

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON STATE ADMINISTRATION

Call to Order: By **CHAIRMAN RICHARD SIMPKINS**, on February 17, 1995, at 8:00 a.m.

ROLL CALL

Members Present:

Rep. Richard D. Simpkins, Chairman (R)
Rep. Matt Denny, Vice Chairman (Majority) (R)
Rep. Dore Schwinden, Vice Chairman (Minority) (D)
Rep. Matt Brainard (R)
Rep. Patrick G. Galvin (D)
Rep. Dick Green (R)
Rep. Antoinette R. Hagener (D)
Rep. Harriet Hayne (R)
Rep. Sam Kitzenberg (R)
Rep. Bonnie Martinez (R)
Rep. Gay Ann Masolo (R)
Rep. William Rehbein, Jr. (R)
Rep. George Heavy Runner (D)
Rep. Susan L. Smith (R)
Rep. Carolyn M. Squires (D)
Rep. Jay Stovall (R)
Rep. Lila V. Taylor (R)
Rep. Joe Tropila (D)

Members Excused: Rep. Jay Stovall (R)
Rep. Lila Taylor (R)

Members Absent: none

Staff Present: Sheri Heffelfinger, Legislative Council
Christen Vincent, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: HB 563
Executive Action: HB 563 DO PASS
HB 523 DO PASS (FAILED)

{Tape: 1; Side: A.}

HEARING ON HB 563Opening Statement by Sponsor:

REP. PAUL SLITER, HD 76, presented written testimony. **EXHIBIT 1** He opened by stating this bill transfers the warrant-writing authority from the Auditor to the Department of Administration. He asked **Sheri Heffelfinger** to explain the technical amendment to the bill.

Sheri Heffelfinger stated this amendment takes care of an oversight in the title of the bill. The bill had been rewritten several times and this was left in the title when it shouldn't have been.

REP. SLITER stated when he put this bill request in he didn't realize the political whirlwind this would cause. He stated **REP. BARDANOUE** proposed this legislation in the last session and before he was able to go to the first committee hearing on it the bad debt management and warrant-writer functions were stricken at his request during the committee hearing. He quoted the representative from his closing remarks when he presented the bill. **REP. SLITER** found that interesting because the amendments that were taken out of that bill are essentially what this bill is.

He stated the pros of transferring the warrant writer and bad debt management function to the Department of Administration are that the consolidation would eliminate one management level FTE and provide some cost savings in the 1996-1997 biennium. This bill would centralize management control of the state's major financial systems. It would increase efficiencies in future cost savings. There would be a greater integration of systems and better coordination of the enhancements of the systems.

He stated the one FTE that would be eliminated would be the fiscal manager position to the warrant writer. The savings would be a total of about \$78,000. The moving, remodeling, equipment and software purchases would eat up most of this savings in the first year. The saving for the biennium are 1.0 FTE and approximately \$42,000.

The state auditor has had this function since 1895. Debt collection was just recently transferred from the Department of Revenue to the State Auditor's Office. He felt both of these should be in the Department of Administration and would make government more efficient.

He stated **REP. QUILICI** is carrying a bill that would create proprietary accounts which is something this bill would have done. It was felt it wasn't needed because it looked like the other bill would pass. **REP. SLITER** explained a proprietary account means the departments and agencies that use the warrant-writing system will be responsible for the costs involved.

REP. SLITER stated **REP. BARDANOUVE** was in the legislative body for a great many years and felt this would have been a good government and cost savings approach. He believed there were some substantial political circumstances that led him to provide for the amendments.

Proponents' Testimony: none

Opponents' Testimony:

Mark O'Keefe, State Auditor, stated when he was elected he was elected to do a number of things. One of those things was to superintend the fiscal duties of the state and keep an account of all state warrants. He stated that is what their agency does and they do it efficiently. His analysis of the bill shows the measure costs taxpayers money and the reviews by his agency and the department show that moving the warrant writer and the bad debts will be more expensive for Montanans than it is under the current system. He stated the reason the amendments were placed on the bill two years ago were because the Governor's Office and their office convinced **REP. BARDANOUVE** this wouldn't save any money with the amendments on it. He stated anyone who thinks **REP. BARDANOUVE** didn't pull those amendments off for that reason and for that reason alone are questioning his integrity.

He stated he had a fiscal note. **EXHIBIT 2** He then gave a breakdown of his fiscal note. He made comparisons with the two fiscal notes. He asked where these numbers came from and why they seemed to disappear. He stated he didn't know why those numbers seemed to disappear but he had some suspicions as to why they did.

He stated this proposal before the committee was not a new one. He said most recently it was considered by the Governor's Task Force to Renew Government. The subcommittee rejected transferring the warrant writing and bad debt functions to the Department of Administration because it couldn't be shown that taxpayers would save any money. They had shown the Governor that they had been reducing the cost of running the bad debt and warrant programs. They told the task force they were not afraid to compete with any other agency or private business in this regard. They stated they would compare their costs with running their office with that of what it would cost for any other agency. He stated they all should be comparing and seeing who could give them quality service at the lowest price. He stated they do it now.

Mr. O'Keefe said he had been responsible for the fiscal management of the warrant system for three years and he couldn't remember receiving one complaint from his customers. They write warrants for every agency in state government and work with these people and have gone out of their way to have open houses to meet those people and to design a system that everyone can work with and will work well. He stated they have a competitive edge as

far as writing warrants and are becoming more efficient. Since 1979 they have cut the cost to produce warrants. Postage hikes have been the only increase in costs for the past 15 years. Their internal personal services costs have dropped 19 percent in the past 15 years. He stated his average cost per warrant is 41 cents, the lowest in the nation that they know of. They believe they have an efficient warrant-writing process when compared with other states and believe the service is excellent and is getting better.

They continue to strive to reduce the cost of this system. The warrant-writing system success is an example of cutting cost in government and making government better and cheaper, not for their benefit but for the benefit of the constituents. He stated this program has increased its efficiency and reduced associated costs through increased collections. The 38 percent reduction in cost of recovering will provide additional funds for the general fund of Montana. In the 1993 session they worked with the Racicot administration to review their warrant-writing and payroll system. They determined it made good common sense to move the payroll function to the administration. He told the Governor if it makes good sense and makes the system either cheaper or more efficient, he would support it. He stated payroll did, moving bad debt and warrant writing didn't. He stated the proposal in this bill wasn't made by the Governor's office or by the Department of Administration. Both offices agree this is not a common sense move.

