Finally, the assistance of an in-house actuary would enable more thorough examinations of Montana insurers in the critical areas of reserves and pricing.

Funding: Earmarked Insurance Funds

Long-term Outlook: Continuation of this position, to ensure Montana residents are charged fair and reasonable rates for the insurance they purchase.

Title: Compliance Specialist II

FY 88
\$32,450

FY 89
\$31,219

Biennium
\$63,669

General Description: This person would directly assist the Chief Examiner in the financial oversight of insurers operating in Montana.

Justification: At the present time, the following tasks are either being addressed inadequately or have not been addressed at all in the Examiner's Division:

- 1) development of audit programs and financial analysis worksheets for the examination of Montana domiciled insurers.
- 2) review of examination reports of non-domestic insurers.
- 3) review of applications for admission of insurers into Montana (six-month backlog exists).
- 4) timely annual financial analysis of domestic and non-domestic insurers' financial statements (very little was done in 1985).
- 5) record-keeping on the deposits of securities with the Commissioner by various insurers.
- 6) financial review of all prospective surplus lines insurers for a determination of their inclusion on the department's "approved" list.

The addition of a Compliance Specialist would enable the Montana Insurance Department to carry out these vital functions.

Funding: Earmarked Insurance Funds

Long-term Outlook: Continuation of this position, 1 FTE, Grade 12, to ensure responsibilities of the Examiners Division are fulfilled.

<u>Title:</u>	Administrative Aide	FY 88 \$17,149	FY 89 \$15,998	Biennium \$33,147
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General Description: The individual in this position will handle typing, filing, answering telephone calls, reviewing and distributing mail and other miscellaneous tasks.

Justification: Such tasks as typing, filing, reviewing and distributing mail and answering phone inquiries could be done more economically by an administrative aide than by the Chief Examiner or a compliance specialist. In addition, the recording and filing backlog in the rates and forms area, as well as the backlog of purging files, could be eliminated.

Finally, certain other new functions require implementation, namely, the recording of premium tax payments on a quarterly basis (as proposed in new legislation) and the cross checking of insurers' financial data before entering in an in-house data base reflecting insurers; Montana business experience. The addition of an administrative aide would permit these important steps to be completed in a cost-effective manner.

Funding: Earmarked Insurance Funds

Long-term Outlook: Continuation of position, 1 FTE Grade 6 or 7

1988-89 MODIFIED BUDGET REQUESTS

STATE AUDITOR'S OFFICE
INSURANCE DEPARTMENT

Examiners Office - Actuary 1.00 FTE

The actuary reviews the adequacy of insurer's loss reserves. Evaluates the adequacy and/or appropriateness of premium rate filing, and assists in the examination of insurers located in the state. State special.

Cost: \$59,756 FY88 \$58,416 FY89

Policyholders Service - Field Investigative Officers 2.00 FTE

Field investigative officers perform filed investigations, audits and examinations to ensure compliance with Montana Insurance Codes. State special.

Cost: \$78,444 FY88 \$76,056 FY89

Legal Unit - Lawyer 0.5 FTE

The department requests the addition of a staff attorney to research legal questions referred to the Legal Unit and to prepare and prosecute insurance violation cases at the administrative hearing and District Court. State special.

Cost: \$15,342 FY88 \$14,724 FY89

Examiners Office - Compliance Specialist II 1.00 FTE

The compliance specialist directly assists the chief examiner in the financial oversight of insurers operating in Montana. State special.

Cost: \$32,450 FY88 \$31,219 FY89

Examiners Office - Administrative Aide 1.00 FTE

An individual is needed to assist the chief examiner and compliance specialist with typing, filing, answering telephones, reviewing and distributing mail. State special.

Cost: \$17,149 FY88 \$15,998 FY89

Licensing Division - Administrative Aide 1.00 FTE

The additional FTE would enable the Licensing Division to handle all licensing for the Insurance Department. State special.

Cost: \$17,149 FY88 \$15,998 FY89

Policyholders Service - Compliance Specialist II 0.5 FTE

The compliance specialist responds to informational inquiries, investigates and resolves complaints. State special.

Cost: \$11,411 FY88 \$11,370 FY89

Additional disk storage for WANG VS 65 computer would be provided with the purchase of a 288 megabyte removable disk drive and back up disks. State special.

Cost: \$16,250 FY88 \$1,250 FY89

Office automation needs include a high speed line printer for data processing output from WANG VS 65 computer and a high speed laser printer for high volume letter quality output. State special.

Cost: \$25,400 FY88 \$2,900 FY89

TOTAL MODIFIEDS:

Cost: \$273,351 FY88 \$227,931 FY89

MODIFIED BUDGET REQUESTS VS HOUSE BILL 372

Modifieds Funded From Net Proceeds H.B. 372

Current H.B. 372 Net Proceeds = \$ 117,497/year

	<u>FY88</u>	<u>FY89</u>
(1) Actuary	\$59,756	\$58,416
(1) Field Investigator	39,222	38,028
(1) Admin. Aide-Examinations	<u>17,149</u>	<u>15,998</u>
	<u>\$116,127</u>	<u>\$112,442</u>

7
1-12-87

STATE AUDITOR'S WARRANT WRITING SYSTEM STUDY

Submitted by

Systems Development Bureau
December 19, 1986

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INTRODUCTION

This Warrant Writing System Study is done at the request of the State Auditor's Office. Its main directive is to address the conversion from card stock to paper stock, cash management, records management, and other functions that should be considered in a warrant system. The study is also intended to investigate the feasibility of consolidating all warrant processing including warrant writing that is currently done external to the existing State Auditor's Warrant Writing System.

SCOPE

The scope of this project includes:

- ° Review the current warrant processing environment including the University of Montana (U of M), Montana State University (MSU), and the Department of Social and Rehabilitation Services (SRS).
- ° Identify the requirements for a new warrant processing system.
- ° Identify alternative software and hardware solutions.
- ° Identify the costs and benefits.

The scope of this project does not include other systems that are independent of the State Auditor's system. These include the Employment Security Division's benefits payments, Workers' Compensation Division's compensation payments, and various contingency fund (checking) accounts for State agencies and the units of the University System.

CURRENT WARRANT PROCESSING

OVERVIEW

The State Auditor's Office is responsible for the overall control and operation of warrant processing which involves all claims made on the State Treasury for the payment of state funds. Section 17-8-301, MCA. It works closely with the Department of Administration's Accounting Division, Treasury Bureau, and Information Services Division to ensure the system's integrity and reliability.

The present State Auditor's warrant processing system is composed of internal and external warrants. Internal warrants are written in the State Auditor's warrant writing system (all-purpose warrants) while external warrants are written in other systems. Cashing and reconciliation are centralized under the Treasury Bureau and the State Auditor's control. External warrants are written by the University of Montana (U of M), Montana State University (MSU), Central Payroll, and Department of Social and Rehabilitation Services (SRS).

OBJECTIVES OF THE PRESENT SYSTEM

The objectives of the State Auditor's warrant processing system are:

- ° Meet the State Auditor's statutory responsibility to approve all funds drawn on the State Treasury.
- ° Produce (issue) state warrants in a timely manner.
- ° Produce (issue) emergency state warrants in a timely manner.
- ° Provide system security to prevent the misuse of state warrants or the warrant processing system.
- ° Process cashed warrants.
- ° Support warrant maintenance functions (cancellation, duplicate issue, stop payment, forgery identification, providing proof of payment for investigations, stale-dating, and voiding warrants).
- ° Provide system accountability and auditability for warrants and the funds on which they were drawn.
- ° Provide for the filing, archiving, and retrieval of cashed warrants.

The objectives of the U of M's warrant processing system are:

- ° Produce payroll warrants and electronic funds transfers (EFT's) in a timely manner.
- ° Produce warrants for vendor payments.

The objectives of the MSU's warrant processing system are:

- ° Produce payroll warrants in a timely manner.
- ° Support timely direct deposit for payroll.
- ° Produce and distribute payee payroll information in a timely manner.

The objectives of the SRS warrant processing system are:

- ° Print and distribute AFDC, Medicaid, and SRS Database warrants in a timely manner.
- ° Provide the necessary pre-printed information on each AFDC warrant as required by Federal regulations.

The objectives of the Central Payroll (warrant) Processing system are:

- ° Produce State employees' payroll warrants and direct deposits (EFT's) in a timely manner for distributing or depositing.

CURRENT WARRANT PROCESSING

All warrants processed through the State Auditor's warrant system require a Transfer Warrant Claim (form 231) to be processed through SBAS before the actual warrants can be created. This Transfer Warrant Claim, after it is processed by the Department of Administration's Accounting Division, is the necessary authorization to produce warrants. The Warrant Transmittals (part of each form 231) and Warrant Authorization slips are delivered to the State Auditor's Office daily to initiate warrant processing. Payroll warrants may be produced prior to the Accounting Division's approval, but a Transfer Warrant Claim is still required.

