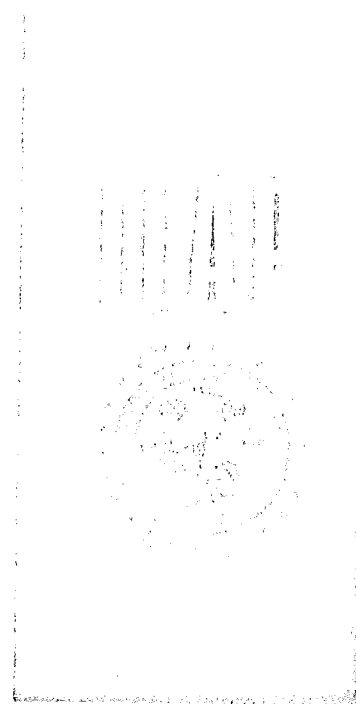


GOVERNOR'S
LOANED EXECUTIVES Action PROGRAM

DOUGLAS J. DAYTON, *Chairman*



*... to assist the organization in
becoming more viable on its own ...*

Central Management

Task Force

FINANCIAL CONTROL

REPORT

SAINT PAUL, MINNESOTA, DECEMBER 23, 1972

Governor's
LOANED EXECUTIVES *Action* PROGRAM

To: Douglas J. Dayton
Chairman

Z. Z. DePriest
Captain
Central Management Task Force

From: D. A. Christiansen
Chairman - Financial Control
Central Management Task Force

Date: December 7, 1972

Subject: Outline for Task Force Reports

807 Capitol Square East
St. Paul, Minnesota 551
(612) 296-6112

DOUGLAS J. DAYTON
Chairman

ROBERT H. ENGLS
Northern States Power Company
Vice Chairman

STEERING COMMITTEE

RICHARD L. BRUBACHER
State of Minnesota

TED DEKEL
Fingerhut Corporation

LYLE H. FISHER
3M Company

RICHARD H. KING
International Multifoods, Inc.

GERRY E. MORSE
Honeywell, Inc.

BARNEY U. UHLIG
Executive Secretary

Following is our outline for the Task Force Reports as requested by B. U. Uhlig.

1. Summary of Department Activities

The financial control task force was established to examine the existing accounting system, methods of budgeting, performance reporting techniques, and forecasting methods that make up the State's financial control system as well as the post-audit activity since it represents the double check on the accuracy of the records and effectiveness of internal controls. A review was also made of the operations of the Tax Department. Projects were developed in each of these specific areas as well as an overall project to evaluate the present organization of the finance activities. Since these functions are divided among the Department of Administration, Public Examiner and Taxation as well as the offices of the State Auditor and State Treasurer, these projects involved a number of different organizational units of State Government.

The financial control responsibility of these various departments and agencies is to establish the accounting and budgeting system including the control of encumbrances by appropriation and to publish the required financial reports. Their general direction and authority is established by statute, and little has been done to implement broadly defined statutes with formalized procedures. Responsibilities have been delegated to line agencies where permissible, thus, these programs have significant effects in all agencies.

2. Present Operating Methods

2a. Organization Pattern

The organization pattern of the financial control function, by any standard, is split up to the point that any advancement in financial control technology is thwarted. The present organization was established in 1939, long before present day financial controls had been widely recognized and used. The basic function of accounting (the State Auditor) and the related function of control of the cash (the State Treasurer) are headed by elected officers reporting to the voters, or in effect, to no one at all. The budgeting function and the control of appropriated allotments is in the Department of Administration, whose Commissioner is appointed by and reports to the Governor. The Public Examiner who represents the post-audit function or the check and balance on the states accounting practice is also appointed by and reports to the Governor. The Information Systems Division, that has an increasingly important role in the computer processing of financial data, and is the only source of systems analysis, reports to the Commissioner of Administration in the Executive Branch.

2b. Horizontal Relationships

Each of the central departments responsible for the various phases of financial control has a functional relationship with all the other departments and agencies. These departments which have control responsibility set the direction, issue instructions and are responsible for the performance of their functions throughout the State. Thus, the State Auditor must be sure that the functions he has delegated to other areas for performance are properly done. The Budget Division must issue instruction to all activities on budget preparation to ensure a uniform approach to preparing and submitting their budgets. There is constant liaison with other departments throughout the year. Similar instructional guidance must be given to the operating agencies to cover the other financial activities.

2c. Statistics Relative to Size

The size of the financial control function cannot be specifically identified since it is not located in one department but permeates each department and agency of the government. It is better measured in the effect it can have on the over two billion dollars of yearly State expenditures. This expense level makes the State one of the largest businesses in Minnesota.

2d. Systems and Procedures

In the Department of Administration, Taxation and the Public Examiner, as well as the offices of the State Auditor and State Treasurer where this task force worked, there was a noticeable lack of formalized procedures. Manual systems, in particular, were in many cases very inefficient. As a result, three different training sessions were held to train State employees in systems analysis. This was done so that the analysis of the work methods and systems could be continued by the State employees. Many of the significant savings being achieved by the LEAP effort are a result of systems analysis work.

2e. Geographical Locations

Most of the work of this task force was performed in departments located in the Administration and Centennial Buildings. However, our recommendation will have effects on systems in almost all agencies of the State Government.

3. Brief Statement Appraising Current Operations

3a. Areas of Strength in the Department

The State has a large number of loyal, hard-working, intelligent employees proud of the job they are doing. Many of these employees are anxious to improve the operations of the government and are willing to accept the challenge of greater performance when it is presented.

3b. Areas of Weakness in the Department

The various functions that make up the total financial control system have been divided between so many areas of responsibility that there is little organized effort to ensure that the tools of management were kept up-to-date on a continuing basis. Where there has been self-initiated use of new techniques, there has been no degree of urgency. Resulting timetables have extended over a much greater period of time than essential for implementation. Further, the operating activities are totally dependent on the Legislature for funding of new or expanded programs. The interest of the Legislature is much higher for spending on visible programs than investing in financial controls that will provide long-range savings.

In general, the State activities lack an organized cost reduction program and as a result very little systems analysis of manual operations is performed.

3c. Pertinent Statistics

Under the conditions outlined above, the State's employees may be working at their jobs efficiently; however, what they are doing is part of an inefficient system. Without formalized procedures, there is no standard to check against when operations deviate from the original method. As a result, with the changing of personnel, and changes to accommodate temporary situations, the methods grow further and further from the original plan and less and less efficient. The systems analysis needs greater emphasis on a continuing basis throughout the State. This emphasis can be obtained with the combined systems activity in ISD as proposed in our financial reorganization.

4. Project Reports

4a. General Introductory Statement

The Financial Control Task Force completed eleven projects during the period of the LEAP program. These specifically covered the basic elements of financial controls and areas of the Tax and Public Examiners Departments as well as the organization of the financial activities. There are a number of additional areas of concern that were observed in the investigations for which programs were not developed due to the lack of time and manpower. Further investigations should be made into the effectiveness of the encumbrance system as a control device, particularly as it applies to operating type expenses. Another area would be the possibility of an improved system of presentation of the data pertaining to capital type expenditures for buildings or other construction where there is a significant operating cost that does not show in the two year budget request period in which the construction funds are appropriated. Fund requests are being approved today without full knowledge of the long range effect on expenditure levels.

Further consideration should be given to the possibility of extending the financial planning period to five years. The extended planning period would provide a more comprehensive picture of future tax demands and effects of today's actions than the present two year projections.

4b. Completed Projects (Implemented)

None

4c. Project Reports

Income Tax Examination
Office Audit Project No. 31

Inheritance and Gift Tax Division Project No. 73
 Financial Organization Project No. 102
 Financial Reporting No. 108
 Central Accounting No. 109
 Budget Method Study Project No. 110
 Selection of State of Minnesota
 Income Tax Returns for Auditing Project No. 112
 Processing of Audited Individual
 Tax Returns Project No. 113
 Revenue Forecasting Project No. 114
 Audit Reports Project No. 115
 Tax Returns Field Audit Project No. 116

5. Summary of Savings and Costs (Estimated)

	<u>Savings</u>	<u>Costs</u>
Project Report No. 31	\$4,000,000	-0-
Project Report No. 73	-0-	-0-
Project Report No. 102	-0-	-0-
Project Report No. 108	-0-	-0-
Project Report No. 109	\$ 750,000	-0-
Project Report No. 110	-0-	-0-
Project Report No. 112	\$ 240,000	-0-
Project Report No. 113	\$ 91,000	-0-
Project Report No. 114	-0-	-0-
Project Report No. 115	-0-	-0-
Project Report No. 116	-0-	-0-
Total	<u>\$5,081,000</u>	<u>-0-</u>

6. Summary of Improved Responsiveness

The Income Tax Audit Project No. 31

Improved timeliness of income tax return processing.

The Inheritance Tax Project No. 73

More productive tax examiners, increased service to the taxpayers, and improved division management and control.

The Financial Organization Project No. 102

Create a financial organization capable of being fully responsive to the State's needs.

The Financial Reporting Project No. 108

Improved responsiveness to changing financial conditions.

The Central Accounting Systems Project No. 109

Greatly improved financial data will be available for decision making.

The Budgeting Methods Study Project No. 110

The program Budget process provides for intelligent and effective decision making data at all levels of management.

The Audit Selection Project No. 112

Improved selection of income tax returns for auditing will increase examiner productivity and the State's revenue.

The Audit Return Processing Project No. 113

Improved production per auditor and reduced interest assessments to taxpayers.

The Revenue Forecasting Project No. 114

Improved revenue forecasts with greater accuracy and timeliness.

The Audit Reports Project No. 115

Audit reports will become useful as a control and information tool.

The Field Audits Report Project No. 116

Flexibility in audit assignment and improved productivity through the use of audit programs.



LEAP PROJECT REPORT

1. No. 31
(Headquarters only)

2. Name of Task Force (s):
Central Management Task Force
Financial Control

3. Date of Report:
October 9, 1972

4. Project Pertains to (Subject & Department (s)):
Income Tax Examination
Office Audit Project
Department of Taxation

5. Synopsis of Project and Recommendation: A backlog of 11,275 unaudited Minnesota income tax returns, with known discrepancies, exists in the Dept. of Taxation. To reduce the backlog in the Office Audit area, our recommendation is to establish a "project" team of experienced Taxation personnel to bring the existing inventory to an acceptable level (one month work) by May 1, 1973.

6. Project and Implementation Schedule OK'd By:

a. TF Chairman (Name, Date, Signature):
[Signature]
[Signature]

b. Dept. Head(s) (Name, Date, Signature):
Arthur C. Penner

c. LEAP Chairman: *[Signature]* (Date): 11/9/72
Douglas J. Dayton

d. Commissioner of Administration (Date): 10-26
Richard L. Brubacher
Richard L. Brubacher

7. Report to be OK'd by GAC?
YES NO | YES NO
R. L. Brubacher | D. J. Dayton

8. Report to be OK'd by Governor?
YES NO | YES NO
R. L. Brubacher | D. J. Dayton

9. Report OK: (Date):
Governor Wendell R. Anderson

10. Press Release:
YES NO HOLD
UNTIL _____
BY _____

(Headquarters only)

If several Task Forces or Departments are involved, attach separate sheet continuing items 6a and 6b.

NOTE: If any of the persons mentioned in items 6a, 6b, 6c, 6d, and 9 have any significant reservations that would in their opinion prevent their agreeing with this report, the remark "Not OK" should be written after the typed name in lieu of the signature. If a signature appears, the report, including its implementation portion, is considered OK'd regardless of comments.

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SUMMARY

Conclusion

A backlog of 11,275 unaudited Minnesota income tax returns, with known discrepancies, exists in the Department of Taxation. Based on present staff and techniques, the annual backlog is growing dramatically. Elimination of this backlog could generate in excess of four million dollars for the State of Minnesota.

Solution

To reduce the backlog in the Office Audit Area, our recommendation is to establish a "project" team of experienced Taxation personnel to bring the existing inventory to an acceptable level (one months work) by May 1, 1973. Personnel necessary to accomplish this task have been identified, a production schedule has been laid out and implementation has already begun under the guidance of senior management within the Department of Taxation.

Estimated Revenue Generated

Four million dollars.

Improved Responsiveness

It is unfair to the taxpayers in question to delay the processing of their returns. The implementation of this solution will eliminate this injustice.

Official Responsible for Overall Implementation

R. Earl Franz, Deputy Commissioner

Date of Implementation Completion

May 1, 1973

INTRODUCTION

A review of the reported backlog of audits to be performed by the Office Audit Section of the Department of Taxation was conducted by the LEAP Central Management Task Force - Financial Control member Robert B. Harrigan in conjunction with Budget Division Administrative Analyst David H. Jensen commencing September 8, 1972. The review occurred in the Taxation offices in the Centennial Building. Interviews with key Taxation personnel included Arthur C. Roemer, Commissioner, R. Earl Franz, Deputy Commissioner, Chauncy E. Peterson, Assistant Director of Income Tax, Ruth D. Billing, Group Chief of Office Audit, Mae Mattson, Supervisor of Office Audit and David Cline, Administrative Analyst.

DESCRIPTION OF THE SITUATION

A BACKLOG OF 11,275 UNAUDITED MINNESOTA INCOME TAX RETURNS WITH KNOWN DISCREPANCIES, EXISTS IN THE DEPARTMENT OF TAXATION (Exhibit I). Discrepancies were disclosed through Federal IRS audits of tax returns filed by Minnesota residents, and were transmitted to the State Department of Taxation accompanied by Federal Abstracts and Transcripts. These returns yielded additional revenue to the IRS.