He stated **REP. SLITER** said it was political and he was right. He stated he would like someone to prove to him that politics are not involved if this bill costs Montanans more to do the same service they have right now. He stated when they consider the cost, the taxpayers will have to pay more money and perhaps have a less efficient system per function that he thinks is done as efficiently and effectively as any in state government.

One of the reasons it is, is because an elected official is in charge of it and not a bureaucrat. This is a system where they have to be 100 percent right. There is no room for mistakes. They must send out the checks, and they must send out the right checks. They pay a lot of attention to that. He stated someone doesn't want a Democrat's name on state checks, especially the tax rebate checks that are going out after the effective date of this bill.

He said there wasn't much more he could say about the bill. To him it is a purely political measure designed to take off, in this case his name, a Democrat's name, off state warrants before hundreds of thousands of checks go out to Montanans in the form of tax rebates. He stated if they were going to do this for political reasons, they needed to be honest about it. He said if they didn't want his name on the checks, don't destroy the program. He suggested making Tom Crosser the one to sign the checks. He stated he didn't think they should destroy a

government function just for pure political reasons. If they are going to change those duties they need to be prepared to explain why to the citizens of Montana, because he will let them know they have done that. If they are going to move this function, do it for a good reason and if they have a good reason he will support it. If it has good fiscal sense, if it makes the system more efficient, he told them to do it, but they needed to be able to prove that to him.

Informational Testimony: none

Questions From Committee Members and Responses:

REP. BRAINARD asked what system is currently in place to audit the warrant writing.

Tom Crosser, Deputy for Fiscal Control and Management, State Auditor's Office, replied the Legislative Auditor forms basically two audit functions. They audit the electronic part of the system to make sure the controls on the data processing in the system are in compliance with audit recommendations. They also have a financial compliance audit that reviews the expenditures and costs of the programs along with the rest of the agencies' programs. This happens every two years.

REP. DENNY asked if the Legislative Auditor finds exceptions in the last audit.

Mr. Crosser responded only the recommendation from a previous audit that still existed was a disaster recovery plan. They didn't write them up on that because of the work they had done with the Department of Administration. They did not have any other audit recommendations at that time.

REP. DENNY asked **Mr. Lewis** to address the fiscal notes.

Dave Lewis stated he didn't find out until the day before about the hearing. They worked well into the evening to get the fiscal note out for the committee. He stated the major issue **Mr. O'Keefe** raised was the \$150,000 cost of upgrading the system. That would have to take place sometime in the future whether the function is in the Auditor's Office or in the Department of Administration. They didn't attribute that to the cost of the move. He stated he thought that was valid. The major impact is the Department of Administration can absorb the supervision of the function within the current staff of the Accounting Division. This would allow for some staff cuts to take place. This is something that has been looked at for more than twenty years. He stated it makes sense to put the functions together. He stated the fiscal note simply reflects the staff saving by putting the functions together.

REP. SCHWINDEN asked if this had been discussed for twenty years why didn't the Governor make some recommendation on it and why is

the committee getting this bill so late, after the Speaker's deadline for hearing these bills in the first place. He stated it seemed to be a little late in the process to be considering this measure now. If it has been around so long, why are they getting it at this time.

Mr. Lewis stated this was submitted as part of HB 153 in the last session. There was a lot of controversy about moving the bad debt and warrant writer to the Department of Administration. He stated it was his understanding that members of the Task Force didn't think this was possible to accomplish. He stated it wasn't high on their list of priorities because of the legislation in the last session. As to the timing, he didn't know when the sponsor put the bill request in or any of the times like that.

{Tape: 1; Side: B.}

REP. SIMPKINS stated **Mr. Lewis** didn't schedule this bill for the hearing on this day, he did. He told **REP. SCHWINDEN** to leave the scheduling of the bill out of the question if he had more questions to ask.

REP. BRAINARD asked what handicaps the Department of Administration from doing this.

Mr. Crosser stated he can't say they couldn't do this function for the same cost. He had spent a great amount of time trying to reduce the cost to come up with a plan that would reduce the cost further, give agencies an incentive to use lower cost options to make payments. They do have different options available. He stated the argument was made with HB 153 that money would be saved when the payroll function was transferred to the Department of Administration. He said that wasn't the case. They aren't the same program, and it wouldn't be fair to draw the same conclusions for both of the programs. His people work very hard at all times. He didn't think there was a better system in the area. He stated the biggest part of their cost is postage at the current time. He thought state agencies needed to learn how to manage the amount of warrants they write.

REP. SMITH stated she had heard a concern raised that there would be a dual system for warrant writing.

Mr. Crosser stated there was some concern with that when HB 153 was debated, whether the checks and balances existed and whether the accounting and warrant-writer functions were the same program. He believed there were ways electronically and through internal controls to make the audit problem not that important. He stated he thought they still needed those checks and balances.

REP. SMITH asked if he was saying there were two separate systems.

Mr. Crosser stated there weren't really two warrant-writer systems. There has always been a state accounting system which drives the warrant system. When a state agency wants to generate a warrant, they put a transfer warrant claim into the state accounting system which is in the Department of Administration. When done there, it is transferred to the warrant-writing system and they generate the warrant from their own system. They do maintain the warrant system as a separate agency. They have to track the warrants once they issue them.

REP. REHBEIN asked if this bill were to pass, would the ideas and technology be transferred as well.

Mr. Crosser stated the Department of Administration would continue on with his cost plan. It makes business sense, it gives agencies incentives to use lower cost options. He thought electronics is the wave of the future and they work closely with the Department of SRS in developing direct deposit for the payments they make. They can then truly reduce staff and reduce the costs of doing those transactions.