The State Auditor's Office controls the use of warrant stock for all warrants written on the Department of Administration's Information Services Division's computer. This stock is delivered daily to the Information Services Division for printing the warrants and warrant reports. All warrant stock and reports are returned to the State Auditor's Office where the written warrants are signed and verified, and distributed to the agencies or prepared for mailing. The U of M and MSU write warrants at their respective sites and provide control of stock and distribution comparable to the procedures in the Auditor's Office.

The Department of Administration's Treasury Bureau is responsible for the final payment of the cashed warrants including those written by the U of M, MSU, SRS, and Central Payroll. The payment amount is determined from the cashed warrants received each business day from a local bank that has been identified as the clearing bank. The Treasury Bureau reconciles the number of cashed warrants received and their total amount before delivering them to the State Auditor's Office.

The State Auditor's Office processes the cashed warrants to update the warrant system files. The daily cashed warrants are then filed with previously cashed

warrants for future reference. All cashed warrants are microfilmed and archived thirteen months after they were written.

University of Montana. Payroll warrants and electronic funds transfers (EFT's) are produced on the third work day of the following month for the faculty, staff, and other employees. These payments are deposited, distributed for mailing, or delivered to the campus dormitories on or about the eighth of the month. EFT data is transmitted to the Information Services Division's computer where it is captured on magnetic tape, delivered to the Treasury Bureau, and then to the Federal Reserve Bank for distribution to the employees' accounts. Almost 50% of the U of M payroll is direct deposit.

The U of M purchases and controls the warrant stock that they use.

Montana State University. Payroll warrants are written three times each month for distribution on or before the 11th, 15th, or 26th respectively. The main payroll (11th) is distributed to the payees and hand-carried to the local banks for "direct deposit". The other payrolls are distributed or mailed to the payees.

MSU purchases and controls the warrant stock that they use.

Department of Social and Rehabilitation Services. Warrants are written monthly for AFDC and weekly for Medicaid and SRS Client Database payments. These warrants are distributed as required by regulations to the payees.

SRS purchases the warrant stock that they use. Federal requirements for pre-printed information that must accompany each warrant virtually prevent the use of computer generated messages. The amount of information will not fit on the present warrant stub using computer printing. The AFDC, Medicaid, and SRS Database payments systems also capture and use the warrant number to tie the payees to the benefits or services for which the warrant was written. Warrant numbers are captured before the warrants are written.

The warrant stock is stored and controlled by the Auditor's Office.

Central Payroll. State employees' payroll warrants and direct deposits (EFT's) are written biweekly for distribution to the employees or their designated banks. Direct deposits are written to magnetic tape in the Information Services Division and delivered to the Federal Reserve Bank for distribution to the employee accounts. Almost 40% of this payroll is direct deposit.

Central Payroll purchases the warrant stock that they use. The stock is stored and controlled by the Auditor's Office.

Operational Processes

Clerical Operations. The clerical operations in the State Auditor's Office for processing warrants are:

- ° Maintaining logs showing the numbers of warrants checked out for writing, written, damaged, and checked back into the storage area.

- ° Providing delivery and pickup of warrant stock used to produce the All-Purpose, Central Payroll, and Department of Social and Rehabilitation (SRS) warrants.
- ° Signing the All-Purpose, Central Payroll, and SRS warrants with the State Auditor's signature.
- ° Balancing the number and amounts of warrants written with the daily Warrant Authorization from the Department of Administration's Accounting Division.
- ° Performing sight verification of warrants written and signed. This includes verifying warrants with Warrant Transmittals for single vendor claims.
- ° Distributing warrants to the appropriate agencies or inserting the warrants, with other documents if available, in envelopes for zip code sorting and mailing.
- ° Distributing the daily Warrant Register as required.
- ° Preparing and distributing emergency warrants as required.
- ° Processing requests for stop payments, duplicate warrants, and copies of warrants for investigations.
- ° Processing warrant cancellations, voids, and stale-dates.
- ° Processing cashed warrants daily. This includes counting, sorting, stamping "PAID" on each warrant, merging and filing with previously cashed warrants, and filing mutilated warrants.
- ° Maintaining ledgers for emergency warrants, duplicates, voids, stale-dates, and forgeries.
- ° Posting and balancing (monthly) of amounts by warrant type for all warrants processed.
- ° Microfilming and archiving cashed warrants after 13 months.

Automated Operations. The automated operations for processing warrants are performed on the Department of Administration's Information Services Division's computer. They are:

- ° Daily
 - Provide a preliminary edit and balance report for all warrant source data (payee information).
 - Merge external warrant source data with internal warrant issued data.
 - Edit and balance the warrant information.

- Write the All-Purpose warrants, Warrant Register, and Monitor List.
 - Edit all cashed warrants and update the Warrant Master file.
 - Edit any corrections and update the Warrant Master file. Corrections consist of flagging existing warrant records as cancelled (C), duplicate (D), stop payment (S), or void (V).
- ° As Required
- Edit and balance externally produced warrant files before these records are added to the Warrant Master file.
 - Reformat the warrant records produced by the U of M and MSU before adding them to the Warrant Master file.
- ° Monthly
- Purge warrants from the Warrant Master file that have been voided or cancelled.
 - Create reports for Warrants Issued Monthly, Stale-dated Warrants, Outstanding Warrants, Monitor List, and Warrant Master List.
 - Create disaster backup files for Cashed and Stale-dated Warrants.
 - Create files for Monthly Cashed Warrants, YTD Cashed, and Stale-dated Warrants, and Control file backup.

Bank Processing (Cashing). Cashed warrants are processed each business day by a local bank that has been identified as the clearing bank for State warrants. The clearing bank receives cashed warrants from the Federal Reserve System. It sorts these warrants by series and warrant number (MICR numbers) which separates the cashed warrants into two groups, readable (good) and non-readable (rejects). These two warrant groups and a detailed computer report that lists each warrant are delivered to the Treasury Bureau.

Treasury Bureau (Cashing). Workers' Compensation Division warrants and State Auditor's emergency warrants are removed from the batch of cashed warrants received from the clearing bank. A recap list showing the number of warrants and dollar amounts by warrant series is prepared for the remaining warrants. These remaining cashed warrants and the recap report are delivered to the Information Services Division where the cashed warrants are matched against the warrant data transmitted daily via RJE from the clearing bank. This matching process produces a report used by the Treasury Bureau to reconcile its cashed warrant count and amount with the one reported by the bank. These figures must balance before the cashed warrants are processed through the State Auditor's system.

Missing cashed items are also identified at this time. When this occurs, the Treasurer requests the clearing bank to either produce the missing cashed warrant or a photo copy of it before it can be accepted as cashed.

The Workers' Compensation Division warrants are sent to the Department of Labor's Workers' Compensation Division for cashing in their system. The emergency warrants are returned to the State Auditor's Office for cashing using a manual system maintained for emergency warrants.

DESIRABLE FEATURES

The following are desirable features of the State Auditor's current system.

- ° Warrants processed through the clearing bank (cashed warrants) are all accounted for by the Treasurer before the State Auditor's corresponding outstanding warrant records are flagged as cashed.
- ° Retrieval of a specific cashed warrant is easy.
- ° Security is relatively simple because all warrant processing (except U of M and MSU) and storage is in one building.
- ° Warrants are processed in a timely manner from the actual writing to the mailing or distribution of each batch.
- ° There is a good working relationship between all the agencies involved in the warrant process.

The following features of the current U of M warrant writing system are desirable:

- ° Warrants are printed and distributed to the payees in a timely manner.
- ° Electronic funds transfers are supported for direct deposit payrolls.

The following features of the current MSU warrant writing system are desirable:

- ° Warrants are printed and distributed to the payees in a timely manner.

The following features of the current SRS warrant writing system are desirable:

- ° Warrants are printed and distributed to the payees in a timely manner.
- ° SRS can attach additional statements (Statements of Remittance) to the warrants as required to be sent with certain payments.

The following features of the current Central Payroll warrant writing system are desirable:

- ° Warrants are printed and distributed to the payees in a timely manner.
- ° Electronic funds transfers are supported for direct deposit payrolls.

PROBLEM AREAS

The following features of the current system have been identified as problem areas or potential problem areas:

- ° State Auditor's Office
 - Card stock warrants are non-standard, cause high error rates, and future availability is questionable. The United States Government no longer uses card stock, and only a few states do at this time.
 - A substantial amount of clerical time is required to verify and "stuff" each warrant with any accompanying information in envelopes for mailing.
 - Processing emergency warrants, duplicates, and stale-dated warrants is essentially a manual posting process that is carried on outside of the automated processing system.
 - A warrant can be corrected only once during a month. There are times when a second correction is necessary but must be put off until the following month. Warrant corrections consist of flagging warrants as cancelled (C), void (V), duplicate (D), or stop payment (S).
 - Warrants can get lost between the time that the Treasury Bureau balances to the bank tape and the State Auditor's Office processes the same warrants for filing.
 - Storage space for filing cashed warrants is very limited.
 - Storage space for blank warrant stock is very limited.
 - Equipment used to process the cashed warrants is obsolete and expensive to maintain. This includes a Tic-o-meter, IBM collator, sorter, and two card keypunch units.
 - Offset requests cannot be processed in a timely and efficient manner.
 - There is a lack of security over warrant blanks and facsimile signature.

