

Agency Purpose

Minnesota statutes provide the Department of Finance responsibility for “managing the financial affairs of the state.” Given this charge, the mission of the department is twofold: to ensure the integrity of state fiscal resources, and to support and challenge state decision-makers to constantly increase the value per dollar of services provided to Minnesotans.

These objectives span all department activities:

- ◆ ensure the integrity of the state's financial resources;
- ◆ provide statewide governmental financial management leadership;
- ◆ accurately present the state's financial condition;
- ◆ facilitate informed decision making; and
- ◆ improve accountability and promote the prudent use of state resources.

Core Functions

The Department of Finance provides central statewide direction to financial management processes. This direction ensures adherence to standards, continuity, legal compliance, and financial integrity. Core functions support the policy making process and the financial management of state government. Core functions are:

- ◆ managing state financial processes and systems;
- ◆ providing historical and projected financial and program information; and
- ◆ providing financial analysis.

The results of these core functions are:

- ◆ financial and analytical information that is consistent, accurate, reliable, and useful;
- ◆ financial business processes that are cost effective and flexible;
- ◆ financial and program information that are accessible to managers and the public; and
- ◆ state employees that are trained and informed in state financial business practices.

Operations

State employees, vendors, individuals, financial institutions, school districts, and local governments receive payments through the accounting, payroll, procurement, and human resources business processes and systems managed for daily operations. The biennial budget, capital budget, fiscal notes, annual spending plans, and performance reporting are other key systems managed by the department.

The information management and analysis functions provide information to state agencies, the governor and executive branch management, the legislature and its staff, governmental and non-governmental organizations, the media, and the public.

Economic Analysis prepares the financial forecasts that identify projected state revenues and expenditures based on current law for the current biennium and future biennia.

Budget Services coordinates the production of the governor's operating and capital budgets and assists legislative committees in their deliberations. It also prepares reports, coordinates fiscal notes, and advises agencies.

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

At A Glance

Annual Business Processes:

- ◆ Accounting and budget management for the state's \$46.7 billion two-year budget including the \$28.1 billion general fund
- ◆ 127 state agencies provided financial direction and control
- ◆ 48,000 employees paid bi-weekly
- ◆ 131 separate state fund classes are managed through 5,100 separate accounts
- ◆ 5 million expenditure transactions
- ◆ 1.2 million cash deposits
- ◆ 1.3 million payments issued
- ◆ 300,000 purchase orders processed
- ◆ Two bond sales conducted annually, with about \$3.2 billion in outstanding general obligation debt
- ◆ Financial transactions totaling \$366 billion including investment and reinvestment activity

Treasury performs a variety of daily treasury and cash management functions, establishes banking services for state agencies, accesses the capital markets to provide financing for capital projects and equipment, and administers the state's tax exempt bonding allocation law.

Information Services provides technical support for the state's administrative information systems, which include the accounting and procurement system, the payroll and human resources system and the information access system. It also provides technical support for the budget information system and the agency's computer network and infrastructure.

Management Services provides human resources and administrative support for the department and includes the agency leadership and staff in the Commissioner's Office.

Budget

The department's FY 2004-05 biennial budget totals \$44.6 million. Department staff includes approximately 160 positions as of 7-1-04, with paid hours in FY 2004 equaling 157 FTEs.

Of the total budget for the biennium, 69% comes from General Fund dollars. Another 31% is collected from state agencies through statutory billing authority based on the volume of transactions generated in the accounting and payroll systems.

