



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #697

Transfer of Cash Management Functions to DOA (State Treasurer)

[LFB 2003-05 Budget Summary: Page 32, #5; Page 391, #3]

CURRENT LAW

The State Treasurer's Office is responsible for four programs: (1) the unclaimed property program; (2) the EdVest program (the college tuition and expenses program and the college savings program [this latter program is actually governed by the State College Savings Board]; (3) the local government investment pool program; and (4) a collection of responsibilities under a program generally referred to as central cash management functions. This last program, which is the subject of this paper, includes responsibility for the receipt, processing and recording of the revenues of the state, the daily determination of the cash position of the state, and the calculation, on a daily basis, of the amount of funds available for investment by the State of Wisconsin Investment Board.

GOVERNOR

Delete a total of 5.0 PR-funded FTEs currently working in various cash management activities in the State Treasurer's Office, effective July 1, 2004. A total of \$394,100 PR would also be deleted from the Treasurer's Office for fiscal year 2004-05. Of the total positions to be deleted, 4.25 FTEs currently budgeted for the general cash management activities of the Office would be deleted, along with 0.25 FTE budgeted in the local government investment pool program and 0.50 FTE that handles the cash management allocation function in the Office. [Note: A total of 3.0 PR funded FTEs would be authorized beginning in 2004-05 for DOA to handle these functions with additional funding of \$184,500 PR in 2004-05. This fiscal effect is shown under the summary for the Department of Administration.] In addition to the deletion of funding and positions, a total of 0.08 FTE associated with a portion of the salaries of the State Treasurer and the Deputy State Treasurer would be shifted from PR funding (cash management allocation) to SEG funding (EdVest college savings program); this would result in an additional

deletion in 2004-05 in the cash management allocation appropriation of \$6,800 PR and 0.08 FTE and an increase in the EdVest college savings program administrative appropriation of \$6,800 SEG and 0.08 FTE.

Under the Governor's recommendation, the statutory cash management duties and responsibilities of the Treasurer's Office would be transferred to the Department of Administration's Division of Executive Budget and Finance. The State Constitution states that the duties of the State Treasurer are those as specified by law. Section 14.58 of the statutes currently assigns the State Treasurer the following cash management responsibilities: (a) to receive and have charge of all monies paid into the state treasury and any other monies received by state agencies and to pay out these monies as directed by law; (b) to sign or place a facsimile signature on checks or drafts to draw money from the state treasury; (c) to issue receipts for all money paid to the Treasurer; (d) to pay all claims authorized to be paid out of treasury; (e) to pay all warrants (payment vouchers) presented by DOA; (f) to place temporarily unneeded balances in any state fund with the Investment Board for temporary investment in the state investment fund and to apportion investment fund earnings on such surplus balances to the proper fund; (g) to pay into the treasury all monies, including interest earnings, received by the Treasurer; (h) to keep records of all monies received and disbursed from each state fund and the weekly balances in each state fund and verify such balances with corresponding balances in records kept by DOA; (i) to provide monthly reports to the Governor on the total amount of funds in the treasury, the amounts in each separate state fund and the amounts in each of the state depositories; (j) to include in the Treasurer's Biennial Report to the Governor and the Legislature information, for each of the preceding two fiscal years, on the cash balance in each state fund at the beginning of the fiscal year, fund receipts and disbursements during each fiscal year, and the cash balance at the end of each fiscal year; (k) to remit a statement of payment of any state aid or other item to a local municipality by the Treasurer to the clerk of such municipality; (l) to ensure that on each check or draft the maximum time period during which the check or draft may be presented for payment is specified, to cancel each such check or draft that has not been presented for payment during that time period and to notify DOA of such cancellation; (m) to provide services to any entity which has securities on deposit, in trust, with the Treasurer, such as providing interest coupons and providing any bonds, notes or other deposits as they become due; (n) to hold safekeeping receipts from federal reserve banks for federal securities purchased by the state; (o) to coordinate, when necessary, with the State Investment Board the sale of investments of a fund's cash balances in an amount sufficient to cover all checks or drafts on a fund during a given business day; and (p) to allocate, at least quarterly, all interest earned on monies in the state depositories to the appropriate state fund.

All of the above duties and responsibilities of Treasurer would, under the Governor's recommendation, be transferred to become responsibilities and duties of the Secretary of the Department of Administration, except for the responsibility for the Treasurer to affix his or her signature to all checks or drafts to draw money from the state treasury. In addition to this statutory enumeration of duties, all references elsewhere throughout the statutes associated with cash management activities would be amended to substitute "Secretary of Administration" for "State Treasurer."

The bill would also: (a) repeal two PR appropriations under the Treasurer's Office, one relating to cash management services and the other relating to credit card use charges; and (b) include authorization under DOA's existing PR appropriation for financial services to allow the chargeback to state agencies of DOA's cost of providing banking service cost analysis and cash management assistance to state agencies. Further, SB 44 would create authority for the Secretary of Administration to establish separate custody accounts under each state fund for the receipt and expenditure of monies received for the following purposes: (a) credit card interchange and association fees; and (b) transfers from the income account of the state investment fund to pay bank service costs .