- There is a lack of overall control on monies paid out by State Treasurer pursuant to responsibility found in Section 17-8-301, MCA.

° Information Services Division

- A substantial amount of I/O Controller time is required to support each of the automated warrant processing steps.
- The system uses some of the slowest and most labor intensive equipment in the computer center. This includes a card reader, card punch, and magnetic tape.
- Operator intervention in several steps of the process lengthens the time needed to process warrants.
- Operator intervention required for entering the warrant number has on occasion caused a number of warrants to be voided because the warrant number is pre-printed on the warrant stock and the keyed number didn't match this pre-printed number.
- The Information Services Division's disaster recovery computer does not have a card reader or card punch. This will limit warrant writing to tape input files, and prevent any warrant cashing since it is all card input.

° U of M

- Vendor payments that require a remittance advice are written by the Auditor's Warrant Writing System and mailed back to U of M for attachment and mailing. The process is time-consuming and results in higher postage costs than necessary.

FUNCTIONAL REQUIREMENTS

OBJECTIVES AND REQUIREMENTS

The State Auditor's Office has established the following objectives and requirements for a new system:

- ° Insure system security by providing State Auditor with total control over warrant stock.
- ° Insure system security by requiring State Auditor approval on all drafts on the State Treasury.
- ° Insure system security to provide State Auditor total control over facsimile signatures.
- ° Convert from warrant card stock to warrant paper stock.
- ° Eliminate the need to use obsolete card processing equipment (card reader, punch, sorter, collator, and keypunch).
- ° Eliminate the need to manually match Warrant Transmittals with the warrants, and to insert them in envelopes.
- ° Eliminate the manual posting operations required for emergency warrants.
- ° Provide for the timely production of warrants to eliminate late, or excessively early, payments.
- ° Provide for central issuance of warrants currently written by U of M, MSU and SRS.
- ° Provide for online access and inquiry to perform offset functions required by statute and legal process.
- ° Provide on-line access for creating emergency and duplicate warrants.
- ° Provide on-line access to cancel, stop payment, or void warrants.
- ° Provide on-line inquiry for warrant status.
- ° Provide an efficient method for storing and accessing cashed warrants.
- ° Ensure system reliability and recovery.
- ° Ensure system auditability.
- ° Ensure system security to prevent unauthorized operator access or actions.
- ° Convert the data in the present warrant system to the new system.

The University of Montana (U of M) has identified the following objectives and requirements for a new warrant processing system:

- Continue producing employee earnings statements for distribution prior to the actual warrant distribution or payroll deposit.
- Provide free form message space on payroll advice stubs or earnings statements.
- Produce warrants and electronic funds transfers for distributing or depositing in a timely manner.
- Produce warrants for vendor payments with remittance advice in a timely manner.
- Reduce or eliminate the need for revolving fund checking accounts and bank reconciliation.
- Reduce warrant related postage costs.

Montana State University (MSU) has identified the following objectives and requirements for a new warrant processing system:

- Produce and distribute payee payroll information in a timely manner.
- Print and distribute payroll warrants in a timely manner to meet the current payroll distribution requirements.
- Support timely direct deposit for payroll.

The Department of Social and Rehabilitation Services (SRS) has identified the following objectives and requirements for a new warrant processing system:

- Continue with the same warrant processing support now received from the State Auditor's Office.
- Enhance processing to allow the use of mailers to reduce handling and postal costs in some cases.

The remaining sections describe the functional requirements in more detail.

MAINTENANCE OF PAYEE INFORMATION

The system must maintain payee information that will support the warrant issuance function. Maintenance of payee information must include the functions to add, change, and delete payee information including payee identification, control data for offset payments, and banking transaction information for electronic funds transfer.

PAYMENT DELAY

Cash management may be improved by timing the printing of warrants according to the payment due date. The timing could be controlled by the Statewide Budgeting and Accounting System (SBAS) or the new warrant system.

PAYMENT CONSOLIDATION

Consolidation of several payments to one vendor (payee) into one payment is a consideration for improvement to the payment process. The control of this consolidation could be incorporated into the Statewide Budgeting and Accounting System (SBAS) or the new warrant system.

ELECTRONIC FUNDS TRANSFER

There is a need to provide the option for a payment to be transferred directly to a payee's bank account. This requires the capability to add, change, and delete information about banks, such as transfer and routing data; and the capability to add, change, and delete payee information such as bank account numbers.

LARGE PAYMENTS IDENTIFICATION

The system must provide the capability to identify and report payments over a stipulated amount for a manual review process.

WARRANT MANAGEMENT

Eliminating the use of card stock and the related hardware and reducing labor intensive activities required to write, distribute, cash, reconcile, store, and retrieve warrants are key requirements of a new system. Consolidating all warrant processing in a centralized system is also a key requirement of the new system. Online capabilities are required for timely response to agency and payee requests. The following identifies warrant management requirements.

Warrant Stock

Card stock will be replaced with paper stock. The paper stock selected should allow for the following:

- ° Be compatible with the forms industry's standards for continuous run forms presses, if continuous forms are selected.
- ° Be compatible with the forms industry's standards for sizes of sheet forms, if single sheet forms are selected.
- ° Resistance to counterfeiting or alteration.
- ° Inventory control.
- ° Compatibility with the hardware to be used to print the warrants.
- ° Warrant space for payee identification and address information.

- ° Warrant space for payment information including agency, claim number, and warrant amount.
- ° Warrant space for a warrant description (gas tax refund, Social and Rehabilitation Services' AFDC, fish and game refund, etc.)
- ° Supplemental space for payee advice, i.e., invoice numbers, explanations, account detail, payroll advice, agency contact information, free form area, etc.
- ° System design and implementation considerations including the following:
 - Flexibility in the format and content of the warrant and payment advices.
 - Choice of whether or not warrant numbers are pre-printed.
 - Choice of whether or not Magnetic Ink Character Recognition (MICR) numbers are pre-printed.

Warrant Issuance

The new system would issue all warrants, including those currently issued by other agencies. The State Auditor by statute, Section 17-8-301, MCA, must authorize any monies that are paid out by the State Treasurer. It is important that any new system implemented as a result of this study provide the support system to carry out the mandates of this law. The requirements for warrant issuance are:

Edit and Balance. Data submitted to issue warrants must be edited and balanced.

Offset Payments. The system must include an offset payment function which must:

- ° Recognize warrant source data for the following:
 - Payees who have judicial levies which the State Auditor must collect.
 - Payees who have outstanding debts with state agencies.
 - Payees who are employed by the State and have levies or executions against their salaries.
- ° Withhold a payment amount according to some predetermined payment method.
- ° Insure that the amount withheld does not exceed the amount to be collected.

- Maintain a record of the amounts withheld.

Emergency Warrants. The system must provide the capability to issue (with all accepted control, audit, and balancing requirements satisfied) emergency warrants in response to agency requests but not out of system balancing processes. These agency requests must produce a warrant to be given to the agency's carrier. The State Auditor's Office frequently provides the emergency warrant service in situations where if the existing warrant writing system was more reliable emergency warrants would not be needed.

Duplicate Warrants. The system must provide the capability to issue duplicate warrants when all the necessary forms and authorization are completed. Duplicate warrant issuance must include:

- Printing the same information on the duplicate warrant that appeared on the original.
- Identifying that the original warrant has been duplicated.

Warrant Writing. The system must provide the capability to print information on the warrant stock. This includes:

- Payee identification including name, or names, and address.
- Payment information including agency code, claim number, date issued, and warrant amount.
- Warrant source identification (transaction type), i.e., gas tax refund, Social and Rehabilitation Services' AFDC, Fish and Game Refund, etc.
- Payee advice, i.e., invoice numbers, explanations, account detail, payroll advice, etc.
- Warrant number in the appropriate location on the face of the warrant if non-pre-printed stock is chosen.
- Warrant MICR encoding (warrant number and State account number) if non-pre-printed stock is chosen. This could also provide for the dynamic or user controlled selection of the bank number.

Warrant Information. Warrant information identifying specific characteristics of each issued warrant must be maintained.

Warrant Distribution. The system must provide the capability to produce warrants in a variety of sequences including the following: (Note one or all of the options will be used concurrently)

- Post Office ready which includes zip code sequence and within an envelope.
- Agency requested options which may include zip code, payee identification, location, agency, SBAS document number, or some

combination. This may also include a hold (for agency pickup) or mail.

Warrant Actions

The system must provide the capability to:

- ° Record the status of individual warrants that have been voided, cancelled, or have a stop payment request.
- ° Stale-date uncashed warrants after a specified time period.
- ° Identify stale-dated warrant records that have had replacement warrants written for them.

