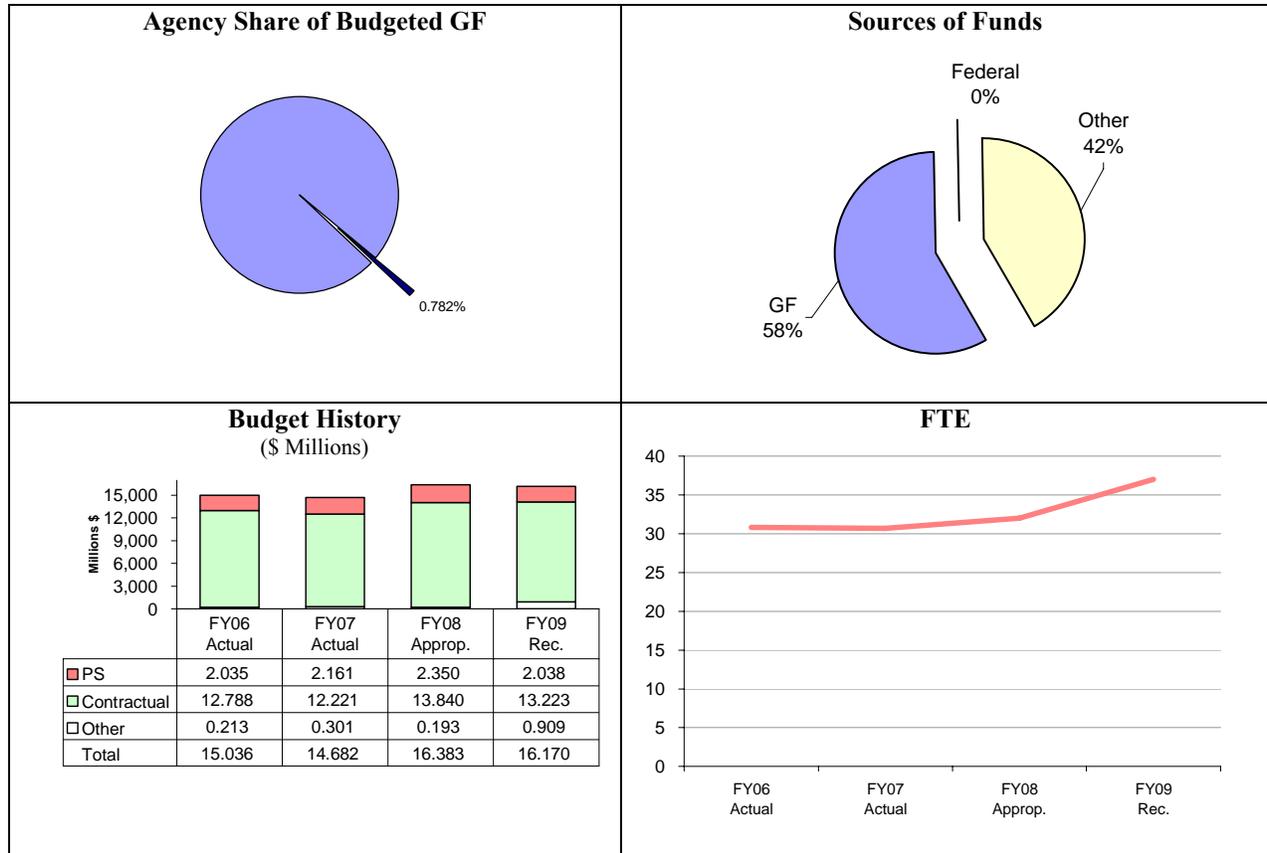


FY2009 Budget Briefing

Bureau of Finance and Management



Key Responsibilities

- To promote efficient and effective management of the state of South Dakota;
- To advise the Governor on the overall fiscal policy;
- To complete and present the annual fiscal plan;
- To ensure that the directives of the Governor and Legislature are fulfilled; and
- To manage the central accounting and payroll systems.

