#289

Report To

The Mississippi Legislature

A Review of the State's Financial Statements, Fiscal Controls, and Statewide Automated Accounting System

November 30, 1992

Required by the Budget Reform Act of 1992 (House Bill 505, 1992 Regular Session)

The state's current financial statements and fiscal controls are not completely effective in their purpose of aiding the Legislature and the Governor to employ and be accountable for the state's limited resources. Current state financial reports contain dissimilar and incomplete information which must be reviewed piecemeal. The state's fiscal control system places too much emphasis on detailed control of expenditures and overlooks other methods of more effective control and direction of the state's financial resources.

The Department of Finance and Administration's statewide automated accounting system (SAAS) has specific benefits, but the system has not reached its full potential and has not been a high state priority.

The dominant influence over the state's fiscal controls is the budgeting system. The current budgeting system contributes to the following weaknesses: control by line-item expenditures (salaries, travel, etc.) rather than more effective controls by agencies' activities (the services and results delivered with the funds provided); focus on State Treasury accounts (source of resources) rather than the more appropriate focus on generally accepted accounting principles funds (use of resources); and, the lack of determined fiscal priorities and evaluation of agencies' performance toward objectives.

The PEER Committee

PEER: THE MISSISSIPPI LEGISLATURE'S OVERSIGHT AGENCY

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

An extension of the Mississippi Legislature's constitutional prerogative to conduct examinations and investigations, PEER is authorized by law to review any entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

As an integral part of the Legislature, PEER provides a variety of services, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

A Review of the State's Financial Statements, Fiscal Controls, and Statewide Automated Accounting System

November 30, 1992

The PEER Committee

Mississippi Legislature

The Mississippi Legislature
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PEER Committee

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November 30, 1992

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MEMBERS OF THE MISSISSIPPI STATE LEGISLATURE

At its meeting of November 30, 1992, the PEER Committee authorized release of the report entitled **A Review of the State's Financial Statements, Fiscal Controls, and Statewide Automated Accounting System.**

Bill Canon

Senator Bill Canon, Chairman

This report does not recommend increased funding or additional staff.

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Executive Summary

November 30, 1992

Introduction

PEER performed this review as directed by House Bill 505, the Budget Reform Act of 1992, enacted by the Mississippi Legislature during the 1992 Regular Session. Section 5 (subsection 3) states:

> *The Joint Legislative Committee on Performance Evaluation and Expenditure Review shall review the adequacy of financial statements of state government and fiscal control systems including legal authority and methodology of the agencies that prepare public financial statements and exercise control over state expenditures. The review shall focus on the SAAS accounting system and its development, implementation and benefits. A report by the committee on its findings shall be provided to the Legislature and the Governor by December 15, 1992.*

Background

The State of Mississippi's fiscal process is cyclic and may be viewed as a wheel consisting of six components or "spokes" (see Exhibit A, page viii). Though each component of the state's fiscal cycle may be thought of as discrete, all have direct effects on and relations to each other. They are interdependent and the strength of the state's overall fiscal process is dependent on the strength and compatibility of each component.

Overview

Mississippi, like other states, has found itself struggling to meet the citizens' demands for the state's services, while working with limited and declining revenues. The direct representatives of the citizens, the Legislature and the Governor, utilizing the state's financial statements/reports and fiscal system, must be able to take those limited resources and provide for a successful employment and accountability to meet the needs of the citizens. The state's accounting, budgeting, and reporting systems should provide the Legislature and the Governor with complete and understandable financial statements and effective fiscal controls to assist their direction and allocation of the state's resources toward specific state goals and priorities.

The state's current financial statements and fiscal controls do not completely satisfy the Legislature's and the Governor's needs toward adequate management of and accountability for the state's activities.