Warrant Cashing

The system must provide the capability to process cashed warrants. This includes:

- ° Use bank transmitted data to reconcile and record cashed status of warrants issued.
- ° Provide the Treasurer with access to the daily cashed warrants as they are returned from the clearing bank.
- ° Endorse the daily cashed warrants with the current date, "PAID", and "MONTANA STATE TREASURER".
- ° Count the daily cashed warrants returned from the clearing bank.
- ° Identify any missing cashed warrants. These would be cashed warrants that appear on the bank's data tape but not in the physical batch of cashed warrants.
- ° Support the Treasurer's reconciliation of the daily cashed warrants with the State Auditor's outstanding warrants data. This includes confirming the number of warrants written and the actual value of the warrants to be cashed.
- ° Support the function of recording the cashed status of the State Auditor's outstanding warrants that corresponded to those cashed warrants processed by the Treasurer.

Warrant Storage

The system must include a means of retrieving the physical warrant or its image by using a method of storage that:

- ° Optimizes the use of space.
- ° Minimizes search and retrieval time.

- ° Satisfies the legal requirements for producing the original document or its facsimile.

ON-LINE PROCESSING

The system must provide on-line capabilities to satisfy immediate response requirements.

Inquiry. Warrant issued data must be accessible. Warrant issued and status data must be accessible for inquiry on-line. The data must be accessible by selected criteria such as warrant number, or agency and claim number. Information displayed must include warrant status, and cashed warrant and image file location.

Update. On-line update is required for issuing emergency warrants and duplicate warrants, and for cancelling, stopping payment, and voiding warrants.

REPORTING

The system is required to produce warrant reports for reconciliation, periodic audits, and management information. This includes:

- ° Daily reports that show:
 - Detail lists of warrants written including duplicates and replacements (Warrant Register).
 - Summary total of the number of warrants written and their dollar value by transaction type and agency.
 - Grand total of the number of warrants written and their dollar value, current day, month-to-date, and year-to-date.
 - Detail list of all the emergency warrants written during the previous day.
 - Grand totals of the numbers and dollar amounts of the emergency and duplicate warrants written during the previous day, month-to-previous-day, and year-to-previous-day.
 - Detail lists of warrants cashed.
 - Summary total of the number of warrants cashed and their dollar value by transaction type and agency.
 - Grand total of the number of warrants cashed and their dollar value.
 - Detail lists of offset payment transactions.
 - Summary of offset payment transactions.

Detail list (before and after images) of all on-line maintenance transactions.

- On-line use statistics.

Month-end reports that show:

- Detail list of all warrants written.
- Summary total of the number of warrants written and their dollar value by type and agency.
- Grand total of the number of warrants written and their dollar value, month and year-to-date.
- Summary total of the number of warrants cashed and their dollar value by type and agency.
- Grand total of the number of warrants cashed and their dollar value, month and year-to-date.
- Summary total of the number of outstanding warrants and their dollar value by type and agency.
- Grand total of the number of outstanding warrants and their dollar value.
- Detail list of all warrants that became one year stale-dated at the end of the month.
- Summary totals of the number of warrants that became one year stale-dated and their dollar value, month and year-to-date.
- Grand total of the number of warrants that became one year stale-dated and their dollar value, month and year-to-date.
- Detail list of all warrants that became four years stale-dated.
- Summary totals of the number of warrants that became four years stale-dated and their dollar value, month and year-to-date.
- Grand total of the number of warrants that became four years stale-dated and their dollar value, month and year-to-date.
- Detail list of offset payment transactions.
- Summary of offset payment transactions.
- On-line use statistics.

Year-to-date reports that show:

ALTERNATIVES

A number of software alternatives, warrant paper stock varieties, and hardware considerations were investigated in order to identify alternatives that would meet the stated requirements. The software alternatives included upgrading the existing system and developing a new system. Existing software packages were considered because of the possibility of obtaining one from another public agency and avoiding some of the development costs.

Paper stock alternatives include continuous forms, mailers, single sheet forms, and forms with and without stubs.

Hardware alternatives include forms equipment to sign, stack, and seal mailers, microfilm cameras, document processors, and warrant writing equipment.

The following describes software alternatives, types of paper stock, and hardware items that were studied. A recommended solution is identified and other alternative solutions are also discussed.

SOFTWARE ALTERNATIVES

Software Available From Other States

In order to determine whether cost savings might be realized by acquiring an existing software package rather than developing a new system, warrant writing systems used in other states were evaluated. Drawing on experience of other states and software package references, system documentation from several states was requested and evaluated. The evaluation was based on the requirements identified in the previous section. Most of the systems that were evaluated have something to offer but each of them have some characteristics that could make them difficult to install. In general, the functional requirements not met were Warrant Cashing, Reports, On-line Processing, and maintenance of Payment and Payee Information. The effort to implement any one or a combination of these systems would be a greater task than developing a new system to meet the specific needs of the State Auditor's Office.

The following summarizes the results of the evaluation.

Florida. The Statewide Automated Management Accounting System (SAMAS) meets the Warrant Management requirements except for processing offset payments, emergency warrants, large payments identification, warrant distribution, warrant actions (voids), access to physical cashed warrants, providing advice, payment delay, payment consolidation, treasurer's reconciliation, electronic funds transfer. The edit and balance function is application dependent and integrated in SAMAS. Florida's warrant processing system is in the process of being upgraded to use paper stock warrants by August of 1980. Except for the use of paper stock and a Xerox check printing system, SAMAS appears to offer little improvement over the existing system.

Idaho. The Warrant Control System currently being developed for the State Auditor's Office meets the Warrant Management requirements except for

Pages
18 + 19
Missing
on file +
in book

processing offset payments, emergency warrants, large payments identification, warrant distribution, warrant actions (voids), stale-date warrant replacement, access to physical cashed warrants, payment information, payee identification, payment delay, payment consolidation, treasurer's reconciliation, and electronic funds transfer. Idaho's warrant processing system will use paper stock warrants. Except for the use of paper stock, there would be no advantage to acquiring this system.

Iowa. Iowa's warrant processing system is in the process of being redesigned. The system meets the Warrant Management requirements except for processing offset payments, emergency warrants, large payments identification, stale-date warrant replacement, maintenance of payment and payee information, payment delay, payment consolidation, and electronic funds transfer. No information was provided on the Treasurer's reconciliation process or the warrant cashing process. This system offers no improvement over the existing State Auditor's Warrant Writing System.

Kansas. The Central Accounting System of Kansas (CASK) meets most of the Warrant Management requirements, except large payment identification, warrant distribution, warrant actions (void, stop payment), stale-date processing, online inquiry and update, payment delay, payment consolidation, and electronic funds transfer. Payment and payee information are included, but there is no payee advice capability. Except for the fact that the system uses paper stock, there would be little justification or benefit in acquiring this system.

Missouri. The Financial Management and Control System is a card oriented system that offers little to improve the existing system.

Nebraska. The Nebraska Accounting System meets most of the Warrant Management requirements except for edit and balance (probably not considered as part of the warrant process), duplicate warrants, large payments identification, stale-date warrant processing, cashed warrant processing, Treasurer's reconciliation, and very limited on-line inquiry and update (emergency warrants only). No information was provided on the warrant cashing process or the Treasurer's reconciliation. This system offers some improvements over the existing system, such as payment delay and payment consolidation.

Pennsylvania. The Treasury Automatic Bookkeeping System (TABS) disbursement process meets some of the Warrant Management requirements except for processing offset payments, emergency warrants, duplicate warrants, large payments identification, warrant distribution, warrant actions (voids, cancels, stop payments), stale-date processing, access to physical cashed warrants, payment consolidation, and on-line security. No information about the warrant cashing and Treasurer's reconciliation processes was sent. Except for the use of paper stock and a Troy printing system, the system appears to offer little in comparison to the existing system.

Tennessee. The Tennessee Treasury Department uses the DISC Account Reconciliation Package (ARP) for cashed warrant processing. Only enough information is managed to cover cashing, voiding, cancelling, stopping payments, or stale-dating warrants. It fails to meet the Warrant Management requirements for offset payments, emergency warrants, duplicate warrants,

large payment identification, warrant distribution, warrant action (void), warrant retrieval, payment delay, payment consolidation, payment information, payee information, and payee advice. The Account Reconciliation Package is banking oriented and has a number of good features covering reconciliation but provides no support for warrant issuance. The system appears to offer little improvement compared to the existing system.

Utah. The Vouchers Payable System meets most of the Warrant Management requirements except for offset payments (provided for income tax only), emergency warrants, duplicate warrants, large payments identification, warrant actions (void, cancel), warrant distribution, stale-date warrant processing, payment delay, payment consolidation, and electronic funds transfer. On-line inquiry and update capability is supported for reconciliation. The reconciliation system appears to be a subsystem of a proprietary payroll system. Except for the use of paper warrant stock, the system appears to offer little advantage compared to the existing system.

Develop a New System

Design and development of a new system would ensure that all the requirements of the State Auditor's Office would be met. This process would include developing specifications based on the requirements that have been identified, design and development of software to meet the specifications, testing the software to insure that the specifications and acceptance criteria are met, and developing and implementing plans for designing and documenting procedures, procuring stock and hardware, and implementing the system.

