# Performance Report



## Department of Finance

1996

# 1996 Performance Report

**Department of Finance** **January, 1997**



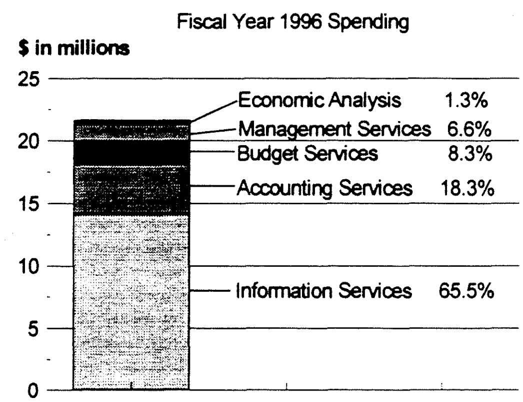
## Mission and Vision

Minnesota Statutes provide the Department of Finance responsibility for *"managing the financial affairs of the state."* Within this broadest of charges, the department has focused its mission by adding to it *"improving the performance of state government by providing leadership in statewide financial planning and financial resource management."* There are five major goals that 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.

## 1996 Fiscal Summary

In fiscal 1996 the department had an annual general fund budget totaling $21.6 million which supported the work of 178 fulltime equivalent employees.




## Core Functions

The department of Finance provides central direction to the state's financial management processes in order to ensure consistency, continuity, legal compliance and financial integrity. Core functions support both the policy making process and the management of state operations. These core functions are:

- Managing State business processes and systems
- Providing access to financial and program information
- Providing analysis and consulting

These functions support daily operating goals:

⇒ Providing consistent, accurate, reliable and useful financial information;

⇒ Administering business processes supported by cost effective, flexible systems;

⇒ Improving access to financial and program information by managers and the public;

⇒ Advancing statewide information management techniques and technologies;

⇒ Ensuring state employees are trained and informed in state business practices, and

⇒ Performing critical thinking concerning the use of public resources.

## Organization

**Economic Analysis** staff prepare the financial forecasts that begin the budget deliberations, both in the Executive Branch and the Legislature.

The **Budget Division** supports both branches by coordinating the production of the Governor's operating and capital budgets and working with the various legislative committees in their deliberations. It also prepares reports, coordinates fiscal notes and advises agencies.

Once the budget is passed, the **Accounting Division** helps agencies manage their financial activities. They administer the accounting and payroll systems and report on the state's financial condition.

The **Information Services Division** is responsible for operating the statewide administrative systems. It also manages the Information Access data warehouse for agencies' management reporting.

Finally, the **Management Services Division** is, in part, responsible for managing the state's general obligation debt. It determines the size and timing of each bond sale and estimate funding needed to repay investors.

# Key Performance Metrics & Accomplishments

## Our Customers

The department serves a varied customer base. State agencies and entities are the primary customers of the business processes and systems managed for daily operations: accounting, payroll, procurement, human resources. State employees, vendors, individuals, school districts and local governments receive payments through these business systems. The biennial budget, fiscal notes, annual spending plans, and performance reporting are other key components

The information management and analysis functions provide information not only to state agencies, but also the Governor and executive branch management, the Legislature and its staff, governmental and non-governmental organizations, the media, and the public.

## Leadership, Cooperation

Beyond the day to day functions that keep the state operations running efficiently, the department provides financial management ***leadership*** affecting the performance of state government. Some significant examples include:

- with the departments of Employee Relations and Administration, developing and managing the *statewide administrative systems*
- improving *Accounts Receivable Collections*
- *institutionalized budget reforms*: long range planning, budget reserve, performance reporting, federal budget planning

Financial management improvements are generally not "quick fixes". Finance can provide policy guidance, help remove obstacles, and encourage inter-agency sharing of promising practices, but the actions of agencies, the executive branch and the Legislature continue to be key to fulfilling the vision of the department.

This leadership has resulted in recognition such as the Certificate of Excellence in Financial Reporting, has contributed to restoration of the State's AAA bond ratings, and has led to Minnesota's national ranking as 4th best managed state by *Financial World* magazine.

## Financial Management

***National ranking.*** The single, broadest measure of department performance is our national ranking compared to other states. Financial World magazine ranks states according to the soundness of their budgeting and financial management practices. Beginning in 1995, the ranking will be published every two years. The criteria used to rank states are:

***Minnesota is ranked 4th nationally in best financial management practices***

- Accounting and financial reporting
- Revenue forecasting
- Expenditure forecasting
- Rainy day and contingency funds
- Program evaluation and performance measurement
- Pensions management and funding
- Revenue-expenditure "structural' balance
- Bond ratings
- Infrastructure planning and controls
- Budget planning and management

Since the survey was created in 1991, Financial World has consistently ranked Minnesota's financial management in the top ten states. In 1992, Minnesota was ranked 9th, in 1994, 3rd. In 1995, we were ranked 4th among the fifty states.

***Comprehensive Annual Financial Report (CAFR).*** Minnesota has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting every year since 1985. With publication of the 1992 Comprehensive Annual Financial Report, the department of Finance began notifying the public of its availability and locations where copies could be obtained. To be awarded the certificate, the reports must be easily readable, in addition to meeting financial reporting requirements.

***The award for Excellence in Financial Reporting has been received each year since 1985***

We have also established regular and widespread public reporting of Minnesota's financial status through popular reporting of financial forecasts, budget projections, executive budget summaries, adopted budget summaries, and quarterly economic updates.

***Accounts Receivable Management.*** The department has aggressively worked with agencies to improve the state's management of collections and revenues. In October, 1992, the departments of Finance, Revenue, Human Services, with the Attorney General, initiated a comprehensive study of how the state manges it revenues and collections.

During the current biennium, the state invested $7 million to continue to redesign business state business practices and develop uniform management policies for managing accounts receivable within the state's fifty collection entities. The efforts will recover over $32 million in general and non-general fund receipts over the next two years. The project created a central state-operated collections service and statewide contracts with private collections agencies for state agencies with limited collections expertise.

***Accounts receiveable project will add over $32 million additional revenues in the current biennium***

***Statewide Administrative Systems.*** In 1992, the department initiated the modernization of the state's core business systems: accounting, payroll, procurement, and personnel systems . All of the core systems were completely redesigned and rebuilt. The state has invested nearly $35 million and the new systems became operational on July 1, 1995.

Development and implementation relied upon reengineering the then current system of financial and resource controls, reducing paper flows, and using technology to better serve the state's vendors and citizens. These systems are designed to support the increasingly complex demands for information processing, analysis and human resources management. Similarly, in 1996, the state's budget system was completely redesigned to complement the new accounting system. A new system, PERFORMs was also implemented to store and manage state agencies' performance data and performance reporting.

***In 1995-96 nearly 5,000 state employees were trained in the new administrative systems***

***Strategic Capital Budgeting.*** The departments of Finance and Administration collaborated with the Legislature in the past two legislative sessions to significantly redesign and reform the the state's capital budget process. The state's strategic capital budget process now includes multi-year debt capacity planning, six-year strategic project planning, comprehensive inventories of state buildings, use of life-cycle cost analyses, and analytic reviews by the departments of Finance and Administration.

***Information Technology (IT) Budget.*** Similar to the capital budget, new information technology budgeting reforms were proposed in the 1996 session and used in preparing the 1998-99 budget. The IT budget aggregates and presents information systems investments accross state agencies and governmental entities, based on ranking criteria and life-cycle analysis. The result is multi-year investment planning for the new "bricks and mortar" of the new information age. The process includes analytic reviews by the Minnesota Office of Technology and the Information Policy Office.

# Measuring quality

***Credibility*** and ***usefulness*** are critical success factors. End user satisfaction and quality of products are critical assessments of outcomes. They measure whether the respective product or processes are providing the *right information, to the right people, in the right form, at the right time.*

In its 1994 report, the department presented customer survey data based upon a department-wide customer survey conducted that year. The department currently relies upon solicited and unsolicited end user comments to evaluate and adjust operations.

The Legislative Auditor's 1995 Report on Agencies Use of Customer Surveys, identified fundamental deficiencies in the structure and methodology of the department's survey. That assessment was accurate. While useful for modifying internal operations, the initial survey was not accepatble for formal performance reporting.

Based on the recommendations of that report, the budget division will develop and administer a redesigned survey tool which will meet those standards. Where a survey tool may be unreliable over time or affected by other factors an expert panel may be used to evaluate products. The survey will be developed in early fall, 1997. The results will be provided to the Office of the Legislative Auditor, as well as appropriate legislative committees when they become available — and in subsequent performance reports.

# Summary: Performance Measures

The following information highlights selective department's performance measures. Additional detail on rationale, definitions, and data sources can be found in the detailed section of the 1996 performance report, or in the Performs system.

| Department Goals | Measures | Highlights |
|---|---|---|
| **Ensure integrity of state's financial resources** | Internal control findings by Office of Legislative Auditor | Number findings 1995 (65), 1996 (52), expected to increase in 1997, target (55) in 1999. |
| | Budget related Audit exceptions | Declining: 1994 (11), 1995 (10), 1996 (2), target is zero. |
| **Provide statewide financial management leadership** | Number agencies using optional MAPS modules | New - target 24 agencies in 1997, 32 in 1998 |
| | Expenditure corrections less than .5% per year | New - data not available for historical, target is .5% |
| | Number of employees using direct deposit | 1994 (35%), 1995 (42%), 1996 (50%), 1997E (63%) - target 1999 (72%) |
| | Financial World ranking | In 1992 ranked 9th, in 1994 at 3rd, 1995 ranking was 4th - target is top five. |
| **Accurately present the state's financial condition** | Certificate of Achievement from GFOA | Received each year since 1985 |
| | Accuracy of expenditure and budget forecasts | Past performance has been within plus/minus 2 percent |
| | Accuracy of economic and revenue forecasts | 1994 (6.8%), 1995 (1.3%), 1996(2.5%) 1997E (5.8%) - target is 4.5% |
| **Facilitate informed decision making** | Satisfaction of users with information and services | New - survey on products and services scheduled for fall, 1997 |
| **Improve accountability and prudent use of state resources** | Vendor payments within 30 days | For 1994-96 average was 97.7%, target is 97% |
| | Percent of account receivables over 90 days old | 1995 (83%), 1996 (80%), 1997 target 63%, 1998 (61%), 1999 (59%) |
| | Yearly adjusted accounts receivable billings collected | 1996 actual 95%, 1997 est. 94% - target is 96% |
| | Comparison: rates on bonds sold to market rates | 1994 (-.02%), 1995 (-.05%), 1996 (-.01%). Rates lower than index represents savings in borrowing costs |
| | Variance: bonds sold to cash flow needs of capital projects | 1994 (+$9.4 million), 1995 (-$20.1 million), 1996 (+$33 million) |

# AGENCY PERFORMANCE REPORT

## 1996

## FINANCE DEPT

**Final Format** **Prepared : January 28, 1997**

# TABLE OF CONTENTS

# AGENCY : FINANCE DEPT

## MISSION

The mission of the Department of Finance is to improve the performance of state government for the people of Minnesota by providing leadership in statewide financial planning and financial resource management.