Closing by Sponsor:

REP. SLITER stated, as he suspected, they had a political battle. It wasn't what he wanted. To answer **REP. SCHWINDEN'S** question in regard to the bill's timing, it was his fault the bill was slow in getting to committee. He was under great pressure not to introduce this bill. He stated he had a long conversation with **Mr. O'Keefe** a few days before and his position was not to introduce the bill. He stated he got to thinking about it. **REP. BARDANOUVE** thought this was a good idea. He felt it was a good idea, too. Someone talked **REP. BARDANOUVE** out of pieces of that bill. Someone tried talking him out of it as well.

When they talk about the political issue of getting the names off the checks, he stated he was trying to de-politicize this. He said there was a question asked early in the session as to whether the state executive's name should be on the checks. He said this was not political and he didn't want this to be political. If the auditor's name comes off, the checks become less political. He is an elected official, why put another elected official's name on the checks. Under this bill the Director of the Department of Administration would have his or her name on the checks. That is where it belongs. It doesn't belong on a political position, it belongs where politics are out of it.

He stated as for **REP. BARDANOUVE'S** integrity, he didn't question his integrity. He did question the integrity of some people who want to put a political fight before the committee when he is trying to save money and carry on the former Dean of the Senate's wishes from HB 153.

REP. SIMPKINS entered the dates of the bill's history into the record.

LC 1156

REQUESTED JAN. 2, 1995

READY FOR DELIVERY FEB. 2, 1995

REDO FEB. 2, 1995

REDO FEB. 3, 1995

READY FOR DELIVERY FEB. 10, 1995

PICKED UP FEB. 14, 1995

INTRODUCED FEB. 15, 1995

POSTED FEB. 15, 1995

HEARING FEB. 17, 1995

EXECUTIVE ACTION ON HB 563

Motion: **REP. BRAINARD** MOVED HB 563 DO PASS.

Discussion:

REP. SCHWINDEN stated he hasn't heard whether the bill will save any money. If they are going to break this bill down into the basics, it has not been demonstrated this bill will save money or makes common sense. For those reasons, he would not support this bill.

REP. REHBEIN stated **REP. SCHWINDEN** had made a good point but the reverse is true as well. He stated it had not been demonstrated to him how this bill wouldn't save money. He thought because of efficiency it could possibly save some money. If there is any chance this bill would save some money, he would support the bill. He believed the possibility was there.

REP. KITZENBERG stated one of the things he would have liked to have heard in this hearing is what **REP. BARDANOUE** had to say about the bill currently.

REP. SQUIRES stated it is really a credit to **Mr. Crosser** that he has been able to streamline the system down to the point that it had no recommendations by the Auditor except the one mentioned and to bring the cost down to 41 cents per warrant. She didn't think they should eliminate his position. He has been effective and beneficial. She believed it should be left where it is being done.

Vote: Motion passed 12-6 with **REP. SCHWINDEN**, **REP. GALVIN**, **REP. HAGENER**, **REP. HEAVY RUNNER**, **REP. SQUIRES**, and **REP. TROPILA** voting no, and with **REP. STOVALL**, and **REP. TAYLOR** voting yes by proxy.

EXECUTIVE ACTION ON HB 523

Motion: **REP. SQUIRES** MOVED HB 523 DO PASS.

Discussion:

REP. SQUIRES stated she believed this was a good bill.

REP. DENNY stated he had been thinking about this bill and through the testimony learned this is a minimum wage jobs program. He didn't think that was a valid function of the government at the state or federal level. He stated if there was money to support this program privately that would be fine. He stated he couldn't support this bill at this time.

REP. BRAINARD stated he saw this as people lining up at the federal trough to receive federal dollars. He stated he didn't think this was a wise use of money.

REP. HEAVY RUNNER stated he has seen positive benefits with programs of this sort. He stated he believed it was immeasurable in terms of dollar and human amounts. He stated he had to support the positive message and hoped some of the committee members would think of this bill in terms of its long range impact.

REP. SMITH stated she encouraged people to go back to their communities and explain to them why they are going to ask for more and more of their money so they can send it to Washington so they could provide minimum wage jobs for people who have degrees. She urged them to vote no on the bill.

REP. MARTINEZ stated if this is a volunteer thing, why do they need all of this money. If she were to do a favor for a neighbor, she wouldn't charge them. She stated people seem to forget that the money coming out of Uncle Sam's pocket are really coming out of our own pockets.

Vote: Motion failed 8-10 WITH **REP. SIMPKINS, REP. SCHWINDEN, REP. GALVIN, REP. HAGENER, REP. HEAVY RUNNER, REP. KITZENBERG, REP. SQUIRES, and REP. TROPILA** voting yes and with **REP. TAYLOR and REP. STOVALL** voting no by proxy.

ADJOURNMENT

Adjournment: 8:45 A.M.


RICHARD SIMPKINS, Chairman


CHRISTEN VINCENT, Secretary

RS/cdv

HOUSE OF REPRESENTATIVES

State Administration

ROLL CALL

DATE 2-17-95

NAME	PRESENT	ABSENT	EXCUSED
Rep. Dick Simpkin, Chairman	✓		
Rep. Matt Denny, Vice Chairman, Majority	✓		
Rep. Dore Schwinden, Vice Chair, Minority	✓		
Rep. Matt Brainard	✓		
Rep. Pat Galvin	✓		
Rep. Dick Green	✓		
Rep. Toni Hagener	✓		
Rep. Harriet Hayne	✓		
Rep. George Heavy Runner	✓		
Rep. Sam Kitzenberg	✓		
Rep. Bonnie Martinez	✓		
Rep. Gay Ann Masolo	✓		
Rep. Bill Rehbein	✓		
Rep. Susan Smith	✓		
Rep. Jay Stovall			✓
Rep. Carolyn Squires	✓		
Rep. Lila Taylor			✓
Rep. Joe Tropila	✓		



HOUSE STANDING COMMITTEE REPORT

February 17, 1995

Page 1 of 1

Mr. Speaker: We, the committee on State Administration report that House Bill 563 (first reading copy -- white) do pass as amended.


Signed: *Dick Simpkins*
Dick Simpkins, Chair

And, that such amendments read:

1. Title, lines 6 and 7.

Strike: "CHANGING" on line 6 through "FUND;" on line 7

-END-


Committee Vote:
Yes 12, No 6.

