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Justification Review

January 2001 **Report No. 01-01**

Financial Accountability for Public Funds Program Is Performing Well

at a glance

The Financial Accountability for Public Funds Program provides financial management services that are essential to the operation of state government and mandated by the Florida Constitution.

Performance data indicate that the program is accomplishing its mission in an effective manner.

The program's measurement system provides useful information on both overall program performance and its specific functional areas.

Purpose

State law directs the Office of Program Policy Analysis and Government Accountability to complete a justification review of each state agency program that is operating under a performance-based program budget.[1] This report is of our review of the Department of Banking and Finance's Financial Accountability for Public Funds Program. Appendix A summarizes our conclusions regarding each of nine issue areas the law directs OPPAGA to consider in a program evaluation and justification review.

Background

The program provides financial accountability for public funds throughout state government and supports the citizens of Florida with comprehensive information on the financial status of the state and how state funds are expended. In addition, the program administers the state payroll system and receives and investigates complaints of government fraud, waste, and abuse.[2] The program also administers the Unclaimed Property Program, which locates, recovers, and returns unclaimed property to the rightful owners.

The Financial Accountability for Public Funds Program was appropriated $36,106,062 million and 381 FTEs, for Fiscal

[1] Section 11.513, *F.S.*

[2] The investigation of government fraud function was not included in the scope of this review as these activities are performed on an as-needed basis by staff assigned to another program within the department.

Year 2000-01.[3] The program is organized into four bureaus, of which three are the focus of this review.[4]

The **Bureau of Accounting** reviews state agency financial transactions to make certain that the information is accurately and timely recorded and provides the state's comprehensive annual financial report in accordance with appropriate standards, rules and regulations, and statutes. This bureau was allotted $2,878,970 and 47 FTEs in Fiscal Year 2000-01. In accordance with its responsibilities, the Bureau of Accounting

- maintains a centralized accounting system for all cash, appropriations, and budgetary accounts for the state;
- administers the Consolidated Equipment Financing Program for state government;
- administers the state Electronic Fund Transfer (EFT) program and related payments to state employees, members of the Florida Retirement System, vendors, and local governments;
- verifies and distributes all state warrants (checks); and
- administers the Local Government Reporting Program.

The **Bureau of Auditing** examines, audits, approves, and settles all bills against the state. This bureau was allotted $3,650,424 in Fiscal Year 2000-01 and 64 FTEs. The Bureau of Auditing

- maintains a centralized collection point for and audits more than 4 million invoice payments annually from 52 state agencies and universities;
- maintains the electronic commerce program, which includes the purchasing card program and the electronic data interchange program for the electronic receipt and payment of vendor invoices; and
- provides technical assistance and training to state agencies.

The **Bureau of Payroll** ensures that state employees are paid in a timely and accurate manner. In Fiscal Year 2000-01, the bureau was allotted $1,939,287 and 34 FTEs. This bureau

- maintains a comprehensive state payroll system and processes the payroll for all branches of state government;
- processes deductions for court-ordered support, garnishments, and federal income tax levies;
- audits payroll input for compliance with applicable laws, rules, and regulations;
- prepares federal reports and deposits of federal and state tax collections; and
- administers various payroll-related trust funds.

The program has offices headquartered in Tallahassee and field audit offices located in Pensacola, Jacksonville, Orlando, Gainesville, Boca Raton, Tampa, and Miami.

Program Need

The Financial Accountability for Public Funds Program provides financial management services that are essential to the operation of state government and mandated by the Florida Constitution. Article IV, Section 4, of the Constitution,

[3] The program's appropriation of $36.1 million includes--$8.64 million for the operations of the accounting, auditing, payroll, and fiscal integrity functions, pass-throughs totaling $4.8 million, $4.8 million for the operations of the unclaimed property function, $2.4 million for executive direction and support, and $15.4 million for information technology.

[4] The fourth bureau administers the Unclaimed Property Program, which was not included in the scope of this review as it was not made a component of the program until Fiscal Year 1999-2000. For details of a recent review by OPPAGA of the Unclaimed Property Program, please see OPPAGA Report No. 99-13, *Progress Report: Unclaimed Property Program's Alternative Owner Notification Means Is Cost Effective*, November 1999.

requires that there be a cabinet officer, the Comptroller, who is to serve as the chief fiscal officer and settle and approve accounts against the state. The program serves the public by ensuring that public funds are properly administered and expended legally by state agencies. If this program were to be discontinued, the state's financial stability and integrity would be threatened. This could produce such adverse effects as increased fraud and lower bond ratings, which could increase public borrowing costs.