Construction of a new system would allow the use of current software and hardware technology that would extend the life of the system. This is an important consideration since the existing system has been in use for approximately 15 years without any substantial changes. The systems from other states are also older systems and there have been a number of technical improvements, both software and hardware, that could be beneficial to a new warrant processing system.

Minor Upgrade to the Existing System (Card to Paper Stock)

Another software alternative is a minor upgrade to the existing system to support conversion from card to paper stock. This alternative does not meet the functional requirements stated in the previous section, but has been included as an emergency or stopgap alternative should funding for the recommended alternative be denied and current processing could not continue because of discontinued supply of card stock or unrecoverable hardware failure in card processing equipment. This alternative involves modification to existing warrant system software to write paper warrants and support cashing, filing, storage, and retrieval of paper warrants.

WARRANT STOCK ALTERNATIVES

Alternatives from several vendors were studied to determine what options are available and what the costs would be.

Continuous forms

The use of continuous forms for paper stock warrants provides a number of options.

Moore Business Forms. Moore has provided samples of the following types of warrants:

- ° warrant without a stub (1 up and 2 up)
- ° warrant with a short stub (in-line and side-by-side)
- ° warrant with a long stub (in-line only)
- ° warrant and mailer without stub
- ° warrant and mailer with a short stub (side-by-side)
- ° warrant and mailer with a long stub (in-line)

The forms were supplied in industry standard sizes and are available in industry standard weights for warrants. Numerous samples of security paper were supplied to demonstrate the different types and styles available.

NCR. NCR provided samples of the following types of warrants:

- ° warrant with a short stub (in-line and side-by-side)
- ° miscellaneous specialized mailers for billing

The warrant forms that were supplied were too limited to provide an in-depth evaluation. There was no security paper specifically identified.

Standard Register. Standard Register has provide the following types of warrants:

- ° warrant without a stub (in-line)
- ° warrant with a short stub (in-line and side-by-side)
- ° warrant with a long stub
- ° warrant and mailer with a short stub (side-by-side)
- ° miscellaneous specialized mailers

The forms that were supplied appeared to meet industry standards for size and weight. There was no security paper specifically identified.

Single Sheet Forms

Moore Business Forms. Moore has provided samples of the following types of warrants:

- ° warrant mailer with a stub (in-line)

Only one form was supplied. It is most likely that Moore would meet the industry standards for size and weights of warrants. Numerous samples of security paper were supplied to demonstrate the different types and styles available.

HARDWARE ALTERNATIVES

Several vendor products were identified in order to determine the options available and what the approximate costs would be.

Forms Equipment

The use of mailers requires forms equipment to imprint the signature, detach the warrants, and fold and seal the mailers. Three pieces of equipment are recommended for these functions. They are:

- ° forms imprinter/detacher
- ° forms folder/nester
- ° forms sealer

One vendor's product was reviewed:

Moore. Information was provided on the 3400 Continuous Forms Imprinter/Detacher, 8121 Folder/Nester, and the 4200 Speedisealer. The Imprinter/Detacher prints the signature on each warrant then bursts the warrant forms. The Folder/Nester is used to fold the burst mailers and stack them for the sealing operation. The Speedisealer applies heat to each of the warrant mailers which seals them in preparation for mailing. This equipment was suggested as being quite adequate to meet the needs of the State Auditor's warrant processing operation for the volume of warrants written.

Microfilm Cameras

Two vendor's products were reviewed:

Canon. Information was provided on the Canon model 800DDS. It can endorse cashed warrants 'PAID', date-stamp, sequence number, duplex microfilm, and count the number of documents read. It can also be used to microfilm larger documents.

Kodak. Information was provided on the Kodak Reliant 800 and the Reliant 1000 microfilmers. Both units can endorse cashed warrants as 'PAID', date-stamp, duplex microfilm, and count the number of documents read. The 800 can also sequence number the documents. Both units can be used to microfilm larger documents.

Document Processors

The document processor performs the following functions:

- ° endorses cashed warrants with "paid" and a date stamp.
- ° sorts cashed warrants on warrant number (fine sort).
- ° counts and totals the cashed warrants as they are read.
- ° microfilms both sides of each cashed warrant (duplex).
- ° uses MICR encoding.
- ° communicate cashed warrant data to host.

Two vendor's products were reviewed:

Burroughs. Information was provided on the Burroughs S4000 Document Processing System. This unit performs all the functions identified above.

IBM. Information was provided on the IBM 3694 Document Processing System. This unit performs all the functions identified above.

Warrant Printing Equipment

Three alternatives were reviewed:

Check Technology Corp. Information was provided on the CTC 2000 and the CTC 1000. Both of these units use cut sheet (single sheet) warrant stock, will print warrants with or without payee advice depending on the forms used (payee advice may be printed on a separate sheet), accepts input from magnetic tape, print with multiple fonts, and can be used to print the signature on the warrants. The CTC 2000 also has a feature that allows printing the Magnetic Ink Character Recognition (MICR) line on warrants. The MICR feature is not available on the CTC 1000. Neither system appears to support printing on multiple part forms.

Data Card Corporation - Troy High Volume. The high volume Troy printer uses continuous forms warrant stock, will print warrants with or without payee advice depending on the form used, accepts input from a magnetic tape, prints with an Optical Character Recognition (OCR) font with other options available, can be used to print the signature, and can print the Magnetic Ink Character Recognition (MICR) line on warrants. Multiple part forms are subject to certification by the manufacturer and may not be acceptable.

Data Card Corporation - Troy Desktop. The Troy desktop printer has the same functional characteristics of the high volume printer except that it does not accept magnetic tape input or print the signature and it can communicate with a host computer.

ALTERNATIVE SOLUTIONS

The following discusses alternative solutions for a new warrant writing system including software, warrant stock, and hardware. A recommended alternative (alternative #1) and three other alternatives (#2, #3, and #4) are provided. The recommended alternative includes developing new software, using continuous form mailers for warrant stock; and purchasing forms equipment and a document processor. The other alternatives, with the various combinations of software, stock and hardware, are discussed following the recommended approach.

Recommended Alternative (Alternative #1)

The recommended solution is to implement a new system which will include software that is developed specifically to the specifications of the State Auditor's Office and hardware that will support the use of paper stock. This solution provides the best potential for meeting the functional requirements stated in this report, providing for future growth and change, and accommodating a variety of interface considerations with current production systems such as SBAS, the SRS payment systems, P/P/P, and the universities.

The following describes the software, stock, and hardware components and provides a conceptual description of key processes and functions.

Software. The recommendation includes design, development, and implementation of new software specifically constructed to meet the requirements and specifications of the State Auditor's Office, U of M, MSU, and SRS.

Stock. Continuous forms warrant stock with pre-printed MICR encoding and warrant numbers is recommended. Pre-printed MICR encoded forms are recommended because of the cost of hardware to print the encoding. This stock would provide the flexibility for printing (imprinting) support. A wide variety of forms are available. Several types of forms could be provided to insure that all internal and external stock needs would be met. Warrants in mailers are recommended to replace the current All-purpose warrants. These warrants could have stubs for printing a payee advice and would eliminate the need for the clerical inserting (stuffing) operation. Warrant forms would also be available for applications such as Central Payroll and SRS whose warrants would be picked up and distributed internally by the agencies.

Hardware. The recommendation includes terminals, local printer, forms equipment, and a document processor. Warrant printing would be done on non-specialized printers in ISD's Central Computer Operations Bureau, except for Emergency Warrants that would be printed on the local printer.

Conceptual Description. Warrant source would be initiated as it is in the existing system, with agency systems and SBAS providing the information necessary to issue warrants. Warrant source data would be expanded to include payee advice capabilities and other data that would be necessary to implement the new functions such as payment consolidation, EFT, etc. SRS would provide the warrant source and payment advice information that currently is used by SRS AFDC, Medicaid, and Client Database software to write warrants. Warrant source would also be provided by the U of M and MSU who would transmit the data that is currently used by their warrant writers to the central computer.

Initiating and monitoring automated system processing would be the responsibility of the Auditor's Office staff. Each day's batch processing jobs would be scheduled and submitted by someone in the Auditor's Office. Batch processing would be similar to today's except that additional information such as identification of large payments would be provided and information regarding new functions would be provided.

Output processing would include processing the output of batch processing which would include the control reports and warrants, which would be printed on printers in the Central Computer Operations Bureau, and EFT data to be transmitted to the Federal Reserve Bank. After each warrant issuance cycle, the control reports would be reviewed to verify that processing produced the expected results. Controls would include balancing the number of warrants and dollar amounts to input control information, investigating large payment identification, and reviewing offset payment reporting. After verifying that the automated processing was successful, the warrants would be prepared for distribution. Warrants would be mailers or non-mailers based on warrant source information. Mailers, in zipcode sequence, would be processed through the forms equipment (imprinter/detacher, folder/nester, and sealer) and

mailed. The remaining warrants, in a distribution sequence identified by the warrant source, would be processed through the imprinter/detacher and distributed. Warrants to be distributed would be payments requiring manual processing by an agency for inclusion of additional payment information or non-postal delivery. MSU and U of M payroll payments could be printed on mailers and mailed directly to payees or printed on warrants and returned to the respective unit for distribution. EFT would also be an option for any of these payments.