411349SC.Hbk

HOUSE OF REPRESENTATIVES

ROLL CALL VOTE

State Administration

DATE 2-17-95 BILL NO. HB NUMBER 523

MOTION: Rep. Squires moved Do Pass

NAME	AYE	NO
Rep. Dick Simpkin, Chairman	✓	
Rep. Matt Denny, Vice Chairman, Majority		✓
Rep. Dore Schwinden, Vice Chairman, Minority	✓	
Rep. Matt Brainard		✓
Rep. Pat Galvin	✓	
Rep. Dick Green		✓
Rep. Toni Hagener	✓	
Rep. Harriet Hayne		✓
Rep. George Heavy Runner	✓	
Rep. Sam Kitzenberg	✓	
Rep. Bonnie Martinez		✓
Rep. Gay Ann Masolo		✓
Rep. Bill Rehbein		✓
Rep. Susan Smith		✓
Rep. Jay Stovall <i>By Proxy</i>		✓
Rep. Carolyn Squires	✓	
Rep. Lila Taylor <i>By Proxy</i>		✓
Rep. Joe Tropila	✓	

HOUSE OF REPRESENTATIVES

ROLL CALL VOTE

State Administration

DATE 2-14-95 BILL NO. HB NUMBER 563

MOTION: Rep. Brainard moved DO PASS hb 056301.ash

NAME	AYE	NO
Rep. Dick Simpkin, Chairman	✓	
Rep. Matt Denny, Vice Chairman, Majority	✓	
Rep. Dore Schwinden, Vice Chairman, Minority		✓
Rep. Matt Brainard	✓	
Rep. Pat Galvin		✓
Rep. Dick Green	✓	
Rep. Toni Hagener		✓
Rep. Harriet Hayne	✓	
Rep. George Heavy Runner		✓
Rep. Sam Kitzenberg	✓	
Rep. Bonnie Martinez	✓	
Rep. Gay Ann Masolo	✓	
Rep. Bill Rehbein	✓	
Rep. Susan Smith	✓	
Rep. Jay Stovall By Proxy	✓	
Rep. Carolyn Squires		✓
Rep. Lila Taylor By Proxy	✓	
Rep. Joe Tropila		✓

Amendments to House Bill No. 423
First Reading Copy

For the Committee on House State Administration

Prepared by Sheri S. Heffelfinger
February 16, 1995

1. Title, line 5.

Following: "LIMITATIONS;"

Insert: "DESCRIBING EXPENDITURES THAT ARE SUBJECT TO LIMITATION;
PROVIDING FOR THE REPORTING OF THE EXPENDITURES; PROVIDING
GUIDELINES RELATED TO INDEPENDENT COMMITTEES;"

2. Title, line 11.

Strike: "SECTION"

Insert: "SECTIONS"

Following: "13-10-202"

Insert: "AND 13-37-225"

3. Page 1, line 15.

Following: "(1)"

Insert: "(a)"

4. Page 1, line 17.

Following: "expenditures."

Insert: "(b)"

5. Page 1, line 18.

Strike: "5"

Insert: "6"

Following: "includes"

Insert: ": (i)"

Following: "committee"

Strike: "and"

Insert: "; (ii)"

6. Page 1, line 19.

Following: "candidate"

Insert: "(iii) work performed by the candidate on behalf of the
candidate's campaign, which must be valued as if the
candidate were paid the daily rate of current legislative
salary provided in 5-2-301;

(iv) volunteer work, which must be valued as if the
candidate paid each volunteer worker minimum wage as
determined under 39-3-409, that is performed:

(A) on behalf of the candidate; or

(B) on behalf of a committee independent of the
candidate's campaign but that influences the election in
favor of the candidate; and

(v) an expenditure made by a candidate, the
candidate's family, or, subject to [section 6], a committee
acting independently of the candidate's campaign, made in
support of the candidate or in opposition to the candidate's

opponent"

7. Page 1, line 21.

Following: "[section 2]"

Insert: "or in a mutual agreement negotiated between candidates"

8. Page 1, line 22.

Following: "law"

Insert: "or in the mutual agreement"

9. Page 2, line 17; page 4, line 20; and page 5, line 1.

Following: "[section 2]"

Insert: "or in a mutual agreement negotiated between candidates"

10. Page 3, line 27.

Strike: "5"

Insert: "6"

11. Page 4.

Following: line 15

Insert:

"NEW SECTION. Section 6. Independent committee activities approved or disapproved by candidate. (1) Before a committee operating independently of a candidate's campaign may engage in activities that will benefit a candidate, the committee shall contact the candidate and ask the candidate if the candidate approves of the committee's activities.

(2) If the candidate approves of the committee's activities:

(a) the committee is no longer an independent committee but is a political committee as defined in 13-1-101. The committee shall acknowledge on all literature, posters, advertisements, radio or television spots, or other material promulgated in a way that benefits a candidate's campaign that the candidate approves of the committee's activities; and

(b) the committee's expenditures relevant to the candidate's campaign must be counted toward the candidate's expenditure limit if the candidate has agreed to voluntary expenditure limitations under [section 1].

(3) If the candidate does not want the endorsement of the committee and does not approve of the committee's activities:

(a) the committee shall acknowledge on all literature, posters, advertisements, radio or televisions spots, or other material promulgated in a way that benefits a candidate's campaign that the candidate does not approve of the committee's activities; and

(b) the committee's expenditures do not count toward the candidate's limit if the candidate has agreed to voluntary expenditure limitations under [section 1].

(4) If a committee intentionally or negligently fails to comply with the requirements of this section, the committee may be fined under the provisions of 13-37-128."

Renumber: subsequent sections

12. Page 5.

Following: line 10

Insert:

"Section 8. Section 13-37-225, MCA, is amended to read:

"13-37-225. Reports of contributions and expenditures required. (1) (a) Except as provided in 13-37-206, each candidate and political committee shall file periodic reports of contributions and expenditures made by or on the behalf of a candidate or political committee.

(b) Each candidate and political committee shall include in the report expenditures subject to voluntary limitation under [section 1].