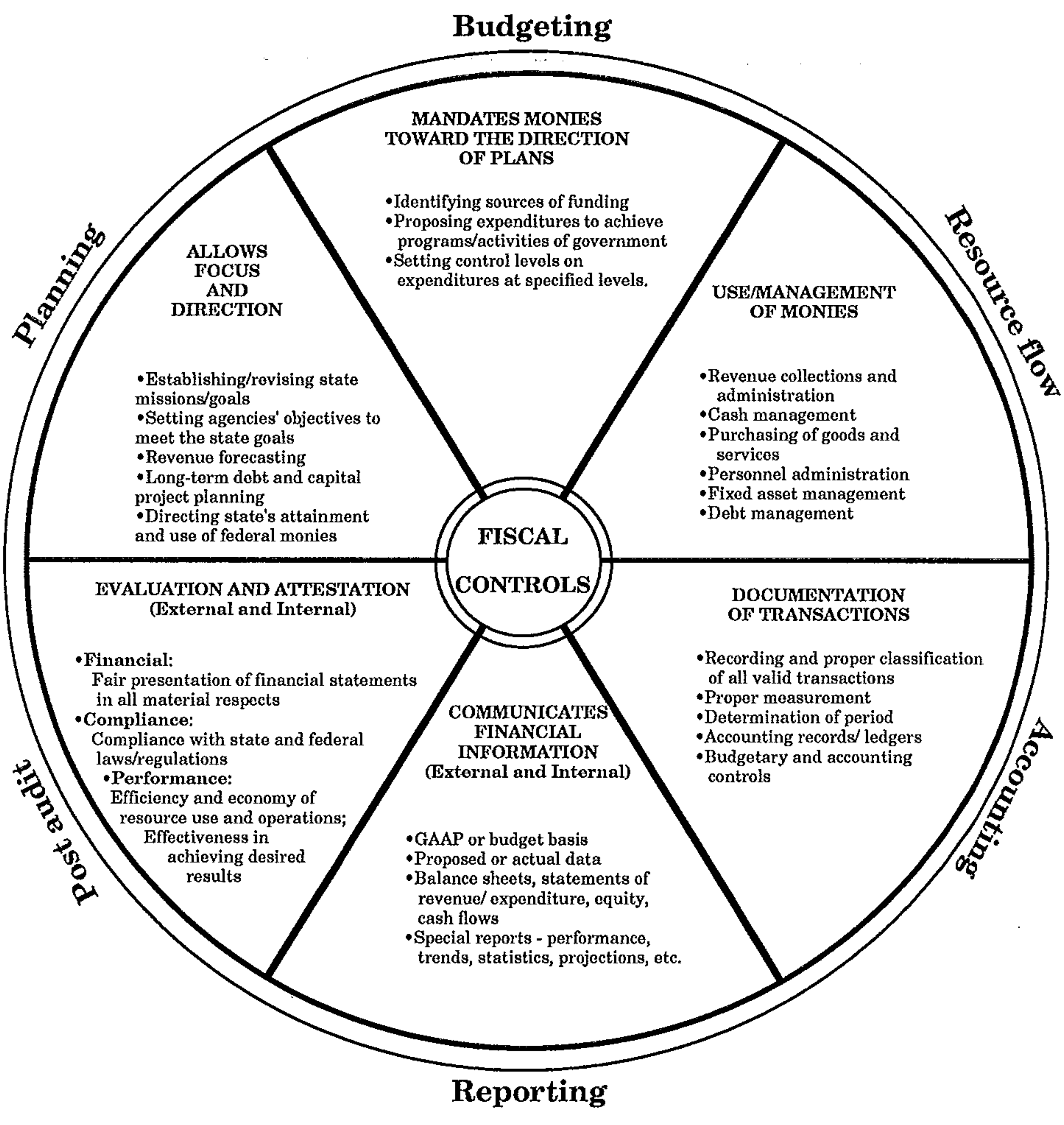
Adequacy of Financial Statements

PEER found that the state's financial statements and reports are not completely adequate. The primary reason is because some of the current reports contain dissimilar and incomplete information which must be reviewed piecemeal by decision makers. For instance:

- Dissimilar Fiscal Year 1991 general treasury account fund balances exist between the *Treasurer's Annual Report* and the *Comprehensive Annual Financial Report* (CAFR) budgetary financial statement because of timing differences in the cut-off of data. Also special treasury account funds 1991 year-end balances, revenues, and expenditures differ between the CAFR budgetary financial statement and the University Research Center's *Mississippi - A Fiscal Summary* and the *Treasurer's Annual Report*. Also, the *Proposed Budget* report produced by the Legislative Budget Office does not provide any actual amounts for special treasury account funds.

- The *Comprehensive Annual Financial Report* (CAFR), a meaningful and necessary financial document, appropriately uses the generally accepted accounting principles (GAAP) basis, which is different from the budgetary/cash basis used for budgeting.