A report of federal abstracts and transcripts for the month of July, 1972 reflects the current status of processing in this area. Included in this report are beginning inventory of Federal Abstracts and Transcripts, new work received, processing results (number and dollar amount) and ending inventory.

BASED ON PRESENT STAFF AND TECHNIQUES THE ANNUAL BACKLOG IS GROWING DRAMATICALLY (Exhibit II). The ending inventory of Federal Abstracts and Transcripts were coming to the Department of Taxation at an average rate of 910 per month while work processed averaged only 570.

ELIMINATION OF PRESENT BACKLOG COULD GENERATE IN EXCESS OF FOUR MILLION DOLLARS FOR THE STATE OF MINNESOTA (Exhibit III). Net tax assessed (added revenue less overassessments) when divided by total abstracts and transcripts processed, equalled an additional tax per return of \$362.00 for Fiscal Year 1972. This figure multiplied by the July 31, 1972 inventory of 11,275 equals \$4,081,550 in additional revenue possible through the elimination of this backlog.

INFORMATION SOURCES AND RESEARCH METHODS

The major sources of information for the Office Audit Project, of the Central Management Task Force - Financial Control, were: Interviews, with Taxation personnel; personal observations; and review of Taxation operational documentation (including flowcharts and monthly reports).

Central Management Task Force - Financial Control
October 9, 1972

SOLUTION

Rejected Alternative

The rejected alternative is to continue the present method of Abstract and Transcript processing with an increase in staff examiners performing this function. This alternative has been rejected by both Taxation management and the LEAP Central Management - Financial Control Task Force because of the crucial need for additional revenue during the current biennium.

Recommended Alternatives

TO REDUCE THE BACKLOG IN THE OFFICE AUDIT AREA, OUR RECOMMENDATION IS TO ESTABLISH A "PROJECT" TEAM OF EXPERIENCED TAXATION PERSONNEL TO BRING THE EXISTING INVENTORY TO AN ACCEPTABLE LEVEL (ONE MONTHS WORK) BY MAY 1, 1973.

Arthur C. Roemer, Commissioner of Taxation and R. Earl Franz, Deputy Commissioner of Taxation, directed on September 21, 1972, that the backlog in the Office Audit Section be eliminated by May 1, 1973, using experienced Taxation personnel.

The attached production schedule (Exhibit IV) outlines in detail the personnel necessary to process the existing backlog and incoming Abstracts and Transcripts received through April, 1973. Five additional clerical personnel from the Demand and Machine Audit Sections will be transferred to this function for the period October 15, 1973 to May 1, 1973. Training for these people will take place the last two weeks of October. Supervision will be provided by the current manager, Mae Mattson. Abstracts should be processed first. Activity reporting should occur within the present monthly format. Between September 25 and October 15, the preparation steps of "ordering" applicable income tax returns from the File Section and mathematical accuracy checks by the Comptometer Unit will occur under the Supervision of Ruth D. Billing.

The current processing procedure will not be substantially changed initially. However, on or about May 1, 1973, the Taxation Study Committee, David H. Jensen, Coordinator, will meet to review the entire procedure for processing Federal Abstracts and Transcripts. Four elements will be resolved in this meeting.

1. Procedural improvements necessary.
2. Written procedures for future processing.
3. Scheduling techniques necessary to prevent a future backlog in this entire area.
4. Final activity report.

Central Management Task Force - Financial Control
October 9, 1972

LEAP Implementation Schedule

Department: Taxation

Commissioner: Arthur C. Roemer

Task Force Chairman: John Schueller

<u>Action Steps</u>	<u>Responsibility</u>		<u>Timing</u>	
	<u>Primary</u>	<u>Assisting</u>	<u>Initiate</u>	<u>Complete</u>
1. Prepare production schedule	F. Harrigan Leap	Dave Jensen Budget Div.	9/25/72	9/26/72
2. Coordinate transfer of five people from Demand & Machine Audit Sections of Taxation.	Earl Franz Deputy Commr.	Ron Todd Personnel Dir.	9/27/72	10/15/72
3. "Order" returns from central files for backlog Abstracts & Transcripts.	R. Billing	Mae Mattson	9/25/72	10/15/72
4. Send returns to Comptometer Unit for accuracy verification.	R. Billing	Mae Mattson	9/25/72	10/15/72
5. Combine verified returns with applicable Abstracts & Transcripts. Sort by degree of difficulty.	M. Mattson		9/25/72	10/15/72
6. Review and coordinate production schedule and procedure with parties involved.	C. Peterson	Dave Cline	10/2/72	10/15/72
7. Train "transfer" personnel in audit techniques (OJT).	M. Mattson	Ruth Billing	10/15/72	11/1/72
8. Prepare normal monthly report of activity.	M. Mattson		Continuous	
9. Inspect tax order preparation to prevent build up.	D. Cline	Dave Jensen	Bi-weekly	
10. Prepare final report.	D. Jensen	Dave Cline	5/1/73	

Pros

1. There is a critical need for additional revenue in the State during the current biennium.
2. Other processing activities of the Office Audit Section are at a "seasonal" low, thus increasing the availability of Tax examiners to audit the existing inventory of Abstracts and Transcripts.

Cons

None.

IMPROVEMENTS

Estimated Revenue Generated

An estimated four million dollars in revenue will be generated for the State of Minnesota (Exhibit III).

Improved Responsiveness

It is unfair to the taxpayers in question to delay the processing of their returns causing them to pay more in interest charges on additional tax assessments. The Department of Taxation will better serve the residents of the State of Minnesota through elimination of the backlog of audits to be performed and implementation of scheduling techniques to ensure speedy processing in the future.

A backlog of 11,275 unaudited Minnesota Income Tax returns, with known discrepancies, exists in the Department of Taxation . . .

TO: C.E. Peterson, Assistant Director

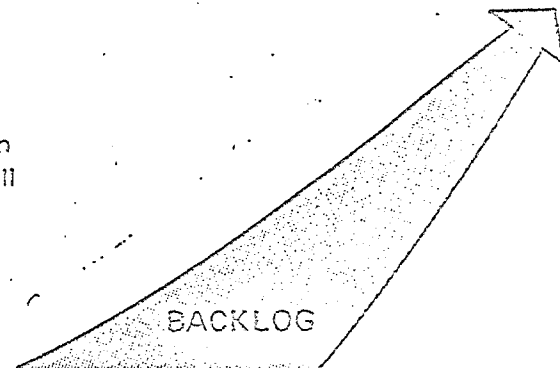
DATE: August 11, 1972

FROM: M.H. Mattson

SUBJECT: Report of Federal Abstracts and Transcripts for the month of July, 1972

	<u>1966 & Prior Years</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>Totals for July, 1972</u>	<u>Totals for July, 1971</u>
Inventory 6-30-72	871	261	736	4,662	4,534	63	11,127	7,000
New Abstracts and Transcripts Received	15	19	49	94	596	124	897	728
Total	886	280	785	4,756	5,130	187	12,024	7,728
Additional Tax Assessed	Number	28	54	103	320	39	558	431
	Amount	\$27,763.44	\$25,720.18	\$145,036.10	\$78,075.28	\$20,607.55	\$21,222.72	\$318,430.27
Over- Assessments	Number	2	1		7	4	15	14
	Amount	\$ 14.40	\$ 220.85		\$16,871.98	\$ 922.86	\$ 124.99	\$ 18,155.08
Closeouts	13	13	30	85	15	5	161	134
Referred to Demand Section		1	3	8	3		15	12
Total Processed	43	69	136	420	61	20	749	591
Inventory 7-31-72	843	211	649	4,336	5,069	167	11,275	7,137

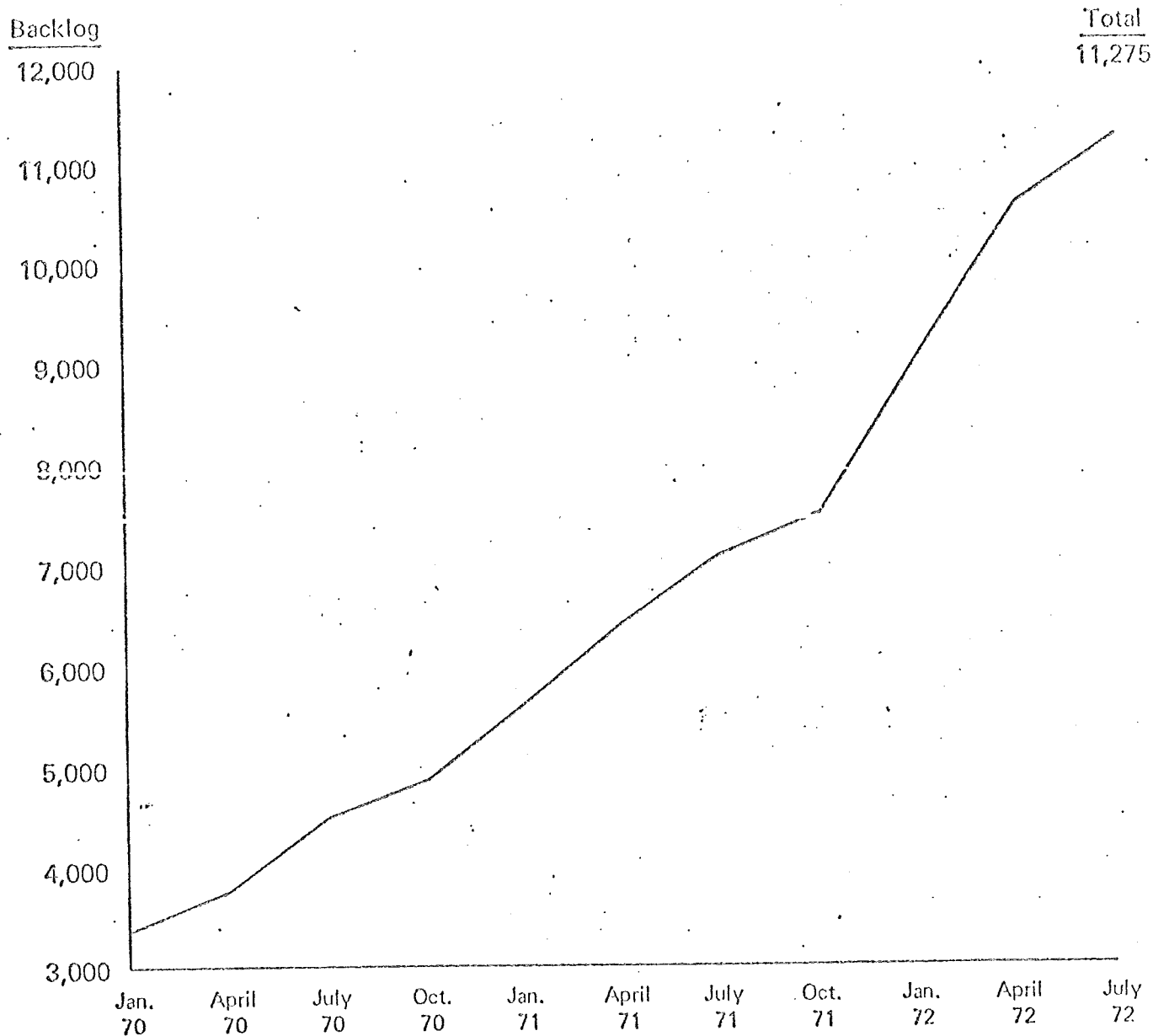
cc. Commissioner Roemer C.A. Anderson J.L. Shouweiler R.D. Eiling
 Deputy Commissioner Franz W. Dahl O.E. Tendall T.D. Peterson
 R.E. Thorne F.R. Hoops L.R. Bethwell



CENTRAL MANAGEMENT TASK FORCE

EXHIBIT I

Based on present staff and techniques, the annual backlog is growing dramatically . . .



Elimination of present backlog could generate in excess of four million dollars in revenue for the State of Minnesota . . .

$$\frac{\text{Net Tax Assessed F.Y. 1972}}{\text{Total Returns Processed}} = \text{Additional Tax Per Return}$$

$$\frac{\$2,460,200}{6,800} = \$362.00$$

$$\begin{aligned} (\text{July 31, 1972 Backlog}) (\text{Additional Tax Per Return}) &= \text{Added Revenue} \\ (11,275) (\$362.00) &= \$4,081,550 \end{aligned}$$

This production schedule outlines in detail the personnel necessary to process the existing backlog, and incoming Abstracts and Transcripts, received through April, 1973.

PRODUCTION SCHEDULE

	August 1972	September 1972	October 1972	November 1972	December 1972	January 1973	February 1973	March 1973	March 1973	May 1973
Beginning Inventory	11275	11615	11727	10657	8487	6317	4422	3352	2282	1212
New Abstracts and Transcripts	910	910	910	910	910	910	910	910	910	910
Total to be processed	12185	12525	12637	11567	9397	7227	5332	4262	3192	2122
Less number processed by Examiners	570	798	1981	1980	1980	1705	820	820	820	1830
	11615	11727	10657	9587	7417	5522	4452	3382	2312	142
Less number processed with extra personnel	—	—	—	1100	1100	1100	1100	1100	1100	—
Ending Inventory	11615	11727	10657	8487	6317	4422	3352	2282	1212	142

PERSONNEL REQUIREMENTS

Present staff available	5*	7	9**	9***	9	9	4****	4	4	9
Extra Examiner personnel needed	—	—	—	5	5	5	5	5	5	9
Total Examiners	5	7	9	14	14	14	9	9	9	9
Reviewers needed (Process 35/day)	.7	1.0	2.6	4.0	4.0	4.0	3.7	2.6	2.6	2.5
Comptometer Operators needed - To compute interest (120/day) and check Audit Report accuracy (140/day)	.4	.5	1.4	2.2	2.2	2.0	1.4	1.4	1.4	1.4
Clericals to type 433 (500 items/day) and orders (175/day)	.2	.3	.7	1.0	1.0	1.0	.7	.7	.7	.7

* Expected production is 5 per day with other duties.