The following five agency goals are essential to the department's mission.

## GOALS

- 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

- Improve accountability and promote the prudent use of state resources

## EXPENDITURES AND STAFFING

| Program | F.Y.1996 Expenditures ($ in Thousands) | Percent of Total | FTE Staff Positions | Percent of Total |
|---|---|---|---|---|
| ACCOUNTING SERVICES | $3,894 | 18.00% | 66 | 36.82% |
| ACCOUNTS RECEIVABLE PROJECT | $63 | 0.29% | 2 | 0.84% |
| BUDGET SERVICES | $1,802 | 8.33% | 29 | 16.08% |
| ECONOMIC ANALYSIS | $291 | 1.35% | 3 | 1.69% |
| INFORMATION SERVICES | $14,163 | 65.47% | 65 | 36.59% |
| MANAGEMENT SERVICES | $1,419 | 6.56% | 14 | 7.98% |
| Total | $21,632 | 100.00% | 178 | 100.00% |

## ORGANIZATION

The department consists of five divisions:

ACCOUNTING SERVICES

Accounting Services provides accounting and payroll services and establishes financial management policies and procedures for state agencies. The division provides support to state agencies in the operation and use of the Minnesota Accounting and Procurement System (MAPS) and the State Employee Management System (SEMA4). It also prepares the state's Comprehensive Annual Financial Report (CAFR) and coordinates the state's internal auditing efforts.

Accounting Services assures that:
1) state agencies are provided with the accounting system, procedures and training needed to manage their financial transactions, to meet information needs and to make state payments promptly;
2) approximately 48,000 state employees in the executive and judicial branches are paid accurately and on time and their related payroll deductions and contributions are properly recorded;
3) the state's financial resources and transactions are adequately controlled; and
4) useful financial reports are provided to the governor, legislature, financial community, federal government and public.

BUDGET SERVICES

This activity has 2 major units: Budget Analysis and Budget Planning and Operations. The division is responsible for:
1) developing the governor's budget and providing budget information to legislators, legislative staff, the media and the public;
2) developing revenue and expenditure estimates for all state funds;
3) developing statewide budgetary and financial management policies and monitoring compliance with applicable laws and policies;
4) evaluation of effectiveness and efficiency of agency programs and activities related to cost;
5) monitoring agencies' financial policies, procedures and accounting operations to assure proper allocation of costs and compliance with state law;
6) reviewing proposed legislation for fiscal and programmatic impact; and
8) providing direction and assistance to agencies in developing biennial operating budgets, capital budgets and agency performance reports.

The activity also responds to inquiries from the Governor, Legislature, other units of government, the financial community and the public on matters relating to state finances.

ECONOMIC ANALYSIS

Economic Analysis prepares periodic forecasts of state revenues. Those revenue forecasts begin with estimates of growth in the national economy provided by a national forecasting consultant. The national forecast is converted into a forecast for Minnesota's economy. Minnesota specific growth rates are produced using a model of the state economy. Specialized models are used to forecast tax revenues.

In addition to preparing the forecast, state receipts are continually monitored so that changes from the forecast can be reported. A key responsibility is to anticipate changes to the national and state economy and inform the Commissioner of Finance about risks to the forecast.

INFORMATION SERVICES

The Information Services Division provides technical and administrative support for the administrative statewide systems supporting the core business process of the Departments of Administration, Employee Relations, and Finance. This joint interagency effort is called the Minnesota Administrative Statewide Systems InterAgency Support Team (Mn-ASSIST).

Minnesota's Administrative Statewide Systems include:
1) Minnesota Accounting and Procurement System (MAPS)
2) State Employee Management System for Payroll, Human Resources, Reporting and Interfacing (SEMA4)
3) Information Access Warehouse System (IA)
4) Biennial Budget System (BBS)
5) Performance Measurement System (PERFORMs)
6) Fiscal Notes System (FNTS)

The services provided by the Information Services Division include:
1) systems operation management to ensure daily system availability;
2) programming to make any necessary change to the systems;
3) assisting agencies and others in retrieving appropriate information from the administrative systems;
4) supporting state agency system users of the administrative systems;
5) ensuring agencies have the technical ability to use the administrative systems and;
6) maintaining internal networking and communications systems;

MANAGEMENT SERVICES

Cash and Debt Management and the department's internal Administrative Services comprise the final program. Cash and Debt Management establishes banking services for state agencies, accesses capital markets to provide financing for capital projects and administers the state's tax exempt bonding allocation law. Management of the state's long term general obligation debt includes planning and timing of sales of state general obligation bonds, preparing legal documentation, providing information, and conducting the actual sales.

## WAYS TO IMPROVE PROGRAM OUTCOMES

The department has sponsored several initiatives to make improvements in state's financial management. These include: the implementation of the Statewide Systems Project, the Accounts Receivable Restructuring Project, Capital Budget Reform, and Performance Reporting. Each of these initiatives fit our strategic plan to improve or replace current systems resulting in better management of state resources. Each has implications for improving department performance.

Accounting Services

The Accounting Services Division reorganized to support the functionality of the new systems and a corresponding need for increased monitoring of decentralized controls. The new systems have required a shift in emphasis from transaction assistance and processing to:

- coaching agencies in the appropriate use of system options for financial management; and
- training and assisting agencies in the use of new system features.

The department has also requested statutory changes to modify some of the state's business practices. These changes are needed to best realize the full benefit of the new systems.

The Accounts Receivable Project is designed to help agencies collect money owed to the state. It has implemented more effective tools for billing and collecting from taxpayers and customers. New initiatives include providing a central system for accounting for receivables, a centralized debt collection resource, improving litigation efforts, and setting performance goals for each agency. All receivables are now identified centrally. The purpose of the project is to resolve these debts through collection or write-off. Statewide billing and early collection practices help prevent seriously delinquent accounts. The project has resulted in improved collections which more than offset associated costs.

Further legislative changes are needed. The department is collaborating with the Department of Revenue and the Attorney General's Office by proposing legislation to enhance the tools available for collection of debt and for funding a statewide collections organization through a charge to the debtors.

Strategic Capital Budget

In 1994 a F.Y. 1994-99 Strategic Capital Budget Plan was developed based on the principles of capital budget reform. Joint efforts are underway in the departments of Finance and Administration to strengthen the process in the following key areas:

1) improving the strategic scoring system;
2) developing guidelines to apply to the pre-design stage of building projects;
3) improving the management of existing physical assets and
4) improving the linkage between the operating budget and capital budget

The strategic capital budget process will be most effective if legislative committees continue incorporating the professional analysis and multi year framework into their decisions.

## EMPLOYEE PARTICIPATION

The 1996 Agency Performance Report is the work of several groups of employees and the department's senior management. In January 1996 the department appointed a committee to begin working on the Agency Performance Report. Each program appointed one or two staff members to the committee. This eight member committee met with the department's senior staff to finalize the department's overall goals and mission. The representatives from each division evaluated the goals, objectives and measures contained in the 1994 Performance Report. They also reviewed the comments of the Legislative Auditor. The representatives then developed objectives and measures and collected the data relating to the division's performance.

Date : January 28, 1997

# Agency Expenditure Summary

## F.Y. 1996

| NAME | (in thousands $) | % of $ | FTE | % of FT |
|---|---|---|---|---|
| AGENCY: FINANCE DEPT | $21,632 | 100.0% | 178 | 100.0% |
| PROGRAM: ACCOUNTING SERVICES | $3,894 | 18.0% | 66 | 36.8% |
| PROGRAM: BUDGET SERVICES | $1,802 | 8.3% | 29 | 16.1% |
| PROGRAM: ECONOMIC ANALYSIS | $291 | 1.3% | 3 | 1.7% |
| PROGRAM: INFORMATION SERVICES | $14,163 | 65.5% | 65 | 36.6% |
| PROGRAM: MANAGEMENT SERVICES | $1,419 | 6.6% | 14 | 8.0% |

**Agency** : FINANCE DEPT

**Program** : ACCOUNTING SERVICES

**EXPENDITURES AND STAFFING :**

| | ($ in Thousands) | Percent of Department |
|---|---|---|
| Total Expenditure | $3,894 | 18.00% |
| General | $3,894 | |
| Number of FTE Staff: | 66 | 36.82% |

**GOALS :**

- Ensure the integrity of the state's financial resources by providing effective core business systems that safeguard state resources, ensure the integrity and reliability of financial information and maintain public confidence in state financial management. (M.S. 16A.055)

- Provide statewide governmental financial management leadership by enhancing understanding and use of accounting, procurement and payroll systems and by promoting effective and efficient system use. (M.S. 16A.055)

- Accurately present the state's financial condition by publishing financial reports that meet all professional standards and conform to state and federal requirements. (M.S. 16A.50)

- Improve accountability and promote the prudent use of state resources by developing vendor payment and receivable policies and procedures that ensure effective resource management. (M.S. 16A.055)

**DESCRIPTION OF SERVICES :**

Accounting Services manages a central accounting system for use by all state agencies. The central accounting system serves as the core business system for all state activities. Services provided include development and communication of accounting policies and procedures, performing control procedures to assure integrity of data, proper recording of all legislative appropriations and transfers, and issuing payments to vendors. The division also maintains financial information related to all state property, including land, buildings and equipment.