Exhibit A
Fiscal Cycle and Processes



SOURCE: PEER compilation.

- The *Annual Report of Budgetary Basis Expenditures* is the only source of detailed audited budgetary amounts, but this report is not distributed to the Legislature.

- Legislators are also not provided complete interim reports on the state's financial status, cash flows and effects on current and subsequent years.

- The *Treasurer's Annual Report* is prepared using a different cut-off date than the budgetary period, diminishing the usefulness of the report.

- The State Tax Commission's *Annual Report,* presenting general revenue collections, does not provide sufficient detail for legislators to determine revenue amounts diverted outside state government, transferred within state government for earmarked purposes, or held for tax refunds.

The widely dispersed and incomplete information weakens the Legislature's ability to evaluate the allocation of general revenues. Finally, legislators do not receive an adequate financial report which presents in one document complete financial and policy information, trend and statistical data, graphs, and narrative with which to make informed decisions concerning the allocation of state resources.

Adequacy of Fiscal Controls

The state's fiscal control system places too much emphasis on detailed control of expenditures and overlooks other methods of more effective control and direction of the state's financial resources. Effective control methods could include:

- receiving general tax revenues through electronic funds transfers to speed up deposits and increase interest income;

- placing total control with the Treasurer in managing state funds by allowing the Treasurer to make all disbursements from treasury clearing accounts, instead of allowing some disbursements by the State Tax Commission;

- evaluating the placement of general tax revenues under control of the appropriations process, including revenues earmarked and transferred to agencies before appropriation and the fees collected by agencies that may be considered general revenues;

- using electronic processing for paying obligations instead of issuing paper warrants;

- strengthening agencies' internal auditing and relying on internal controls instead of over-controlling state disbursements through extensive pre-auditing by the Department of Finance and Administration (DFA); and,

- changing the year-end expenditures cut-off from the lapse period, August 31, to June 30 to create comparability in financial reports and discourage over-spending at year-end by state agencies.

Development, Implementation and Benefits of the Statewide Automated Accounting System (SAAS)

SAAS, which was first envisioned by state officials at least seven years ago, serves as the state-level accounting system administered by DFA and as the internal accounting system for seven on-line agencies. DFA, which has spent $3.3 million to implement SAAS and $5.6 million to operate the system over a six-year period, is still in the process of modifying the system to meet state needs.

Benefits have included facilitating the maintenance of a statutorily-required GAAP accounting system and preparation of each year's *Comprehensive Annual Financial Report*, eliminating the reconciliation of two set of books for the on-line agencies, improving accuracy of financial records, allowing on-line agencies to control spending on a detailed level, improving timeliness of financial information, and consolidating statewide information to ease federal reporting.

However, DFA's lack of comprehensive planning has affected SAAS's current operation and the future of the system. DFA has not properly planned for the total costs of implementing SAAS or for organizing internally to ensure that agency needs are met. In addition, DFA has not placed a high priority on state agency reporting to enhance agencies' internal financial management, on training which would allow more effective use of the complicated SAAS system by state employees, on communicating with agencies, or on improving efficiency which could be achieved through SAAS by paperwork reduction and other methods.

Effects of Budgeting on Fiscal Controls

In studying the state's fiscal controls, PEER determined that the state's budgeting system provides the dominant influence over fiscal controls of the state's resources. Because the budgeting system requires use of major objects of expenditure, the more effective fiscal control of budgeting by agency activities (concentrating on the services and results the agency is delivering with the funds provided) is overlooked.

The budgeting system also focuses on the sources of state funds by general or special treasury account funds, rather than the use of the state funds as recorded by generally accepted accounting principles (GAAP). The treasury accounts represent the cash or appropriations held at the State Treasury for the state agencies' use. They are not funds; the state's funds are the GAAP funds.

With the use of budgeting by agency activity, the Legislature could set priorities on agency funding based on most beneficial activities. During times of budget deficits, the Legislature would then have more control over allocation of state resources by setting activity priorities to direct DFA's budget reductions in the area of least benefit (up to five percent).

Recommendations

Financial Statements

1. To enable the *Comprehensive Annual Financial Report* (CAFR) to be a more usable document and present significantly more budgetary detail, the Legislature should change the classification of budgetary funds to the same as GAAP by amending MISS. CODE ANN. Sections 27-103-1, et. al. The treasury accounts (general and special funds) would continue to represent the means of financing, but not be the focus for budgeting.