(c) All reports required by this chapter shall be filed with the commissioner and with the election administrator of the county in which a candidate is a resident or the political committee has its headquarters. However, where residency within a district, county, city, or town is not a prerequisite for being a candidate, copies of all reports shall be filed with the election administrator of the county in which the election is to be held or, if the election is to be held in more than one county, with the election administrator in the county that the commissioner specifies.

(2) In lieu of all contribution and expenditure reports required by this chapter, the commissioner shall accept copies of the reports filed by candidates for congress and president of the United States and their political committees pursuant to the requirements of federal law.""

Renumber: subsequent sections

13. Page 5, lines 12 and 14.

Strike: "5"

Insert: "6"

HB 563 TESTIMONY

TITLE

AN ACT TRANSFERRING THE WARRANT WRITING AND BAD DEBT MANAGEMENT FUNCTIONS OF THE STATE AUDITOR TO THE DIRECTOR OF THE DEPARTMENT OF ADMINISTRATION, WHO IS THE EX OFFICIO STATE TREASURER; CHANGING THE SPECIAL REVENUE ACCOUNT FOR THE WARRANT WRITER PROGRAM TO AN INTERNAL SERVICE FUND; AMENDING SECTIONS 2-18-412...; REPEALING SECTION 17-1-121, MCA; AND PROVIDING AN EFFECTIVE DATE.

PURPOSE

To transfer the warrant writing and bad debt management functions of the state auditor to the director of the department of administration in order to continue to centralize the management and control of the State's major financial systems and create cost savings along with increased efficiencies due to greater integration and coordination of system operations.

BACKGROUND

HB 563 transfers the warrant writing and bad debt management functions of the State Auditor's Office to the Department of Administration. It continues the process started in the 1993 session to centralize the management and control of the State's major financial systems. The bill creates short-term cost savings along with increased efficiencies due to greater integration and coordination of system operations which can generate future cost savings.

The warrant writing system and the Statewide Budgeting and Accounting System (SBAS) are two highly integrated mainframe systems operated by two separate agencies - the State Auditor's Office and the Department of Administration - and maintained by ISD. Technically, there would be no warrant writing system without SBAS. The warrant writing system creates state warrants for state agencies only from electronic transfer warrant claims which successfully process through SBAS. The bad debt system is a program integrally related to the warrant writing system. It involves an automated review of claims against the state which may be offset against bad debts.

The warrant writing system and the bad debt management function currently operate in the Fiscal Control and Management Division in the State Auditor's Office. The Fiscal Control and Management Division is comprised of a supervisory position and 13 additional FTE broken down into two programs as follows:

EXHIBIT 1
DATE 2-17-95
HB 563

- a. Warrant Writer is made up of a supervisor and six (6) additional FTE. This group performs functions such as warrant writing, warrant cancellations, updating payee ID files, the cashing of warrants and the consolidation of 1099 MISC information reported by state agencies.
- b. Bad Debts is made up of a supervisor and five (5) additional FTE. This group is responsible for all aspects of bad debts including approving the taking of warrants, sending money to the person owed and keeping the file of recipients up-to-date.

Because both programs are integrally related to SBAS and the treasury operation, they would be established as two units within the Accounting and Management Support Division of the Department of Administration. Existing managerial staff in the division could absorb the supervisory duties of the current fiscal manager position. As a result, the fiscal manager position could be eliminated. The \$78,100 savings created by the elimination of this 1 FTE would be offset by one-time expenditures associated with moving and transfer costs totaling \$36,000. The net short-term cost savings associated with the transfer of these programs from the State Auditor's Office to DoA amounts to \$42,100. The savings are assumed to occur in the proprietary fund as proposed in HB 522.

Other significant benefits of this proposal include the centralized management and control of the State's financial systems within one accountable agency, DoA, increasing the ability to coordinate the general operation and maintenance of these systems and their associated program priorities, system enhancements and budgets. The administration of the warrant writing and bad debt programs is not an integral part of the mission of the State Auditor's Office which focuses on securities and insurance regulation. Administration of the warrant writer/bad debt system is similar in purpose and function to the administration of the statewide accounting system. The databases of these two systems have been integrated so "tightly" that it is difficult to distinguish where one computer system ends and the other begins. In fact, there are no clearly defined boundaries as the databases are designed to process as part of a single, integrated whole. Centralized management of these systems enables them to operate more efficiently and effectively and improves the ability to respond to management and user needs.

Continued integration and enhancement of these systems to take advantage of current technology and to create greater efficiencies of operation and associated cost savings can be implemented more efficiently within one department. Fragmentation of responsibility for administering these systems results in variances in philosophy, priorities, budgets, and schedules, all of which complicate the coordination of support activities and system enhancements. Additionally the lack of a single perspective applied to system enhancements results in a loss of continuity. By centralizing coordination of system enhancements, system capabilities, reporting, and data can be streamlined for greater efficiency and economy.

Difficulties arise when systems continue to evolve in the direction of increasing integration but governmental program responsibility remains in those agencies that traditionally had responsibility for the various programs. ISD currently provides computer programming support for all of the State's major financial subsystems, including SBAS, PPP, warrant writing system, and their related processes such as recording of Miscellaneous Income (IRS 1099's). Each subsystem is supported by a separate technical support team who independently respond to each program manager's management objectives, priorities, and schedules. It is becoming very difficult to maintain what is essentially only one large financial management system from a technical point of view in an environment where several independent program managers request system enhancements from program perspectives that are often not coordinated. It is not unusual for ISD to provide project management from "the bottom up" when a programming request initiated by one agency upon analysis is found to affect one or more of the State's other financial systems. Attempting to support these tightly integrated financial subsystems with different technical support groups that report to different management has definitely introduced unnecessary costs, increased risks, and resulted in missed opportunities that have diminished the overall effectiveness of the total effort.

Finally, transferring the warrant writer/bad debt programs to the Department of Administration makes them less subject to the "politics" of an elected office. The anticipated controls supposedly created by an elected official's being held more accountable to their constituents have been replaced by technological checks and balances incorporated into the system operations along with the separation of authority and responsibility.