Payroll Services manages a central payroll system, coordinates payroll operations and assists state agencies as they process paychecks for employees in the executive branch, Minnesota State Colleges and Universities (MnSCU), and the judicial branch. These services include assuring the payroll is processed in compliance with applicable laws and union contracts, issuing payroll checks or direct deposits and operating the Savings Bond program.

Financial Reporting prepares the state's audited annual financial report in accordance with generally accepted accounting principles. The report is the official document presenting the state's financial position and results of operations for all state activities. Financial Reporting also establishes the policies and framework for a system of internal controls to assure compliance with appropriate financial principles, policies and legal requirements. Training agencies in new accounting principles is a part of this effort. This activity also prepares the required federal reports for single audit and cash management. This includes coordinating and monitoring the federal cash management and single audit requirements for the state.

Finally, the Accounts Receivable Program coordinates an interagency effort to improve the management and collection of accounts receivable. While the department has the overall responsibility for the state policies for collections, various agencies have the direct responsibility for collecting the money owed to the state. The department's effort includes developing and communicating policy, training, monitoring and assisting agencies in receivables management. (Although the Accounts Receivable Program is a distinct department program, it is organized within the Accounting Division. Accordingly, its goals, objectives and measures are included in the Accounting Division's section of the Agency Performance Report.)

## BACKGROUND INFORMATION :

**MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)**

**DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)**

| Type | Based | Measure | 1994-95 | 1995-96 |
|---|---|---|---|---|
| W | FY | Number of Warrants issued through SWA/MAPS | 1,307,790 | 1,361,134 |
| W | FY | Number of payroll warrants issued | 595,215 | 499,019 |
| W | FY | Number of direct deposit advices | 519,149 | 679,484 |
| W | FY | Number of Funds | 90 | 140 |
| W | FY | Number of vendors in the vendor file | 169,879 | 276,378 |
| A | CY | Number of transmissions PPS | 1,753,303 | N/A |
| A | FY | Number of appropriation accounts | 3,426 | 5,318 |

## PROGRAM DRIVERS :

Fundamental changes in the Accounting Services Program are related to the new accounting and payroll systems implemented in F.Y. 1996. These systems have altered the way that many business functions operate thus requiring significant change for all users.

Accounting Services' ability to provide complete, accurate and timely financial information is affected by the many organizations conducting financial activities. Information provided through the accounting and payroll systems is based on the thousands of transactions entered by agencies. The more than 4,600 users of these systems all impact the completeness and accuracy of financial information.

Complete, accurate and timely information is also dependent on the adequacy of internal controls procedures in place in individual agencies. This requires that each agency ensure that the proper internal control systems are in place to safeguard state assets and provide reliable financial information.

Our ability to provide systems that meet the user agency needs is dependent upon agencies' understanding of the systems and our efforts to balance the needs of individual agencies with statewide considerations. To accomplish this, work groups of users of the accounting and payroll systems help to set priorities for changes to the systems and are consulted in policy development. In addition, the division provides user training regarding the functionality and use of the systems.

**Goal 1** : Ensure the integrity of the state's financial resources by providing effective core business systems that safeguard state resources, ensure the integrity and reliability of financial information and maintain public confidence in state financial management.

**Objective 1** : A 10% annual reduction of internal control findings related to the audit of the financial statements by the Office of the Legislative Auditor.

**Measure 1** : Number of internal control findings identified by the Office of the Legislative Auditor during their annual audit of the financial statements.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **Number of internal control findings** | | | | | | |
| **Actual** | 65 | 52 | | | | |
| **Target** | NA | NA | 70 | 63 | 57 | 51 |

**DEFINITION :**

The Office of the Legislative Auditor annually conducts audits of selected state programs and functions to issue an opinion on the state's financial statements. As a result of the audits, reports are issued to approximately 20 agencies. The reports include internal control findings and recommendations.

**RATIONALE :**

State law requires the Commissioner of Finance to manage the state's financial affairs (M.S. 16A.055). Adequate and effective internal controls are necessary to ensure that financial resources are managed and protected and that information is reliable. The auditors' reports represent systematic, external review and evaluation of agencies' internal controls. Internal control deficiencies could directly impact the reliability of the state's financial information and are an objective measure of the integrity of the state's financial resources.

**DATA SOURCE :**

Financial audit reports issued by the Office of the Legislative Auditor.

**DISCUSSION OF PAST PERFORMANCE :**

Although auditor's reports exist for past fiscal years, this objective is new this year. By reviewing data from previous years, realistic future targets were developed. In addition, F.Y. 1996 actual data is not available until the final audit report is published in early 1997. Therefore, past performance in this area was not analyzed.

**PLAN TO ACHIEVE TARGETS :**

The Department of Finance plans to provide training to state agency managers and accounting staff to further improve internal control procedures. As agencies gain expertise in the structure of the new systems and improve internal controls, there will be fewer control weaknesses.

## OTHER FACTORS AFFECTING PERFORMANCE :

We anticipate the number of internal control findings to increase in F.Y. 1996 due to the implementation of the new accounting and payroll systems. This increase is attributed to two major factors:
1) more responsibility for controls has been placed at the individual agency level because of the change in business processes associated with the new systems; and
2) the new systems have changed individual and work responsibilities which affects the controls currently in place.

Agencies need to review and improve internal controls. However, this is affected by changes in agencies' staffing and functions, new program requirements, and new systems. The Department of Finance will provide guidance to agencies to identify necessary improvements in internal controls when there are significant staffing, program and system changes.

**Goal 2** : Provide statewide governmental financial management leadership by enhancing understanding and use of accounting, procurement and payroll systems and by promoting effective and efficient system use.

**Objective 1** : Increase the number of agencies using optional Minnesota Accounting and Procurement System (MAPS) modules.

**Measure 1** : Number of agencies using optional MAPS modules.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **Total # of agencies using MAPS modules** | | | | | | |
| **Actual** | N/A | N/A | 24 | | | |
| **Target** | N/A | N/A | 24 | 28 | 32 | 36 |

**DEFINITION :**

Targets were established by evaluating agencies or functions that could potentially benefit by using the optional modules. F.Y. 1996 actual data reflects nine agencies using the accounts receivable module and fifteen agencies using the jobs and/or project modules.

**RATIONALE :**

Agencies' operating efficiencies can be achieved through the use of the optional MAPS modules, thereby centralizing and standardizing data entry and eliminating time consuming reconciliations and duplication of effort. Information integrated into one source system also provides more complete statewide management information reporting. Therefore this is a good measure of efficient system use.

**DATA SOURCE :**

The actual number of agencies reported above is based on the number of agency codes from the relevant tables in the various MAPS modules.

**DISCUSSION OF PAST PERFORMANCE :**

MAPS is new for Fiscal Year 96, thus there is no past performance.

**PLAN TO ACHIEVE TARGETS :**

Agencies that perform related optional accounting functions outside of MAPS modules will be encouraged by the Department of Finance to use MAPS for all applicable accounting functions . Every effort will be made to identify value-added benefits to agencies and assist agencies in converting their data over to the MAPS modules.

## OTHER FACTORS AFFECTING PERFORMANCE :

During implementation agencies initially focused on the basics of MAPS. Many currently lack an understanding of the optional modules available for their use. In addition, there may be a reluctance to change from their unique (in-house developed) systems. Finally, some agencies may have limited time available for employees to learn, and understand the optional modules while continuing to perform their required daily tasks.

**Goal 2** : Provide statewide governmental financial management leadership by enhancing understanding and use of accounting, procurement and payroll systems and by promoting effective and efficient system use.

**Objective 2** : Expenditure corrections, payroll reversals and expense transfers are less than .5% per year.

**Measure 1** : Annual corrections/transfers/reversals transactions as a percent of total transactions.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **% of total transactions** | | | | | | |
| **Actual** | N/A% | N/A% | N/A% | | | |
| **Target** | N/A% | N/A% | N/A% | .5% | .5% | .5% |

**DEFINITION :**

This measurement is based upon the number of expenditure corrections, payroll reversals and expense transfers entered for each fiscal year. The number of these transactions do not necessarily reflect errors. Many of these correcting transactions are the result of agency business processes or management decisions. These transactions are compared to total transactions entered in MAPS and SEMA4 for the fiscal year.

**RATIONALE :**

This measurement will judge the effectiveness of agencies in their use of MAPS and SEMA4. It also measures Finance's effectiveness in communicating with agencies and in assisting them in becoming more knowledgeable and proficient with the systems. The desired outcome is fewer errors and managerial changes and fewer corrections, reversals and transfers.

**DATA SOURCE :**

End of year standard MAPS and SEMA4 production system and information warehouse reports.

**DISCUSSION OF PAST PERFORMANCE :**

MAPS and SEMA4 are new state systems for 1996. Similar measures and statistics are not available for previous systems. Full participation in the new payroll system did not occur until early fiscal year 1997. Accordingly, actual percentage of payroll expense transfers and reversals for fiscal year 1996 are not available. MAPS expenditure corrections in fiscal year 1996 were 1% of total transactions.

**PLAN TO ACHIEVE TARGETS :**

Payroll Services and Agency Support will work with agencies to identify problem areas. They will then provide direction and training in those areas and will develop guidelines to improve agencies' business processes. This strategy should reduce the need for future expenditure corrections, expense transfers and payroll reversals.

## OTHER FACTORS AFFECTING PERFORMANCE :

Expenditure corrections, expense transfers and payroll reversals are not always caused by an error in the original transaction entry. For instance, agency management could decide to change an expense to another account and if agency payroll staff are not notified of these changes it would result in a need for a correction transaction.

**Goal 2** : Provide statewide governmental financial management leadership by enhancing understanding and use of accounting, procurement and payroll systems and by promoting effective and efficient system use.

**Objective 3** : Increase the number of state employees using electronic direct deposit by 4% each year to 90%.

**Measure 1** : Percentage of employees on direct deposit.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **Annual % of Direct Deposit Participants** | | | | | | |
| **Actual** | 42% | 50% | 63% | | | |
| **Target** | | | 65% | 68% | 72% | 77% |

**DEFINITION :**

Payroll direct deposit is the electronic deposit of an employee's paycheck into a financial institution designated by the employee. The employee is mailed an advice statement from the state each pay period in lieu of a paycheck. This measure is based on the number of state employee's who fully participate in the direct deposit program divided by the total number of state employees.

**RATIONALE :**

Direct deposit is the most efficient means of paying state employees and ensuring the funds are available for employees use on pay day. Increasing use of this process represents more efficient payroll operations and eliminates postal delays and lost paychecks.

**DATA SOURCE :**

SEMA4 count of direct pay participants at fiscal year end and the total number of state employees on the payroll.

**DISCUSSION OF PAST PERFORMANCE :**

Direct deposit participation is not required for state employees who were hired before July 1, 1996. Employees hired after that date are required by Department of Finance policy to participate in direct deposit. Past performance targets were not established prior to F.Y. 1996. Direct deposit has been well received by many state employees. However, current employees who do not participate in the program will require some encouragement to begin participating. Therefore, we expect that growth rates will begin to even out.

**PLAN TO ACHIEVE TARGETS :**

The implementation of the new payroll system and the centralization of distribution of paychecks was accompanied by a policy that required new employees be paid through direct deposit. The department will monitor that policy through a monthly review of direct deposit reports created. In addition, we plan to educate employees who are not required to be on direct deposit. Through these efforts we hope to increase voluntary participation.

## OTHER FACTORS AFFECTING PERFORMANCE :

Participation in direct deposit is voluntary for employees hired prior to July 1996. Those employees who are reluctant to participate will be the most difficult to convince. However, the occasional late delivery of paychecks by the postal system may have a positive impact in switching some employees over to direct deposit.

**Goal 3** : Accurately present the state's financial condition by publishing financial reports that meet all professional standards and conform to state and federal requirements.

**Objective 1** : Annually receive the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

**Measure 1** : Annually receive the Certificate of Achievement Award.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **Receipt of Certificate** | | | | | | |
| **Actual** | Yes | Yes | | | | |
| **Target** | Yes | Yes | Yes | Yes | Yes | Yes |

**DEFINITION :**

The Certificate of Achievement for Excellence in Financial Reporting is awarded by the Government Finance Officers Association (GFOA). This national award recognizes conformance with the standards for preparation of state and local government finance reports. Reports must satisfy generally accepted accounting principles, applicable legal requirements, meet disclosure criteria and be published by December 31, of each year. Minnesota was one of five states to receive the certificate in 1986. In 1993, twenty-four states received the certificate.

**RATIONALE :**

State law requires the commissioner report on the financial affairs of the state by December 31 of each year (M.S. 16A.50). External review by peer organizations of the state's financial reports identifies deviations from standards and provides independent qualitative evaluation.

**DATA SOURCE :**

The letter of notification from GFOA.

**DISCUSSION OF PAST PERFORMANCE :**

The Department of Finance has received the Certificate each of the past ten years. In addition, the department receives a letter of recommended improvements to the Comprehensive Annual Financial Report (CAFR). Recommendations are incorporated into subsequent reports.

**PLAN TO ACHIEVE TARGETS :**

Past awards do not assure that the Department of Finance will receive the award in subsequent years. The accounting principles for government have changed and will continue to change. New national accounting principles will significantly affect required financial reporting for the financial statements. Early research of new pronouncements determine implications for the state. Changes in accounting principles will require continual education of all state agencies and joint efforts with the Legislative Auditor's Office to successfully achieve future certifications.

## OTHER FACTORS AFFECTING PERFORMANCE :

New accounting principles, cooperation of all state agencies and availability of the necessary financial information impact performance. Much of the information in the CAFR is supplied by other agencies under a very tight and inflexible time line. Agency cooperation in preparing accurate information and incorporating new accounting principles is necessary each year to receive the award.

**Goal 4** : Improve accountability and promote the prudent use of state resources by developing vendor payment and receivable policies and procedures that ensure effective resource management.

**Objective 1** : All vendor payments will be made within 30 days.

**Measure 1** : Percentage of payments made within 30 days.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **% of payments meeting the target** | | | | | | |
| **Actual** | 97.6% | 97.7% | | | | |
| **Target** | 98% | 97% | 97% | 97% | 97% | 97% |

**DEFINITION :**

This measure is based on the percentage of payments meeting the prompt payment target defined in Minnesota Statute 16A.124. The statute states that valid obligations to vendors must be paid within the early payment discount period (if vendor provides one), or within 30 days from the later of the date the goods or services are received or the receipt of invoice.

The actual percentages displayed above are contained in annual reports to the Legislature reports. In 1995, the reporting basis was changed from a calender to a fiscal year. The change was implemented to coincide with the state's fiscal year reporting cycle. Percentages are calculated by dividing the number of vendors paid within the applicable time period by the total number of vendor payments outstanding during the same period.

**RATIONALE :**

This measure relates to the overall efficiency of state agencies payment process. Vendors who receive late payments are entitled to receive penalty interest at a rate of 1.5% per month which directly impacts an agency's operating budget. It is in the state's interest to have an efficient system to pay its vendors promptly.

**DATA SOURCE :**

Information on prompt payment is obtained from the old Statewide Accounting System (SWAS) through 1995 and the new system (MAPS) starting in 1996. Grant payments and payments to employees for travel are excluded as they are not vendor payments.

**DISCUSSION OF PAST PERFORMANCE :**

This is a high interest factor in every state agency's accounts payable section. From F.Y. 1985 to F.Y. 1996, a prompt payment report was provided to each state agency. The new accounting system will permit regular compliance monitoring and highlight problem areas. Past performance data reflects success in meeting statutory targets. Future efforts will identify current and future problem areas and correct them to increase compliance.

## PLAN TO ACHIEVE TARGETS :

F.Y. 1996 data is not currently not available. It will be released in the next report to the legislature. It is likely that percentages have decreased slightly until staff achieve familiarity with the new accounting system. New training materials have been developed to increase agencies' understanding of the new systems. A new standard report will be created that will allow weekly, monthly and yearly compliance monitoring. Frequent communication to agencies who have difficulty in achieving the target will assist increased compliance by providing encouragement and instructions.

## OTHER FACTORS AFFECTING PERFORMANCE :

Performance will likely decrease slightly in fiscal year 1996 due to staff learning the new accounting system. Some payments, although paid within the appropriate time frame, will not correctly reflect performance due to incorrect data input associated with the new systems' implementation complexities.

**Goal 4** : Improve accountability and promote the prudent use of state resources by developing vendor payment and receivable policies and procedures that ensure effective resource management.

**Objective 2** : Agency accounts receivables exceeding 90 days will be below 60% by 1998.

**Measure 1** : Percentage of accounts receivable more than 90 days old.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **% over 90 days old** | | | | | | |
| **Actual** | 83% | 80% | 73% | | | |
| **Target** | N/A% | 73% | 63% | 61% | 59% | 59% |

**DEFINITION :**

This measure is calculated by dividing the total accounts receivable that are 90 days or greater past due by the value of total outstanding accounts receivables at the end of the fiscal year. Approximately one half of the outstanding receivables is for child support obligations. Loan receivables are excluded from this measure.

**RATIONALE :**

The Department of Finance manages the state's accounts receivable management practices, establishes related policies and procedures and advises state agencies on their debt collection activities. Accounts receivable information is summarized quarterly and analyzed in an annual report. The percentage of accounts receivable exceeding 90 days past due reflects the effectiveness of the state's management practices.

The target ratio appears high because it is based only on outstanding balances at year end, not on the total amounts billed during the year. Therefore, outstanding balances do not include the substantial portion of billings that are paid on time, before the end of the year, and are not outstanding at year end. A decrease in the ratio indicates the state is doing a better job of minimizing the time past due accounts remain unresolved.

**DATA SOURCE :**

Data is obtained from the accounts receivable database maintained by Finance. The fiscal year 1996 percentage was calculated primarily from the 4th quarter data. If 4th quarter data was insufficient in a certain month, 3rd quarter monthly data is used where necessary. Loans receivable are excluded because of the long term nature of the debt.

**DISCUSSION OF PAST PERFORMANCE :**

Although recent results did not meet are targets, progress has been made. Most individual agencies have met or exceeded the establish targets.

## PLAN TO ACHIEVE TARGETS :

Currently, agencies are encouraged to use the Minnesota Collection Enterprise (MCE), private collection agencies and the Attorney General's staff to maximize recovery of funds. The Department of Finance is collaborating with DHS Child Support Services to examine the way receivable amounts are determined and reported, and to improve the strategies for collection. Finance also plans to increase involvement with other agencies by assisting them in their accounts receivable management practices.

## OTHER FACTORS AFFECTING PERFORMANCE :

As agencies become more familiar and proficient with their responsibilities and new practices and new systems, the collections should continue to increase and the outstanding receivables decrease.

**Goal 4** : Improve accountability and promote the prudent use of state resources by developing vendor payment and receivable policies and procedures that ensure effective resource management.

**Objective 3** : Collect 96% of adjusted accounts receivable billings by F.Y. 1998.

**Measure 1** : Yearly adjusted billings collected.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **% of adjusted billings collected** | | | | | | |
| **Actual** | N/A% | 95% | 94% | | | |
| **Target** | N/A% | N/A% | 96% | 96% | 96% | 96% |

**DEFINITION :**

This measure shows the percentage of adjusted receivable billings that are collected. Adjusted accounts receivable are mainly attributed to the differences between estimated versus actual taxes due. The 96% "target" implies 4% of account receivables are not collectable. This desired rate appears appropriate given the nature of the state's receivables.

**RATIONALE :**

The percentage of adjusted billings collected directly reflects the effectiveness of the state's accounts receivables management practices.

**DATA SOURCE :**

Data is from the accounts receivable database, which is maintained by Finance and is based on quarterly data submitted by individual agencies. Amounts for loans receivables are excluded from these calculations.

**DISCUSSION OF PAST PERFORMANCE :**

Not applicable

**PLAN TO ACHIEVE TARGETS :**

Additional training will be provided state agencies on the tools available to improve their accounts receivable management. This will be accompanied by continued education to increase agency usage of the MAPS accounts receivable module. Finally, the department will make explicit efforts to increase agency use of the MCE or private collection firms after initial attempts to collect have been unsuccessful.

**OTHER FACTORS AFFECTING PERFORMANCE :**

An initiative has been underway to improve the state's accounts receivable management practices. During F.Y. 1996, the department awarded contracts to several new private collection agencies. This provides state agencies more flexibility in referring their debts for collection. The MCE recently installed predictive dialing equipment which allows them to be more effective in their collections.

**Agency** : FINANCE DEPT

**Program** : BUDGET SERVICES

## EXPENDITURES AND STAFFING :

| | ($ in Thousands) | Percent of Department |
|---|---|---|
| Total Expenditure | $1,802 | 8.33% |
| General | $1,802 | |
| Number of FTE Staff: | 29 | 16.08% |

## GOALS :

- To ensure the integrity of the state's financial resources by assuring compliance with applicable laws and policies (No Statutes Cited)

- To provide statewide leadership by improving the state's financial management practices (No Statutes Cited)

- To accurately present the state's financial condition by providing accurate, reliable and useful financial information (No Statutes Cited)

- To facilitate informed decision making by providing information and analyses concerning state finances (No Statutes Cited)

## DESCRIPTION OF SERVICES :

State Business Administration functions: The budget division manages preparation and implementation of the state's biennial, supplemental and capital budgets which are key components of the state's business administration. After budgets are enacted, the division has financial oversight and management responsibilities for establishing policies and procedures to ensure that state resources are prudently used in accordance with applicable state laws and policies.

The division manages the state's performance reporting process, establishes budget development and operating budget policies, reviews and approves appropriation transfers, trains state budget and financial management staff, and provides consultant services to agencies on budget development and management.

State Information Management functions: The program provides historical, current, and forecast projections of state revenues, expenditures and projected balances or deficits to the Governor and state policy makers. This information is relied upon by the Governor and legislature as a framework for determining public policy priorities and state tax and spending decisions.

The program coordinates total state revenue and expenditure reporting for all state operating funds as well as total state and local revenue reporting. Information is provided in a variety of documents and formats not only to the Governor and legislature, but also to the banking and business communities, special interest groups, the media, and directly to the public.

State Analytical Services: Analysis by division staff provides the basis of developing state long range fiscal plans. In addition, they evaluate the impact of proposals to change state programs (budget initiatives, fiscal notes), identifies areas of budget management where problems exist and identify solutions. Finally, they ensure that proposed policies and adopted laws incorporate sound financial management principles.

Program staff are regularly relied upon by the Governor and the legislature to objectively analyze the fiscal impact of significant policy proposals and to develop budget and policy alternatives that lead to more effective and efficient use of state resources.

**BACKGROUND INFORMATION :**

**MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)**

**DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)**

| Type | Based | Measure | 1994-95 | 1995-96 |
|---|---|---|---|---|
| W | FY | Number of appropriation accounts | 3,426 | 5,318 |
| W | FY | Number of appropriation transfer requests | 133 | 48 |
| W | FY | Number of fee reviews completed | 116 | 130 |
| W | FY | Number of agency budget initiatives reviewed | 559 | 652 |
| W | FY | Number of capital budget requests reviewed | 248 | 208 |
| OD | FY | Size of capital budget requests reviewed | $1.0 bil. | $1.2 bil. |
| W | FY | Number of fiscal note requests | 861 | 625 |
| O | FY | Percent of fiscal notes completed and returned to the legislature | 90.7% | 91.7% |
| E | FY | Average number of days to complete a fiscal note | 10 | 10 |

**PROGRAM DRIVERS :**

Many of the functions of Budget Services are determined by statutory requirements related to budget and forecast preparation, an increase in the number and complexity of policy and program changes with fiscal implications, implementation of the new statewide administrative systems, as well as the volume of requests for services from the Governor, the legislature and executive branch agencies. The division's capacity to respond to these demands is strongly influenced by our ability to recruit and retain qualified staff and effectively apply new information management technologies.

Changes from the 1994 Report

For Budget Services, a survey measure shown in 1994 has been redefined and replaced to correct acknowledged deficiencies in methodology. Measures proposed in 1994 related to small agency support, biennial ranking of agencies' internal financial management capabilities, percent of state budget described by performance indicators, and average agency-wide scoring of performance reports in the Legislative Auditor review of performance reports have been discontinued. We considered carefully the Legislative Auditor's comment on our 1994 report. The first and third of these measures were determined not be sufficiently useful indicators, the data for the second and fourth measures was determined to be unobtainable.

**Goal 1** : To ensure the integrity of the state's financial resources by assuring compliance with applicable laws and policies

**Objective 1** : Annually reduce the number of budget related audit exceptions

**Measure 1** : Number of budget related audit exceptions in Legislative Auditor financial audits

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **Audit exceptions** | | | | | | |
| **Actual** | 10 | 2 | | | | |
| **Target** | | | 0 | 0 | 0 | 0 |

**DEFINITION :**

Audit exceptions are deficiencies in financial management practices that are identified by the Office of the Legislative Auditor (OLA) during routine financial audits of state agencies. Budget related exceptions are those items that result from a material departure from budget related legal provisions (i.e. M.S. 16A) or from budget policies developed by the Department of Finance.

**RATIONALE :**

This measure indicates the effectiveness of budget policy developed by the Department of Finance and to insure that budgets are executed in accordance with applicable state laws and policies.

**DATA SOURCE :**

A review of Legislative Audit Reports on file at the Department of Finance was conducted by the Budget Division staff. The latest audit reports reviewed are for F.Y. 1995.

Since the OLA does not classify audit exceptions as "budget related" staff in the Budget Division made a determination as to whether each exception related to budget policy as set forth in M.S. 16A and/or budget policies as developed by the department. General accounting, control or oversight exceptions are not considered budget related.

**DISCUSSION OF PAST PERFORMANCE :**

This is a new measure. This method of measuring the effectiveness of budget policy and the administration of such policies has not been used in the past.

## PLAN TO ACHIEVE TARGETS :

In F.Y. 1997, the department will establish a review committee consisting of employees from this department and from other departments. The purpose of this committee will be to develop a methodology for classifying audit exceptions so as to reduce any possible subjectivity. This committee will also be used to review audit reports on an annual basis.

Secondly, the Department of Finance will carefully analyze the budget related audit exceptions identified by the OLA to determine potential policy or procedural changes to prevent related exceptions in the future. Communication of policy or procedural changes will be implemented as necessary.

**Goal 2** : To provide statewide leadership by improving the state's financial management practices

**Objective 1** : Improve Minnesota's financial management practices

**Measure 1** : Ranking in "Financial World's" annual 'State of the States'

| | C.Y.1994 | C.Y.1995 | C.Y.1997 | C.Y.1999 | C.Y.2001 | C.Y.2003 |
|---|---|---|---|---|---|---|
| **National Ranking** | | | | | | |
| **Actual** | 3 | 4 | | | | |
| **Target** | | Top 5 | Top 5 | Top 5 | Top 5 | Top 5 |

**DEFINITION :**

"Financial World" magazine ranks states according to the soundness of their budgeting and financial management practices. Beginning in 1995, the ranking is published every two years. The criteria used to rank states are:

Accounting and Financial Reporting
Revenue Forecasting
Expenditure Forecasting
Rainy Day and Contingency Funds
Program Evaluation and Performance Measurement
Pensions Management and Funding
Revenue Expenditure Balance
Budgeting Planning and Management
Bond Ratings
Infrastructure Controls

Budgeting Services contributes to Minnesota's ranking by providing the governor and legislature with services and information pertaining to each of the above criteria. While not solely a measure of Budgeting Services' performance, Minnesota's ranking in "Financial World" does reflect the quality of budgeting and financial management policy that Budgeting Services, and the entire Department of Finance, sets or influences. "Financial World's" analysis identifies and comments on particular strengths and weaknesses for the various criteria.

**DATA SOURCE :**

"Financial World's" annual 'State of the States' ranking.

## DISCUSSION OF PAST PERFORMANCE :

Since 1991, "Financial World" has ranked Minnesota's financial management in the top ten of all states. The following is a list of recent policy and procedural innovations that have contributed to Minnesota's ranking.

Innovations:

1992
- Budget instructions focused greater attention on longer term for financial planning.
- Fiscal note system was made more user friendly by improving system screen design and updating the text editor used to enter narrative data.

1993
- Statutory targets set for following biennium spending in human services, education aids, and higher education.
- Process started for preparing draft performance reports with select agencies. Draft performance report plans submitted by 18 agencies.
- Capital budget process improved with more systematic, objective project analysis through application of uniform scoring criteria.
- New and expanded Departmental Earnings Report instituted.

1994
- Cooperatively worked with Legislative Auditor to modify, focus, and expand performance reporting process.
- First six year strategic Capital Budget plan introduced and received by the legislature.

1995
- Price of Government legislation and reporting.
- Within our Means (collaborative with Minnesota Planning).
- Brandl Weber Report (collaborative with Minnesota Planning).
- Global Budgeting framework legislation.

1996
- PERFORMs - Performance Measures database and reporting system.

## PLAN TO ACHIEVE TARGETS :

In F.Y. 1997-99, Budget Services plans to :

- Incorporate into various budget documents and presentations more information on total state and local spending as it relates to Minnesota personal income.
- Develop alternative approaches for cooperative legislative and executive branch long-range financial planning.
- Expand state forecasts to include total state operating funds' revenues and expenditures as well as projected total state and local revenues.

## OTHER FACTORS AFFECTING PERFORMANCE :

Minnesota's national ranking in "Financial World" is a result not only of its own performance. It is comparative. It will be affected by other states' improvements and innovations. Similarly, Minnesota's ranking is not solely the result of Budget Services' performance. Decisions made by state policy makers and executive branch administrators may affect Minnesota's ranking.

**Goal 3** : To accurately present the state's financial condition by providing accurate, reliable and useful financial information

**Objective 1** : To forecast state expenditures within 2% of actual

**Measure 1** : Total variances of actual vs. forecast for various spending items.

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **Education Aids** | | | | | | |
| **Actual** | 1.0% | -0.9% | 1.3% | | | |
| **Post-Secondary Education** | | | | | | |
| **Actual** | -1.8% | 1.3% | 0.4% | | | |
| **Property Tax Aids and Credits** | | | | | | |
| **Actual** | 1.1% | -0.1% | -0.1% | | | |
| **Health Care** | | | | | | |
| **Actual** | 3.2% | 1.8% | 15.4% | | | |
| **Family Support** | | | | | | |
| **Actual** | 0.7% | 5.7% | 0.9% | | | |
| **Debt Service** | | | | | | |
| **Actual** | 14.2% | 16.6% | 8.4% | | | |
| **All Other Spending** | | | | | | |
| **Actual** | 4.4% | -1.1% | 5.1% | | | |
| **Total Varience All Items** | | | | | | |
| **Actual** | 1.9 | .05 | -1.6 | | | |
| **Target** | + or -2% | + or -2% | + or -2% | + or -2% | + or -2% | + or -2% |

## DEFINITION :

Comparison of actual to forecasted amounts is the best measure of forecast accuracy. The variance is measured by comparing the last official forecast, prior to the beginning of a fiscal year, to actual data at year end.

## RATIONALE :

State policy makers are supported by preparing accurate forecasts and useful comparative financial reports on revenues and spending. Credibility and reliance upon this information is measured by the forecast variance for various revenue and expenditure items where the department has primary forecast responsibilities.

## DATA SOURCE :

Comparison of actual to forecast data is calculated from forecasts prepared by the Department of Finance at the end of each legislative session. Annual expenditure data is available from the Department of Finance closing statements for each fiscal year.

## DISCUSSION OF PAST PERFORMANCE :

Past performance in total has been within the target variance of 2%.

## PLAN TO ACHIEVE TARGETS :

Budget Services continues work to improve its analysis of revenue and expenditure forecasts prepared by other agencies. This information is used by the division to prepare the total state forecast. A standing Interagency Forecast Methodology Committee concentrates on identification of risks and uncertainties in general fund and all other operating fund forecasts.

## OTHER FACTORS AFFECTING PERFORMANCE :

Two factors affecting performance are beyond the division's control. The first is the capacity of administering agencies to accurately predict program demand. While the division makes recommendations to improve various agencies' forecasting capabilities, the division's forecasting is only as good as the underlaying data and models supplied by the administering agencies. Secondly, general economic changes brought about by national or world events, changing employment demand and other macroeconomic forces have varying effects upon state program demand and resulting forecast changes. The impact of these events is more difficult to predict in the forecast for succeeding biennia but can also contribute to uncertainty in the current biennium forecast.

**Goal 4** : To facilitate informed decision making by providing information and analyses concerning state finances

**Objective 1** : To redesign state business processes, information management and analyses to increase end user satisfation with products

**Measure 1** : Percent of end users "Satisfied" or "Very Satisfied" with the usefulness, timeliness and objectivity of key budget division processes and products by user group segment

| | Bien1997 | Bien1999 | Bien2001 | Bien2003 | Bien2005 | Bien2007 |
|---|---|---|---|---|---|---|
| **Forecast documents** | | | | | | |
| **Budget Documents** | | | | | | |
| **Fiscal Notes** | | | | | | |
| **Performance Reports** | | | | | | |
| **Special Analysis** | | | | | | |
| **Presentations** | | | | | | |

**DEFINITION :**

Survey data of end users of information and active participants in related business processes. End user clientele segments include legislators and legislative staff, nongovernmental and special interest groups, the media, the public, and state agency personnel actively participating in the divisions business processes.

**RATIONALE :**

Credibility is a critical success factor. End user satisfaction is a critical assessment of outcomes. It measures whether the respective product or processes are providing the right information, to the right people, in the right form, at the right time. In its 1994 Performance report, the budget division presented customer survey data based on a department wide customer survey conducted that year. The department currently relies upon ad hoc, solicited and unsolicited user feedback to adjust operations.

**DATA SOURCE :**

Documented proposed survey results and analysis will be retained within the department and will be available for review and analysis.

**DISCUSSION OF PAST PERFORMANCE :**

The Legislative Auditor's Report on Agencies Use of Customer Surveys, which was released in early 1995, identified fundamental deficiencies in the structure and methodology of that survey. That assessment was accurate. The initial survey did not conform to survey standards and requirements which rendered its results unreliable and statistically invalid.

**PLAN TO ACHIEVE TARGETS :**

Based on the recommendations of the Legislative Auditor's report, the budget division will form a team to develop and administer a survey tool which will meet these standards. For particular client groups, where a survey tool may be unreliable over time or affected by inherent "politics", the department will consider establishing a representative, continuing "expert" group to evaluate products.

With changes in department and division level management and division workload over the past year, resources were not available for this project. The survey will be developed and administered in early fall, 1997. Survey methodology and results will be provided to the Office of the Legislative Auditor and legislative staff when completed.

Targets for future performance will be developed once the initial survey is completed and a benchmark performance level is known.

The division will use the results of the survey to identify and implement changes in information, products, or processes so as to increase satisfaction rankings on a year to year basis.

**Agency** : FINANCE DEPT

**Program** : ECONOMIC ANALYSIS

## EXPENDITURES AND STAFFING :

| | ($ in Thousands) | Percent of Department |
|---|---|---|
| Total Expenditure | $291 | 1.35% |
| General | $291 | |
| Number of FTE Staff: | 3 | 1.69% |

## GOAL :

- To accurately present the state's financial condition by preparing credible, professional and accurate forecasts of state revenues (M.S. 16A.06)

## DESCRIPTION OF SERVICES :

The Economic Analysis Division forecasts the major General Fund state taxes. Their forecasts serve as the starting point for the budget process, reduce uncertainty in public decision making and reduce the need for short term program adjustments due to unanticipated revenue fluctuations. The projections are based on scenarios provided by a national economic consultant and internal models of the Minnesota economy and Minnesota's tax system.

Preparing a credible, professional revenue forecast requires:

1) construction and maintenance of a model of the Minnesota economy and the accompanying data base;
2) construction and maintenance of tax models and their associated data bases;
3) preparation of a forecast report that explains the assumptions on which the forecast was based;
4) briefing, including testimony at legislative hearings and preparation of a monthly report providing information on changes in the national forecast which may have an impact on the Minnesota economy and state tax receipts; and
5) preparation of a publicly distributed quarterly report which provides detailed quarterly and year to date comparisons of actual receipts versus forecast receipts.

The division responds to requests from state agencies and the general public for information about the Minnesota and U.S. economies and state revenues. It also supports the debt management activities of the state by preparing information needed for the state's bond prospectuses and representing the state in economic matters before bond rating agencies.

## PROGRAM DRIVERS :

A tight federal budget, combined with past shutdowns of the federal government has reduced the timeliness and quality of economic data used in the forecast. This may affect the accuracy of the forecast.

**Goal 1** : To accurately present the state's financial condition by preparing credible, professional and accurate forecasts of state revenues

**Objective 1** : To forecast major tax sources within a 95% confidence band

**Measure 1** : The percent difference between actual and forecast

| | F.Y.1994 | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 |
|---|---|---|---|---|---|---|
| **Percentage difference between forecast and actual revenues** | | | | | | |
| **Actual** | 1.3% | 2.5% | 5.8% | | | |
| **Target** | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |

**DEFINITION :**

The "actual" is the percent difference between actual revenues and forecast revenues. The forecast is usually made in February; the fiscal year for which it is made begins 4 months later on July 1.

The "target" is the range of error that one might expect from the underlying randomness in the economy. That error range is based on results from a Vector Auto Regression Model (VAR) of the U.S. economy maintained by the Minneapolis Federal Reserve Bank. The 95% confidence band can best be explained by way of an example. For F.Y. 1993, the VAR model forecasted that Gross Domestic Product would be $6,099.6 billion. Therefore, there is about one chance in 20 that the actual value would fall outside of the range of $5,827 billion to $6,372 billion, which is plus or minus 4.5%.

"Revenues" are the 4 major revenues forecast by the Department of Finance: Income Tax, Sales Tax, Corporate Franchise Tax and Motor Vehicle Excise Tax.

**RATIONALE :**

Although forecast accuracy is not a measure of the credibility of the forecast or the degree of professionalism with which it was prepared, it is the only quantifiable measure available. Perfectly accurate forecasts are impossible to achieve because of the underlying randomness of the economy and unanticipated taxpayer behavior. The confidence interval other forecasters assign to their forecasts is an appropriate benchmark for forecast accuracy. A measure of the potential forecast error attributable to the underlying randomness of the national economy is provided by the VAR model.

**DATA SOURCE :**

Data on forecast and actual state receipts are taken from the reports published with each state forecast and from the statewide accounting system. The confidence interval for the U.S. Gross Domestic Product forecast will be obtained from the research staff of the Minneapolis Federal Reserve.

## DISCUSSION OF PAST PERFORMANCE :

During the past 6 years, the average absolute forecast error has been 2.2%. The largest error was 6.8% for fiscal 1993. The smallest error was .1% in 1990. These forecast errors are reasonable, keeping in mind that the VAR error represent "U.S. economy only" forecast error and Department of Finance errors represent combined "economy and revenue system" forecast error.

## PLAN TO ACHIEVE TARGETS :

We will attempt to keep our forecast variance within the VAR confidence band by continuing the activities in the description of services section.

## OTHER FACTORS AFFECTING PERFORMANCE :

There are several sources of potential error in making any revenue forecast. Not all sources of error can be disentangled and measured after the fact. Further, errors from different sources can either offset or compound the total variance. In addition to inaccurate forecasts of the national economy, the following other sources of error also affect the accuracy of the revenue forecast:

- Inaccurate forecasts of the Minnesota economy given accurate forecasts of the national economy.
- Measurement error in historical data on the state and national economies.
- Errors in estimates of the impact of tax law changes due to inadequate data.
- Errors in measuring the impact of tax law changes on taxpayer behavior.
- Errors in forecasting the timing of actual tax receipts as opposed to tax liability.
- Other technical errors including changes in the propensity of economic income to become taxable income, errors in forecasting incomes (such as capital gains), which are not tied directly to measured economic activity, variations in payments on past due receivables, and taxpayer delinquency rates.
- One time major events such as corporate buy outs, federal program changes or court cases that may create gains or losses in revenues of ten million dollars or more.

**Agency** : FINANCE DEPT

**Program** : INFORMATION SERVICES

## EXPENDITURES AND STAFFING :

| | ($ in Thousands) | Percent of Department |
|---|---|---|
| Total Expenditure | $14,163 | 65.47% |
| General | $14,163 | |
| Number of FTE Staff: | 65 | 36.59% |

## GOALS :

- To provide the appropriate technical support for the Statewide Administrative Systems (No Statutes Cited)

- To provide effective management of the Statewide Administrative Systems by providing accurate forecasts of systems costs (No Statutes Cited)

The Information Services program assists the other Finance Divisions in reaching individual program goals, and assists the Departments of Administration and Employee Relations in supporting related components of the Statewide Administrative Systems.

## DESCRIPTION OF SERVICES :

To understand the scope of the Information Services Division, the following background information should be considered:

- The Minnesota Accounting and Procurement System (MAPS), Statewide Employee Management System (SEMA4), and Information Access (IA) systems were implemented in July 1995.
- The systems are used by over 5,000 users.
- Users are located in over 450 locations within Minnesota.
- The systems' on-line availability rely on the network and mainframe services provided by the InterTechnologies Group in the Department of Administration.

A new organizational team of functional, technical, and administrative employees from the Departments of Administration, Employee Relations, and Finance was created to support the Statewide Administrative Systems. This team is referred to as the Minnesota Administrative Statewide Systems InterAgency Support Team (Mn-ASSIST). Through the Mn-ASSIST team the Information Services Division of the Department of Finance provides the following services:

- Systems operation management to ensure on-line system availability in order for state agency administrative

work to be accomplished.
- Systems programming support to make any necessary change to the systems computer code.
- Information Access support to assist agencies in being able to get the appropriate information from the administrative systems.
- Customer Services support to answer questions about system problems and offer guidance in the use of the systems.
- Technical Services support to ensure agencies maintain the technical ability to use the administrative systems and to ensure the Department of Finance local area network and telephone system is working properly.
- Business management of the administrative systems to ensure the operating policies are in place, the business recovery processes are appropriate, and the costs to operate the systems is accounted for properly.
- Documentation services for MAPS training, systems development and operations, and training course management for all the statewide systems.
- Security services to provide appropriate user security management of the administrative systems.

The Statewide Administrative Systems supported include:

- Minnesota Accounting and Procurement System (MAPS)
- State Employee Management System for Payroll, Human Resources, Reporting and Interfacing (SEMA4)
- Information Access Warehouse System (IA)
- Biennial Budget System (BBS)
- Performance Measurement System (PERFORMs)
- Fiscal Notes System (FNTS)

**BACKGROUND INFORMATION :**

**MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)**

**DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)**

| Type | Based | Measure | 1994-95 | 1995-96 |
|---|---|---|---|---|
| A | FY | MAPS purchase order transactions | N/A | 670,339 |
| A | FY | MAPS expenditure transactions | N/A | 4,525,670 |
| A | FY | MAPS cash receipt transactions | N/A | 832,597 |
| A | FY | IA warehouse queries | N/A | 88,467 |
| A | FY | Employees paid through SEMA4 | N/A | 48,000 |
| A | FY | Help Desk calls - Accounting | N/A | 12,724 |
| A | FY | Help Desk calls - Procurement | N/A | 36,701 |
| A | FY | Help Desk calls - Human Resources | N/A | 5,489 |
| A | FY | Help Desk calls - Payroll | N/A | 1,560 |
| A | FY | Help Desk calls - Information Access | N/A | 6,434 |

## PROGRAM DRIVERS :

The work of the Information Service's Division is determined by the functional divisions in the departments of Administration, Employee Relations, and Finance, as well as customer requirements of the other state agencies and the Legislature.

Operating, processing, and management costs for the systems is largely determined by the usage of the systems by users within state agencies.

**Goal 1** : To provide the appropriate technical support for the Statewide Administrative Systems

**Objective 1** : Increase on-line availability of the Statewide Administrative Systems from 95% in F.Y. 1996 by 1% per year.

**Measure 1** : Percent of scheduled on-line availability

| | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 | F.Y.2000 |
|---|---|---|---|---|---|---|
| **MAPS Availability** | | | | | | |
| **Actual** | | 86% | | | | |
| **Target** | | 95% | 96% | 97% | 98% | 98% |
| **SEMA4 Availability** | | | | | | |
| **Actual** | | 95% | | | | |
| **Target** | | 95% | 96% | 97% | 98% | 98% |
| **Information Access Availability** | | | | | | |
| **Actual** | | 96% | | | | |
| **Target** | | 95% | 96% | 97% | 98% | 98% |

**DEFINITION :**

On-line availability is the time systems are actually available for the agency users to accomplish their entries, processing, and reporting. Percentage of availability represents the portion of scheduled times the systems are actually available.

**RATIONALE :**

System availability measures the reliability of the Statewide Administrative Systems to support agencies in completing their financial and personnel transactions; e.g., entering purchase orders, paying bills, and entering employee payroll. Unscheduled down times adversely affect agencies' ability to enter information in a timely fashion.

**DATA SOURCE :**

Information is tracked and recorded on a daily basis by the Customer Services Section for the major systems; IA, MAPS, and SEMA4. Availability (as a percentage) is the number of hours the system is available to over 50% of the users divided by the number of hours the system is scheduled to be available for on-line transactions.

**DISCUSSION OF PAST PERFORMANCE :**

The systems went into operation in July 1995, F.Y. 1996 is the base year for this measurement.

## PLAN TO ACHIEVE TARGETS :

Several factors can affect system on-line availability. External factors such as networks and/or computer facility type interruptions or failures are beyond the control of Information Services. Factors within the control of Information Services, such as operations and programming, are managed by ensuring the proper policies and procedures are in place to quickly correct problems and restore services. Therefore, problems that can affect system on-line availability can be handled in a well planned and coordinated way.

**Goal 2** : To provide effective management of the Statewide Administrative Systems by providing accurate forecasts of systems costs

**Objective 1** : Prepare 18 month forecasts of costs and utilization on a quarterly basis with 80% accuracy for FY96, improving in accuracy by 5% per year

**Measure 1** : Accuracy of systems resources and costs forecasts of operations

| | F.Y.1995 | F.Y.1996 | F.Y.1997 | F.Y.1998 | F.Y.1999 | F.Y.2000 |
|---|---|---|---|---|---|---|
| **MAPS forecast accuracy** | | | | | | |
| **Actual** | | 66% | | | | |
| **Target** | | 80% | 85% | 90% | 95% | 99% |
| **SEMA4 forecast accuracy** | | | | | | |
| **Actual** | | 66% | | | | |
| **Target** | | 80% | 85% | 90% | 95% | 99% |
| **IA forecast accuracy** | | | | | | |
| **Actual** | | 85% | | | | |
| **Target** | | 80% | 85% | 90% | 95% | 99% |

**DEFINITION :**

The system operating costs are a major part of Information Service's budget. These cost are charged to Information Services by the InterTechnologies Group (ITG) for mainframe and network services provided. The division prepares an 18 month forecast of ITG costs and usage on a quarterly basis.

**RATIONALE :**

Accuracy of the ITG forecast is critical to ensure the proper funding resources as well as the proper hardware resources are in place to operate IA, MAPS, and SEMA4 and avoid service disruptions.

**DATA SOURCE :**

Division documentation, ITG billing information.

**DISCUSSION OF PAST PERFORMANCE :**

The systems began operation in July 1995 allowing collection and analysis of actual usage statistics to begin accumulating. All forecasts and operating cost projections prior to that time were based upon analysis estimates from vendors and experiences from other major non state users of the same or comparable systems.

## PLAN TO ACHIEVE TARGETS :

We plan to achieve our forecasting targets by monthly analysis of actual data variances and analyzing the impact of external changes on the forecast. Each technical and functional unit will be trained in analyzing actual and projected cost data to ensure individual components are properly reflected in the forecast.

## OTHER FACTORS AFFECTING PERFORMANCE :

There will be errors/problems with nightly batch that are not within Mn-ASSIST control.

**Agency** : FINANCE DEPT

**Program** : MANAGEMENT SERVICES

**EXPENDITURES AND STAFFING :**

| | ($ in Thousands) | Percent of Department |
|---|---|---|
| Total Expenditure | $1,419 | 6.56% |
| General | $1,419 | |
| Number of FTE Staff: | 14 | 7.98% |

**GOAL :**

- To improve accountability and promote the prudent use of state resources by managing the general obligation debt of the state (M.S. 16A.641; 16A.661; 16A.672)

**DESCRIPTION OF SERVICES :**

Cash and Debt Management establishes bank accounts for the deposit of state funds by state agencies and deputy registrars. The division sells and issues general obligation bonds to finance authorized capital projects. The division also manages the tax exempt bonding allocation process. Management Services includes the Commissioner's Office, Administrative Services and Cash and Debt Management. The Administrative Services Section is an internal support function; staff in this section provide operational and support services to the entire department.