2. The Department of Finance and Administration (DFA) should distribute *The Annual Report of Budgetary Basis Expenditures* to the Legislature along with the CAFR.

3. The Legislature should require the formalization of a revenue advisory group to prepare and submit formal interim financial reports, at least quarterly, to the Legislature.

4. The State Tax Commission should combine its two monthly reports (*Cash Report* and *Monthly Report of Tax Commission Transfers*) into one report and discontinue automatic mailings, purging mailing lists annually. These reports would be replaced with more meaningful analyzed interim data from the formal group mentioned in recommendation 3.

5. The Legislature should provide statutory language to interpret the MISS. CONSTITUTION requirement at Article 4, Section 115, for the State Treasurer's compilation of fiscal year transactions.

6. The State Tax Commission should revise the information concerning general receipts in its *Annual Report* to include more detail and explanations of transfers, diversions, refunds, and nonrevenue type collections.

7. The Legislative Budget Office (LBO) should expand the joint state *Proposed Budget* to provide the Legislature a comprehensive document to assist in budgeting and the allocation of resources. The report should include details and narratives as recommended by the Government Finance Officers Association to provide a policy tool, financial plan, operations guide, and communications medium, and thus become a more complete report of the state's finances.

8. To provide this expanded LBO budget report, the contents of the University Research Center's annual *Mississippi - A Fiscal Summary* and *The Annual Tax Expenditure Report* should be included and University Research Center's publication of these reports should be discontinued.

9. Also, to provide a more complete budget report, the Legislature should consider enacting only one appropriation bill, as allowed by Section 69 of the MISSISSIPPI CONSTITUTION. The enactment of only one general appropriation bill would mean that legislators could avoid handling multiple bills and perhaps better understand the state budget as a whole.

Fiscal Controls

1. To provide the state a more efficient method of receiving state general revenues, the State

Tax Commission should immediately initiate a process to allow for electronic funds transfers.

2. In addition, the Legislature should require that the State Treasurer make all transfers from that office's clearing account where the general revenues are deposited, rather than the State Tax Commission.

3. The Legislature should carefully evaluate the use of special treasury account funds for the earmarking of general tax revenues and the loss of control of those earmarked funds through the appropriations process. The Legislature should require LBO to study these distributions outside the appropriations process and determine whether they meet the goals of the state effectively.

4. The Legislature should also require LBO to study resources collected by state agencies through the special treasury account funds that are not transferred to the general treasury account funds. The LBO study should determine the nature of the receipts and by what authority the agencies maintain the revenues.

5. DFA should consider the utilization of special treasury account funds subaccounts to allow segregation of federal from other types of resources. This should be performed with the subaccounts combined into one GAAP reporting fund.

6. After the state's implementation of electronic funds transfers for receipts, the State Treasurer should work with DFA toward the implementation of Automated Clearing House disbursements rather than paper warrants.

7. The Office of the State Treasurer and DFA should implement direct deposit of state employee payroll.

8. The Office of the State Treasurer and DFA should work toward using Automated Clearing House disbursements for vendor payments (all other payees).

9. The state should execute contracts between the Office of the State Treasurer and vendors that would obligate vendors to make all related tax deposits to the state via electronic funds transfers.

10. The Legislature should amend MISS. CODE ANN. 7-7-33 (1972) to allow DFA's reliance on the internal control systems at the agency level.

11. The Legislature should give DFA the authority to set the levels of preauditing or subsequent reviews of expenditures that an agency should receive based on its analysis of the levels of controls at the agency.

12. The Legislature should strengthen state agencies' internal auditing activities by requiring DFA to direct these functions. DFA should establish policies and regulations to require that the standards of the Institute of Internal Auditors are satisfied.

13. The Legislature should amend the statute to change the fiscal year cut-off for the recognition of expenditures to be in accordance with generally accepted accounting principles (GAAP), wherein expenditures are only recorded for goods/services actually received.

Statewide Automated Accounting System

1. DFA should develop training manuals which include step-by-step procedures outlined in a concise fashion and separate sections tailored for different personnel functions (e.g., purchasing, payment vouchers, management).

2. DFA should produce the above-described training manuals in "electronic" format and distribute them to state agencies via various forms of computer-readable media so that agencies can access and modify these formats to fit their particular in-house procedures.