Online processing would include capturing payee information to be used for offset payment control and EFT control; duplicate or replacement warrant creation data; and void, cancel, or stop payment actions. Inquiries about warrant status would be answered by using the online inquiry to determine current status and filing information on cashed warrants.

Emergency warrant data would be entered online with immediate update of issued warrant data. The warrant would be printed on a local printer installed in the Auditor's Office. Similar emergency warrant capability could be considered for the university units and other agencies.

The cashing function would include processing the cashed warrants through the document processor in the Auditor's Office to identify the number and total dollar amount of the warrants received from the bank and to endorse the warrants as paid. The Treasurer's Office would then reconcile the cashed warrant data transmitted from the bank to the results from the document processor and issued warrant data. The Treasurer's Office staff would be responsible for initiating, monitoring, and reviewing the automated reconciliation process. This would be done using a terminal installed in the Office. The Auditor's Office would then initiate a process that would update the warrant status to cashed and identify the file location.

Records management processes would be done using the document processor which would sort and microfilm the cashed warrants. The cashed warrants would be filed and the microfilm would be sent for development.

Other cyclic processes would remain similar to the existing process with monthly and annual reporting, purging and archiving, and stale dating.

Alternative #2 - Minimum Upgrade to Continuous Forms

Alternative #2 is an upgrade to the existing system from card to paper stock. This alternative does not meet the majority of the objectives and requirements stated in the preceding section. It is introduced to identify what the minimum cost would be if card stock were not available or the card processing equipment were inoperable. Since this is a stop-gap alternative, it does not consider consolidation of any external warrant writing. Only changes necessary to handle and process paper rather than card stock are considered. This alternative does include the transfer of system control and input/output processing from the central computer operations input/output control section to the State Auditor's Office and the Treasury Bureau. The software, stock, and hardware components of this alternative are identified below followed by a

conceptual description of the changes that might be implemented and factors to be considered about this alternative.

Software. Existing software would be modified to produce paper warrants and use tape or disk media as input where card input is currently used.

Stock. Continuous forms (a warrant without stub) with MICR encoding and pre-printed numbers would be used.

Hardware. New terminals would be required in both the Auditor's Office and Treasurer's Office. Existing card equipment would be eliminated.

Conceptual Description. All warrant source creation and warrant writing would be exactly as it is today except that paper rather than card stock would be used for the warrants. All warrant source and other input that is submitted on cards would be converted to disk or tape, the cashing process would use the bank submitted data, and stale dated warrant processing would use disk and tape storage. SBAS would be modified to create non-card warrant source information and replacement and duplicate warrants and void, cancel, and stop payment processes in the Auditor's Office would create non-card input.

Cashing would involve processing the cashed warrants through the tic-o-meter to obtain a record count and endorse the warrants as paid, Treasurer's Office reconciliation of tic-o-meter count to bank item count and bank submitted cashed warrant data to issued warrant data, and State Auditor's update of issued warrant data to cashed status and file location.

Records management processes would include filing the cashed warrants daily and microfilming the cashed warrants on a daily or weekly basis, depending on volume. Filing would be changed to a more efficient method than the current warrant number key, perhaps to include date cashed.

Retrieval of cashed warrants would require requesting a batch process that would search the warrant data using warrant number to determine the file location and subsequent retrieval of the warrant or its microfilm image. This process would take at least one day. Warrant retrieval would be more difficult because of the filing system change.

Considerations. No other software modifications would be made, therefore, any stated functional requirements not met by the existing system would not be met by this alternative. Also, this alternative does not centralize warrant writing. Agencies that write external warrants would be responsible for implementing comparable changes in their software. These changes would be at the agency discretion.

Alternative #3 - Minimum Upgrade to Mailers

Alternative #3 is based on alternative #2, addressing only the advantages that might be realized with a conversion to paper stock. Other functional requirements and consolidation of external warrant writing are not considered with this alternative. This alternative expands the capability of the existing system to print a payee advice and use mailers. This option would reduce the current labor intensive processes of matching invoices and payment

advices to the printed warrants and inserting warrants and attachments into envelopes.

This alternative depends on a planned enhancement to SBAS which will provide for the capture and processing of payment advice. Timing is a consideration since this capability is not likely to be available before Fiscal year 1989-90.

Software. Existing software would be modified to print mailers with payment advice and use tape or disk storage instead of cards.

Stock. Continuous form mailers with a stub and pre-printed MICR encoding and numbers would be used.

Hardware. This alternative requires terminals, forms equipment, and a document processor.

Conceptual Description. Warrant source creation and warrant writing would be similar as it is today except that additional capability would be provided to accept payment advice information. Warrant source data created by SBAS would also include payment advice information, agencies that currently create warrant source would have the option of including payment advice information.

Warrants would be written using mailers or paper warrants, based on warrant source information. Mailers would be processed through the forms equipment (imprinter/detacher, folder/nester, and sealer) and mailed. The remaining warrants would be processed through the imprinter/detacher and distributed as they are currently.

The cashing function would include processing the cashed warrants through the new document processor in the Auditor's Office to identify the number and total dollar amount of the warrants received from the bank and to endorse the warrants as paid. The Treasurer's Office would then reconcile the cashed warrant data transmitted from the bank to the results from the document processor and issued warrant data. The Treasurer's Office staff would be responsible for initiating, monitoring, and reviewing the automated reconciliation process. This would be done using a terminal installed in the Office. The Auditor's Office would then initiate a process that would update the warrant status to cashed and identify the file location.

Records management processes would be done using the document processor which would sort and microfilm the cashed warrants. The cashed warrants would be filed and the microfilm would be sent for development.

Retrieval of cashed warrants would require requesting a batch process that would search the warrant data using warrant number to determine the file location and subsequent retrieval of the warrant or its microfilm image. This process would take at least one day. Warrant retrieval would be more difficult because of the filing system change.

Considerations. No other software modifications would be made, therefore, stated functional requirements not met by the existing system would not be met by this alternative. This alternative does not centralize warrant writing.

Agencies that write external warrants would be responsible for implementing comparable software changes would be at the agency discretion.

Alternative #4 - Print MICR Encoding and Numbers

Alternative #4 is based on alternative #1, but includes the purchase of hardware to print MICR encoding.

Software. The recommendation includes design, development, and implementation of new software specifically constructed to meet the requirements and specifications of the State Auditor's Office, U of M, MSU, and SRS.

Stock. The recommended stock alternative is continuous form mailers that are not MICR encoded and prenumbered.

Hardware. The recommendation includes two terminals, local printer, forms equipment, a document processor, and a special check writing (MICR encoding) printer.

Conceptual Description. The concept of this alternative is exactly the same as the recommended alternative, except for warrant writing. All warrant processing would be on the host computer and the warrant data would be transmitted to the State Auditor's Office for printing. The printing of warrants would include printing MICR encoding and warrant numbers in addition to payment and payee advice information. This alternative requires purchase of one printer. The maintenance contract would have to guarantee recovery time or a second backup printer would need to be considered.

Emergency warrants would be printed on preprinted stock using a desktop printer in the Auditor's Office.

COSTS AND BENEFITS

Costs, benefits, and other considerations influencing the decision to proceed with this project are presented in this section. The costs presented include costs for the design, development, and implementation of the recommended alternative - (alternative #1); costs for continued operation under the existing systems; and costs for operation of the proposed system.

The development and production operation costs for alternatives #2, #3, and #4 are presented at the end of the section.

DEVELOPMENT AND IMPLEMENTATION

Figure 1 identifies the costs for the development and implementation of a new system. The systems development cost includes SDB services cost for the design, development, and implementation of new software and computer resource cost for use of computer processing time and related resources to support SDB services. Hardware costs include the costs to purchase two terminals that would be used by the Auditor's Office and the Treasury Bureau for system control and online processing, a desktop printer for the Auditor's Office for printing emergency warrants, forms equipment, and document processor. These are all one time, startup costs.

Design, development, and implementation of the system are expected to take place in fiscal years 1987-88 and 1988-89. The costs for SDB services and computer resources are based on the rates anticipated for those years. The forms equipment and the document processor would be purchased in the last quarter of fiscal year 1988-89; the estimated cost of this equipment reflects a 5% per year inflation.

DEVELOPMENT AND IMPLEMENTATION COSTS

FIGURE 1

Systems Development Costs		
SDB Services	\$ 82,000	
ISD Computer Resources	<u>36,000</u>	
Total Systems Development Cost	\$118,000	
Hardware Costs		
Terminals and Printer	\$ 6,550	
Forms Equipment	11,900	
Document Processor	<u>62,800</u>	
Total Hardware Cost	\$ 81,250	
Total Development & Implementation Cost		\$199,250

PRODUCTION OPERATION COST

Figures 2 through 4 identify production operation costs for the existing system, the proposed system, and a comparison of the two.