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For information on how this agency measures whether it is meeting its statewide goals, please refer to <http://www.departmentresults.state.mn.us/>

Dollars in Thousands

	Current		Forecast Base		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	15,216	15,216	15,216	15,216	30,432
Forecast Base	15,216	15,216	15,216	15,216	30,432
Change		0	0	0	0
% Biennial Change from 2004-05					0%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	14,920	15,896	15,216	15,216	30,432
Statutory Appropriations					
General	200	0	0	0	0
Special Revenue	5,562	8,269	6,853	6,853	13,706
Total	20,682	24,165	22,069	22,069	44,138
 <u>Expenditures by Category</u>					
Total Compensation	12,471	12,650	13,099	13,099	26,198
Other Operating Expenses	8,064	11,515	9,177	9,177	18,354
Capital Outlay & Real Property	147	0	0	0	0
Transfers	0	0	(207)	(207)	(414)
Total	20,682	24,165	22,069	22,069	44,138
 <u>Expenditures by Program</u>					
State-Financial Management	8,164	9,266	8,711	8,711	17,422
Information & Mgmt Services	12,518	14,899	13,358	13,358	26,716
Total	20,682	24,165	22,069	22,069	44,138
 Full-Time Equivalents (FTE)	 162.2	 160.0	 160.3	 160.3	

Program Description

The State Financial Management program provides the direct financial management services to support state operations. Operations include accounting, budget, economic analysis, financial reporting and analysis, payroll and treasury.

Population Served

The Statewide Financial Management program provides services to state agencies, the governor and executive branch management, the legislature and its staff, governmental and non-governmental organizations, financial institutions, the media, and the public.

Program at a Glance

- ◆ Prepares governor's operating and capital budgets.
- ◆ Produces two forecasts annually.
- ◆ Issues state general obligation debt.
- ◆ Provides direction and control of statewide accounting and payroll functions.
- ◆ Produces Minnesota's financial statements.
- ◆ Performs cash management and investment activity.

State employees, vendors, individuals, financial institutions, school districts, and local units of government receive payments through the statewide accounting, procurement, and payroll systems.

Services Provided

Accounting Services:

- ◆ sets statewide accounting and payroll policies and procedures;
- ◆ directs and maintains integrity of the accounting and payroll systems;
- ◆ provides training and assistance to agencies on the state's financial systems;
- ◆ works with agencies to develop systems of internal controls, as well as monitoring compliance and integrity of internal controls;
- ◆ produces the state's Comprehensive Annual Financial Report (CAFR); and
- ◆ coordinates state agency Accounts Receivable.

Budget Services:

- ◆ manages the state budget process;
- ◆ prepares and submits the governor's operating and capital budgets;
- ◆ coordinates financial forecasts and agency expenditure forecasts;
- ◆ develops financial reports, analysis, and budget planning projections;
- ◆ provides oversight and monitoring of budget implementation to agencies; and
- ◆ provides financial information and analysis of state spending to the governor and legislature.

Economic Analysis:

- ◆ prepares Minnesota's economic outlook and forecasts major revenues (income, sales, motor vehicle sales, corporate income).

Treasury:

- ◆ manages the state's electronic government services internet financial applications;
- ◆ verifies agency deposits, warrants issued, electronic payments and collections, and state investments by the State Board of Investment;
- ◆ determines daily the state's cash position to maximize earnings on state cash;
- ◆ administers the state's tax exempt bonding allocation law;
- ◆ establishes all state depository bank accounts;
- ◆ manages actual sale of state general obligation bonds to finance capital projects; and
- ◆ manages the state's debt policies and provides debt capacity forecasting.

Historical Perspective

These functions have existed since the agency was created in 1973 to consolidate and modernize the financial management functions of state government. By statute, the commissioner is the state's controller, treasurer, and chief accounting and financial officer. The commissioner fulfills statutory responsibility for the state's accounting, payroll, financial reporting, budgeting, forecasting, and treasury functions through the State Financial Management program.

The program remained relatively unchanged until the mid 1990s when the major statewide administrative systems were replaced. At that time, staffing increased to manage the more complex systems. The operations of the State Treasurer were transferred to the commissioner of Finance on 1-6-03.

Program funding is 100% a General Fund direct appropriation. Compensation costs represent 83% of program expenditures, supporting approximately 100 positions (or 96 FTEs). Increasing compensation costs are attributed to contract settlements and double digit health insurance increases.

After eliminating 13.5 positions in FY 2002-03, budget reductions in the current FY 2004-05 biennium have thus far resulted in 2.5 positions eliminated or held vacant. FY 2004-05 non-salary expenditures are expected to be about \$2 million under FY 2002-03 non-salary expenditures; most of the reduction is in bank fees, professional/technical services and communication costs.

Key Measures

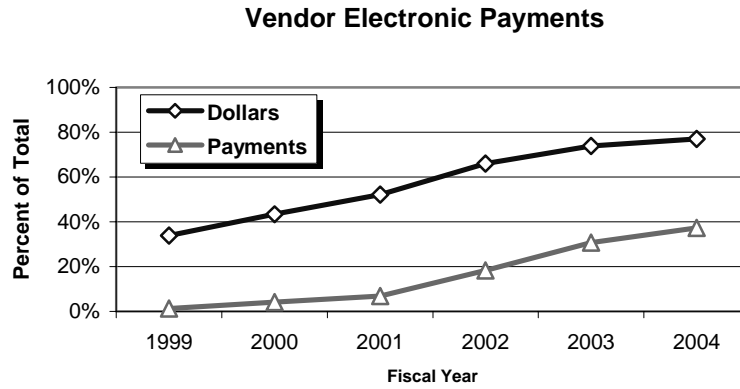
Respected organizations say that the state is fiscally well managed.

- ⇒ Continue to receive the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The department has received this award annually for the last 18 years.
- ⇒ Unqualified audit opinion from the Legislative Auditor for the past 19 years.
- ⇒ State bonds rated Aa1 by Moody's (the second highest possible) and AAA by Standard & Poor's and Fitch.
- ⇒ State financial management rated A- by *Governing Magazine* (February 2001).
- ⇒ State capital management rated B+ by *Governing Magazine* (February 2001).

Sell state bonds at or below market index rates:

	June <u>2000</u>	June <u>2000</u>	Nov. <u>2000</u>	Oct. <u>2001</u>	June <u>2002</u>	Nov. <u>2002</u>	Aug. <u>2003</u>	July <u>2004</u>
Index Rate	5.24%	5.24%	5.02%	4.29%	4.02%	4.19	3.88	4.08
Actual Rate	5.26%	5.26%	5.01%	4.24%	3.95%	4.25	3.89	3.90
Variance	(0.02)%	(0.02)%	0.01%	0.05%	0.07%	(0.06)%	(0.01)%	0.18%

Percent of vendor payments made electronically:



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FINANCE DEPT

Program: STATE-FINANCIAL MANAGEMENT

Program Summary

Dollars in Thousands

	Current		Forecast Base		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	8,711	8,711	8,711	8,711	17,422
Forecast Base	8,711	8,711	8,711	8,711	17,422
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	7,964	9,266	8,711	8,711	17,422
Statutory Appropriations					
General	200	0	0	0	0
Total	8,164	9,266	8,711	8,711	17,422
<u>Expenditures by Category</u>					
Total Compensation	7,000	7,323	7,579	7,579	15,158
Other Operating Expenses	1,164	1,943	1,339	1,339	2,678
Transfers	0	0	(207)	(207)	(414)
Total	8,164	9,266	8,711	8,711	17,422
<u>Expenditures by Activity</u>					
State-Financial Management	8,164	9,266	8,711	8,711	17,422
Total	8,164	9,266	8,711	8,711	17,422
Full-Time Equivalents (FTE)	100.9	100.0	100.0	100.0	

Program Description

The Information and Management Services program consists of the commissioner’s office and administrative services, which provides technical staff responsible for the design, maintenance, and operation of the statewide administrative systems, statewide budget systems, computer network, and web services. This program is also responsible for human resources, accounting, budget, and general support.

Population Served

The information management and analysis functions provide information to state agencies, the governor and executive branch management, the legislature and its staff, governmental and non-governmental organizations, the media, and the public.

Program at a Glance

- ◆ Provides services and support to over 6,000 Statewide Administrative Systems users at 127 state agencies.
- ◆ Manages the department’s website. An average of 425,000 pages are viewed per month.
- ◆ Provides a secure computer environment for Statewide Administrative Systems applications and the department’s internal computer environment.
- ◆ Responsible for internal agency operations, including human resources, accounting, budget, and general support.

State employees, vendors, individuals, school districts, and local governments receive payments through the accounting, payroll, procurement, and human resources information systems.

Services Provided

- ⇒ Manages the computer software applications that provide the state’s accounting and procurement functions (MAPS), human resources and payroll processes (SEMA4), and statewide budget planning (BIS).
- ⇒ Manages the state’s information access data warehouse (IA) that provides access to detailed statewide accounting, procurement, payroll, and human resources data used by agencies for operations, analysis, and reporting.
- ⇒ Manages the Department of Finance’s computer network, infrastructure, security, desktop computers, and web services.
- ⇒ Manages the internal accounting, payroll, human resources, clerical support services, and office management for the department.

Historical Perspective

The program has been and will continue to be engaged in keeping statewide systems secure and technologically current while providing ongoing improvements and additional electronic government services.

The Statewide Administrative Systems (MAPS, SEMA4, and IA Data Warehouse) were fully implemented in 1995. The systems support statewide processing of accounting, procurement, payroll and human resource transactions, and provide ad hoc reporting capability.

A MAPS upgrade completed in November 1998 moved MAPS to a Year 2000-compliant version of the software. Since then, additional functionality has been added for an Enterprise Management Reporting System (EMRS), Electronic Funds Transfer (EFT) and MAPS Vendor Payments web site. The system’s remaining useful life is being evaluated to determine when additional investments will be needed.

A SEMA4 technical upgrade project (version 7.5) was completed in March 2001. A second upgrade project (version 8.3) was completed in April 2003. This project upgraded the statewide SEMA4 HR and Payroll application to a web based version, reduced the amount of customizations made to the base product, added the benefits administration application and included an online Paycheck/Advice system and other employee self service functionality. The projects were completed on time and within budget and were funded in 1999 through a four-year legislative appropriation in the amount of \$6.839 million.

The data warehouse is the state repository for current and historical data from MAPS and SEMA4, and it provides agencies with both ad hoc and operational reporting capabilities. Since 1995 use of the data warehouse has grown significantly to 1,200 users in 2004. Due to increased customer use and requests for additional data, the

warehouse platform was upgraded in 1999 and 2003. The warehouse will continue to play a key role in delivery of information to its wide customer base.

The program also provides application development and support for the budget systems (Capital Budget, Biennial Budget, and Fiscal Note Tracking) and Treasury Debt and Investment application.

The department continues to focus on security of its computer network infrastructure protecting internal resources and statewide systems. In 2004, the Treasury systems were integrated into the secured network.

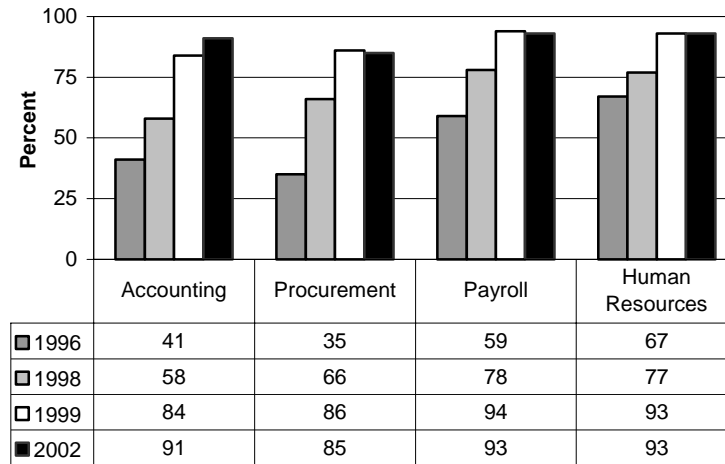
Program funding is 48% General Fund and 52% special revenue from statewide administrative systems billings. Compensation costs represent 84% of General Fund expenditures, supporting approximately 60 positions, or 61 FTEs.

After eliminating four positions in FY 2002-03, budget reductions in the current FY 2004-05 biennium have thus far resulted in three positions being eliminated or held vacant. FY 2004-05 non-salary expenditures are expected to be about even with FY 2002-03 non-salary expenditures after one-time expenditures of \$745,000 to assess and upgrade administrative systems and consolidate office space.