3. DFA should include the above-described SAAS training manuals as appendices to the *Mississippi Agency Accounting Policies and Procedures* manual.

4. DFA should offer brief training sessions free of charge every three to six months for specific targeted groups, such as basic and advanced training for purchasing clerks and payables clerks and training for managers who place security approvals on documents and managers who need scanning and inquiry capability only.

5. DFA should better utilize its training time by allowing trainees to choose to attend short training modules directed specifically toward different types of employees.

6. The SAAS team and DFA Management Information Systems should immediately develop procedures to use the SAAS message screen as a daily means of communication with SAAS on-line agencies.

7. The Director of Fiscal Management and the Director of Management Information Systems should give authority to SAAS and DFA Management Information Systems personnel to communicate readily to agencies appropriate information regarding operation of the SAAS system.

8. SAAS and Management Information Systems personnel should develop strong communications with on-line agencies. As soon as information about the system is known, agencies should be contacted immediately.

9. DFA should:

   —implement a long-term planning mechanism to determine the most efficient way to derive the most benefit from SAAS based on both agency and state needs;

   —develop standards for determining which agencies should be on-line, which agencies need to be SAAS personal computer users, and which can be off-line;

   —send a questionnaire to all off-line agencies which is designed to determine agency needs for accounting systems;

   —project costs to implement SAAS in various agencies, to modify the system as needed to address agencies' concerns, to develop fully *ad hoc* reporting for on-line and off-line agencies, and to complete implementation in agencies which may need to use additional subsystems;

   —set a five-year goal, detailed by year, for implementing SAAS in agencies and follow the plan as funding allows; and,

   —work to understand and address agency needs fully when planning for implementation of SAAS.

10. DFA has indicated it will seek a funding mechanism for SAAS implementation. Before finalizing implementation cost estimates, DFA should project the number and types of state workers needed in the long term to service the accounting system and utilize these workers in the implementation process when appropriate.

11. If DFA determines that additional personnel and consultants are needed to accomplish tasks to implement plans, then DFA should outline the funding needed to perform specific tasks by number of personnel, consultant hours and other costs. The Legislature and the Governor should review those plans and objectives yearly in conjunction with the amount of money spent to determine if objectives are being met.

12. DFA should develop an implementation manual to help agencies structure their agencies and plan to come on-line SAAS, with the goal of reducing dependency on outside consultants.

13. DFA should redesignate one of its vacant management positions as manager of all SAAS-related implementation and daily operational functions. The manager, who should oversee the planning function, should meet with agencies to determine whether all basic computerized accounting and reporting needs of each agency are being met. Information learned from responding to agency needs should be used as a basis for future implementations of SAAS.

14. DFA should require agencies to perform cost/benefit analyses prior to coming on-line to determine whether agency procedures can be streamlined by using SAAS, how SAAS can produce cost savings for the agency, and whether any circumstances of additional cost for the agency could prohibit going on-line with SAAS.

15. DFA should require agencies which plan to come on-line in the future to keep records of their costs occurring prior to SAAS implementation and should analyze agencies' expenditures in implementing SAAS. This information can be used to determine the cost benefits of additional agencies coming on-line.

16. The DFA Executive Director should immediately instruct DFA managers at the appropriate levels to plan for implementing SAAS as the internal accounting system at DFA. The SAAS team should instruct DFA managers on the decisions and organizational planning which must occur.

17. DFA should place top priority on developing *ad hoc* reporting to allow agencies to download accounting data at their own convenience and easily develop their own reports using appropriate reporting software.

18. DFA should immediately develop grant reports for Disability Determination Services which are complete and usable for federal reporting purposes.

19. DFA should place top priority on creating SAAS system files to capture the system's capability to catalog the identification of users who have approved SAAS transactions.

20. DFA should develop a short- and long-term plan to implement paperwork reduction ideas. Immediate plans could include eliminating the extra copy of the purchase order sent to DFA by on-line agencies.

21. DFA and the Office of the State Auditor should work together pro-actively, moving the state forward to reduce paper and increase efficiency made possible with internal control capabilities gained in the June 1992 SAAS operating software upgrade.

22. In conjunction with understanding automated internal control possible with SAAS, the Office of the State Auditor should immediately conduct a cost/benefit analysis of becoming an on-line SAAS agency. The Office of the State Auditor could better understand agencies' use of the SAAS system as an internal control, accounting and budgeting tool by having first-hand knowledge of the system as an internal accounting system for the Office of the State Auditor.