Cost Components

The following briefly describes the components for which costs are identified.

F.T.E. This number represents the total FTE within the State Auditor's Office, the Treasurer's Office, and external agencies that perform duties related to warrant processing. The number was derived by identifying the percentage of time each position devotes (would devote) to system related activities. Non-system activities are not included.

Personal services. The personal services cost identifies the total salary and benefits cost incurred within the State Auditor's Office, the Treasury Bureau, and external agencies that is related to warrant processing.

Operating expenses. Operating expenses are broken into three major categories which are further itemized as follows:

- ISD Contracted Services - SDB Support identifies the cost related to ongoing technical support for production recovery and enhancement to the production system.
- ISD Contracted Services - Operations Support identifies the cost related to personnel services provided by the Central Computer Operations Bureau. These services typically include input/output control, bursting and delevaing, and data entry.
- ISD Contracted Services - Computer Resources identifies the cost related to all computer related services including computer processing, disk and tape storage, and communications line charges.
- ISD Contracted Services - Records Management identifies the cost related to cashed warrants storage and microfilm development.
- Hardware - Rental identifies the cost related to renting equipment that is dedicated or partially dedicated to the operation of the system.
- Hardware - Maintenance identifies the cost of maintaining equipment that is dedicated or partially dedicated to operation of the system.
- Stock & Mailing - Stock identifies the cost of warrant stock.
- Stock & Mailing - Envelopes identifies the cost of envelopes used to mail warrants.
- Stock & Mailing - Postage identifies the cost to mail warrants. This cost includes costs that are reimbursed by certain agencies.

Existing System Costs

The Existing System Operation Cost - Figure 2 reflects costs currently incurred by the State Auditor's Office, the Treasury Bureau in the Department of Administration, and agencies that write external warrants. The Other

Agency cost column is included to identify postage costs incurred by agencies that pick warrants up from the State Auditor's Office and distribute them from their own offices. These costs are based on actual Fiscal Year 1985-86 expenditures, except for hardware costs which reflect an increase in maintenance as a result of the anticipated purchase of the collator.

FTE and personal services costs for external agencies includes the time and associated cost at U of M, MSU, and SRS to support external warrant writing and distribute warrants.

The Computer resources cost for external agencies identifies only the costs incurred by SRS and Central Payroll and do not include U of M and MSU.

The cost of Central Payroll warrant stock is included in the External Agency column.

Hardware maintenance reflects the cost to maintain the collator, microfilm camera and reader/printer, and tic-o-meter which support cashing and records management functions; a keypunch which is used to produce replacement warrants; and the signer/burster, mail inserter, and postage machines which are used for preparing warrants for distribution.

EXISTING SYSTEM OPERATION COST FIGURE 2

	Auditor's Office	Treasury Bureau	External Agencies	Other	Total
FTE	10.83	.14	1.10		12.07
Personal Services	\$199,371	\$4,375	\$ 21,792		\$225,538
Operating Expenses					
ISD Contracted Services					
SDB Support	1,600	-0-	-0-		1,600
Operations Support	4,755	1,539	-0-		6,294
Computer Resources	24,322	630	16,050		41,002
Records Management	2,549		-0-		2,549
Total	\$ 33,226	\$2,169	\$ 16,050		\$ 51,445
Hardware					
Maintenance	10,097				10,097
Total	\$ 10,097	-0-	-0-		\$ 10,097
Stock & Mailing					
Stock	\$ 17,265	-0-	\$ 20,920		\$ 38,185
Envelopes	11,659	-0-	5,602		17,261
Postage	155,739	-0-	46,690	16,797	219,226
Total	\$184,663	-0-	\$ 73,212	\$16,797	\$274,672
Total Operating Expenses	\$227,986	\$2,169	\$ 89,262	\$16,797	\$336,214
Total Existing System Cost	\$427,357	\$6,544	\$111,054	\$16,797	\$561,752

Proposed System Operation Cost

The Proposed System Operation Cost - Figure 3 reflects costs that would be incurred for operation of the new system. Costs are shown for the State Auditor's Office and the Treasury Bureau in the Department of Administration.

The estimated costs reflect centralization of warrant writing, warrant issuance, and cashing. The costs are based on the assumption that the system would be implemented July 1, 1989 and reflect inflation and estimated service rates for that year wherever possible. *Personal services costs reflect FY87 salaries with no inflation applied for FY88 or FY89 and a 5% increase for inflation, merit, and longevity in FY90.

Personal services costs reflect a reduction in the amount of time required to support warrant processing. The Auditor's Office time would be reduced as a result of use of mailers with payee advices eliminating much of the time and cost to prepare warrants for mailing. SRS's time would not be affected by the new system because the bulk of manual processing would continue to be required. U of M and MSU warrant preparation and distribution time would be eliminated.

SDB Support costs are the estimated costs for first year support where recovery and minor enhancement/tuning the system will be necessary.

Hardware maintenance reflects estimated cost for maintenance contracts on the forms equipment (imprinter/detacher, folder/nester, sealer), document processor, the microfilm reader/printer, and the postage machine.

Stock and postage costs assume that 85% of the all-purpose warrants would be written on mailers and mailed directly from the Auditor's Office, the remainder would be written on paper warrants and have unique distribution. All other warrants currently written by the State Auditor's System (gasoline tax, income tax refunds, PERS, TRS, etc.) would be written on mailers and mailed directly. MSU and U of M payroll warrants would be written on mailers and mailed directly to the payees.

PROPOSED SYSTEM OPERATION COST

FIGURE 3

	Auditor's Office	Treasury Bureau	External Agencies	Total
FTE	8.53	.20	.93	9.66
Personal Services	\$179,434	\$6,566	\$20,491	\$206,491
Operating Expenses				
ISD Contracted Services				
SDB Support	\$ 39,312	*	*	\$ 39,312
Computer Resources	77,264	*	*	77,264
Records Management	2,549	*	*	2,549
Total	\$119,125			\$119,125
Hardware				
Maintenance	\$ 8,297	*	*	\$ 8,297
Total	\$ 8,297	*	*	\$ 8,297
Stock & Mailing				
Stock	\$ 57,038	*	*	\$ 57,038
Envelopes	-0-		3,946	3,946
Postage	203,607	*	35,063	238,670
Total	\$260,645	*	\$39,009	\$299,654
Total Operating Expenses	\$388,067		\$39,009	\$427,076
Total Proposed System Cost	\$567,501	\$6,566	\$59,500	\$633,567

OPERATION COST COMPARISON-PROPOSED VERSUS EXISTING

The Operation Cost Comparison - Proposed Versus Existing - Figure 4 reflects a comparison of the operation costs for the existing system and the proposed system. The existing system cost is based from the actual fiscal year 1985-86 expenditures (refer to Figure 2). The cost comparison reflects fiscal year 1989-90 costs assuming that the new system would be implemented July 1, 1989.

The following discusses some of the differences and increases in costs.

FTE and personal services cost comparisons reflect reduced staffing requirements as a result of the following:

- ° use of mailers eliminates the need to match and transmittals with warrants and stuff envelopes. Approximately 3.5 FTE are currently dedicated to these activities in the State Auditor's Office.
- ° on-line access to warrant status will reduce the time required to respond to inquires or retrieve cashed warrants.
- ° on-line emergency warrant issuance and consolidation of emergency warrant processing will reduce the time currently required to issue and post emergency warrants.

ISD Contracted Services - SDB Support cost increases on the existing system to reflect increasing service because of the age of the system and increase in rates. The estimated cost on the proposed system assumes high service to support the new system and make necessary changes.

ISD Contracted Services - Operations Support cost dramatically increases on the existing system as a result of anticipated rate increases to recover related personal services costs.

ISD Contracted Services - Computer Resources cost decreases slightly on the existing system as a result of anticipated rate decreases. The estimated operation cost of the new system is much costlier because of the additional volume (writing warrants currently written elsewhere), additional functions (offset payments, payment delay, payment consolidation, electronic funds transfer), and online processing.

Postage costs are slightly lower on the proposed system. The anticipated improvement is a result of better use of zip code sorted rates.