** Expected production is 10 per day with priority on this work.

*** First month where full production expected from additional personnel.

**** Five Examiners assist taxpayers February through April.

LEAP PROJECT REPORT

1. No. 73
(Headquarters only)

2. Name of Task Force (s):
Central Management Task Force
Financial Control

3. Date of Report:
November 13, 1972

4. Project Pertains to (Subject & Department (s)):
Inheritance and Gift Tax Division
Department of Taxation

5. Synopsis of Project and Recommendation: The present system of file preparation requires tax examiners perform clerical duties, and there is a lack of file review and productivity data within the division. Our recommendations include revision of existing file preparation system, periodic review of files, and preparation of weekly reports of productivity.

6. Project and Implementation Schedule OK'd By:

a. TF Chairman (Name, Date, Signature):
[Signature] 11/24/72

b. Dept. Head(s) (Name, Date, Signature):
[Signature] 11/30/72

c. LEAP Chairman: (Date):
[Signature] 12/1/72
Douglas J. Dayton

d. Commissioner of Administration (Date):
[Signature] 12-5-72
Richard L. Brubacher

7. Report to be OK'd by GAC?
YES NO
R. L. Brubacher D. J. Dayton

8. Report to be OK'd by Governor?
YES NO YES NO
R. L. Brubacher D. J. Dayton

9. Report OK: (Date):
[Signature] 12-11-72
Governor Wendell R. Anderson

10. Press Release:
YES NO HOLD
UNTIL _____
BY _____

(Headquarters only)

If several Task Forces or Departments are involved, attach separate sheet continuing items 6a and 6b.

NOTE: If any of the persons mentioned in items 6a, 6b, 6c, 6d, and 9 have any significant reservations that would - in their opinion - prevent their agreeing with this report, the remark "Not OK" should be written after the typed name in line of the signature. If a signature appears, the report, including its implementation portion, is considered OK'd regardless of comments.

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Summary

Conclusion

The present system of preparing Inheritance Tax files requires tax examiners perform clerical duties. There is no review of files presently held to expedite closing and check on Statute of Limitations. There is a need for additional productivity data to be used by the director in managing the division.

Solution

We recommend a revision of the present system to complete tax files in the clerical and initial examination areas. The general files should be reviewed every three months to initiate action on dormant files, and check on files approaching the Statute of Limitations. We recommend weekly reports, from examiners within the division, to provide current productivity data for the division.

Estimated Dollar Savings

There are no immediate dollar savings anticipated. By increasing examiner's actual audit time and providing a check on returns nearing the Statute of Limitations, additional tax revenue should result.

Improved Responsiveness

The result will be more productive tax examiners, increased service to the taxpayers, and improved division management and control.

Official Responsible for Overall Implementation

John Jewell, Director of Inheritance and Gift Tax Division

Date of Implementation Completion

March 20, 1973

Introduction

A review of the State of Minnesota, Inheritance and Gift Tax Division was conducted by the LEAP Central Management Task Force - Financial Control member Robert C. Pinke, commencing September 22, 1972. The review was conducted in the Inheritance and Gift Tax Division office, second floor of the Centennial Building. Interviews with key personnel within the division included John Jewell, Director, Roger Beuhler, Examiner, Richard Gonsrud, Examiner, Evelyn Block, Comptometer Operator, and Ella Boldt, File Unit Supervisor. There were no limitations placed on LEAP in its review of the department and its function. The recommendations contained herein are results of this review.

Description of the Situation

THE PRESENT SYSTEM OF PREPARING INHERITANCE TAX FILES REQUIRES TAX EXAMINERS PERFORM CLERICAL DUTIES (Exhibit I). Currently, The examiner receives tax files that require additional documents to complete his examination and issue a tax order. The tax examiner reviews these documents and separates complete and incomplete files. He must initiate correspondence on incomplete files (a clerical function). The correspondence is sent to the representative of the estate requesting omitted documents. Upon receipt of omitted documents, the examiner reviews the file again. These additional clerical duties prohibit the tax examiner from devoting his expertise toward generating tax revenue and lengthens the process of releasing estates to taxpayers.

THE GENERAL FILES ARE NOT REVIEWED, ACCORDING TO A SPECIFIC SCHEDULE, TO IDENTIFY THOSE FILES WHICH HAVE BECOME DORMANT, AND THOSE WHICH ARE NEARING THE STATUTE OF LIMITATIONS. The number of files held in the general filing area was over 8,000 as of June 30, 1972. These files are not reviewed periodically to initiate tax compliance and additional revenue. John Jewell, Director of Inheritance and Gift Tax Division, said, "To confirm our discussion of November 3, 1972, we review our general file area whenever it is possible to free a tax examiner for this purpose. We try to do this every six months or so, if our workload permits." During the LEAP study, a review of the general files was made. This review is expected to close in excess of 500 files this year. This is a significant number when compared to the total closings of 8,100 files for all of last year.

THE PRESENT REPORT SYSTEM IS NOT GEARED TO MANAGERIAL DECISION MAKING. The increase in returns filed averages about 350 files per year for the last five years. Currently, the director knows how many files each area (clerical, examination, file) has available and how close the total system is to the 90 day Statute of Limitations. If the system is not approaching the 90 day limit, there is no problem. As volume increases, the limit will become significant under current audit procedures. At this point the director will need current data on filings, closings, and audit revenues to decide what action must be taken. Presently, none of this data is compiled, weekly or monthly, during the year, only total filings and total closings are computed at year end.

Central Management Task Force - Financial Control
November 13, 1972

Information Sources and Research Methods

The major sources of information for the Inheritance and Gift Tax project were: interviews, personal observations, and a study entitled "Report of Inheritance Tax Study" by Dave Cline of the Research and Planning Division, Department of Taxation, State of Minnesota.

Definition of Special Terms Used

Tax File - folder containing required documents, includes self-assessed tax return.

Self-Assessed Tax Return - the return received from the representative for an estate.

Group I Estates - Taxable estates under \$75,000.00.

General Files - cabinets containing documents to be examined for existence of tax liability.

SOL - Statute of Limitations.

Recommendations

OUR RECOMMENDATION IS TO REVISE THE PRESENT SYSTEM TO COMPLETE INHERITANCE TAX FILES IN THE CLERICAL AND INITIAL EXAMINATION AREAS BEFORE THEY ARE PROCESSED IN THE TAX EXAMINATION SECTION. The present system of file preparation channels files, lacking all the required documents, to the tax examiners from both the computer and paper examination areas. There is no definite procedure for completing the file before audit. All files with returns are sent to the tax examiners.

In the revised file preparation system, the paper examination section would examine all incomplete files and initiate correspondence requesting documents needed to complete files. The incomplete files would be kept in the general filing area until they contain sufficient documentation for a complete audit. Complete files would be sent to the tax examiner for audit and closing (Exhibit II).

Revised individual duties, by area, are shown on exhibits III, IV, V, and VI.

The revised system would require an employee now sharing his time between Group I examinations, and paper examinations, be assigned, full time, to the paper examination area.

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Individual notices sent to attorneys representing estates, that do not have complete documents, will list the omitted items and contain a statement that the file will not be processed until such documents have been received. A copy of this correspondence will be kept with the file. This procedure would release tax examiners to audit revenue generating returns and improve service to those citizens providing all required documents.

WE RECOMMEND A REVIEW OF THE GENERAL FILE BE UNDERTAKEN EVERY THREE MONTHS TO INITIATE ACTIVITY ON DORMANT FILES AND CHECK FILES NEARING THE STATUTE OF LIMITATIONS. During the course of our examination one tax examiner was assigned to review the general file in an attempt to "stir up" some activity on files that have had little action for a period of time. It is estimated that at least 500 files will be closed this year due to his work. The Tax Division must issue any objections to self-assessed returns within 90 days of the date they are received. Thus, a review every three months would also serve to uncover returns that may be approaching this limit.

WE RECOMMEND WEEKLY REPORTS BY EXAMINERS (Exhibit VII), GROUPS (Exhibit VIII) AND FILE OPENERS (Exhibit IX) TO PROVIDE ADEQUATE DATA AND ASSIST THE DIVISION DIRECTOR MAKING MANAGEMENT DECISIONS. While examining the Inheritance and Gift Tax Division we found the director does not have current information regarding work volume and audit productivity. Up to date productivity records of his department will enable him to make fact-based decisions concerning manpower resources and other management decisions for present use and future projections.

These figures will also be available for any decisions to change the present system as tax return volume increases. The availability of complete, actual data is needed to make confident, future decisions in such areas as: increased personnel, random sample audits, or law changes to meet the demand of increasing returns.

Pros

The revised system would allow examiners to fully utilize their expertise in the Inheritance Tax area. This would increase their most challenging workload while possibly providing additional tax revenue to the State

A periodic review of the general file would decrease the volume of files pending action within the division, speed up service to the public, and possibly generate additional revenue by providing an additional opportunity for objection before the Statute of Limitations, 90 day limit, expires.

Better productivity data will assist in making better management decisions in the division. Also, it will provide the director with data required to receive additional resources or system changes.

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Cons:

The paper examination station will be forced to take on a stronger, more productive role in file preparation that may require additional on-the-job learning experience at the expense of advancing into Group I tax examinations.

One examiner would have to be taken from the examination function for a few days every three months to carry out the review of the general file.

Weekly reporting may increase examiner competition to a point where individual files may be picked out because of relative ease of audit or tax revenue generated.

Rejected Recommendations

A rejected recommendation is to continue the present system of preparing Inheritance and Gift tax files. This alternative has been rejected because the tax examiner's are not using maximum available time to audit tax returns.

Rejected recommendations regarding review of the general filing area include continuing the present system, or reviewing every six months. Both of these recommendations were rejected because the goal of such review, keeping files from becoming dormant and checking on files nearing the Statute of Limitations (90 days), would not be satisfied.

Statement of Dollar Savings

There are no immediate dollar savings anticipated. By increasing examiner's actual audit time, and providing a check on returns nearing the Statute of Limitations, additional tax revenue should result.

Improved Responsiveness

The result will be more productive tax examiners, increased service to the taxpayers, and improved division management and control.

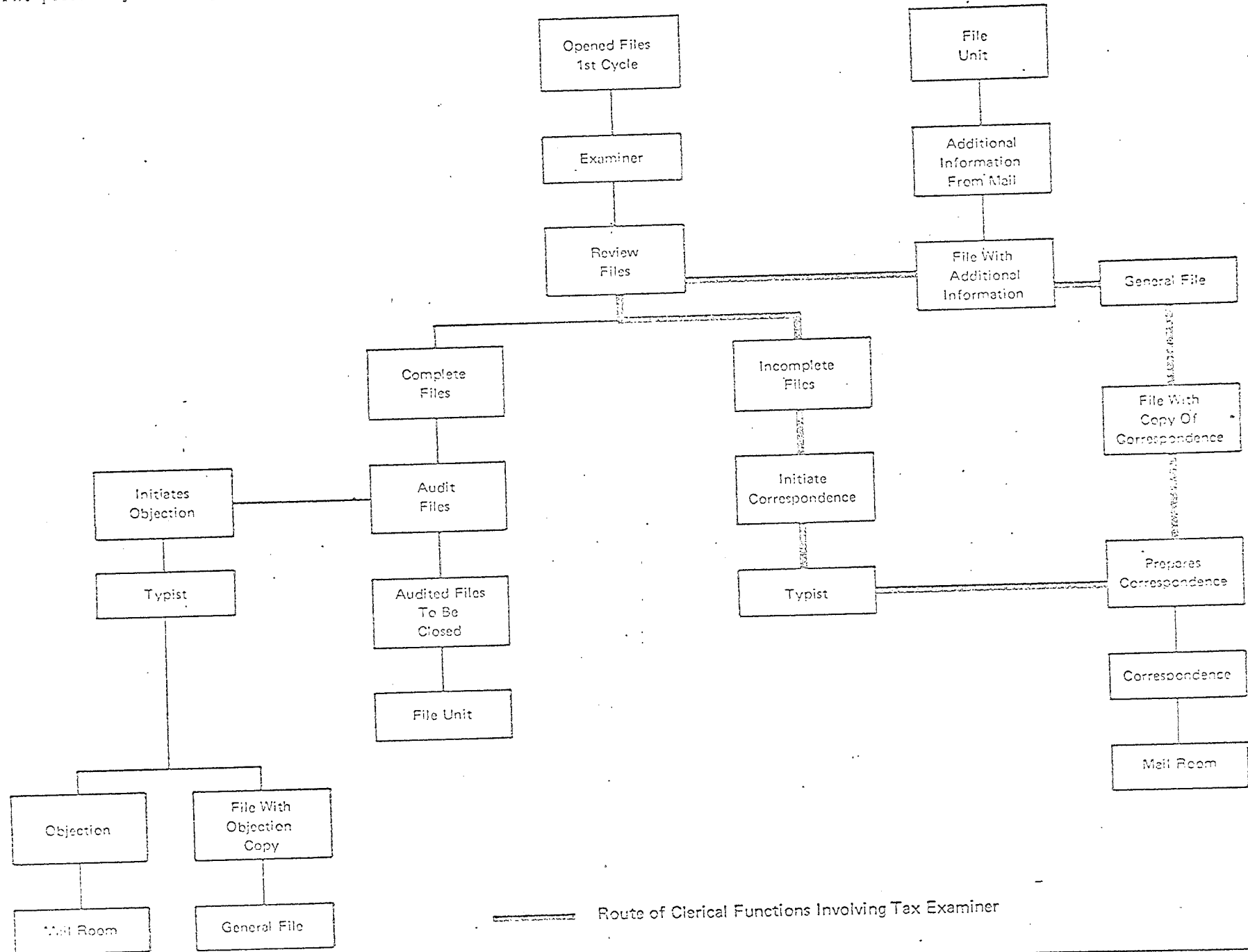
LEAP Implementation Schedule

Department: Taxation
Commissioner: Arthur C. Roemer
Task Force
Chairman: Donald A. Christiansen

<u>Action Steps</u>	<u>Responsibility</u>		<u>Timing</u>	
	<u>Primary</u>	<u>Assisting</u>	<u>Initiate</u>	<u>Complete</u>
Revise File Preparation				
1. Separate new documents from documents with existing file.	John Jewell Director	Ella Boldt	10/10/72	10/16/72
2. Send notices requesting omitted documents and record on docket.	John Jewell Director		10/10/72	12/18/72
3. Separate complete from incomplete files at comptometer's area and send incomplete files to paper examiner.	John Jewell Director	Evelyn Block	11/6/72	12/18/72
4. Audit complete files before incomplete files.	John Jewell Director	Sherman Crane	12/18/72	12/18/72
General File Review				
1. Establish procedures for review to include Statute of Limitations check.	John Jewell Director		3/1/73	3/1/73
2. Select personnel to do reviews.	John Jewell Director		3/1/73	3/1/73
3. Set schedule of three months.	John Jewell Director		3/1/73	3/1/73
4. Complete first review.	John Jewell Director		3/1/73	3/20/73

<u>Action Steps</u>	<u>Responsibility</u>		<u>Timing</u>	
	<u>Primary</u>	<u>Assisting</u>	<u>Initiate</u>	<u>Complete</u>
Division Reporting				
1. Prepare reports to be used.	Bob Finke LEAP	John Jewell Director	11/9/72	11/9/72
2. Instruct personnel	John Jewell Director		11/9/72	11/13/72
3. Set procedure for weekly return of reports.	John Jewell Director		11/20/72	11/27/72
4. Review information received.	John Jewell Director		11/27/72	11/27/72

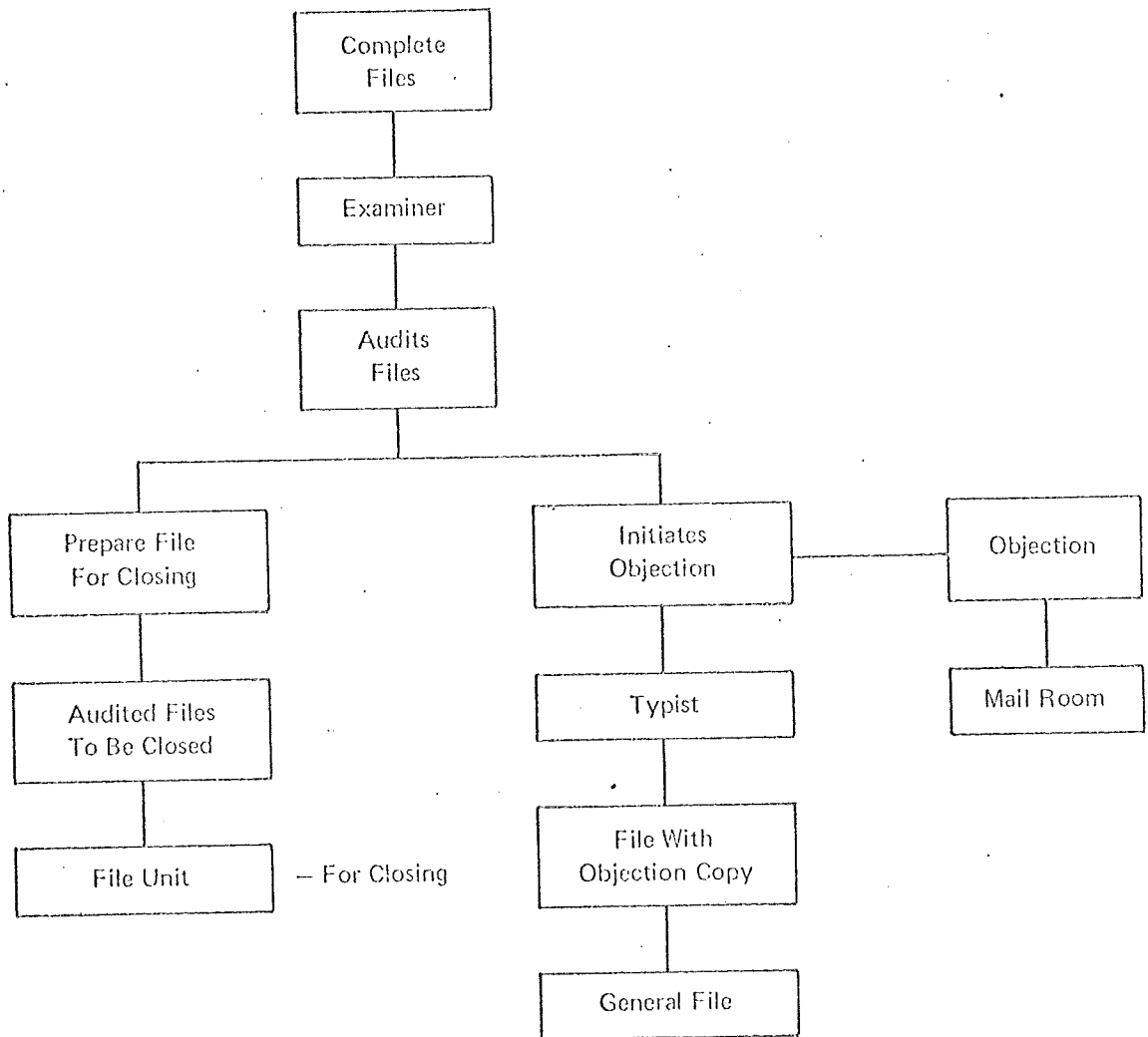
The present system of preparing Inheritance Tax files requires tax examiners to perform clerical duties . . .



CENTRAL MANAGEMENT TASK FORCE

EXHIBIT 1

Our recommendation is to revise the present system to complete inheritance tax files in the clerical and initial examination areas before they are processed in the tax examination section . . .



Revised individual duties . . .

FILE UNIT

Sources of Correspondence

- | | |
|--|--|
| <p>I. Deposits (Cashier)</p> <ol style="list-style-type: none"> 1. Attach existing material; or set up new file if there is not previous material. 2. Direct preparation of index cards. 3. Set aside for transfer to bookkeeping section. 4. File incomplete files set aside by paper examiner. | <p>II. Mail (Mailroom)</p> <ol style="list-style-type: none"> 1. Sort mail received: <ol style="list-style-type: none"> A. New Papers B. Papers with existing files 2. Attach papers to existing file; or clip new papers together. 3. Transfer files and papers to paper examiners. 4. File "No Tax" documents received from paper examiner. 5. Prepare index cards on files with tax liability. 6. Transfer complete files to comptometer operator after opening and preparing index cards. 7. File incomplete files set aside by paper examiner. 8. Transfer incomplete files with liability to tax examiners. |
|--|--|

- GENERAL: (1) Complete closing process on files completed by tax examiners and send to storage.
- (2) File those files returned from tax examiners that are not prepared for closing.

Revised individual duties . . .

COMPTOMETER OPERATOR

I. Deposits

1. Received from bookkeeping.
2. Verify accuracy.
3. Check entries on file jacket cover.
4. Separate complete files from incomplete files on basis of all documents needed to close a file (not including order allowing final account).
5. Move complete files to tax examiners.
6. Return incomplete files to paper examiner.

II. Files without Deposits

1. Receive completed files only from paper examiner.
2. Verify accuracy.
3. Check entries on file jacket cover.
4. Move completed files to tax examiner files.

NOTE: If incomplete file is found in this group, it is to be returned to paper examiner.

Revised individual duties . . .

PAPER EXAMINER

- | | |
|---|---|
| <p>I. Deposits</p> <ol style="list-style-type: none"> 1. Receive incomplete files from comptometer operator. 2. Examine file and send notice requesting omitted documents. 3. When sending request (no. 2 above) determine if objection should be sent based on SOL or information on omitted assets. 4. Record correspondence sent in docket provided and determine a set-up or SOL date for file to be pulled if additional documents have not been received. | <p>II. Mail</p> <ol style="list-style-type: none"> 1. Receive new papers and old files with new documents from file unit. <p>A. NEW PAPERS</p> <ol style="list-style-type: none"> 1. Decide if tax liability exists. 2. If no liability exists, and information is complete for "No Tax" file, set aside for file unit. 3. If evidence is insufficient for liability decision, issue letter of omitted items and return file to file unit. 4. If liability exists and file is complete, send file to file unit for movement to comptometer operator. Indicate that file unit should open file. 5. If liability exists and file is incomplete, indicate that file unit should open file, and moved to tax examiner for preliminary (2nd priority) examination. <p>B. EXISTING FILES</p> <ol style="list-style-type: none"> 1. Review for completeness, SOL, and existing tax liability for file opening. 2. Send complete files to comptometer operator. 3. Set aside "No Tax" files for file unit. 4. Return incomplete files to file unit after checking for issued letter of omitted items. |
|---|---|

Revised individual duties . . .

TAX EXAMINER

First Priority —

1. All files received should be complete for examination.
2. If a file is not complete (not including order allowing final account) it should be placed in second priority section of file.
3. Audit complete files.
4. Issue objections if necessary (follow present procedures).
5. Send files prepared for closing to File Unit.

Second Priority —

1. Files received from Paper Examiner that have a tax liability but not complete documents.
2. Scrutinize to examine possible preliminary work that can be completed.
3. Return to File Unit.

Weekly Report By Examiner

WEEK OF _____

GROUP NO. _____

EXAMINER _____

File No.	Amount of Tax	Objection		Objection Tax Revenue or Refund (If Possible)
		Yes	No	

\$

\$

Walk Ins _____

Telephone Calls _____

Weekly Report By Group

WEEK OF _____

GROUP NO. _____

Total files _____

Amount of tax on closed files \$ _____

No. of objections _____

Objection additional tax \$ _____

Objection refunds \$ _____

Number of files without objection
revenue available _____

Number of files in drawer to be audited _____

Date of oldest file in drawer _____

Weekly Report By File Openers

WEEK OF _____

AREA _____

Last File Number of Previous Week _____

Last File Number - This Week _____

Total Files Opened _____

By _____
Supervisor

LEAP PROJECT REPORT

1. No. 102

(Headquarters only)

2. Name of Task Force (s):
Central Management Task Force
Financial Control

3. Date of Report:
November 30, 1972

4. Project Pertains to (Subject & Department (s)):
Financial Organization
State of Minnesota

5. Synopsis of Project and Recommendation: Due to the organizationally dispersed financial function the State lacks an effective financial control system and "arms length" post audit activity that is responsive to the State's needs. A reorganization of the operating financial activities under a chief financial officer and a post audit activity reporting to the Legislature should provide the required responsiveness.

6. Project and Implementation Schedule OK'd By:

a. TF Chairman (Name, Date, Signature):
[Signature] 12/7/72

b. Dept. Head(s) (Name, Date, Signature):
[Signature] 12/14/72

c. LEAP Chairman: (Date):
[Signature] 12/14/72
Douglas J. Dayton

d. Commissioner of Administration (Date):
[Signature] 12-15-72
Richard L. Brubacher

7. Report to be OK'd by GAC?
YES NO YES NO
R. L. Brubacher D. J. Dayton

8. Report to be OK'd by Governor?
YES NO YES NO
R. L. Brubacher D. J. Dayton

9. Report OK: (Date):
[Signature]
Governor Wendell R. Anderson

10. Press Release:
YES NO HOLD
UNTIL _____
BY _____

(Headquarters only)

If several Task Forces or Departments are involved, attach separate sheet continuing items 6a and 6b.

NOTE: If any of the persons mentioned in items 6a, 6b, 6c, 6d, and 9 have any significant reservations that would - in their opinion - prevent their agreeing with this report, the remark "Not OK" should be written after the typed name in item of the signature. If a signature appears, the report, including its implementation portion, is considered OK'd regardless of comments.

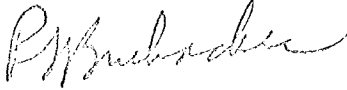
DEPARTMENT of Administration

Office Memorandum

TO : Douglas J. Dayton
Chairman, LEAP

DATE: December 15, 197

FROM : Richard L. Brubacher
Commissioner



SUBJECT: Reports No. 66, 70, 93, 102, 104, 116
80, 81, 82, 83, 84, 85, 86, 87,
88, 89, 90, 91, 92, 94, 95, 96

All of the above reports are approved subject to the following disclaimer:

- a. The Department of Administration has not had the opportunity to analyze either the cost savings projected or the cost of implementation of the various projects.

RLB:c
Attachment

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Summary

Conclusion

The legislature is without a representative body to provide an independent review of appropriations spent, nor is there a true "arms length" examination of its financial records. The elements of financial control (budgeting, accounting, reporting and analysis) are divided between the Departments of Administration and Public Examiner as well as the State Auditor. There appears to be a lack of urgency and concern about the financial affairs of the State.

Solution

Our recommendation is to realign the functions of accounting, budgeting and reporting, data processing, communications, and treasury under a new Commissioner of Finance. Reporting to this position would be a Controller responsible for accounting, budgeting and performance reporting; a Treasurer responsible for cash management, investing and borrowing; and Director of Information Services responsible for systems analysis, data processing and communications. Concurrent with this action the Public Examiner's reporting responsibility should be shifted to the legislature.

Estimated Cost Savings

There will be no direct savings.

Improved Responsiveness

The realignment of all financial responsibilities under one commissioner will create an organization capable of being fully responsive to the State's financial need for a full financial control system. At the same time, the move of the Public Examiner from the Executive Branch to the Legislative will provide a full "arms length" review of the State's financial operations and performance.

Officials Responsible for Implementation

The Legislature

Governor Wendell R. Anderson

R. L. Brubacher, Commissioner of Administration

Date of Implementation Completion

April 1, 1973

Central Management Task Force - Financial Control
November 30, 1972

Introduction

A review of the State of Minnesota accounting, reporting and treasury and data processing activities was conducted by the Financial Control Task Force of the Central Management Group, by members Jack Schueller, Don Christiansen and William Bethke commencing June 23, 1972. The review occurred in the Department of Administration and Public Examiner as well as the offices of the State Auditor and Treasurer. Interviews were conducted with key personnel and all records were made available for review. The Financial Organization Project is one result of this review.

Description of the Situation

THE LEGISLATURE IS WITHOUT A REPRESENTATIVE BODY TO PROVIDE AN INDEPENDENT REVIEW OF EXPENDITURES AGAINST ITS APPROPRIATIONS OR TO REPORT ON PERFORMANCE AGAINST APPROPRIATION OBJECTIVES (Exhibit I). The legislature must rely upon either elected officials or officials appointed by the Governor for reporting, control and audit of expenditures by appropriation.

The allotment system operation that releases the appropriations to the department involved is assigned to the Department of Administration which is directed by an appointed official. The pre audit and encumbrance systems are operated by the State Auditor, an elected official. The post audit function is performed by the Public Examiner, another appointed official. Without change, the legislature must continue to rely on accounting and performance information generated by department or agencies in the Executive Branch which are responsible to the Governor by appointment or to the public by election.

THE STATE DOES NOT HAVE A TRUE "ARMS LENGTH" EXAMINATION OF ITS FINANCIAL RECORDS (Exhibit II). The only true audit of the financial operations of the State is the responsibility of the Public Examiner. It is generally accepted practice to have accounting activities audited by an independent "arms length" organization to verify and certify that the records of account are properly representative of actual conditions and that proper internal controls are in place and operating. In industry this activity is usually performed by an outside public accounting firm that, based upon its audit and review of the records, certifies to the accuracy of the financial statements. It is also the practice in 42 of the 50 states and the Federal Government to have the post audit function report to either the legislative branch or the public. As long as the post audit function is appointed by the Executive Branch there is always suspect as to the true independence of this activity.

MENTS OF FINANCIAL CONTROL (BUDGETING, ACCOUNTING, REPORTING
YSIS) ARE DIVIDED BETWEEN THE DEPARTMENTS OF ADMINISTRATION
IC EXAMINER AS WELL AS THE STATE AUDITOR'S OFFICE Exhibit III).
e four basic elements of a financial control program. These
; are (1) budgeting or planning by operating activities (2)
ng or the recording of what has actually happened (3) reporting
ring what has happened (actual) or what it is currently antic-
ill happen (forecast) to the budget or plan and (4) analysis
ifying variances from the budget or plan which leads to cor-
action where necessary. These elements are performed under
diverse department heads that the recurring comparison of
to the budget have not been performed on a monthly basis and
range forecast has never been formalized. The most significant
a financial control program is represented by the comparison
orecast to the budget as it is the period where responsible
nt action can still be taken. Little can be done to change
already happened. As long as the elements of financial
are split between so many different areas of responsibility
less chance of the full control system being implemented.

TO GENERALLY ACCEPTED PRACTICE IN INDUSTRY AND OTHER STATE
ITS THE ELEMENTS OF FINANCIAL CONTROL IN MINNESOTA ARE NOT
ID TO ENSURE CENTRAL COORDINATION NOR MANAGEMENT OF THESE
(Exhibit IV). It is common in both industry and government
the accounting budgeting, reporting and data processing
financial controller because of the close relationship of
r functions. It is also generally accepted, particularly
ry, to combine the other financial functions of Treasury
audit to the highest level of financial responsibility.
ndustry is the Vice President of Finance. In other state
ts, this position does not generally exist, and as a result,
s of the Treasurer varies from being elected to being
by the Governor. To ensure an "arms length" relationship
post audit function, it has been a recent trend in industry
he public accountant's appointment approved by the share-
The trend in government is to have the post audit function
the legislature.

EARS TO BE A LACK OF URGENCY AND CONCERN ABOUT THE FINANCIAL
THE STATE (Exhibit V - VI). It has been identified that
are below expectations by approximately 93 million dollars.
no formal report that compares actual and expected or forecasted
es to budget to determine how serious the financial problem

There are no actions being taken to obtain such a re-
report to keep the State management aware of its true,
nancial status. Despite the apparent significant shortage

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of revenues there still remain encumbered funds for wages appropriated for prior budget years. As of September 30, 1972, there still remains in excess of 2.6 million dollars of unpaid but encumbered wages for the year ending June 30, 1972 and approximately .4 million dollars still unpaid but encumbered for fiscal years before June 30, 1971. It would appear that the encumbered funds to cover wages that have not been paid a minimum of three months after the end of the fiscal year do not represent true obligations of the State.

The cash balances maintained in banks by the State range from 8½ to 11 days of cash expenditure flow at the end of each quarter of the 1972 fiscal year (Exhibit VI). At the end of the last 3 quarters the balances exceeded the outstanding warrants by over 2 days. Each 10 million dollars of excess cash held in demand deposits for one year represents \$400,000 of lost interest to the State at a 4% rate. The average daily cash flow for the quarters ranged between 7 to 9 million dollars. The lack of formal reoccurring revenue and expense forecasts increase the difficulty of maximizing the earning power of the State's available cash.

Despite a 93 million dollar revenue shortage, there is no extra effort being put forth to clear the encumbrances of amounts no longer required or to establish a forecast system to accurately forecast the current short term financial outlook.

Rejected Alternatives

TRANSFER ALL PRESENT STATE AUDITOR ACTIVITIES TO THE DEPARTMENT OF ADMINISTRATION AND PLACE THE STATE AUDITOR IN CHARGE OF POST-AUDIT ACTIVITIES REPORTING TO THE LEGISLATURE. COMBINE THE STATE AUDITOR ACCOUNTING ACTIVITIES WITH THE FINANCIAL ACTIVITIES OF THE DEPARTMENT OF ADMINISTRATION UNDER A NEW STATE CONTROLLER REPORTING TO THE COMMISSIONER OF ADMINISTRATION (Exhibit VII).

Pros

This alternative accomplishes the creation of a State Controller's position which includes the minimum financial control function of accounting, budgeting and reporting but does not include the data processing or treasury cash activities that make up the balance of a full financial operation. This proposal also creates a true "arms length" post audit function under the direction of the State Auditor reporting to the legislature and elected by the electorate. Placing the post audit function under the present State Auditor eliminates the need for the presently executive appointed Public Examiner.

Cons

Under this proposal the State Controller would not have stature of reporting directly to the Governor nor would he have responsibility for all financial functions. This would tend to decrease the emphasis that should be placed upon the financial control program.

THE SECOND REJECTED ALTERNATIVE WOULD TRANSFER ALL THE ACCOUNTING AND BUDGETING ACTIVITIES NOW PERFORMED BY THE DEPARTMENT OF ADMINISTRATION TO THE STATE AUDITOR AND THE STATE AUDITOR WOULD THEN BE APPOINTED STATE CONTROLLER. THE REPORTING RESPONSIBILITY OF THE PUBLIC EXAMINER WOULD BE TRANSFERRED TO THE LEGISLATURE (Exhibit VIII).

Pros

This would create the office of the State Controller with minimum financial responsibilities reporting directly to the Governor. At the same time the change of reporting for the Public Examiner from the Executive Branch to the Legislature would significantly improve the "arms length" relationship of the post audit function.

Cons

This alternative does not combine the data processing and treasury activities under chief financial officer. Further the next election could bring a newly elected State Auditor unacceptable to the Governor for appointment as the State Controller or even unqualified for the position.

THE THIRD REJECTED ALTERNATIVE WOULD BE TO TRANSFER ALL OF THE PRESENT FINANCIAL FUNCTIONS OF BOTH THE STATE AUDITOR AND THE DEPARTMENT OF ADMINISTRATION TO A NEWLY CREATED POSITION OF STATE CONTROLLER. THE POST AUDIT ACTIVITIES WOULD BE TRANSFERRED TO THE STATE AUDITOR AND HE COULD THEN REPORT TO THE LEGISLATURE (Exhibit IX).

Pros

This would create the position of State Controller with a direct reporting relationship to the Governor with adequate financial control responsibilities. The post audit function would become a true "arms length" activity elected by the electorate and reporting to the legislature.

Cons

The data processing and treasury activities are not under the direction of a single chief financial officer.

Recommended Alternative

THE RECOMMENDED ALTERNATIVE, TO ESTABLISH A FULLY RESPONSIVE FINANCIAL ORGANIZATION, IS TO CREATE A NEW COMMISSION, HEADED BY AN APPOINTED COMMISSIONER OF FINANCE, IN THE EXECUTIVE BRANCH OF THE STATE GOVERNMENT. To accomplish this it is necessary to transfer financial functions from the Department of Administration and the offices of the State Auditor and Treasurer to a new Department of Finance. The reporting relationship of the post-audit function would be moved to the Legislature (Exhibit X).

Action would have to be taken to determine the disposition of the constitutional offices of the State Auditor and Treasurer.

Pros

This proposal consolidates all the financial functions under a chief financial officer that can be appointed by the Governor based upon his professional competence. The qualifications for the Commissioner of Finance position should consist of the following: a MBA degree or the equivalent; a minimum of 10 years experience with a billion dollar sales level company; 5 years experience in a managing position in the area of financial controls; a thorough knowledge of planning, budgeting, reporting financial analysis and financing; an aggressive and politically astute character. The salary range for the Commissioner of Finance is from \$50 to \$80,000. The chief financial officer reports directly to the Governor and this combined with the full financial responsibilities will give the function sufficient prestige and clout to perform adequate financial control functions. Also provided is a truer "arms length" post audit function reporting to and appointed by the legislature. Since the functions of the post-audit and treasury departments should be performed by professional financial people this proposal provides for their appointment so they can be appointed based on professional qualifications rather than elected based on their political charisma.

Cons

This proposal requires legislative action to determine disposition of the constitutional offices of the State Auditor and Treasurer.

Improved Responsiveness

A position of Commissioner of Finance filled by a professional financial executive would create an atmosphere of urgency about the States financial affairs. He would have all the responsibilities necessary to implement an effective financial control system that will assist the State's managers in providing the citizens with the desired services at the lowest possible cost. Through the financial control system he would be able to keep the State's management appraised of the true financial condition with short range projections on a timely basis. Improved cash management would be possible permitting maximum earnings from the States available cash.

Estimated Cost Savings

There will be no direct savings.

IEAF Implementation Schedule

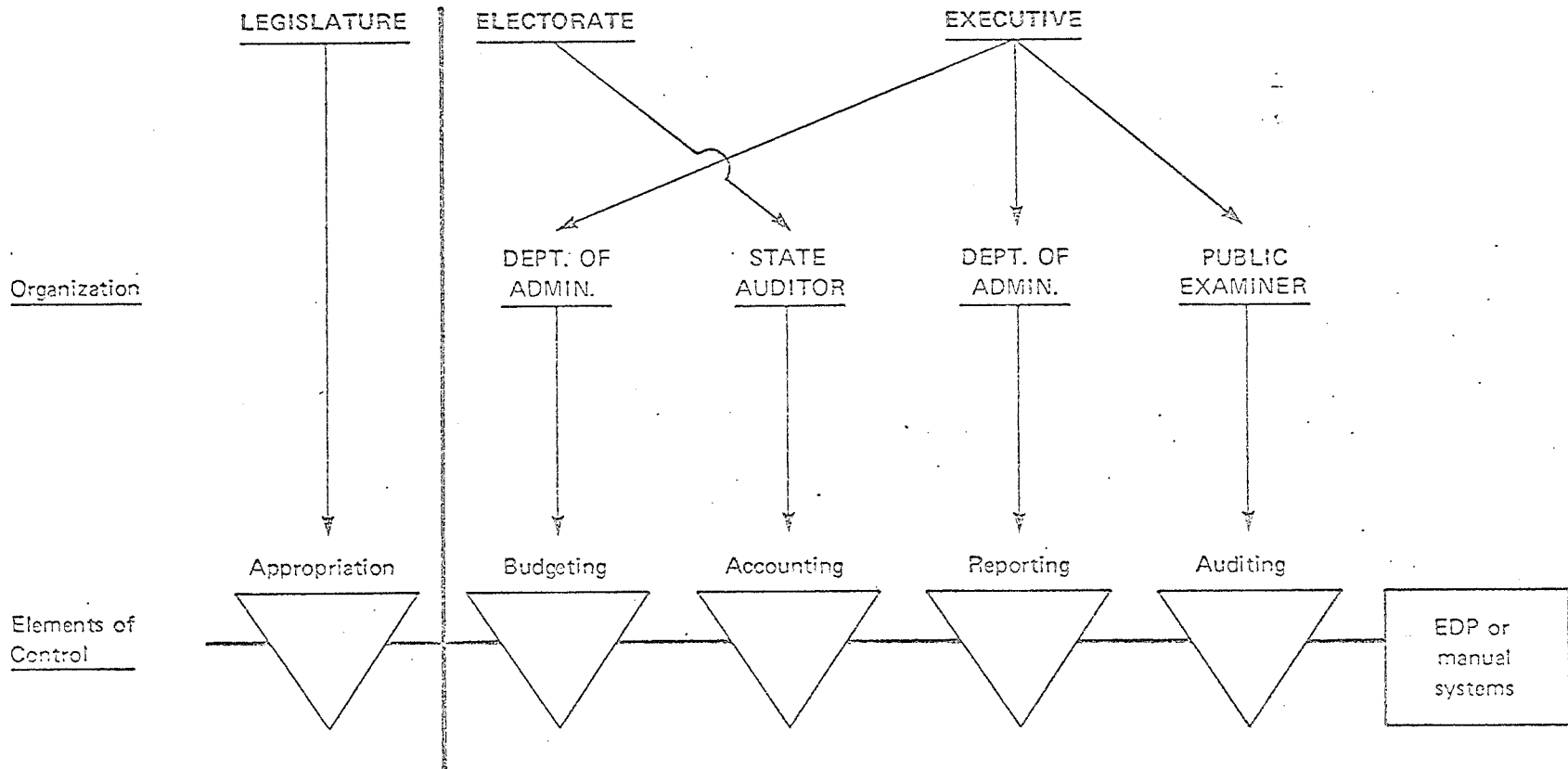
State of Minnesota

Governor Wendell R. Anderson

Task Force Chairman: Don Cristiansen

Action Steps	Responsibility		Timing	
	Primary	Assisting	Initiate	Complete
1. Prepare legislation to establish Department of Finance and re-assign statutory responsibilities.	Governor Wendell R. Anderson		11/30/72	12/31/72
2. Approve reorganization	Legislature		1/1/73	3/31/73
3. Select Commissioner of Finance.	Governor Wendell R. Anderson		1/1/73	3/31/73
4. Prepare activity transfer documents.	Deputy Commissioner T. E. Lavelle	S. E. Wolley	1/1/73	3/31/73
5. Approve activity transfers	Governor Wendell R. Anderson			4/1/73
6. Incorporate Constitutional changes on the ballot to provide for appointment of State Auditor and Treasurer.	Commissioner R. L. Brubacher	Governor Wendell R. Anderson		

Legislature . . . receives no independent review of performance or appropriations spent . . .



Compared to the U.S. Government, other states, and industry Minnesota's post audit organization is not structured to ensure an independent "arms length" examination of financial transactions and operations . . .

<u>Company or State</u>	<u>Reporting Relationship of the Post Audit Function</u>
Multifoods	Audit Committee - Board of Directors
Dayton-Hudson	Vice-President - Control - Board of Directors
Whirlpool Corp.	Vice-President - Finance

Minnesota	Governor (Executive Branch)
-----------	-----------------------------

U.S. Government	Congress
Colorado	Legislature
Maine	Legislature
Michigan	Legislature
All States	Legislature (25 States)
	Elected (17 States)
	Governor (8 States)

Elements of financial control are divided between at least four organizations . . .

Departments or Agencies	Elements of Financial Control					
	Budgeting		Accounting (a)	Reporting & Analysis	Post Auditing	EDP
	Expense	Revenue				
Dept. of Administration	X		X	X		X
Dept. of Taxation		X		X		
State Auditor			X	X		
Public Examiner			X		X	

Note (a) Responsibility for prescribing the accounting system is divided between the Public Examiner, the State Auditor and the Dept. of Administration. The accounting system is maintained by the State Auditor.

Compared to generally accepted practice . . . elements of financial control are not structured to ensure central coordination nor management of these controls . . .

Example Companies and States	Reporting Relationship of Units Providing the Elements of Financial Control					
	Budgeting	Accounting	Reporting	EDP	Treasury	Post Auditing
Multifoods	← Controller →			Controller	V.P. Finance	V.P.* Finance
Dayton-Hudson	← Controller →			Controller	V.P. Treasurer	V.P.* Controller
Whirlpool Corp.	← Controller →			Controller	V.P. Finance	V.P. Finance
3M	← Controller →			V.P. Finance	V.P. Finance	V.P. Finance

Minnesota	Admin. & Tax	Auditor	Admin. & Auditor	Admin.	Elected	Governor
-----------	--------------	---------	------------------	--------	---------	----------

Colorado	← Controller →		Controller	Elected	Legislature
Maine	← Controller →		Controller	Legislature	Legislature
Michigan	← Dept. of Administration →		Admin.	Governor	Legislature
Iowa	← Controller →		Controller	Elected	Elected

* Also reports to audit committee of Board of Directors.

Despite the apparent, significant shortage of revenues, encumbered funds still remain for wages appropriated for prior budget years . . .

State of Minnesota
Unliquidated Salary Encumbrances
as of September 30, 1972

1971 AND PRIOR FISCAL YEARS

Faribault State Hospital	\$ 68,835.30
Corrections - Administration	94,968.39
Corrections - Minn. Residential Treatment Center	112,246.93
Education - Administration	68,464.12
Others over \$1,000.00	<u>40,625.98</u>
	\$385,140.72

1972 FISCAL YEAR

Department of Taxation	\$ 503,554.49
Grain Inspection Division	276,847.84
Department of Public Safety - Administration	333,801.50
Board of Health - Administration	170,656.92
Public Welfare - Administration	109,447.58
Education - Administration	190,443.86
Others over \$1,000.00	<u>1,019,603.37</u>
	\$2,604,355.56

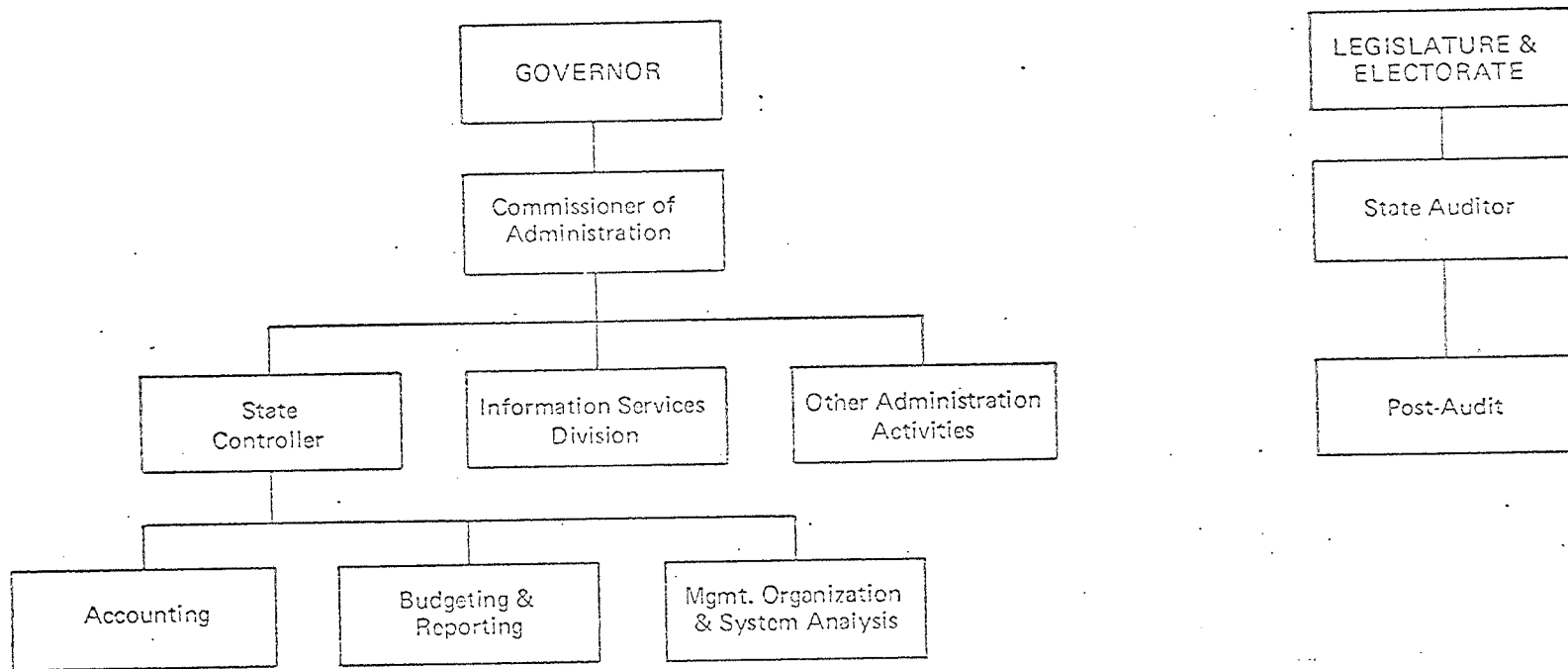
The cash balance maintained in banks by the State ranges from 8½ to 11 days of cash expenditures at the end of each quarter of the 1972 fiscal year . . .

State of Minnesota
Cash Balances
(000 Omitted)

	September 30, 1971	December 31, 1971	March 31, 1972	June 30, 1972
Cash on Hand				
Auditor's Totals	\$ (4,032)	\$ 32,834	\$ 25,867	\$ 25,147
Warrants Outstanding	94,064	48,235	57,008	53,609
Total Cash in Banks	\$ 90,032	\$ 81,069	\$ 82,875	\$ 78,756
Quarterly Disbursements	\$825,464	\$699,442	\$928,028	\$1,250,232
Less Investments	236,237	240,114	351,066	666,851
Net Spending Rate	\$589,227	\$459,328	\$576,962	\$ 583,431
Daily Spending Rate (63 days per Quarter)	\$9,035	\$7,291	\$9,158	\$9,261
Days Cash on Hand	10.0	11.1	9.0	8.5
Days Outstanding Warrant float	10.4	6.6	6.2	5.8

SOURCE: State Auditor's Quarterly Report

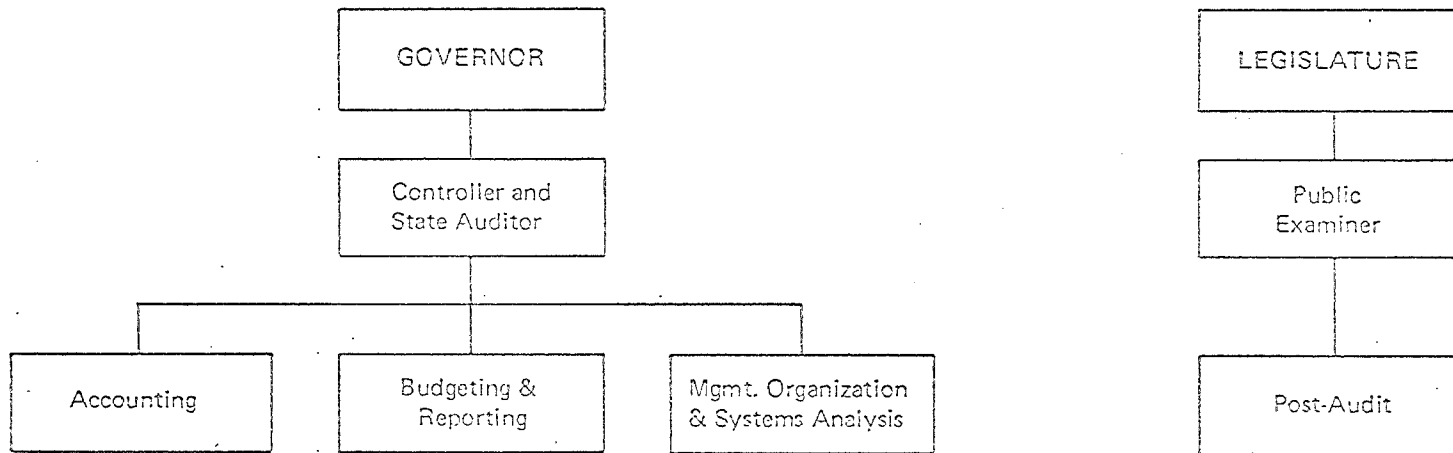
Transfer all present State Auditor activities to the Department of Administration and place the State Auditor in charge of the Post-Audit activities reporting to the Legislature. Combine State Auditor activities with financial activities of the Department of Administration under new State Controller reporting to the Commissioner of Administration.



- Pros:
1. Creates State Controller position with minimum financial control functions.
 2. Gives legislature elected office of true "arms length" audit activity.
 3. Eliminates the present appointed office of the Public Examiner.

- Cons:
1. Controller does not report to Governor.
 2. Does not include full financial responsibilities.

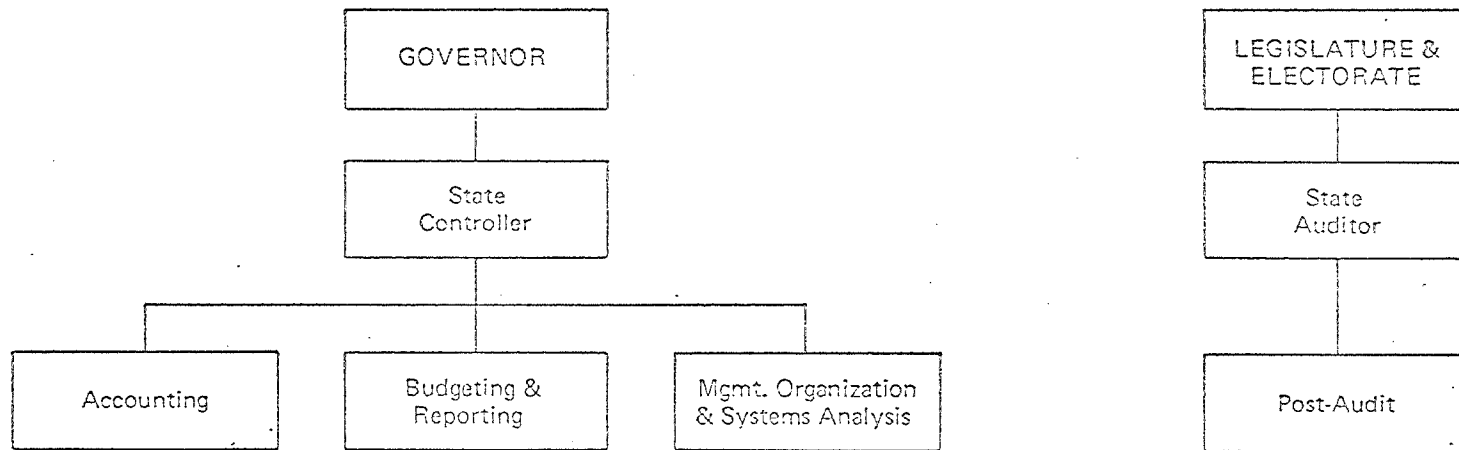
Transfer all present financial functions of the Department of Administration to the State Auditor and appoint him as State Controller. Transfer the reporting responsibility of the Public Examiner to the legislature.



- Pros:
1. Position reports to the Governor.
 2. Creates State Controller position with minimum financial control responsibilities.
 3. Improves the "arms length" post-audit relationship by appointment responsibility being moved to legislature.

- Cons:
1. Does not include full financial responsibilities.
 2. A new election could bring an uncooperative or unqualified incumbent.

Transfer all financial functions of the Department of Administration and the State Auditor's office to a new State Controller's office. Transfer the post-audit activities to the State Auditor and have him report to the legislature . . .



- PROS:
1. State Controller reports directly to the Governor.
 2. State Controller has minimum financial responsibilities.
 3. The post-audit function becomes a true "arms length" activity reporting to the legislature and the electorate.
 4. Eliminates the present Public Examiner position.

- CONS:
1. Does not include full financial responsibilities.

LEAP PROJECT REPORT

1. No. 103

(Headquarters only)



2. Name of Task Force (s):
Central Management Task Force
Financial Control

3. Date of Report:
December 1, 1972

4. Project Pertains to (Subject & Department (s)):
Financial Reporting Project
Administration Department
Office of the State Auditor

5. Synopsis of Project and Recommendation:
An overall absence of useful financial reports exists within State government. We recommend implementation of a monthly budget versus actual reporting system using standard formats.

6. Project and Implementation Schedule OK'd By:

Richard L. Brubacher

a. TF Chairman (Name, Date, Signature):
[Signature] 12/1/72

b. Dept. Head(s) (Name, Date, Signature):
BY *[Signature]*
DEPT. HEAD(S) _____

c. LEAP Chairman: (Date):
Douglas J. Dayton 12/15/72
Douglas J. Dayton

d. Commissioner of Administration (Date):
Richard L. Brubacher 12-13-72
Richard L. Brubacher

7. Report to be OK'd by GAC?
YES NO YES NO
R. L. Brubacher D. J. Dayton

8. Report to be OK'd by Governor?
YES NO YES NO
R. L. Brubacher D. J. Dayton

9. Report OK: (Date):
Wendell R. Anderson
Governor Wendell R. Anderson

10. Press Release:
YES NO HOLD
UNTIL _____
BY _____

(Headquarters only)

Several Task Forces or Departments are involved, attach separate sheet continuing items 6a and 6b.

NOTE: If any of the persons mentioned in items 6a, 6b, 6c, 6d, and 9 have any significant reservations that would - in their opinion - prevent their agreeing with this report, the remark "Not OK" should be written after the typed name in lieu of the signature. If a signature appears, the report, including its implementation portion, is considered OK'd regardless of comments.

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SUMMARY

Conclusion

An overall absence of useful financial reports exists within State government. As a result, all levels of management are hindered in their ability to respond, on a timely basis, to changing conditions and needs.

This financial reporting void has, to a great degree been caused by the limitations of existing accounting systems and a failure to make adequate use of existing budgetary data.

Solution

We recommend implementation of a monthly budget versus actual reporting system using standard formats. This will be accomplished by: (1) developing computer programs to retrieve information contained in the new central accounting system and (2) making better use of budgetary data as a basis for performance evaluation.

Estimated Cost Savings

There will be no direct cost savings. However, better decisions through better information should produce non-quantifiable indirect cost savings.

Improved Responsiveness

Improved financial reporting will increase the State's ability to respond on a timely basis to changing conditions and needs, while standardization of formats will permit ease of analysis and understanding at a central level (Governor, Legislature and Department of Administration).

Official Responsible for Overall Implementation

Responsibility for implementation lies with R. L. Brubacher and R. F. Hatfield.

Date of Implementation Completion

Installation of a standardized reporting system can be accomplished by July 1, 1973. This will coincide with the full implementation of the new central accounting system and the availability of approved appropriations for fiscal year 1974.

Introduction

During the period June 17, 1972, to December 1, 1972, the financial reporting systems of the State of Minnesota were examined by LEAP Central Management Task Force - Financial Control member William J. Bethke. As a part of this examination, interviews were held with central staff personnel of State government, agency accounting personnel, and members of line agency task forces.

Among those interviewed were John Lilja, Deputy State Auditor; Robert Turnquist, State Accounting Director; Thomas LaVelle, State Budget Officer; William Siemers, Assistant State Budget Officer for Management; and Duane Johnson, Director of Organization and Program Analysis. The Financial Reporting Project is one result of this examination.

Description of Present Situation

TOP MANAGEMENT WITHIN STATE GOVERNMENT IS PRESENTLY OPERATING WITH SUBSTANTIALLY LESS FINANCIAL DATA THAN IS AVAILABLE TO THEIR COUNTERPARTS IN INDUSTRY. Actual results (receipts and disbursements) are presented to the State's central management quarterly. In industry, top management usually receives monthly reports of actual results. Management within the State must make decisions based on actual data which may be as much as 90 days old while top management within industry has actual data which is usually no more than 30 days old.

Actual results are not adequately compared to financial goals. In industry, financial reports presented to top management usually compare actual results to the approved revenue forecasts and spending budgets. The State's management receives no comparable reports. Within the State, actual results are usually compared to last year but seldom to approved forecasts and budgets. As a result, top management in industry is informed of progress toward financial goals 12 times per year, while top management within State government is seldom, if ever, informed of progress toward financial goals.

Actual results are not summarized on the basis of organizational units or responsibility centers. In industry, the reports presented to top management are usually summarized by operating division or responsibility center. This permits top management to easily identify those subordinates which may need help or where top level decisions may be required. The State's management receives reports summarized by type of revenue or expense (such as income taxes or salaries), but not by organizational unit or responsibility center. As such, the State's top management cannot directly identify the Commissioner, Agency, or Program which may need help or top level decisions.

Central Management Task Force - Financial Control
December 1, 1972

AS A RESULT OF THESE THREE MAJOR DEFICIENCIES, ALL LEVELS OF MANAGEMENT ARE SEVERELY HINDERED IN THEIR ABILITY TO RESPOND ON A TIMELY, INFORMED BASIS TO CHANGING CONDITIONS AND NEEDS. Reports of possible revenue shortfalls are delayed while the situation is reviewed more closely. Responses to known revenue shortfalls are delayed while the current spending situation is assessed. Spending reductions are achieved by "across the board" reductions rather than on the basis of known ability to contribute or previously established priorities.

Rejected Alternative

The possible alternative of continuing without change is rejected out of hand. To ask the top management of the State to act in a fiscally responsible manner and then not provide them with the necessary tools is an obvious contradiction.

Recommended Alternative

WE RECOMMEND THE STATE IMPLEMENT A SUBSTANTIALLY IMPROVED FINANCIAL REPORTING SYSTEM. This system would have the following characteristics:

1. Actual results (receipts and disbursements) to be reported monthly.
2. Actual results to be compared to approved revenue forecasts and spending budgets.
3. Actual and budgeted results to be summarized by organizational units.

The new central accounting system, when fully implemented, will provide an excellent data base from which to extract actual results on a monthly basis.

We recommend three types of monthly reports be prepared: (1) spending reports (2) revenue reports (3) combination spending and revenue reports. These reports should compare budget and actual data on both a current month and year-to-date basis and use formats similar to those shown in Exhibits I and II. The format shown in Exhibit I is to be used for both spending reports and revenue reports while the format shown in Exhibit II is to be used for combination spending and revenue reports.

We recommend spending reports and revenue reports be prepared in varying levels of summary and detail, while combination spending and revenue reports be prepared only in varying levels of summary. Exhibit III presents the various types of reports.

We have chosen the above recommended alternative because we believe the timely, availability of monthly financial data is a necessary tool for all levels of management if the State is to act in a responsive, and fiscally responsible manner. Because the benefits of improved financial reporting are usually indirect and thus hard to specifically identify with the costs of providing the reports, it is possible to overspend on financial reporting. However, because the current level of financial reporting within the State is minimal, and our recommendations would only bring the State up to the most basic levels found in industry, we do not believe that overspending need be a serious concern.

Estimated Cost Savings

There are no direct cost savings anticipated. However, substantial non-quantifiable indirect cost savings should result.

Improved Responsiveness

We believe the implementation of a substantially improved financial reporting system will result in an improved financial responsiveness on the part of the State's top management. We believe the availability of better information will permit the State's top management to make better decisions. We believe by limiting the number of reporting formats to two, ease of analysis and understanding at a central level (Governor, Legislature, and Department of Administration) will be facilitated.

Implementation

A July 1, 1973, implementation date for a substantially improved financial reporting system is reasonable.

Ultimate responsibility for realization of this implementation date lies jointly with Commissioner R. L. Brubacher and State Auditor R. F. Hatfield. Necessary steps and specific responsibilities are detailed in the LEAP Implementation Schedule.

Implementation of a financial reporting system is heavily dependent upon the full implementation of the new central accounting system.

LEAP Implementation Schedule

Department: Administration

Commissioner: R. L. Brubacher

State Auditor: R. F. Hatfield

Task Force Chairman: Donald Christiansen

<u>Action Steps</u>	<u>Responsibility</u>		<u>Timing</u>	
	<u>Primary</u>	<u>Assisting</u>	<u>Initiate</u>	<u>Complete</u>
1. Design report formats	R. Turnquist		Begun	3/1/73
2. Develop computer program to write reports	G. Kieffer		Begun	6/1/73
3. Prepare detail budgets	W. Siemers		1/1/73	6/30/73
4. Input detail budgets into computer	J. Lilja		3/1/73	6/30/73
5. Begin collecting actual data	J. Lilja	R. Turnquist	7/1/73	
6. Begin issuing regular monthly budget versus actual reports	R. Brubacher R. Hatfield	J. Lilja T. LaVelle	8/1/73	

REPORT TITLE
DATE

MONTH OF

YEAR-TO-MONTH

YEAR-TO-MONTH		MONTH OF				
ACTUAL	BUDGET	VARIANCE	ACCOUNT NAME	ACTUAL	BUDGET	VARIANCE
			TOTAL			

REPORT TITLE
DATE

MONTH OF

YEAR-TO-DATE

REVENUE		SPENDING		ACCOUNT NAME	REVENUE		SPENDING	
ACTUAL	VAR TO BUD	ACTUAL	VAR TO BUD		ACTUAL	VAR TO BUD	ACTUAL	VAR TO BUD
				TOTAL				

POSSIBLE REPORTS

I. Spending Reports - Format as shown in Exhibit I.

A. Summary Reports - Totals lists.

- 1. By Budget Center within Appropriations.
- 2. By Budget Center within Department.
- 3. By Appropriation within Department.
- 4. By Department within State.

B. Detail Reports - Object of Expenditure Lists.

- 1. Budget Center within Appropriation.
- 2. Appropriation Totals.
- 3. Budget Center Totals.
- 4. Department Totals.
- 5. State Totals.

II. Revenue Reports Format as shown in Exhibit I.

A. Summary Reports - Total lists.

(Same as I-A above)

B. Detail Reports - Source of Funds Lists

(Same as I-B above)

III. Combination Revenue and Spending Reports - Format as shown in Exhibit II.

A. Summary Reports - Total lists.

(Same as I-A above)

LEAP PROJECT REPORT

1. No. 109
(Headquarters only)

2. Name of Task Force (s):
Central Management Task Force
Financial Control

3. Date of Report:
December 1, 1972

4. Project Pertains to (Subject & Department (s)):
Central Accounting System
Department of Administration
Office of the State Auditor

5. Synopsis of Project and Recommendation:
The State's accounting systems were evaluated to determine the direction to be taken in providing a Statewide financial data base. To achieve this objective we recommend accelerated implementation of key parts of the new Statewide accounting system.