23. DFA should not wait for the purchase of a new imaging system before implementing paperwork reduction ideas now possible. DFA should study the costs and benefits of alternative methods of paperwork reduction in detail before making any additional purchases of software.

Effects of Budgeting

To achieve optimum fiscal controls for the state, the Legislature should amend the budgetary statutes to mandate specific elements of reform (in chronological order):

- discontinue using treasury accounts as the budgetary "funds" and enact GAAP funds as the budgetary funds with the treasury accounts remaining the method of financing only,
- require state agencies (Fiscal Year 1994) to identify all organizational activities and determine specific measurable objectives necessary to achieve the Legislature's and Governor's state goals, as established as policy during the 1993 legislative session,
- require state agencies to report these elements to LBO, which will perform initial evaluation and set specific standards for the evaluation to assure that the activities are representative of the state programs and contain measurable targets toward the state goals,
- require DFA to establish all the necessary SAAS activity level codes and other administrative duties to implement the pilot of activity budgeting.
- on-line SAAS agencies should prepare their FY 1995 budget requests (due to LBO/Governor by August 1994) in an agency activity format (the statutory budget level would be the lump-sum by activity categorized by the GAAP fund level),
- require DFA to determine and report to LBO annually other state agencies that may enter into activity level budgeting (either on- or off-line SAAS),
- mandate that sufficient level of information be provided in budget requests to allow for full justification of activities,
- assign priority levels to each state agency activity for the purpose of mandating budget reductions by DFA,
- require LBO to perform evaluations/analyses of agencies' activity performance measures, and report those performance measures to

the Legislature in an understandable manner for implementation in the budgeting process.

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A Review of the State's Financial Statements, Fiscal Controls, and Statewide Automated Accounting System

Introduction

Authority

PEER performed this review as directed by House Bill 505, the Budget Reform Act of 1992, enacted by the Mississippi Legislature during the 1992 Regular Session. Section 5 (subsection 3) states:

> *The Joint Legislative Committee on Performance Evaluation and Expenditure Review shall review the adequacy of financial statements of state government and fiscal control systems including legal authority and methodology of the agencies that prepare public financial statements and exercise control over state expenditures. The review shall focus on the SAAS accounting system and its development, implementation and benefits. A report by the committee on its findings shall be provided to the Legislature and the Governor by December 15, 1992.*

Scope

In compliance with HB 505, PEER sought to:

- provide background information on the state's current financial statements (reports), fiscal processes and controls, and Statewide Automated Accounting System (SAAS);
- determine the sufficiency of the state's current financial statements (interim and annual) in providing appropriate and usable data for the Legislature and the Governor;
- appraise the state's present fiscal controls and practices evident in the cash receipts and disbursements procedures, accounting system and effects of budgeting on the fiscal controls; and,
- review the state's implementation of SAAS and assess the benefits, costs and future of SAAS.

PEER did not review in depth all aspects of the state's fiscal system, such as debt, fixed assets, cash, and personnel management, but instead focused on the mandate of House Bill 505.

Methodology

In conducting this review, PEER performed the following tasks:

- reviewed the MISS. CONSTITUTION and applicable state statutes;
- interviewed appropriate staff and obtained information from:

--Department of Finance and Administration (DFA);

--Office of the State Treasurer;

--State Tax Commission;

--Central Data Processing Authority (CDPA);

--Office of the State Auditor;

--SAAS on-line user agencies; and,

--other states' financial representatives;

- obtained and analyzed appropriate records and documents; and,
- reviewed articles, reports, and other published information related to public financial management, fiscal controls, accounting systems, budgeting, and interim and annual financial reporting.

Overview

Mississippi, like other states, has found itself struggling to meet the citizens' demands for the state's services, while working with limited and declining revenues. The direct representatives of the citizens, the Legislature and the Governor, utilizing the state's financial statements/reports and fiscal system, must be able to take those limited resources and provide for a successful employment and accountability to meet the needs of the citizens. The state's accounting, budgeting and reporting systems should provide the Legislature and the Governor with complete and understandable financial statements and effective fiscal controls to assist their direction and allocation of the state's resources toward specific state goals and priorities.