Key Personnel

- Commissioner Jason Dilges
- Finance Officer, Jim Neiles

Department Total

The Bureau of Finance and Management's budget is funded with general funds and with user fees from state agencies. For FY09, the Governor recommends a decrease of \$617,427 from the general fund. A reduction of a similar amount was made in the prior budget year as well, due to an adjustment in the annual sale/leaseback payment. This decrease is offset by the standard salary policy increases (see below) and an increase of agency function by assuming duties now performed at the agency level. There is a net decrease of \$212,993 (or 1.3%) from the amount budgeted in FY08.

	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	2,161,199	2,349,561	2,634,455	2,718,695	369,134	15.7%
Travel	37,775	44,551	44,551	44,551	-	0.0%
Contractual Services	12,220,511	13,840,276	13,222,849	13,222,849	(617,427)	(4.5%)
Supplies & Materials	134,544	132,260	133,760	133,760	1,500	1.1%
Grants And Subsidies					-	0.0%
Capital Outlay	128,274	16,335	50,135	50,135	33,800	206.9%
Other	2				-	0.0%
Total	14,682,305	16,382,983	16,085,750	16,169,990	(212,993)	(1.3%)
Funding Types						
General	10,610,090	10,008,248	9,372,005	9,392,529	(615,719)	(6.2%)
Federal	0	0	0	0	-	0.0%
Other	4,072,216	6,374,735	6,713,745	6,777,461	402,726	6.3%
Total	14,682,306	16,382,983	16,085,750	16,169,990	(212,993)	(1.3%)
FTE	30.7	32.0	37.0	37.0	5.0	15.6%

The Governor's recommendation throughout this analysis also includes funding for Performance and Compensation Equity (PACE) movement of 2.5% for those employees who are paid under the job-worth of their pay range, a 2.5% across-the-board increase for all permanent employees, and an increase in the employer paid portion of the state health insurance plan. The recommended amounts for each segment of the compensation package are as follows:

	General Funds	Federal Funds	Other Funds	Total
2.5% PACE Movement	4,450	0	13,580	18,030
2.5% Across-the-Board	14,778	0	45,435	60,213
Health Insurance	1,296	0	4,701	5,997
	20,524	0	63,716	84,240

Major Expansion and Reduction as Recommended by the Governor

Program	Agency Request			Governor's Recommendation		
	State General Fund	All Funds	FTE	State General Fund	All Funds	FTE
A. Sale/ Leaseback	(636,243)	(636,243)	0	(636,243)	(636,243)	0
B. Governor's Salary Policy	84,240	84,240	0	84,240	84,240	0
C. CAFR Centralization	339,010	339,010	5	339,010	339,010	5
Total	(212,993)	(212,993)	5	(212,993)	(212,993)	5

A. General funds are provided for the payment of the sale/leaseback. The original closing date was December 18, 1986, and the final payment date will be December 1, 2016. The funds budgeted are receipted and paid out the same day. There is no impact to the general fund.

The reduction is based on the payment schedule provided by the South Dakota Building Authority, requested by the agency, and recommended by the Governor.

B. Governor's Salary Policy: as detailed above, 2.5% COLA; 2.5% movement to midpoint; and adjustment for employee health insurance.

C. The agency and the Governor are recommending centralization of the preparation of the CAFR (Comprehensive Annual Financial Report) for the state under BFM. This is a standard accounting report required of government agencies and by financial rating agencies. Currently these functions are being staffed at the agency level, but it is maintained the expertise at that level is not sufficient to meet requirements. Further, current BFM staff, it is argued, is not sufficient to provide the needed support to guarantee compliance with requirements.

Division of Finance and Management

The mission of the Division of Finance and Management is to manage and coordinate the statutory functions of the Bureau of Finance and Management as they relate to serving as a liaison with the public and other governmental agencies of executive branch fiscal policy.

	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	1,607,963	1,796,646	2,081,540	2,148,885	352,239	19.6%
Travel	23,699	28,051	28,051	28,051	-	0.0%
Contractual Services	1,930,894	2,380,191	2,399,007	2,399,007	18,816	0.8%
Supplies & Materials	119,544	113,460	114,960	114,960	1,500	1.3%
Grants And Subsidies					-	0.0%
Capital Outlay	123,905	10,335	44,135	44,135	33,800	0.0%
Other					-	0.0%
Total	3,806,005	4,328,683	4,667,693	4,735,038	406,355	9.4%
Funding Types						
General	830,712	854,220	854,220	874,744	20,524	2.4%
Federal	0	0	0	0	-	0.0%
Other	2,975,295	3,474,463	3,813,473	3,860,294	385,831	11.1%
Total	3,806,007	4,328,683	4,667,693	4,735,038	406,355	9.4%
FTE	24.7	26.0	31.0	31.0	5.0	19.2%

Revenues

	FY07			FY08			FY09
	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Difference in Estimate	Estimate
Budget Book Sales (Gen Fund)	100	82	(18)	75	80	5	80
Total	100	82	(18)	75	80	5	80

Selected Statistical Data

	FY07			FY08			FY09
	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Difference in Estimate	Estimate
Billing Vouchers Processed	20,000	18,657	(1,343)	20,000	19,000	(1,000)	19,000
Expense Vouchers Processed > \$500	8,500	8,314	(186)	8,500	8,500	0	8,500
Receipts Processed (CRT's)	200	131	(69)	175	150	(25)	150
Accrual Financial Statements	26	27	1	27	26	(1)	26
Journal Vouchers Submitted	600	609	9	600	600	0	600
Rule and Regulation Fiscal Notes	100	75	(25)	100	75	(25)	75
Transfer Requests	70	61	(9)	60	60	0	60
Contract Carryover Requests	30	95	65	45	50	5	50

Sale/Leaseback – BFM

The mission of this program is to make payments on the lease entered into between the former Board of Charities and Corrections and the South Dakota Building Authority dated December 1, 1986.

	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Contractual Services	9,779,378	9,154,028	8,517,785	8,517,785	(636,243)	(7.0%)
Funding Types						
General	9,779,378	9,154,028	8,517,785	8,517,785	(636,243)	(7.0%)
Federal					-	0.0%
Other					-	0.0%
Total	9,779,378	9,154,028	8,517,785	8,517,785	(636,243)	(7.0%)

➤ Sale/Leaseback History:

- In the 1980's, the Legislature sold most state-owned buildings and leased them back for state use. This was a revenue generating initiative for the state to use the investment income on the money received from the sale of the buildings. Part of the investment income was to be used to pay for the leases, and the other portion would be realized as net earnings.
- The state sold its office buildings valued at approximately \$200,000,000 to the South Dakota Building Authority.
- To pay for the buildings, the South Dakota Building Authority sold bonds. Bond payments by SDBA to the bondholders would be made out of payments by the state for the use of the same buildings.
- The state then took the \$200,000,000 and purchased an annuity contract for \$183,500,000 on the lives of a pool of retired state employees in the SDRS. The revenue stream to the state from the annuity contract would be used to make payments to the SDBA. Of the remaining \$16.5 million, \$14.5 million was used to fund one-time capital projects, and \$2 million was held in reserve to protect against the pool of retired employees dying faster than actuarial projections.
- At the end of the 30-year contract (2016), the state will resume ownership of the buildings from the South Dakota Building Authority.
- The Building Authority provides for the payment of the original sale/leaseback (Foss, Anderson, State Library, Commerce Building, Becker-Hansen, and Soldiers' and Sailors' War Memorial buildings). The original closing date was December 18, 1986, and the final payment will be December 1, 2016. The funds budgeted are receipted and paid out the same day. There is no impact to the general fund. The activity was refinanced in 1996 to take advantage of a more favorable interest rate. The final payment remains December 1, 2016.
- The reduction is based on the payment schedule provided by the South Dakota Building Authority.
- This is only a portion of the sale/leaseback initiative; the remaining portion is reported in the Bureau of Administration's budget.

Computer Services and Development

The mission of this division is to provide funding for the development and maintenance of computer systems in various state agencies.

	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Contractual Services	0	1,717,364	1,717,364	1,717,364	-	0.0%
Funding Types						
General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	0	1,717,364	1,717,364	1,717,364	-	0.0%
Total	-	1,717,364	1,717,364	1,717,364	-	0.0%

- This pool of authority was created to provide agencies with “emergency” spending authority in cases where the Bureau of Information and Technology (BIT) had time and resources to do special projects for any state agency. This discourages *all* of the agencies from requesting additional authority, anticipating BIT had time available to complete their projects.
- In FY03, the transfer of authority was to BIT and not to an agency.
- The fund previously received \$500,000 from the general fund. That amount was reduced to \$400,000 in the FY02 budget and then eliminated entirely in the FY03 budget and thereafter.

Other Departmental Issues

A. Transfers

\$132,616 No FTE	Base transfer of other fund authority within BFM	06/27/07
This is a base transfer involving both operating expenses and personal services. The funds will be used to align the budget to anticipated personal services expenditures.		

\$98,486 No FTE	One-time transfer authority within BFM	06/25/07
This is a one-time transfer involving both operating expenses and personal services. The funds transferred will be used to cover a shortfall in other fund expenditure authority in personal services and for unexpected one-time expenses. The funds are available due to expenditures coming in lower than budgeted.		

B. Audit Findings

Legislative Audit Finding No. 01100200601:

An internal control deficiency was noted with respect to monitoring the work completed by an outside service organization.

Analysis:

The Cement Plant Commission engaged an outside service organization to provide administrative services for the Cement Plant Retirement Fund that were previously performed by Cement Plant employees. The services provided include, in part, the processing of retirement applications, processing of accounting and financial entries, file maintenance and ensuring plan compliance. These services are significant to the overall administration of the Cement Plant Retirement Fund.

Biennially, the outside service organization provides participant records to the actuary which are used in the preparation of the actuarial valuation. During our review of the information provided to the actuary, we found one error where a member had died but was reported as still being active.

As a result, the actuarial calculation of the unfunded actuarial accrued liability would be inaccurate.

RECOMMENDATION:

It was recommended that controls be implemented by the Bureau of Finance and Management to periodically review the work completed by the outside service organization for accuracy and reliability.

It is BFM's position that a professional firm was hired with the expertise to administer the retirement plan. The expertise is not available by BFM to implement internal controls of the said organization. If the expertise was available by our staff, we would not require an outside 3rd party contract. The firm in question also is under contract to work with other professional organizations most notable, the actuary. BFM also does not have the expertise to implement internal controls of the actuary.

BFM checked with other agencies on hiring outside service organizations and asked what internal controls they have implemented on professional service organizations. We could not find any internal controls implemented by the other agencies.

When getting specialized reports from any outside service organizations, it is reasonable to assume that agencies have not implemented internal control over the work that was provided, but instead rely on the expertise of the professional firm.

Current Status

Chairman Bozied has reviewed the possibility of transferring the administration from the service organization to the South Dakota Retirement System (SDRS). BFM has forwarded correspondence to SDRS and both parties are exploring those options at this time.

Budgetary Accounting Fund:

**BUREAU OF FINANCE AND MANAGEMENT
CENTRAL ACCOUNTING AND PAYROLL SYSTEMS
CONDITION STATEMENT (6010)**

	ACTUAL FY2006	ACTUAL FY2007	PROJECTED FY2008	PROJECTED FY2009
TOTAL RECEIPTS	\$3,476,612	\$3,392,428	\$3,395,682	\$3,421,574
TOTAL DISBURSEMENTS	\$2,376,174	\$2,542,618	\$6,645,480	\$3,543,691
NET (Receipts less Disbursements)	\$1,100,439	\$849,809	(\$3,249,797)	(\$122,117)
Prior Year Adjustment	\$ 5,162			
Accounting System Upgrades			\$809,404	\$1,500,000
Payroll System Upgrade			680,000	
COMMITMENTS	\$5,162	\$0	\$1,489,404	\$1,500,000
BEGINNING CASH BALANCE	\$5,112,532	\$6,207,809	\$7,057,618	\$2,318,417
ENDING CASH BALANCE	\$6,207,809	\$7,057,618	\$2,318,417	\$696,300