OPERATION COST COMPARISON - PROPOSED VERSUS EXISTING
FIGURE 4

	FY86	FY90	
	Existing	Existing	Proposed
FTE	12.07	12.07	9.66
Personal Services	\$225,538	\$245,104	\$206,491
Operating Expenses			
ISD Contracted Services			
SDB Support	\$ 1,600	\$ 3,600	\$ 39,312
Operations Support	6,294	14,725	-0-
Computer Resources	41,002	38,868	77,264
Records Management	2,549	2,549	2,549
Total	\$ 51,445	\$ 59,742	\$119,125
Hardware			
Maintenance	\$ 10,097	\$ 14,783	\$ 8,297
Total	\$ 10,097	\$ 14,783	\$ 8,297
Stock & Mailing			
Stock	\$ 38,185	\$ 42,978	\$ 57,038
Envelopes	17,261	19,427	3,946
Postage	219,276	241,149	\$238,670
Total	\$274,672	\$303,554	\$299,654
Total Operating Expenses	\$336,214	\$378,079	\$427,076
Total Operation Cost	\$561,752	\$623,183	\$633,567

BENEFITS

The benefits of implementation of the proposed system include the following:

- ° The need for hand processing and stuffing of envelopes would be eliminated.
- ° Security over warrants stock and facsimile signature would be provided.
- ° Absolute control, as set forth in Section 17-8-301, MCA over money drawn on the State Treasurer's Office would be provided.
- ° The State Auditor's Office would be able to comply with judicially ordered levies on payees and not place the State of Montana at risk for the amount of the levy if the levy is not accomplished.
- ° Cashed warrants would require one third of the space required for the current card stock.
- ° The time required for preparing the warrants for distribution would be reduced by several hours each day.
- ° The manual posting operations currently required for emergency warrants would be eliminated.
- ° Complete auditability, including the identification of any missing cashed warrants from the clearing bank, would be provided.

- ° The Auditor's Office would be able to comply with requirements to offset payments against amounts owed to the State, estimated at over \$500,000.
- ° The time required to respond to inquiries regarding the status of warrants would be reduced by several minutes for each inquiry.
- ° The time required to issue emergency warrants, replacement warrants, and duplicate warrants and to issue stop payments would be reduced by several minutes for each activity.
- ° The banking services costs should decrease as a result of eliminating the requirement to sort the physical warrants that have been cashed. The actual cost of this service is unknown at this time because it is not a separate item in the contract.
- ° Investment in a system that provides the potential to transfer more and more of the work from manpower intensive processes to automated processes transfers the cost of operation to less costly processes. This provides the opportunity for future savings in the following areas:

Payment consolidation would reduce processing, stock, and postage costs. Each warrant that could be consolidated would result in approximately 27 cents savings; 1% of warrant production would be over \$3,000 per year.

Electronic Funds transfer would reduce processing and warrant stock cost. Assuming an advice would continue to be produced, use of electronic funds transfer for 1% of the warrants produced would reduce costs by approximately \$1,000 annually.

RISK

The risks currently are high with regard to continued successful operation of this system. If any of the outdated equipment or processes were to fail, the cost of recovery and of failing to meet commitments is unpredictable and no attempt has been made to reflect that cost in this analysis. The risks fall into the following categories:

- ° Outdated equipment in the Auditor's Office and ISD. If this equipment were to have a serious breakdown, it could cause serious backlog and bottleneck processing. Emergency procurement and/or change would be costly in time requirements and actual cost.
- ° Card Stock production. Presently there is one vendor producing card stock. Cost can be expected to increase because of reduced demand and high cost to the vendor for maintenance of equipment.
- ° Age of software. The software (computer programs) is old, written prior to significant advances in programming technique and technology. As software reaches this stage, excessive time is

required to fix or change it. The older techniques and technology are not conducive to "programmer productivity".

In summary, the unquantified risks of continuing with the existing software may far outweigh the quantified benefits and cost associated with a new system.

ALTERNATIVES COSTS

The following reflects development and implementation and production operation costs for each of the alternatives.

Development and Implementation

Figure 5 reflects the development and implementation costs for each of the alternative solutions discussed in Alternatives Section. Key differences are:

Systems Development Costs. The recommended alternative and alternative #4 reflect the same software construction plan-building the software to the specifications of the Auditor's Office. The software will vary little, if any, for each of these alternatives. Alternatives #2 and #3 involve changes to the existing system. Alternative #2 includes bare minimum changes, with alternative #3 including the capability to write mailers with payment advices.

Hardware Costs. The recommended alternative and alternative #4 include a desktop printer for printing emergency warrants and alternative number #4 includes purchase of a specialized check printer that prints MICR encoding on each warrant.

DEVELOPMENT AND IMPLEMENTATION COST COMPARISON
ALTERNATIVE SOLUTIONS
FIGURE 5

	PROPOSED	ALTERNA 2	ALTERNA 3	ALTERNA 4
Systems Development Cost				
SDB Services	\$ 82,000	\$ 9,000	\$ 27,000	\$ 82,000
ISD Computer Resources	36,000	2,600	9,000	36,000
Total	\$118,000	\$11,600	\$ 36,000	\$118,950
Hardware Costs				
Terminals and Printer	\$ 6,550	\$ 4,000	\$ 4,000	\$ 6,550
Forms Equipment	11,900		11,900	11,900
Document Processor	62,800		62,800	62,800
Check Printer				143,700
Total	\$ 81,250	\$ 4,000	\$ 78,700	\$224,950
Total	\$199,250	\$15,600	\$114,700	\$342,950

Production Operation Costs

Figure 6 reflects the production operation costs of each of the alternative solutions discussed in the Alternatives Section. The following summarizes some of the major differences.

FTE and Personal Services. The recommended alternative reflects a reduction as a result of use of mailers to reduce the amount of manual post-production preparation and distribution and improvement in the filing system. Alternative #4 reflects these same improvements with the addition of approximately .5 FTE (Auditor's Office only) to operate the special printer. Alternative #3 reflects the least FTE and cost because external warrants would not be consolidated.

SDB Support. SDB support is much higher for the recommended alternative and alternative #4 because of anticipate support and enhancements that are normally required in the first year of production operation.

Computer Resources. Computer resources for the recommended alternative and alternative #4 are much higher because of the increased use of computer resources to process, store and print more information; additional processing for the new functions such as EFT, offset payments, large payment identification, and payment consolidation; and additional processing to support the online functions. Alternative #3 is higher than Alternative #2 as a result of processing and printing the additional payee information. Alternative #4 is less than the recommended alternative because of the use of the check printer.

Hardware Maintenance. Hardware maintenance for alternative #4 is higher than the other alternatives because of the maintenance on the specialized check printer.

Stock. Stock costs for Alternative #2 are lower because only paper stock warrants would be used. The other alternatives use mailers for some portion of warrant writing, with alternatives #1 and #4 using mailers for some of the external warrants in addition to internal warrants.

Envelopes. Envelope costs are higher on alternative #2 because all warrants would continue to be inserted in envelopes, the other alternatives use mailers for a large portion of the warrants.

Postage. Postage for the recommended alternative and alternative #4 are slightly lower because of better use of zipcode sorted rates.

OPERATION COST COMPARISON
ALTERNATIVE SOLUTIONS
FIGURE 6

	PROPOSED	ALTERNA #2	ALTERNA #3	ALTERNA #4
FTE	9.66	12.33	9.33	10.03
Personal Services	\$206,491	\$250,249	\$202,373	\$212,173
ISD Contracted Services				
SDB Support	\$ 39,312	\$ 5,000	\$ 7,500	\$ 39,312
Operations Support	-0-	-0-	-0-	-0-
Computer Resources	77,264	38,868	40,800	62,769
Records Management	2,549	2,549	2,549	2,549
Total	<u>\$119,125</u>	<u>\$ 46,417</u>	<u>\$ 50,849</u>	<u>\$104,630</u>
Hardware				
Maintenance	\$ 8,297	\$ 8,480	\$ 8,990	\$ 28,150
Total	<u>\$ 8,297</u>	<u>\$ 8,480</u>	<u>\$ 8,990</u>	<u>\$ 28,150</u>
Stock & Mailing				
Stock	\$ 57,038	\$ 31,672	\$ 52,671	\$ 57,038
Envelopes	3,946	19,427	6,786	3,946
Postage	238,670	241,149	241,149	238,671
Total	<u>\$299,654</u>	<u>\$292,248</u>	<u>\$300,606</u>	<u>\$299,655</u>
Total Operating Expenses	\$427,076	\$347,145	\$360,445	\$432,435
Total Operation Cost	\$633,567	\$597,394	\$562,818	\$644,608

VISITOR'S REGISTER

SUBCOMMITTEE

AGENCY(S)

St. Auditor's Office

DATE

1-13-87

DEPARTMENT

NAME	REPRESENTING	SUP- PORT	OP- POSE
Andy Bennett	State Auditor	X	
Wendy Cunan	State Auditors Office	X	
William Hamlet	State Auditors Office	X	
Dennis Warner	State Auditors Office	X	
Mike Fied	DOA		
Jeff Branat	DOA	X	
Terry Lazare	State Auditor	✓	
Richard Hall	State Auditor	A	
John Bellet	State Auditor	X	
Shirley Wink	State Auditor	X	
John Schulte	State Auditor	X	
John C. Huth	State Auditor	X	
Philip P. Ross	State Auditor	X	
James W. Borchardt	State Auditor	✓	
Bonnie L. Tapp	Legion of Am. Insurers Montana Assoc. of Life Underwriters	✓	
Edgar McHenry	INDEPENDENT INSURANCE AGENTS ASSOC OF MT	✓	
Randy Gray	State Farm + NAII	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT
 IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY