

010080

## TRANSFER OF STATE TREASURER'S DUTIES SUPPLEMENTAL REPORT DECEMBER, 2000

### **Purpose of this Report**

The State Treasurer, the Secretary of State, and the Commissioner of Finance have studied the issue of an appropriate location for the transfer of the Treasurer's duties. Although there is agreement on a number of principles related to this issue, the three parties have each arrived at different conclusions (see rationale section of this report, pages five and six). To aid in decision-making, this Report is submitted as a supplement to the original full Report submitted in January, 2000. The additional remarks in this Report summarize the points of agreement and the rationale for each of the options recommended.

### **Summary of Recommendations**

The three officials recommend that all duties, responsibilities, authority, staff, and appropriated funds of the State Treasurer be transferred as follows:

- The State Treasurer recommends transfer to the Office of the State Auditor.
- The Secretary of State recommends transfer to the Minnesota State Board of Investment.
- The Commissioner of Finance recommends transfer to the Department of Finance.

### **Treasurer's Duties that must be Transferred**

All three officials agree that all of the functions currently performed by the Treasurer's office are unique, necessary functions that are not duplicated elsewhere in state government. These duties include:

- A. Daily cash management:** This function is performed to determine how much money is available for investment each day. The State Treasurer is the only state official authorized to withdraw monies from the state's bank accounts.
- B. Warrant processing:** The Treasurer's office, using its banking system and equipment, processes and verifies over 6 million state warrants (checks) annually and then initiates and approves the daily monetary settlement with financial institutions, including the Federal Reserve Bank of Minneapolis.
- C. Receipt Processing:** The Treasurer's office monitors and records all monies coming into the state either directly, in the case of federal money, or through state agencies and deputy registrars.
- D. Electronic Payments:** The Treasurer's Office supervises and approves all electronic payments from the state's bank accounts: i.e., automated clearinghouse (ACH) transfers and wire transfers.

- E. Account balancing and verification:** This function verifies that all monies received and deposited in 126 different banks statewide and in over 226 separate bank accounts by state agencies is timely, accurate, and properly recorded in the state's accounting system, MAPS (Minnesota Accounting and Procurement System).
- F. Debt service and general obligation bonds:** The Treasurer maintains an information system for the state's debt service portfolio and maturity schedules. The State Treasurer is responsible for the issuance of payments to paying agent banks for the redemption of state general obligation bonds as well as publishing early redemption/bond call notices.
- G. Investments:** The State Treasurer monitors and records investment transactions made by the State Board of Investment (SBI), approves the movement of money to the investing institutions, assures that all transactions are settled properly, and assures that commercial paper transactions such as repurchase agreements are adequately collateralized.
- H. Safekeeping:** The State Treasurer is responsible for the proper disposition of property that escheats to the state, and provides a vault operation that is used for safekeeping of documents and securities on behalf of all state agencies and for cashing state warrants.
- I. County Receipt Collections:** The Treasurer's Office receives a variety of payments from all counties. These payments represent fines, fees and surcharges collected by court administrators and county offices on behalf of the state.
- J. State Treasurer is a Financial Representative of the State of Minnesota:** The State Treasurer acts as a representative of Minnesota in policy discussions with the federal government that relate to such matters as negotiations concerning federal funds transfers to the state and federal taxation of interest on state debt obligations.

#### **Facts Agreed to by all Three Officials**

- The three officials agree that, with the exception of the Treasurer and Deputy Treasurer positions, all staff and appropriated funds should be transferred, along with the above duties, to the official ultimately selected by the legislature.
- All agree that there is no significant fiscal consideration in deciding which official to whom the duties should be transferred. Transfer costs and future operating costs are the same.
- All agree that the physical location of where the duties will be performed after the transfer will initially be the same, regardless of which official is selected as the transferee; that is, in its present offices on the third floor of the Administration Building.

### **Principles Agreed To By All Three Officials**

All three officials agreed that the following principles should be considered by legislative policy makers as a guide in their decision making.

1. The Treasurer's duties should be transferred to an existing state agency or constitutional office in the executive branch.
2. The state's financial system must not be compromised. The state's AAA bond rating and unqualified audit opinion must be maintained.
3. Appropriate segregation of duties must be maintained between accounting, short-term cash management, and investment activities. This separation should be required by statute when the duties are transferred.
4. Physical proximity of treasury function and agencies with whom they interact need not influence transfer decision.
5. Sufficient oversight of all the transferred functions will be maintained.
6. Capacity to address future business changes impacting the Treasurer's duties should be considered.

### **Future Issues Requiring Consideration in Connection with the Transfer of Duties**

All officials agree that legislative policy makers should consider the following issues in their decision-making.

- **Risk Assessment**

- The electronic transfer of money will continue to increase. Therefore, an annual risk assessment of the cash management electronic processing systems (and of the people who operate them) should be conducted to
  - ensure the systems are secure for purposes of the safe transmittal of large amounts of money to and from the state's bank accounts; and
  - ensure the systems are adequate to properly monitor the performance of financial institutions as they deposit and pay out state funds.

- **Electronic Financial Transactions**

- Retail (credit and debit cards, direct payments from bank accounts)
  - Continue to develop processes that encourage state agencies to accept electronic payments of all types
  - Continue development of “back-end” reconciling mechanisms for agencies and MAPS
- Commercial (ACH – business to government; government to government)
  - Should be entered directly into MAPS also
  - Develop standards, in cooperation with trading partners, for conveying the accounting information as well as the deposit information with all ACH transactions, both to and from vendors and other governments

- **Examine need to increase warrant and receipt processing capacity**

- Will trend to remit large numbers of warrants in short periods of time continue? (tax refunds, tax rebates, rent credits, property tax refunds, etc.)
- If so, then capacity should be increased to accommodate.
- The State Treasurer currently processes 20,000 warrants per day, on average.
- There were about 1.8 million sales tax rebate checks mailed within 5 business days. These unusually large volumes require the use of a bank at a cost of about \$250,000.

- **Equipment Improvements**

- See discussion of capacity above
- Imaging – as costs decrease, then advantages of imaging should be examined
  - Ease of use for court proceedings, and for other “lookups”  
Necessary if such information is ever to be made available to the public electronically.

## Rationale

### **Treasurer's Rationale for Transferring The Treasurer's Duties to the State Auditor**

The State Auditor is a statewide elected official who is directly answerable to the people. The State Auditor is a single individual rather than a group of elected officials, such as the State Board of Investment. Therefore, there is clear accountability for safeguarding state funds.

The constitutional office of State Auditor is separate and distinct from any other constitutional officer. The state's cash management function would be clearly separate and independent from the accounting and budget responsibilities of the Governor, without having to depend upon and verify the existence of internal controls on an ongoing basis.

The Office of the State Auditor is separate and independent from any other state office having responsibilities for the accounting and investment of state monies. Checks and balances would remain in place.

The Office of the State Auditor has auditing and internal control expertise consistent with sound cash management.

### **Secretary of State's Rationale for Transferring the Treasurer's Duties to the State Board of Investment**

The primary rationale for this proposal rests with the significant direct oversight and fiduciary responsibility SBI receives from five (four) statewide elected constitutional officers. SBI is the only organization in state government where five (four) constitutional officers are held accountable for a single operation. Including the many important duties of the State Treasurer in the operation of SBI will result in an increase of oversight and accountability of those functions.

Additionally, SBI is best suited to absorb these duties because of its existing investment and cash management expertise. SBI serves for the single purpose of investing state and pension assets, including the investment of the state's cash accounts. SBI performs these functions as a daily part of its primary mission, managing from \$5 billion to \$7 billion in cash at any point in time, including all monies taken in by the State Treasurer.

## **Rationale**

(Continued)

### **Commissioner of Finance's Rationale for Transferring the Treasurer's Duties to the Commissioner of Finance**

The Commissioner of Finance is the state's controller and chief accounting and financial officer and is involved in all aspects of the state's financial operations. The agency's mission is 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. The duties of the Treasurer's office are consistent with this mission.

An organization structure is already in place to locate the State Treasurer's operation separate from existing accounting or budgeting operations. This structure was proven to provide an adequate segregation of duties during 1985 and 1986 when the Treasurer's duties were transferred to the Department. During this period the state's financial integrity was maintained and there were no audit findings related to cash management practices. The Commissioner currently has certain cash management responsibilities and has significant responsibilities for debt service and general obligation bond debt management. The Department's operations are audited annually by the Office of the Legislative Auditor. There is also an existing internal audit structure in place.

The Commissioner is responsible for making improvements to the state's financial operations. Finance has been a partner with the State Treasurer and other state agencies in the development of electronic financial transactions. The transfer of the State Treasurer's Office to Finance would result in a seamless transition for the continued development of these financial improvements.

Carol C. Johnson  
State Treasurer  
State of Minnesota

Mary Kiffmeyer  
Secretary of State  
State of Minnesota

Pam Wheelock  
Commissioner of Finance  
State of Minnesota

December, 2000