6. Project and Implementation Schedule OK'd By:

a. TF Chairman (Name, Date, Signature):

b. Dept. Head(s) (Name, Date, Signature):

c. LEAP Chairman: (Date):
Douglas J. Dayton

d. Commissioner of Administration (Date):
Richard L. Brubacher

7. Report to be OK'd by GAC?
YES NO | YES NO
R. L. Brubacher | D. J. Dayton

8. Report to be OK'd by Governor?
YES NO | YES NO
R. L. Brubacher | D. J. Dayton

9. Report OK. (Date):
Governor Wendell R. Anderson

10. Press Release:
YES NO HOLD
UNTIL _____
BY _____

(Headquarters only)

If several Task Forces or Departments are involved, attach separate sheet continuing items 6a and 6b.

NOTE: If any of the persons mentioned in items 6a, 6b, 6c, 6d, and 9 have any significant reservations that would - in their opinion - prevent their agreeing with this report, the remark "Not OK" should be written after the typed name in leg of the signature. If a signature appears, the report, including its implementation portion, is considered OK'd regardless of comments.

Rolland F. Hatfield
State Auditor
309 State Administration Building
St. Paul, Minnesota, 55101

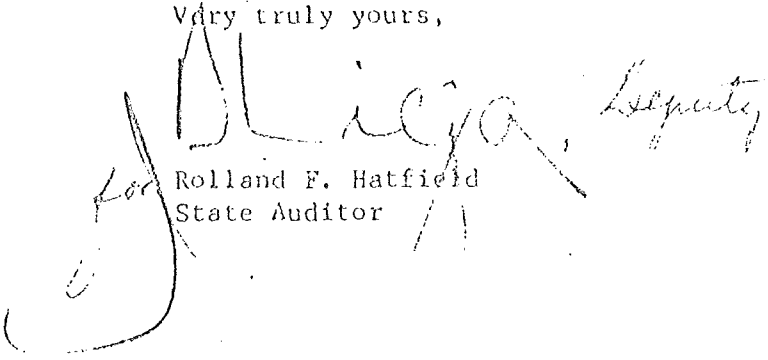
December 12, 1972

Mr. Richard L. Brubacher, Commissioner
Department of Administration
208 Administration Building
St. Paul, Minnesota 55155

Dear Commissioner Brubacher:

I am signing the attached recommendation relating to the implementation of the central accounting system, with the qualification that I do not believe it is feasible to attempt to convert prior year (1973 and prior) accounts on July 1, 1973. In addition, you may wish to qualify your acceptance of this recommendation to the extent that its implementation would present an overly burdensome workload on certain divisions of your department.

Very truly yours,


Rolland F. Hatfield
State Auditor

RFH:aca

Office Memorandum

DEPARTMENT of Administration

TO : Douglas J. Dayton
LEAP Chairman

DATE: December 13, 1971

FROM : Richard L. Brubacher
Commissioner



SUBJECT:

This recommendation is approved subject to the reservation that we will do what we can to accomplish the timetable recommended, but whether or not we will be able to meet the timetable will depend upon the work load imposed on the department during the legislative session.

RLB:c
Enclosure

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Summary

Conclusion

Present accounting systems are unable to meet the management reporting and cost analysis needs of the State. The State Auditor's present system has insufficient capacity. The line agency systems are too highly dependent on manual methods. In addition, processing delays are inherent in present systems.

Solution

The presently proposed, and partially implemented new central accounting system will provide the State with a system of sufficient size, flexibility, and responsiveness. However, previously established implementation plans should be changed to provide accelerated realization of one central financial data base for use in financial reporting. Meeting the financial information need of the State's upper management should be given top priority. After this need has been met, resources should then be directed at the remaining tasks of modifying accounting controls, modifying system responsibilities, and replacing existing agency systems where economically justifiable.

Estimated Cost Savings

Operating cost savings are anticipated but have not yet been specifically identified and quantified. Changeover costs will be reduced by eliminating the State Auditor's present EDP system (estimated annual savings of \$50,000) and present line agency warrant writing systems (estimated annual savings of \$700,000) two years earlier than previously planned.

Improved Responsiveness

Adoption of the recommended implementation plan will result in accelerated realization of improved financial data for upper levels of management. The accelerated availability of improved financial data will permit the accelerated development of a substantially improved financial reporting system.

Official Responsible for Overall Implementation

Responsibility for implementation lies jointly with R. L. Brubacher and R. F. Hatfield.

Date of Implementation Completion

Complete realization of one central data base for use in financial reporting can be accomplished by July 1, 1973. This will permit the implementation of a statewide upper management reporting system for all of fiscal year 1974 - assuming budget and reporting project timetables are met.

Central Management Task Force - Financial Control
December 1, 1972

Introduction

During the period June 17, 1972, to December 1, 1972, the present and planned central accounting systems of the State of Minnesota were examined by LEAP Financial Controls Task Force member William J. Bethke. As a part of this examination, interviews were held with accounting personnel in various line agencies, members of line agency task forces, and personnel on central staffs of State government.

Among those interviewed were John Lilja, Deputy State Auditor; Robert Turnquist, State Accounting Director; Thomas LaVelle, State Budget Officer; William Siemers, Assistant Budget Officer for Management; Duane Johnson, Director of Organization and Program Analysis; James Stavsvick, Accounting System Coordinator; and Allen Yozamp, Finance Supervisor, Department of Education. The Central Accounting System Project is one result of this examination.

Description of the Situation

SERIOUS LIMITATIONS ARE INHERENT IN THE EXISTING CENTRAL ACCOUNTING SYSTEM. Commonly known as the State Auditor's system, the existing central system is only able to capture financial data by appropriation account and type of revenue or expense. It is unable to identify the revenues and costs associated with specific programs, activities, responsibility centers, or any other meaningful basis. As such, it is unable to provide the financial information we believe the central organization needs to manage properly.

THE STATE HAS EMBARKED UPON AN EFFORT TO IMPLEMENT A NEW CENTRAL ACCOUNTING SYSTEM. The primary purpose of this system is to provide the central organization (Governor, Legislature, and Department of Administration) with the financial information necessary to effectively manage the financial affairs of State government. In addition, it is expected that, where economically justifiable, the central accounting system will perform functions presently performed by agency accounting systems.

Our analysis indicates that the new central accounting system is capable of providing the needed information (see Exhibit I).

PRESENT IMPLEMENTATION PLAN FOR THE STATE'S NEW CENTRAL ACCOUNTING SYSTEM DOES NOT ANTICIPATE THE AVAILABILITY OF ONE CENTRAL FINANCIAL DATA BASE UNTIL AT LEAST JULY 1, 1975. (See Exhibit II). The absence of this data base effectively precludes the development of an improved financial reporting system for central management use. The primary reason for this extended delay is the decision to coincidentally alter certain accounting procedures and responsibilities within the line agencies. As a result, available manpower resources are spread over a wide range of tasks.

Central Management Task Force - Financial Control
December 1, 1972

Rejected Alternatives

The possible alternatives of continuing as planned or adding more manpower have been rejected. The adverse effect on reporting systems of continuing as planned is neither desirable nor necessary. The alternative of adding personnel is rejected on the basis of the training time associated with bringing additional personnel on board.

Recommendations

WE RECOMMEND THE CURRENT IMPLEMENTATION PLAN BE SUBDIVIDED INTO FOUR SMALLER, INDEPENDENT TASKS. The four tasks, as we see them are:

1. Replacement of the existing central accounting system with the new central accounting system.
2. Modification of spending controls.
3. Modification of accounting system input and maintenance responsibilities.
4. Elimination of existing agency accounting systems.

We believe that by dividing the very large total project in more manageable, relatively independent tasks the State is then in a better position to more objectively evaluate the merits of and progress in each task. For example, spending controls could be modified within the existing system, but the State would still be unable to properly identify programmatic type costs. Also, input responsibility could be modified without changing spending controls.

WE RECOMMEND THAT TOP PRIORITY BE GIVEN TO TASK ONE ABOVE AND THAT ALL AVAILABLE MANPOWER RESOURCES BE DEVOTED TO THIS SPECIFIC TASK. It is our belief that the extended fragmentation of central data bases projected under the original implementation plan would place an unnecessary obstacle in the path of developing an improved financial reporting system. We believe that our proposal offers the State central management the opportunity to begin receiving improved and complete financial reporting two years in advance of the previously anticipated July 1, 1975, target date.

WE RECOMMEND THAT SPENDING CONTROLS BE CHANGED AS APPROPRIATIONS ARE CHANGED FROM A LINE ITEM BASIS TO A PROGRAMMATIC BASIS. The premature conversion of spending controls from a line item basis to an activity basis creates an unnecessary increase in the number of control accounts.

Central Management Task Force - Financial Control
December 1, 1972

WE RECOMMEND THAT RESPONSIBILITY FOR SYSTEM INPUT AND MAINTENANCE BE REVIEWED MORE CLOSELY GIVING FULL CONSIDERATION TO ECONOMIC FACTORS AND OPERATING REQUIREMENTS. At this time it is not clear the extent to which cathode ray tubes and the availability of direct access are either economically justifiable or operationally necessary at line agencies. To date, industry has been unable to rationalize such an approach.

WE RECOMMEND THAT DECISIONS TO ELIMINATE LINE AGENCY ACCOUNTING SYSTEMS BE MADE ON AN AGENCY BY AGENCY BASIS BASED PRIMARILY ON ECONOMIC FACTORS. The specific detailed accounting problems of the State's many agencies are varied and complex. The ability to solve all of these problems with one "super" central system is uncertain. Detailed studies in specific areas (such as accounts receivable, inventory, capital assets, etc.) must be performed before intelligent decisions can be made.

Estimate of Cost Savings

We believe that the State will realize a two to three year acceleration of approximately \$750,000 (\$700,000 from warrant writing and \$50,000 from elimination of the existing system hardware) in cost improvement (Exhibit III):

Improved Responsiveness

We believe that accelerated development of one central data base will permit accelerated development of an improved reporting system. In addition, as a peripheral benefit all warrants will be written by the new central accounting system. This will permit easier warrant reconciliation.

We believe that subdividing the total project will facilitate the economic evaluation of the individual tasks. For example, the economic evaluation of cathode ray tubes can, and should, be made independent of the decision to develop a new central system.

Implementation

Our evaluation of the tasks to be accomplished indicates that a July 1, 1973, target date for complete development of one central financial data base is reasonable. Recognizing several implementation methodologies are possible, we recommend a "time phased" conversion over the last six months of fiscal year 1973. We believe this approach presents a balanced logical conversion of massive amounts of data. The use of computer programs to transfer this data should facilitate the effort.

Development of implementation timetables for tasks to be accomplished after July 1, 1973, (e.g. modification of spending controls, modification of system responsibilities, and elimination of existing agency systems), should be developed at a later date.

Responsibility for achieving task one by July 1, 1973 and developing timetables for further tasks lies jointly with Commissioner Richard L. Brubacher and State Auditor Rolland F. Hatfield. See the LEAP Implementation Schedule for detailed responsibilities.

Central Management Task Force -- Financial Control
December 1, 1972

LEAP Implementation Schedule

Department: Administration

Commissioner: R. L. Brubacher

State Auditor: R. F. Hatfield

Task Force Chairman: Donald Christiansen

Action Steps	Responsibility		Timing	
	Primary	Assisting	Initiate	Complete
1. Convert accounting systems	R. Brubacher R. Hatfield		12/1/72	7/1/73
A. Fiscal Year 1974 - start up	T. LaVelle/ J. Lilja			
1. Budgets	T. LaVelle	W. Siemers/ R. Turnquist	1/1/73	6/30/73
a. Design forms	T. LaVelle			
b. Conduct training	T. LaVelle			
c. Input data	J. Lilja			
2. Encumbrances	T. LaVelle/ J. Lilja	W. Siemers/ R. Turnquist	4/1/73	6/30/73
a. Design forms	T. LaVelle			
b. Conduct training	T. LaVelle			
c. Input data	J. Lilja			
3. Receipts/Liquidations	J. Lilja	R. Turnquist	5/1/73	6/30/73
a. Design receipt forms and design invoice stamps	J. Lilja			
b. Conduct training	J. Lilja			
c. Input data	J. Lilja			

Action Steps	Responsibility		Timing	
	Primary	Assisting	Initiate	Complete
B. Fiscal Year 1973 and Prior-change over.	J. Lilja		12/1/72	6/15/73
1. Develop change over computer programs	D. Magraw	J. Lennon	12/1/72	1/29/73
2. Prepare new system	R. Turnquist		12/1/72	1/29/73
3. Preparation of old system data	C. Pierson		12/1/72	1/29/73
4. Train agencies	R. Turnquist/ W. Siemers		12/1/72	6/15/73
5. Change over reconciliation control	J. Lilja		1/1/73	6/15/73
2. Develop Implementation Schedule for modifying spending controls	R. Brubacher/ R. Hatfield	T. LaVelle	7/1/73	9/30/73
3. Develop Implementation Schedule for modifying accounting system input and maintenance responsibilities.	R. Brubacher R. Hatfield	J. Lilja	7/1/73	9/30/73
4. Develop Implementation Schedule for eliminating existing agencies accounting systems.	R. Brubacher/ R. Hatfield	J. Lilja/ T. LaVelle	7/1/73	9/30/73

The new system is capable of providing needed information.

REPORTING OBJECTIVES	NEW SYSTEM	STATE AUDITOR SYSTEM
(1) To report line item and program account data simultaneously	Yes	No
(2) To report consolidated department totals	Yes	No
(3) To report actual data by period (month, quarter, etc.) in comparison to approved period budget	Yes	No

Quote From Implementation Schedule Presented by Robert Turnquist:

B. Second Phase

1. All of the processing and records maintained by phase 1 of the system shall be extended to additional groups of departments of state government on a schedule that will include additional departments on July 1, 1973, 1974, and 1975. The July 1, 1975 group will complete the installation.