Program Organization

The Financial Accountability for Public Funds Program is placed within the Department of Banking and Finance. By statute, the Comptroller serves as the head of the Department of Banking and Finance. The program's placement within this department is appropriate given the constitutional mandate for the Comptroller's responsibilities. However, Constitutional Revision 8, approved by voters on November 1998, merges the Cabinet offices of the Treasurer and Comptroller into one Chief Financial Officer as part of the restructuring of the Cabinet. At this time, it is unclear as to what organizational structure the Legislature will implement to address this reform. However, the program should remain under the Chief Financial Officer regardless of the organizational placement of the Cabinet office, so as to continue to fulfill the constitutional mandate.

Privatization

Privatization in this program is difficult due to the nature, type, and legal requirements of program functions. For example, private sector firms are available that could perform some program functions, such as payroll. However, to enable the state to determine the cost of public programs, these functions need to be integrated with the rest of the state financial information system, and such integration can best be ensured if the functions are performed by the entity maintaining and operating the state financial system.

In addition, due to changes the Legislature and Governor's Office make in personnel benefits and other areas affecting the state's finances, the program frequently must develop major changes and additions to program functions in short time periods without staffing increases.

- For example, when the Legislature created the DROP Program, the program had to develop a new system to handle the accounting for the 10,000 state employees expected to move into the program within a six-week time period.
- More recently, legislative changes in the way agencies must account for their funds required the program to change all state accounting codes, which affected the state's five subsystems within the Florida Financial Management Information System as well as the agency administrative systems that interact with these subsystems. These changes, which were mandated in the 2000 legislative session, required the program to train and extensively interact with finance and budgeting staff of all state agencies and had to be completed by July 1, 2000.

If a private vendor were required to provide similar changes, the vendor would likely require the state to enter into contract revisions resulting in substantial increased costs to the state.

The program did recently attempt to privatize some auditing work and has privatized collection activities.

- In response to a legislative directive, the department privatized part of the post-audit function, which helps ensure the accuracy and legality of the invoices the program pays. The program contracted with a private vendor in Fiscal Year 1997-98 to conduct computer analysis of program databases to identify duplicate invoice payments. The vendor, whose fee was 20% ($125,000) of any recovered funds, reviewed 4.7 million payments, worth $8.9 billion, for state universities and agencies covering a 33-month period from October 1994 through June 1997. The vendor found problems with approximately 288 payments, worth $630,000 in recovered funds, resulting in an error rate of less than 1% (0.006% and 0.007%) of both invoices and value. The vendor's report stated "Our review indicated that the accounts payable function is well managed and controlled." The contract was discontinued after the initial year, as the program was not making sufficient errors to make it worthwhile for the vendor to continue on a percentage fee basis.
- The program has privatized the collection of some debts owed to the state and maintains a contract with a collection agency whose fee of 15% is added to the debt. The debts include such items as returned checks, nonpayment for goods and services, fines, and overpayments owed to various state agencies, which have been turned over to the Department of Banking and Finance for collection as required by law. During the last three years, annual collections have averaged 4,800 debts with an annual value of $3.3 million of which 7.52% ($248,207) was recovered.

Performance Measures

Throughout the past four years, the Financial Accountability for Public Funds Program has worked extensively with OPPAGA, the Governor's Office and legislative staff, and the department's inspector general to develop and improve its performance measures. These efforts have resulted in a set of measures that appropriately relate to the program's activities and functions, are valid and reliable, and provide information needed to evaluate performance. Recent legislative amendments have reduced the total number of the program's measures that are included in the state budget by 55%, from 42 to 19, making an overall determination of program effectiveness easier while maintaining comprehensive coverage of important program components. The program continues to maintain the other 28 measures internally.

The department's inspector general has conducted several reviews of the program's measures. The inspector general's initial review in October 1998, identified several measures that were discarded due to lack of validity and several problems with the program's data control systems. [5] In the latest study, conducted in November 2000, the inspector general determined that the program's performance data was materially correct and accurately depicted program performance, indicating that the program's control systems were sufficient to ensure reliable performance data. [6]

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[5] Department of Banking and Finance Office of the Inspector General, *Information Systems Audit of Performance-based Program Budgeting for Financial Accountability for Public Funds Program*, 98-A-02, October 23, 1998.

[6] Department of Banking and Finance Office of the Inspector General, *Letter Report, Attestation on November 7, 2000 Relating to Information Systems Audit of Performance-based Program Budgeting for Financial Accountability for Public Funds Program*, 98-A-02, October 23, 1998.

Program Performance

The program's performance-based program budgeting measures and other available data indicate that the program is accomplishing its mission in a reasonably effective manner. The program's measurement system provides input on both overall program performance and specific to the functional areas.

Overall performance

The program's overall performance is primarily evaluated through customer satisfaction surveys, which are distributed to the state organizations that are provided accounting, auditing, and payroll services. The program uses two customer satisfaction surveys. One survey focuses on accounting and auditing services, while the second survey gathers feedback on payroll support functions. Both surveys gather essential quality assurance data on a variety of program issues, such as the accuracy and timeliness of program responses to requests for support, the expertise and interpersonal skills of program staff, and the effectiveness and ease of use of program communications (e.g., guides and manuals). The program's surveys are valuable because they focus on and request evaluative data on the specific activities that affect its customers and thus allow the program to address any revealed problems at a functional level.

As shown in Exhibit 1, the *percentage of program's customers who return an overall customer service rating of good or excellent on surveys* was 91%, which was slightly below the program's standard of 92% for Fiscal Year 1998-99. However, during Fiscal Year 1999-2000 the program improved its performance to 94% and met its standard for this measure, which had been raised.

Accounting

The Accounting Bureau is responsible for maintaining a centralized accounting system for all cash, appropriations, and budgetary accounts for the state as well as for reconciling state agency financial accounts. These activities are directly related to the program's constitutional responsibility for public funds, which includes ensuring that resources are properly managed to meet current financial obligations without borrowing. As an indicator of the performance of this function, the program monitors the *number of instances during the year where, as a result of inadequate cash management under this program, general revenue had a negative cash balance*. As noted in Exhibit 1, the program has been successful in sustaining a positive fund balance in Fiscal Years 1998-99 and 1999-2000.

The Accounting Bureau is also responsible for preparing the *Comprehensive Annual Financial Report*, which includes the State's General Purpose Financial Statements. These statements are used by the program to report on the financial condition of the state and are audited by the Auditor General annually. The Auditor General issues an opinion of Florida's General Purpose Financial Statements that may contain qualifications, which are instances where the financial statements are not in accordance with generally accepted accounting principles. Information reported by the program and Auditor General is used by bond houses, underwriters, and investment banks to establish the state's bond ratings, which affect the financial decisions made by investors and creditors.

These important functions are measured and reported through two outcome measures. The first outcome measure indicates customer satisfaction with information provided by the program. As indicated in Exhibit 1, the *percentage of those utilizing the program and providing financial information who rate the overall relevancy, usefulness, and timeliness of information as good or excellent* was below program expectations for the past two years, even though the program's standard for this measure was lowered to 95% for Fiscal Year 1999-2000. The second measure indicates the program met its goal of *no qualifications in the Independent Auditor's Report on the State General Purpose Financial Statements which are related to the presentation of the financial statements* during the past two years.

Unplanned events such as natural disasters that required adding unplanned temporary help affected the bureau's ability to issue payroll payments electronically during Fiscal Years 1998-99 and 1999-2000, as temporary employees are not active long enough to be paid using electronic funds transfer. During Fiscal Year 1999-2000, 73% of payroll payments were issued electronically, slightly below the standard of 74%. However, the bureau met its standard of 76% for the *percentage of retirement payments issued electronically* in Fiscal Year 1999-2000.

The bureau's final outcome measure relates to the program's long-term goal of increasing the use of electronic vendor payments. The program has increased the *percentage of vendor payments issued electronically* to 17% during Fiscal Year 1999-2000, well exceeding its standard that had been raised from the prior year to 14%.

Auditing

The program issued 99.98% of vendor payments in less than the statutory time limit in Fiscal Years 1998-99 and 1999-2000, substantially meeting its standard of 100% for this outcome measure. This measure is tracked and monitored by the *Statewide Prompt Payment Compliance Report* and is important as the program is statutorily required to pay interest as penalty for any late payments. In Fiscal Year 1999-2000, the value of vendor invoices totaled approximately $38 billion.

In September 1995, in response to an OPPAGA recommendation, the department instituted statistical sampling in the pre-audit function for invoices of $250 or less and during the next fiscal year raised the threshold to $1,000. According to program staff, the sampling program has had a major effect on the general audit process, has led to several cost savings, and resulted in bureau reorganizations. As indicated by the measure *number of vendor payment requests pre-audited* in Exhibit 1, the bureau has begun to shift from auditing invoices prior to payment to after, with the goal of phasing out most pre-audit activities.

This initiative is supported by the low rate of invoice errors made by state agencies. The error rate by state agencies for invoices less than $1,000 in Fiscal Year 1998-99 was less than 1%, and program staff estimate the rate of errors made in invoices above $1,000 to be less than 5%. Program management stated that this residual error rate and state agencies ongoing need for some pre-audit support justifies maintaining some pre-audit services.