Key Measures

⇒ Percentage of users "Satisfied" or "Very Satisfied" with the statewide administrative systems.

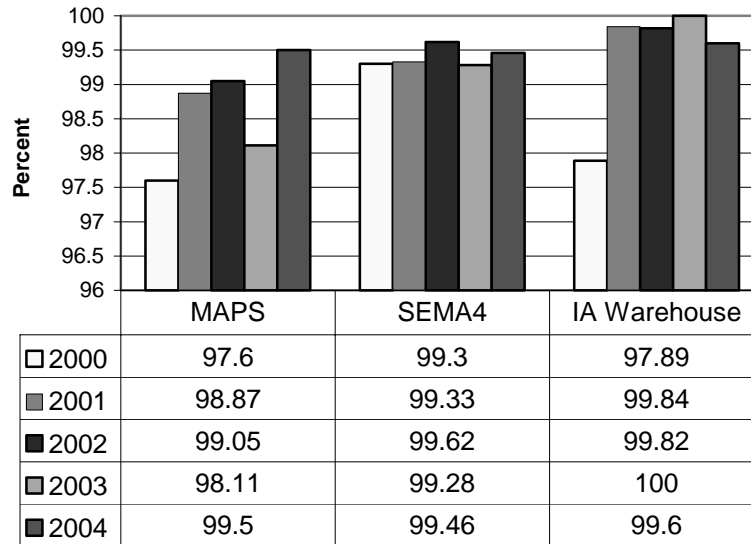
Percentage of users "Satisfied" or "Very Satisfied" with the statewide administrative systems.



User Survey Note: To enable us to make comparisons to earlier surveys, we found it necessary to recalculate percentage by removing the uncertain/no change figures, as they were not an option in the 1999 survey.

For more information: <http://www.finance.state.mn.us/agencyapps/systemssurvey/results/>.

**Percentage of Scheduled Time
That Systems are Available.**



- ⇒ 2000 target was 98%.
- ⇒ 2001 – 2004 target was 98.5%.

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FINANCE DEPT

Program: INFORMATION & MGMT SERVICES

Program Summary

Dollars in Thousands

	Current		Forecast Base		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	6,505	6,505	6,505	6,505	13,010
Forecast Base	6,505	6,505	6,505	6,505	13,010
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	6,956	6,630	6,505	6,505	13,010
Statutory Appropriations					
Special Revenue	5,562	8,269	6,853	6,853	13,706
Total	12,518	14,899	13,358	13,358	26,716
<u>Expenditures by Category</u>					
Total Compensation	5,471	5,327	5,520	5,520	11,040
Other Operating Expenses	6,900	9,572	7,838	7,838	15,676
Capital Outlay & Real Property	147	0	0	0	0
Total	12,518	14,899	13,358	13,358	26,716
<u>Expenditures by Activity</u>					
Information & Mgmt Services	12,518	14,899	13,358	13,358	26,716
Total	12,518	14,899	13,358	13,358	26,716
Full-Time Equivalents (FTE)	61.3	60.0	60.3	60.3	

Agency Purpose

By statute, the Department of Finance manages several special statewide accounts that are not a part of its day-to-day operations. Since January of 2003, the Department of Finance also manages non-operating accounts formerly the responsibility of the Office of the State Treasurer. These responsibilities include the statutory requirement to receive the state's share of various monies collected by the counties and judicial districts as fees, fines, assessments and surcharges. As a group, these accounts are referred to as Non-Operating accounts. These accounts deal with a broad range of subjects from higher education, to local pensions, to debt service, to tort claims, to general contingency accounts. The Non-Operating account also serves as a pass through for federal funding for payments in lieu of taxes to local units of government where National Forests are located. In FY 2004 these payments totaled just over \$4.1 million.

This narrative will focus on four of the Non-Operating accounts traditionally addressed in the budget documents: Contingent Accounts, Tort Claims, Indirect Costs and Debt Service.