SBAS

SBAS, a complex system including PAMS as a subsystem, has been in effect since fiscal year 1972, and upgraded substantially in 1979. It is the primary accounting system for state government. SBAS provides uniform accounting and reporting for all state agencies showing the receipt, use, and disposition of all public money and property in accordance with generally accepted accounting principles (GAAP).

OBPP establishes appropriation authority on SBAS for all state agencies at the beginning of each fiscal year to reflect authority cited in enrolled appropriations bills adopted by the legislature. OBPP transmits to each agency a document used to establish the operating budget for each program in state government, and then initializes and maintains appropriation authority on SBAS electronically.

Controls exist within SBAS to ensure agency transactions are balanced. DOA distributes monthly SBAS reports to agencies to enable management to monitor current financial information, for greater financial control. SBAS data is also used by DOA to generate state annual financial documents such as the Comprehensive Annual Financial Report (CAFR) and the Federal Cost Allocation Plan. OBPP uses SBAS data to generate actual expenditures and files reflecting ongoing current level authority. These files are then transmitted to LFA.

DOA implemented on-line entry and edit (OE&E) in February 1989. OE&E was designed to increase the state's efficiency and accuracy in entering accounting data and paying bills. Fiscal year 1990 was the first year OE&E was used statewide.

Agencies can either input claim information directly on-line, via OE&E, into SBAS, or agencies can run batch jobs to load SBAS claims. This information is then translated electronically into more specific warrant writing system terminology, which in turn is used to generate state warrants. SBAS provides further checks and balances in the warrant issuance process to ensure that warrants are not issued against accounts reflecting insufficient funds. An example of the steps involved in paying an agency invoice are outlined in Appendix E. Also, as shown under the above PPP section, SBAS and PPP interact in virtually every system to some extent.

While frequently referred to as a separate database, PAMS is a subsystem of SBAS. The automated PAMS system is a statewide property inventory system. SBAS incorporates the agency property data into the budget process. Similar subsystems include the Teacher's Retirement and Public Employee Retirement system databases, which also feed through SBAS. These subsystems will be treated as one database system, SBAS, for the purposes of this report.

Step 7: Each day, First Bank brings to the Treasurer's office all warrants which have cleared the bank. The Treasurer's office will then issue a SBAS document to actually remove the cash from the state and reduce the amount of outstanding warrants. The checks are then sent to the State Auditor's Office to be microfiched and stored. They also update their database to show the warrant being cashed.

Step 8: Monthly, the Accounting Bureau provides the agencies with a list of payments made to vendors for the current fiscal year (Form 395). This has greatly reduced the work load on the State Auditor's Office by allowing agencies to track their warrants on their own. The State Auditor's Office also has an inquiry system for tracking warrants during the current month as well as the prior six months.

Warrant Writing System

The warrant writing system, officially a part of the State Auditor's Office duties since inception in 1895, is an application on the mainframe computer operated and supported by ISD.

The State Auditor's Office implemented a new warrant writing system on July 1, 1989. The warrant writing system creates state warrants for state agencies from electronic transfer warrant claims which successfully process through SBAS. Every week night, after SBAS is updated with daily transactions, a SBAS report is created which identifies the number of warrants which must be written the subsequent morning. The computer operations technician in the State Auditor's Office runs an automated report to show that the warrant writing system balances to SBAS.

This report further refines the agency SBAS data into needed warrant writing details such as the specific number and amount of warrants to be written by agency, and the type (mailer or non-mailer) of warrant to be issued.

Other computerized reports are run to identify the amounts of electronic warrants included in the day's transactions and to determine possible offsets against outstanding bad debts.

Two more computer jobs are run to transmit warrant printing instructions to ISD for warrant printing on the mainframe printer in the computer center. ISD and the State Auditor's Office then perform a review of all warrant documents, printed and unprinted, to account for all forms. After printing is successfully completed, the technician updates the warrant writing database to reflect warrants processed.

In general, the warrant writing system dramatically improves the state's cash management abilities, including bad debt monitoring, just-in-time payments, enhancements to duplicate warrant and emergency warrant processing. The high degree of integration required of SBAS and the warrant writing system in order to provide these enhanced cash management capabilities makes it imperative that the affected program managers closely communicate and coordinate all changes to either system.

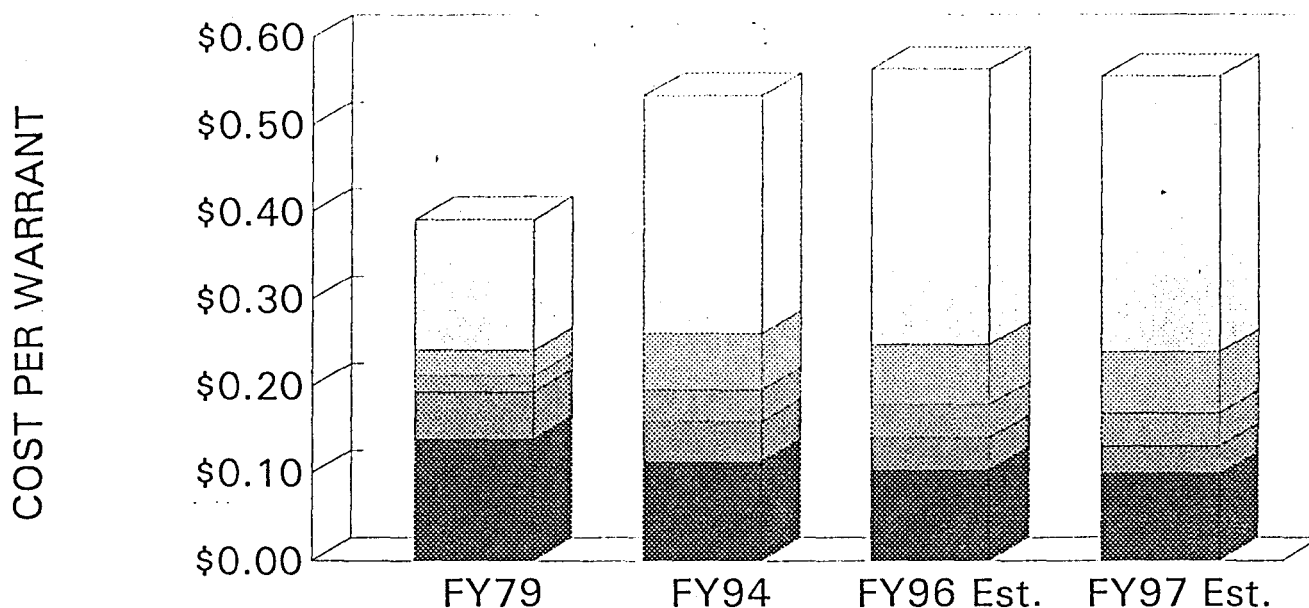
The bad debt system is a program integrally related to the warrant writing system. It involves an automated review of claims against the state which may be offset against bad debts.