Exhibit 1
The Program's Performance-Based Program Budgeting Measures Indicate Strong Performance

Measure		1998-99 Performance Standard	1998-99 Actual Performance	1999-2000 Performance Standard	1999-2000 Actual Performance
Overall Program					
Outcome	Percentage of program's customers who return an overall customer service rating of good or excellent on surveys	92%	91%	94%	94%
Accounting					
Outputs	Number of instances during the year where, as a result of inadequate cash management under this program, general revenue had a negative cash balance	0	0	0	0
Outcomes	Percentage of those utilizing the program and providing financial information who rate the overall relevancy, usefulness, and timeliness of information as good or excellent	98%	94%	95%	94%
	Number of qualifications in the Independent Auditor's Report on the State General Purpose Financial Statements which are related to the presentation of the financial statements	0	0	0	0
	Percentage of payroll payments issued electronically	73%	71%	74%	73%
	Percentage of retirement payments issued electronically	74%	74%	76%	76%
	Percentage of vendor payments issued electronically	3%	16%	14%	17%
Auditing					
Outputs	Number of vendor payment requests pre-audited	1,087,106	1,033,573	1,000,000	994,925
	Number of vendor invoices paid	4,189,411	4,062,712[1]	4,200,000	4,493,647
Outcomes	Percentage of vendor payments issued in less than the Comptroller's statutory time limit of 10 days	100%	99.98%	100%	99.98%
Payroll					
Outputs	Number of payroll payments issued	5,324,649	5,529.198	5,639,780	5,806,686
Outcomes	Percentage of federal wage and information returns prepared and filed where no penalties or interest were paid	100%	100%	100%	100%
	Percentage of federal tax deposits made where no penalties or interest were paid	100%	100%	100%	100%

(Fiscal Year spans the four data columns.)

[1] According to agency Legislative Budget Request, the calculation method was changed to make the measure more accurate, while the standard developed under the previous calculation method remained unchanged. This caused reported performance to fall below the standard.

Source: Department of Banking and Finance.

The expanding post-audit function is focusing on major programs, grant and aid appropriations, contracts, public/private partnerships, and automatic payment systems. The program performs risk management assessments on these entities and targets program areas identified as high risk. The postaudits include disbursement testing and reviews of agency controls and monitoring procedures to ensure that the state has received the procured deliverables. To avoid duplicating work performed by the Office of the Auditor General (OAG), which performs the state's financial audits, the program incorporates OAG audits into the program's auditing plan. Areas subject to post-audit function that are not often specifically addressed by the Auditor General include private partnerships and purchasing card transactions.

In addition to their regular duties, bureau staff provide ongoing training to state agency personnel on audit procedures and issues relating to invoices, electronic data inter-change, and the purchasing card system. The bureau received awards from the National Association of State Comptrollers in 1999 for the Purchasing Card Program, Electronic Data Interchange and Invoice Tracking Program, and in 1998 for statistical sampling for the audits of accounts payable.

Payroll

As shown in Exhibit 1, the Bureau of Payroll issued more payroll payments than anticipated in Fiscal Years 1998-99 and 1999-2000, due to natural disasters (fire or hurricanes) that required adding unplanned temporary help, in this case the State National Guard, to the state payroll and the unpredictable nature of agencies' OPS needs.

The Bureau of Payroll maintains data relating to the state's federal income tax requirements. Due to the potential for heavy federal penalties, the bureau closely monitors the timely and accurate filing of state employee federal wage and information returns and the deposit of federal taxes to ensure that public funds are not used to pay penalties. As shown in Exhibit 1, the program has achieved its goals of meeting federal income tax requirements without paying penalties. The program filed 100% of federal wage and information returns and made 100% of federal tax deposits in a timely manner during the past two years.

The Payroll Bureau received recognition from the National Association of State Comptrollers in 1999 for its PC Payment System as an innovative best practice. The bureau has also received Davis Productivity Awards in 1997, 1998, and 1999 for the development of various innovative payroll systems.

Recommendations

The effective management of the program combined with the implementation of the new statewide financial system leads OPPAGA to make no recommendations at this time. The program's performance measures in relation to their standards indicate that the program continuously performs well. In addition, the program's customers and stakeholders exhibit a high level of satisfaction with program services.

Appendix A

Statutory Requirements for Program Evaluation and Justification Review

Section 11.513(3), *Florida Statutes*, provides that OPPAGA Program Evaluation and Justification Reviews shall address nine issue areas. Our conclusions on these issues are summarized in Table A-1.