The state's current financial statements and fiscal controls do not completely satisfy the Legislature's and the Governor's needs toward adequate management of and accountability for the state's activities.

Financial Statements

PEER found that the state's financial statements and reports are not completely adequate. The primary reason is because some of the current reports contain dissimilar and incomplete information which must be reviewed piecemeal by decisionmakers.

For instance, the *Comprehensive Annual Financial Report* (CAFR), a meaningful and necessary financial document, uses the generally accepted accounting principles (GAAP) basis, which is different from the budgetary/cash basis used for budgeting. The *Annual Report of Budgetary Basis Expenditures* is the only source of detailed audited budgetary amounts, but this report is not distributed to the full Legislature. Legislators are also not provided with complete interim reports on the state's financial status, cash flows and effects on current and subsequent years. The *Treasurer's Annual Report* is prepared using a different cut-off date than the budgetary period, diminishing the usefulness of the report, and the State Tax Commission *Annual Report*, presenting general revenue collections, does not provide sufficient detail for legislators to determine revenue amounts diverted to other governmental entities, transferred within state government for earmarked purposes, or held for tax refunds.

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Fiscal Control System

The state's fiscal control system places too much emphasis on detailed control of expenditures and overlooks other methods of more effective control and direction of the state's financial resources. Effective control methods could include:

- Receiving general tax revenues through electronic funds transfers to speed up deposits and increase interest income;

- Placing total control with the Treasurer in managing state funds by allowing the Treasurer to make all disbursements from treasury clearing accounts, instead of allowing some disbursements by the State Tax Commission;

- Evaluating the placement of general tax revenues under control of the appropriations process, including revenues earmarked and transferred to agencies before appropriation and the fees collected by agencies that may be considered general revenues;

- Using electronic processing for paying obligations instead of issuing paper warrants;

- Strengthening agencies' internal auditing and relying on internal controls instead of over-controlling state disbursements through extensive pre-auditing by DFA; and

- Changing the year-end expenditures cut-off from the lapse period, August 31, to June 30 to create comparability in financial reports and discourage over-spending at year-end by state agencies.

Statewide Automated Accounting System (SAAS)
Development, Benefits and Implementation

PEER found that SAAS, which was first envisioned by state officials at least seven years ago, serves as the state-level accounting system administered by DFA and as the internal accounting system for seven on-line agencies. DFA, which has spent \$3.3 million to implement SAAS and \$5.6 million to operate the system over a six-year period, is still in the process of modifying the system to meet state needs.

Benefits have included facilitating the maintenance of a statutorily-required GAAP accounting system and preparation of Comprehensive Annual Financial Reports, eliminating the reconciliation of two set of books for the on-line agencies, improving accuracy of financial records, allowing on-line agencies to control spending on a detailed level, improving timeliness of financial information, and consolidating statewide information to ease federal reporting.

However, DFA's lack of comprehensive planning has affected SAAS's current operation and the future of the system. DFA has not properly planned for the total costs of implementing SAAS or for organizing internally to ensure that agency needs are met. In addition, DFA has not placed a high priority on state agency reporting to enhance agencies' internal financial management, on training which would allow more effective use of the complicated SAAS system by state employees, on communicating with agencies, or on improving efficiency which could be achieved through SAAS by paperwork reduction and other methods.

Effects of Budgeting on Fiscal Controls

In studying the state's fiscal controls, PEER determined that the state's budgeting system provides the dominant influence over fiscal controls of the state's resources. Because the budgeting system requires use of major objects of expenditure, the more effective fiscal control of budgeting by agency activities (concentrating on the services and results the agency is delivering with the funds provided) is overlooked.

The budgeting system also focuses on the sources of state funds by general or special treasury account funds, rather than the use of the state funds as recorded by generally accepted accounting principles (GAAP.) With the use of budgeting by agency activity, the Legislature could set priorities on agency funding based on most beneficial activities. During times of budget deficits, the Legislature would then have more control over allocation of state resources by setting activity priorities to direct DFA's budget reductions in the area of least benefit (up to five percent.)

Background

The State of Mississippi's fiscal process is cyclic and may be viewed as a wheel consisting of six components or "spokes." Though each component may be thought of as discrete, all have direct effects on and relations to each other. They are interdependent and the strength of the state's overall fiscal process is dependent on the strength and compatibility of each component. The six fiscal components representing the spokes of the wheel are as follows:

- Planning;
- Budgeting;
- Resource flow and management;
- Accounting;
- Reporting; and,
- Post auditing.