These accounts are not included in the agency wide financial summary presented earlier.

Core Functions

Contingent Accounts: Contingent accounts are appropriations made from several state funds to provide supplemental funding for emergencies and other legally authorized purposes. The release and expenditure of this funding requires the approval of the governor after consultation with the Legislative Advisory Commission (LAC). The LAC provides legislative review of the use of these funds during interim periods when the legislature is not in session. With the approval of the governor, supplemental funding for specific purposes is transferred to individual agency budgets; thus, expenditure history appears in the affected agency's budget.

FUND (Dollars in Thousands)	FY 2003		FY 2004		FY 2005
	Appr	Spent	Appr	Spent	Orig Appr
General Fund (100)	3,000	*0	1,000	0	0
State Government Misc. (170)	400	70	400	0	400
State Airports (220)	50	0	50	0	50
Trunk Highway (270)	200	0	200	0	200
Highway User Tax Distribution (280)	125	0	125	0	125
Workers Compensation (320)	100	0	100	0	100
Total All Funds	3,875	70	1,875	0	875

* As a result of Laws 2002, Chapter 220, the original General Fund appropriation was reduced by \$3.0 million for FY 2003.

Tort Claims: This account pays tort claim judgments against a state agency that cannot be paid from that agency's appropriated accounts. As specified in M.S. 3.736, subd., 7, "a state agency, including an entity defined as part of the state in Section 3.732, subd. 1, incurring a tort claim judgment or settlement obligation shall seek approval to make payment by submitting a written request to the commissioner of Finance. If the commissioner of Finance determines that the agency has sufficient money in its appropriation accounts, the claim will be paid from these accounts. Otherwise, the payment will be made from the appropriation made to the commissioner of Finance for tort claim payments."

FUND (Dollars in Thousands)	FY 2003		FY 2004		FY 2005
	Appr	Spent	Appr	Spent	Orig Appr
General Fund (100)	275	*0	161	0	161
Trunk Highway (270)	600	161	600	252	600
Total All Funds	875	161	761	252	761

* As a result of Laws 2002, Chapter 220, the original General Fund appropriation was reduced by \$114,000 for FY 2003.

Indirect Costs: Under M.S. 16A.127, state agency operating activities with non-General Funds (primarily federal) are obligated to prepare an agency wide cost allocation plan and submit it to their cognizant federal agency for approval. This plan must include agency indirect costs, which are administrative support costs that are not directly charged to a specific program. Agencies are required to reimburse the General Fund for any portion of these costs that were originally funded by the General Fund and that were used to support non-General Fund activities. In addition, these non-General Fund activities also rely on support from some of the centralized statewide systems financed by the General Fund. The non-General Fund activities must also reimburse the General Fund for these statewide indirect costs. The commissioner of Finance prepares a plan each year that identifies the sources and amounts of each agency's statewide indirect costs. The commissioner submits this plan to the cognizant federal agency for approval, and notifies the governor and legislature. The commissioner also records all of the agency and statewide indirect cost reimbursements to the General Fund.

Debt Service: This account pays principal and interest on general obligation long-term debt. On December 1 of each year, the commissioner of Finance must transfer to the Debt Service Fund an amount sufficient (with balance on hand and interest income) to pay all principal and interest on bonds due in the following 19 months. The Minnesota Constitution requires the state auditor to annually levy a statewide property tax sufficient to pay debt service through this 19-month period if sufficient funds are not available. Historically, the legislature has made specific debt service appropriations to the commissioner of Finance in order to eliminate the need for levying the statewide property tax. Debt service appropriations are broken down into two categories: existing debt and new issues.

(Dollars in Thousands)

	FY 2002	FY 2003	FY 2004	FY 2005
Outstanding Debt				
Total	3,032,095	3,421,495	3,197,355	3,425,234
Debt Service Appropriation				
Existing Debt	285,553	295,446	265,706	316,916
New Debt Issues	<u>0</u>	<u>0</u>	<u>0</u>	<u>42,456</u>
Total	285,553	295,446	265,706	359,372

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