The bill would provide that all of these transfers would take effect on July 1, 2004. Further, provide that on that date, with respect to the Treasurer's Office performance of its cash management functions (excluding its local government investment pool and unclaimed property programs): (a) all assets and liabilities of the Office of the State Treasurer would become assets and liabilities of DOA; (b) all tangible property (including records) would be transferred to DOA; (c) all contracts in effect on July 1, 2004, would be transferred to DOA, and remain in effect until modified or rescinded by DOA in accordance with provisions of the contracts; and (d) any matter pending before the Office of State Treasurer would be transferred to DOA and all materials submitted to or actions taken by that Office would be considered to have been submitted to or taken by DOA. The bill also specifies that all incumbent employees holding positions in the Office of State Treasurer who perform cash management functions are to be transferred to DOA, as determined by the Secretary of Administration. However, since only three positions will be available in DOA, the State Budget Office indicates that the actual intent is that the DOA Secretary will determine that no more than three incumbent employees would be actually transferred.

DISCUSSION POINTS

1. In the 1995-97 biennial budget, the Governor and the Legislature deleted 2.46 PR positions to reflect the elimination of the then securities section in the State Treasurer's Office based on a determination that the accounting controls in place at SWIB, coupled with technological improvements in the securities industry, provided sufficient safeguards so that the statutory requirement for the Treasurer to be responsible for the safekeeping of state-owned securities was no longer necessary.

2. In that same budget, the Governor proposed the transfer of the entire State Treasurer's Office to the Department of Administration. The Joint Committee on Finance did not concur with that proposed transfer. The Committee did, however, propose the transfer of the cash management activities of the Office to the then Bureau of Financial Operations in the Department of Administration. The Legislature did not concur in that proposed transfer.

3. The Legislature did concur, however, with a related change that had been adopted by the Committee to shift the GPR-supported positions in the State Treasurer's Office, which included

cash management functions, to be PR-funded positions supported from revenues derived from an assessment against all state agencies.

4. The current proposal to transfer the cash management responsibilities of the Office to the Department was initiated by the State Treasurer. The expressed goal was to house these responsibilities in a larger entity where there was a broader array of staff to provide backup to the existing staff that perform cash management activities in the Office. While other staff in the Treasurer's Office can provide backup assistance, they are generally specialists in other areas and, in addition, do not have staff in their regular assignments to fill in for their regular duties if they perform cash management activities.

5. The agency did not request any additional staff for this program because it decided to request the transfer of cash management activities to DOA. However, the Treasurer's Office believes that two additional FTE (accountant and financial specialist) would be necessary to provide adequate support to these activities if retained in the Treasurer's Office.

6. The Governor's recommendation is to approve the proposed transfer, but to also reduce the existing costs of the functions as housed in the Office by \$216,400 PR annually (transfer and savings would not occur until 2004-05) and delete 2.0 FTEs. This function would be merged into the responsibilities of the State Controller who has a current staff of 39.0 FTE. It was determined by DOA that there would be sufficient staff in that unit to support the reduction of 2.0 FTE and associated funding from the total level of staff and funding deleted from the Treasurer's Office.

7. A question raised by the Committee was what the State Auditor's view was regarding this proposed transfer. The State Auditor has indicated that the Audit Bureau reviewed the budget proposal and that the Bureau's financial audit managers' view is that the transfer of functions would not weaken internal controls over cash management activities. The Auditor further indicated that such controls might even be strengthened because of the additional accounting resources that are available within DOA.

8. If the Committee approves the Governor's recommendation, it should also adopt a technical change to correct a number of cross-references to other provisions that would be created by the bill or that are in current law but which are not reflected in the current bill due to oversight.

9. Alternatively, the Committee could choose to maintain current law. This would mean the increased funding in the Department of Administration would not occur and the higher total level of current funding in the Treasurer's Office would be restored. The net cost to the bill would be an increase of \$216,400 PR and a decrease of \$6,800 SEG in 2004-05.

10. If the Committee chooses to continue cash management activities in the Treasurer's Office, the Committee could also authorize the 2.0 additional positions (an accountant and a financial specialist) and \$91,900 PR, beginning in 2004-05, the Treasurer's Office believes it necessary to provide adequate support for the cash management activities in the Office.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. In addition to Alternative 1, include technical corrections to ensure that all appropriate cross-references to all of the transferred responsibilities are reflected in the Committee's recommended budget.
3. Maintain current law.

<u>Alternative 3</u>	<u>PR</u>	<u>SEG</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	\$216,400	- \$6,800	\$209,600
2004-05 POSITIONS (Change to Bill)	2.08	- 0.08	2.00

4. In addition to Alternative 3, provide 2.0 additional positions and \$91,900 PR, beginning in 2004-05, to provide additional staff support for cash management activities in the Treasurer's Office.

<u>Alternative 4</u>	<u>PR</u>
2003-05 FUNDING (Change to Bill)	\$91,900
2004-05 POSITIONS (Change to Bill)	2.00

Prepared by: Terry Rhodes