**BACKGROUND INFORMATION :**

**MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)**

**DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)**

| Type | Based | Measure | 1994-95 | 1995-96 |
|---|---|---|---|---|
| A | FY | Number of state bank accounts | 283 | 256 |
| W | FY | Number of general obligation bond sales - new money | 2 | 4 |
| W | FY | Number of general obligation bond sales-refinancing | $0 | $0 |

| | | | | |
|---|---|---|---|---|
| A | FY | Dollar value of bond sales - new money | $235 M | $440 M |
| A | FY | Dollar value of bond sales - refinancing | $0 | $0 |
| W | CY | Number of tax exempt bond allocations (cal yr) | 50 | 102 |
| A | CY | Dollar amount of allocations | $225.87 M | $228 M |
| W | FY | Number of Revenue Bond Sales | 1 | 1 |
| A | FY | Dollar Value of Revenue Bond Sales | $47 M | $200 M |

**PROGRAM DRIVERS :**

The number of state bank accounts is determined by the banking needs of state agencies. The dollar amount and timing of state general obligation bonds is determined by the cash flow needs of capital projects. Recent lower interest rates have permitted the refinancing of outstanding bonds by the issuance of new bonds. Over recent years effective financial management and refinancing state bonds has resulted in significant interest savings to the state.

**Goal 1** : To improve accountability and promote the prudent use of state resources by managing the general obligation debt of the state

**Objective 1** : Accurately forecast debt service requirements

**Measure 1** : Actual debt service costs compared to the debt service appropriation

| | Bien1993 | Bien1995 | Bien1997 | Bien1999 | Bien2001 | Bien2003 |
|---|---|---|---|---|---|---|
| **Appropriation** | | | | | | |
| **Actual** | $412,000 | $437,000 | $479,000 | | | |
| **Debt Service Costs** | | | | | | |
| **Actual** | $409,000 | $434,000 | $476,000 | | | |
| **Variance** | | | | | | |
| **Actual** | $3,000 | $3,000 | $3,000 | | | |

**DEFINITION :**

The Legislature appropriates a biennial amount from the general fund to pay debt service on outstanding bonds and to pay the estimated debt service on new bonds which are planned to be sold during that biennium. The Commissioner of Finance determines the amount of bond principal and the structure of the bond maturities.

**RATIONALE :**

Future debt capacity is determined by available debt service. The Commissioner of Finance utilizes a debt capacity model to forecast the debt service cost of bonds sold and from that the amount of new bonds that can be sold during a biennium. The Commissioner is also able to manage the structure of bond sales which provides flexibility in the amount of debt service required on bonds sold. Accurate forecasting, subject to fluctuations in interest rates, should equal available general fund debt service appropriations.

**DATA SOURCE :**

Appropriation laws and actual expenditures from year-end financial statements.

**DISCUSSION OF PAST PERFORMANCE :**

The unspent balance in the past three biennia has been $3 million.

## PLAN TO ACHIEVE TARGETS :

A debt capacity model is used to estimate future debt capacity. This model projects the amount of debt service required on new bond issues based upon assumptions on projected cash flows and interest rates.

The model relies on projected cash flows provided by state agencies managing individual capital projects as well as Data Resources Inc. forecast of interest rates. Changes in these variables can result in an inaccurate forecast of future debt capacity and debt service costs. Additional effort is being made to refine cash flow estimates based on recent actual experience and to minimize the impact of interest changes by appropriately managing the size and timing of bond sales.

**Goal 1** : To improve accountability and promote the prudent use of state resources by managing the general obligation debt of the state

**Objective 2** : To sell bonds at the market rate of interest for each bond sale

**Measure 1** : Comparison of market rates on bonds of comparably rated entities for same day sales.

| | Oct 1994 | Apr 1995 | Aug 1995 | May 1996 | Nov 1996 |
|---|---|---|---|---|---|
| **Market Rate of Bonds Sold** | | | | | |
| **Actual** | 5.79% | 5.54% | 5.35% | 5.24% | 5.18% |
| **Actual Rate of Minnesota Bonds Sold** | | | | | |
| **Actual** | 5.77% | 5.49% | 5.34% | 5.39% | 5.18% |
| **Varience** | | | | | |
| **Actual** | -.02% | -.05% | -.01% | .15% | 0% |

**DEFINITION :**

The Delphis Hanover Index is published daily. This index lists interest rates by the credit rating of the various issuers. It is a valid benchmark to measure the performance of the state in the bond markets. The performance of the state's bond issuance can be inferred when compared to this index A variance of 0.1% over the life of the bonds equates to about $1,000,000 in additional interest costs over the term of the bonds for every $100,000,000 in bond sales. Achieving rates lower than index represents in the lowering of borrowing costs for the state.

**RATIONALE :**

The state should sell bonds into the tax exempt market at the same rates as other AAA rated issuers. The measures indicates whether at each bond sale the state's bonds actually sold at the AAA market rate.

**DATA SOURCE :**

The Delphis Index data is published daily. The actual sales of bonds are a matter of public record.

## DISCUSSION OF PAST PERFORMANCE :

The variance shows that the rates on the state's bonds have varied from the market by a range of +.15% to -.05%. Small variations of +or - .05 is very small and may be the result of changes in the market from the time the bonds are sold in the morning to the setting of the index at the end of the day.

A variation of .15% from the May 1996 bond sale is more significant. This variation occurred at the first sale after the state credit rating was improved to AAA by Moody's and may indicate that the bonds were not sold in the market at the AAA rate. In effect, the market may have given the state's bonds interest rates at a AA level.

The variance from the November 1996 was -.02 which indicates that the interest rates on the state bonds was at the AAA market rate and, therefore, the bonds were viewed by the market as a AAA credit.

## PLAN TO ACHIEVE TARGETS :

The department regularly communicates and updates the rating agencies on matters related to the state. The department also provides information to the bond market participants. The state is a bond issuer which the bond market knows well and has responded by providing bids on state bonds at or near the index.

Moody's Investors service raised the state's bond rating in 1996 to Aaa from Aa1. This higher rating should result in lower interest costs on the state's bonds.

## OTHER FACTORS AFFECTING PERFORMANCE :

The bond market is affected by supply and demand. The state may sell bonds in the market on a day when the supply of bonds is either too large or too small for the amount of demand which could result in an interest rate significantly above or below the index.

**Goal 1** : To improve accountability and promote the prudent use of state resources by managing the general obligation debt of the state

**Objective 3** : To reduce the variance of bonds sold to actual cash needs of capital projects

**Measure 1** : Annual amount of bond proceeds remaining after actual expenditures

| | C.Y.1992 | C.Y.1993 | C.Y.1994 | C.Y.1995 | C.Y.1996 | C.Y.1997 |
|---|---|---|---|---|---|---|
| **Bond sale** | | | | | | |
| **Actual** | $140,000 | $260,000 | $120,000 | $335,000 | | |
| **Actual Expenditure** | | | | | | |
| **Actual** | $140,648 | $250,567 | $140,101 | $301,436 | | |
| **Varience** | | | | | | |
| **Actual** | $-648 | $9,433 | $-20,101 | $33,564 | | |

**DEFINITION :**

The size of bond sales are determined by the estimated cash flow expenditures for a given time period. The cash flow estimates are made by agencies receiving bond proceeds to meet the funding needs of capital projects. Each bond sale is sized to include agency capital project expenditures until the next scheduled bond sale. Actual expenditures shown are for the same period of time as the bond sale was originally scheduled to provide financing.

**RATIONALE :**

Accurate cash flow forecasting is needed to project the amount of bonds that are needed to be sold to meet the cash flow needs of the capital projects. Inaccurate cash flow estimates result in inaccurate estimates of future debt capacity.

The state and other issuers of bonds should access the capital markets only for the amount of money that they actually need. Selling excess bonds results in receiving money from investors that could be used by other issuers. This results in inefficiencies in the markets.

When the state sells fewer bonds than the actual amount of money needed, the Commissioner of Finance must borrow money from the general fund to cover deficit balances This results in a reduction of general fund money available to be invested and a reduction in investment earnings for the general fund.

**DATA SOURCE :**

The dollar amount of bonds sold is of public record. The amount of bond expenditures is information compiled by the Department of Finance.

**DISCUSSION OF PAST PERFORMANCE :**

The amount of bonds sold have been both greater and less than the actual cash flow needs of capital projects. The capital project cash flow forecasting has to be improved to reduce the amount of the variances.

## PLAN TO ACHIEVE TARGETS :

The department continually works with agencies to remind them of the need for accurate cash flow estimates. The department also makes certain adjustments to the agencies' cash flow estimates.

## OTHER FACTORS AFFECTING PERFORMANCE :

The start of capital projects is often delayed. Many times the delays are not anticipated. The delays result in less bond proceeds being spent than forecast in the cash flow estimates.

# GLOSSARY

| | |
|---|---|
| **BBS** | Biennial Budget System |
| **CAFR** | Comprphensive Annual Financial Report |
| **FNTS** | Fiscal Notes Tracking System |
| **GAAP** | Generally Accepted Accounting Principles |
| **GDP** | U.S. Gross Domestic Product |
| **GFOA** | Government Finance Officers Association |
| **IA** | Information Access |
| **ITG** | InterTechnologies Group |
| **MAPS** | Minnesota Accounting and Procurement System |
| **MNASSIST** | Minnesota Administrative Statewide Systems Interagency Team |
| **PERFORMS** | Performance and Outcomes Reporting and Monitoring System |
| **PPS** | Personal Payroll System |
| **SEMA4** | State Employee Management System (Statewide payroll and human resources system) |
| **SSP** | Statewide Systems Project |
| **SWA** | Statewide Accounting System |