Table A-1
Summary of the Program Evaluation and Justification Review of the Financial Accountability for Public Funds Program

Issue	OPPAGA Conclusions
The identifiable cost of the program	The Financial Accountability for Public Funds Program was appropriated $36,106,062 million and 381 FTEs, for Fiscal Year 2000-01.
The specific purpose of the program, as well as the specific public benefit derived therefrom	The program provides financial accountability for public funds throughout state government and supports the citizens of Florida with comprehensive information on the financial status of the state and how state funds are expended. In addition, the program operates the state payroll system and receives and investigates complaints of government fraud, waste, and abuse. The program also administers the Unclaimed Property Program, which locates, recovers, and returns unclaimed property to the rightful owners.
The consequences of discontinuing the program	The Financial Accountability for Public Funds Program provides financial management services that are essential to the operation of state government and mandated by the Florida Constitution. Article IV, Section 4, of the Constitution, requires that there be a cabinet officer, the Comptroller, who is to serve as the chief fiscal officer and settle and approve accounts against the state. The program serves the public by ensuring that public funds are administered and expended legally by state agencies. If this program were to be discontinued, the state's financial stability would be threatened and its financial integrity in question.
Determination as to public policy, which may include recommendations as to whether it would be sound public policy to continue or discontinue funding the program, either in whole or in part	The public benefit derived from the sound financial management services provided by the program indicate that it is sound public policy to continue funding the program.
Progress towards achieving the outputs and outcomes associated with the program	The program's performance-based program budgeting measures and other available data indicate that the program is accomplishing its mission in a reasonably effective manner. The program's measurement system provides input on both overall program performance and specific to the functional areas.
An explanation of circumstances contributing to the state agency's ability to achieve, not achieve, or exceed its projected outputs and outcomes, as defined in s. 216.011, *F.S.*, associated with the program	The decline in the *number of vendor payment requests pre-audited* is due to the decision of the Bureau of Auditing to shift from a pre-audit to a post-audit environment with the goal of phasing out most pre-audit activities. This initiative is supported by the low rate of invoice errors made by state agencies.

Issue	OPPAGA Conclusions
	The Bureau of Auditing's reported performance for the *number of vendor invoices paid* fell below the standard because the calculation method was changed to make the measure more accurate, while the standard developed under the previous calculation method remained unchanged. The Bureau of Payroll exceeded its standard for the *number of payroll payments issued* in Fiscal Years 1998-99 and in 1999-2000, due to natural disasters (fire or hurricanes) that required adding unplanned temporary help, in this case the State National Guard, to the state payroll and the unpredictable nature of agencies' OPS needs. These events also affected the bureau's ability to issue payroll payments electronically during this period, as temporary employees are not active long enough to be paid using electronic funds transfer.
Whether the information reported pursuant to s. 216.031(5), *F.S.*, has relevance and utility for the evaluation of the program	Throughout the past four years, the Financial Accountability for Public Funds Program has worked extensively with OPPAGA, the Governor's Office and legislative staff, and the department's inspector general to develop and improve its performance measures. These efforts have resulted in a set of measures that directly relate to the program's activities and functions, are valid and reliable, and provide information needed to evaluate performance. Recent legislative amendments have reduced the total number of measures by 55%, from 42 to 19, making an overall determination of program effectiveness easier while maintaining comprehensive coverage of important program components.
Whether state agency management has established control systems sufficient to ensure that performance data are maintained and supported by state agency records and accurately presented in state agency performance reports	The department's inspector general has conducted several reviews of the program's measures. In the latest study, the inspector general determined that the program's performance data was materially correct and accurately depicted program performance, indicating that the program's control systems are sufficient to ensure reliable performance data.

Source: OPPAGA analysis.

Appendix B

Agency Response

OFFICE OF COMPTROLLER
DEPARTMENT OF BANKING AND FINANCE
STATE OF FLORIDA
TALLAHASSEE
32399-0350

ROBERT F. MILLIGAN
COMPTROLLER OF FLORIDA

January 8, 2001

Mr. John W. Turcotte, Director
Office of Program Policy Analysis
and Government Accountability
111 West Madison Street, Room 312
Tallahassee, Florida 32301

Dear Mr. Turcotte:

Thank you for your letter of December 29 providing the draft Justification Review of the Financial Accountability for Public Funds Program.

I take particular note and concur with the Review's discussion and conclusions on the privatization of program functions. We will continue to explore all avenues for future systems and process improvements that are shown to be cost effective.

If you have any questions, please contact Inspector General Earl Bufton at 410-9959.

Sincerely,

/s/Robert F. Milligan

Comptroller

RFM/ibr

The Florida Legislature

Office of Program Policy Analysis and Government Accountability

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