The Current Structure of the SBAS AND WARRANT WRITING Systems

EXAMPLE: PAYING AN INVOICE

- STEP 1: Day #1, receipt of an Invoice at Legislative Fiscal Analysts Office (LFA).
- STEP 2: Day #1, LFA submits an on-line Form 231 Transfer Warrant Claim which will take money and authority from its accounts and places the money into a warrant holding account (Accounting Entity 07300) currently administered by DOA. At this time, the warrant database is also updated with vendor information. We now have two database records for each Form 231: one for SBAS and one for Warrants.
- LFA may implement optional OE&E edits.
- STEP 3: Day #1 (evening), SBAS data automatically updated in daily run by DOA. At the time of update, various checks are made by the system against various balances, such as cash and appropriation authority. If a Form 231 has a transaction posted against one of these areas and they are negative, the warrant database record will not be marked for approval to be written by the system.
- Step 4: Day #2 (early morning about 6 a.m.) The State Auditor's Office runs a series of jobs which verify what has been approved to write and then extracts the information in order to create a warrant. At this time, they also check against their bad debt database to see if any warrants should be held back. They also add warrants that were previously held and later released either in full or partially. The total of all warrants to be written must agree to SBAS numbers printed in Step 3.
- Step 5: Day #2, revised funding and expenditure figures are available to LFA through on-line inquiry screen(s). Daily transaction reports showing how documents processed are printed for all agencies. Warrants are picked up by General Services to mail usually late morning. They are already sorted in zip code order by the system before printing. Those warrants to be picked up by agencies are ready usually by 9:00 a.m.
- Step 6: Day #2, State Auditor's Office submits Form 237 - Auditors Warrant Issued Summary to take the money out of cash and move it into an outstanding warrant control account in the Treasurer's office accounting entity (10100). At this time, Accounting again reconciles the amount of warrants written to what was approved by SBAS.

MAILER WARRANT COST BREAKDOWN COST COMPARISON FY79 TO FY97



■ PERS SERV ■ DP COSTS ■ PAPER ■ FIXED COST ■ POSTAGE

PER WARRANT COST FACTORS						
	PERSONAL SERVICES	DP COST	PAPER	FIXED COST	POSTAGE	TOTAL
FY79	\$0.1397	\$0.0538	\$0.0184	\$0.0290	\$0.1500	\$0.3909
FY94	\$0.1134	\$0.0464	\$0.0360	\$0.0645	\$0.2728	\$0.5331
FY96 Est.	\$0.1040	\$0.0368	\$0.0380	\$0.0683	\$0.3160	\$0.5631
FY97 Est.	\$0.0986	\$0.0324	\$0.0380	\$0.0694	\$0.3160	\$0.5544

- > Since 1979, personal service costs have dropped 29.5% on each mailer warrant issued.
- > Data processing costs have declined 39.8% on each warrant issued.
- > Paper warrant costs have climbed 100.6% per warrant during the same timeframe.
- > Fixed cost such as rent, audits and state cost allocations were not paid for in 1979. These cost have increased 139.3%.
- > Postage, the most expensive component of processing these warrants, has increased 110.7%

EXHIBIT 2
DATE 2-12-95
HB 563

HOUSE BILL NO. 552

INTRODUCED BY _____

BY REQUEST OF THE GENERAL GOVERNMENT SUBCOMMITTEE OF APPROPRIATIONS

A BILL FOR AN ACT ENTITLED: "AN ACT CHANGING THE DEPOSIT OF FUNDS COLLECTED FOR THE STATE WARRANT SYSTEM FROM THE SPECIAL REVENUE FUND TO THE INTERNAL SERVICE FUND; AMENDING SECTION 17-8-305, MCA; AND PROVIDING AN EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 17-8-305, MCA, is amended to read:

"17-8-305. Cost accounting for warrant. ~~In his discretion it is the duty of the~~ The state auditor ~~to~~ may establish a cost accounting system to determine the unit cost of issuing and processing warrants and provide for a system of charges for services rendered in issuing and processing warrants for claims submitted by any department or agency of the state. ~~No such charge shall be made for warrants issued against the general fund. Funds collected under this section for budgeted programs shall be deposited to the credit of the general fund. Funds collected for new or unforeseen programs may~~ operation of the state warrant system must be deposited to the credit of a state special revenue an internal service fund account and expended for the purposes of paying the processing expenses incurred as a result of the ~~new program~~ state warrant system."

NEW SECTION. Section 2. Effective date. [This act] is effective July 1, 1995.

-END-

WARRANT WRITER/BAD DEBT TRANSFER

1. General Assumptions

- ▶The Warrant Writer and Bad Debt functions would operate as two separate sections within the Accounting and Management Support Division in the Department of Administration; each section currently has a supervisor in the State Auditor's Office.
- ▶The 14 FTE performing the current duties associated with these functions will be transferred initially.
- ▶Reorganization within the new department and consolidation of duties would enable the Department of Administration to absorb the duties assigned to the fiscal manager and eliminate the 1 FTE after an initial short-term (less than three months) transition period.
- ▶Positions transferred to Administration will be factored to determine their proper job classification and salary will be adjusted per State Personnel Policies as adopted by the Department of Administration.
- ▶The Warrant Writer/Bad Debt functions in DofA would be funded as proposed in HB 2 at the level proposed by the State Auditor's Office adjusted for proposed reductions; appropriation authority would be transferred from the State Auditor's Office to Dof A.
- ▶The rates developed by the State Auditor's Offices for these services will be adopted by the Department of Administration.
- ▶Signature plates, warrant stock, and associated titled forms will be replaced at the time of the transfer.
- ▶The Accounting and Management Support Division will incur certain one-time remodeling costs to accomodate the addition of personnel and provide appropriate office space; the State Auditor's Office will switch fiscal with securities.
- ▶The transfer of these functions to DofA is effective July 1, 1995.
- ▶All PC's will use Microsoft Windows and each individual will be placed on ZipOffice.
- ▶In the future the LAN Debt System will need to be reengineered at an estimated cost of \$150,000 (minimum).

2. Fiscal Impact

	<u>1996</u>	<u>1997</u>
Eliminate Fiscal Manager Position	\$ (31,300)	\$ (41,729)
One-Time Costs Associated w/Transfer:		
Termination Pay - Fisc. Mgr.	5,300	
Signature Plate Change	500	
Replace Warrant Stock	10,000	
Remodeling Costs	4,200	
Moving Costs - State Auditor	3,850	
Software/Printer	1,095	
ISD Transfer Costs	1,000	
LAN Debt Sys. Transfer Costs	<u>5,000</u>	
Net Cost (Savings)	<u>\$ (250)</u>	<u>\$ (41,729)</u>

DEPARTMENT OF ADMINISTRATION

LAN debt reengineering	\$75,000	\$75,000
DofA projected savings	<u>(250)</u>	<u>(41,729)</u>
DofA cost	\$74,750	\$33,271

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0563, as introduced

EXHIBIT 2
DATE 2-17-95
HB 563

DESCRIPTION OF PROPOSED LEGISLATION: An act transferring the warrant writer and bad debt functions from the State Auditor to the director of the Department of Administration.

ASSUMPTIONS:

1. The Department of Administration will maintain current staff for the warrant writer function. Allocations made for data processing support from the Auditor's data processing staff will be dropped and picked up by insurance and securities state special revenue account funding. Centralized service duties for the whole agency currently done by the Administrator of the Fiscal Control and Management Program will be assumed by an existing staff person in the State Auditor's Office.
2. The Department of Administration will continue to use the current warrant writing machines used by the State Auditor.
3. The Department of Administration will maintain a disaster backup file similar to the one currently used by the State Auditor.
4. Warrant writer equipment will be maintained in its current location. Staff locations will be switched with the State Auditor's Securities program so that the warrant and bad debt staffs will be in close proximity to the Department of Administration.
5. All existing warrant stock and signature plates will be replaced with appropriate warrant stock when the transfer occurs. All fixed assets of the warrant writer and bad debt program will be transferred to the Department of Administration.
6. Department of Administration will provide their own storage for cashed warrants and offsite disaster backup stock.
7. As with the Payroll transfer from the 93 legislature, the Department of Administration will re-write the bad debt and warrant writer LAN interface software. Cost of this re-write will be at least as expensive as the payroll re-write (\$150,000).
8. All cost incurred as a result of this transfer to the bad debt program will increase the rate charged user agencies for collection services. 50% of the this cost will be a loss to the state general fund.
9. The transfer is effective July 1, 1995. To ensure continuity of service, new signature plates and new warrant stock will be required to be on hand June 30, 1995. One months warrants are reflected as FY95 general fund cost.

FISCAL IMPACT:Expenditures:

A \$6,000 expenditure in FY95 from the general fund will need to be made to purchase one months worth of warrant stock and new signature plates. Expenditures in the first year of the transfer will increase \$107,815 over the current operational budget. In the second year of the biennium, operational costs will increase \$75,000.

Revenues:

In FY96, the Bad Debt Program will need to collect \$77,375 in added revenue to pay for the transfer costs related to the program. Half of this amount is lost revenue to the general fund. Revenue for bad debts will increase \$75,000 in FY97. Again half of this revenue will be lost general fund revenue.

Net Impact:

	FY96	FY97
	<u>Difference</u>	<u>Difference</u>
General fund cost	\$42,013	\$37,500
Internal service fund cost	<u>65,803</u>	<u>37,500</u>
Total cost of transfer	\$107,815	\$75,000

In addition, there is a one time general fund cost of \$6,000 in FY95.

(continued)

FY95 costs:

One months warrants on hand at FYE:

Mailers form 01's	100,000@.04=	\$4,000
Non-mailers 02's	15,000@.04=	600
Payroll 37's	10,000@.04=	400
Externals\SRS\Usys	12,500@.04=	500
Total warrant cost		\$5,500
Signature Plates		500
Total FY95 cost		\$6,000

FY96 costs:

Disaster Recovery backup warrants:

Mailers	130,000@.04=	\$5,200
Non-mailers	40,000@.04=	1,600
SRS 71's	36,000@.04=	1,440
SRS 73's	14,000@.04=	560
Payroll 37's	24,000@.04=	960
Misc. Forms	2,000@.04=	80
Total backup stock		\$9,840

Wasted warrant stock:

Mailers	265,000@.04=	\$10,600
Non-mailers	60,000@.04=	2,400
Total wasted stock		\$13,000

Moving costs:

21 FTE @ \$275 each	\$ 5,775	(\$1,375 related to bad debts) (2,475 related to warrant writer) (1,925 related to securities)
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Remodeling Costs:

21 FTE @ \$200 each	\$ 4,200	1,000 related to BD 1,400 related to Securities 1,800 related to warrant writer
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Bad Debt programming change	\$75,000
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Total FY96 Cost	\$107,815
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Funding:

Internal Service funds Warrant Writer	- \$27,115
Internal Service funds Bad Debts	- 77,375 x 50% = \$38,688 GF loss
Securities General fund	- 3,325
Total funding	\$107,815

FY97 Cost:

Bad Debt Programming change	\$75,000 x 50% = \$37,500 lost gen.fund
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LC 1156

Requested - Jan 2nd

Ready for delivery - Feb. 2nd.

REDO - 2/2

REDO - 2/3

Ready For Delivery - 2/10

Picked up - 2/14

Introduced - 2/15

Posting - 2/15

Hearing - 2/17

EXHIBIT 3
DATE 2-17-95
HB 563