(See Exhibit 1, page 7.) The hub of the wheel represents the state's fiscal controls: the policies, procedures, laws and regulations established to provide reasonable assurance that the fiscal processes are satisfactorily performed and that specific objectives of state government will be achieved.

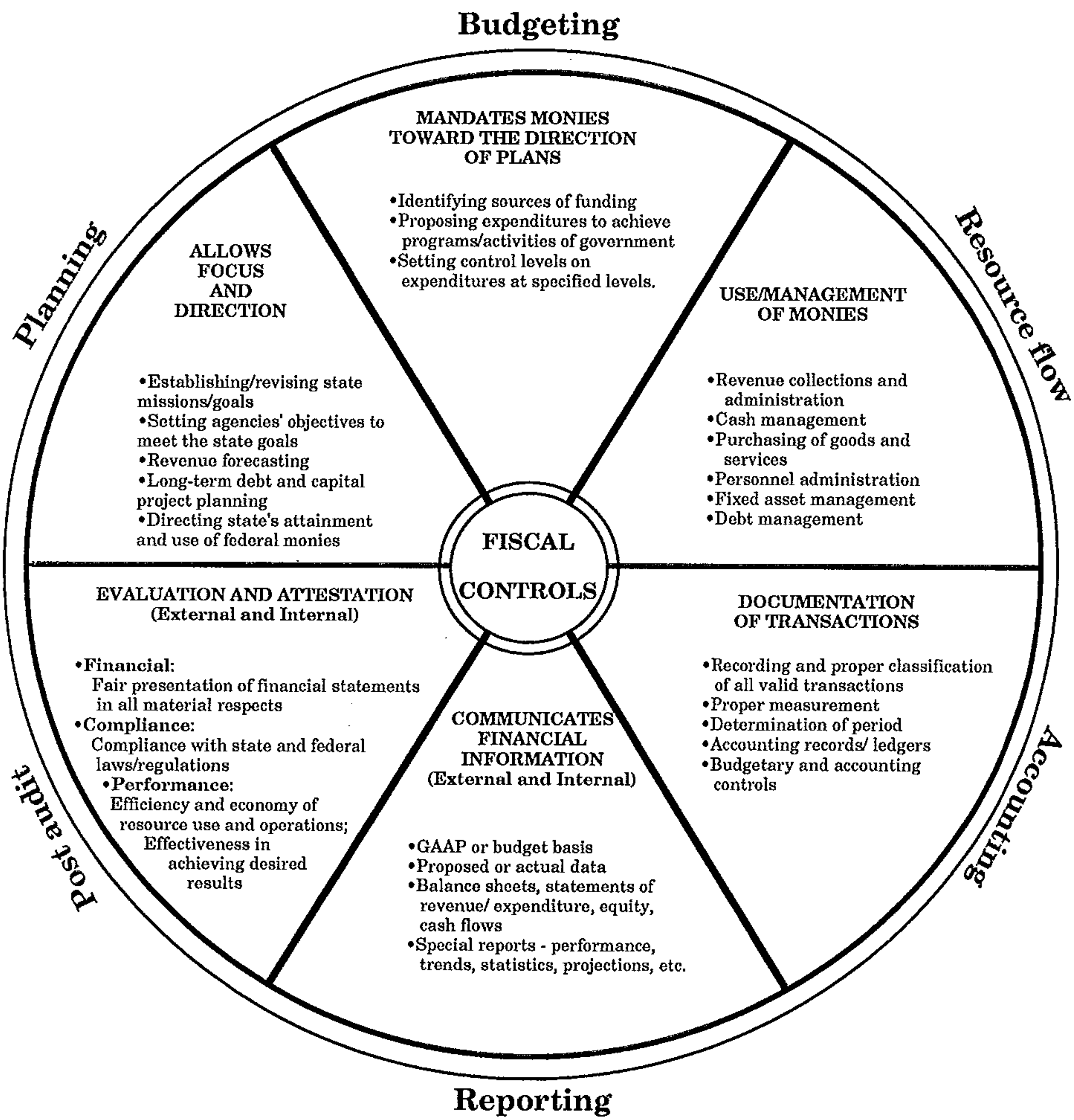
Exhibit 2, page 8, presents the major fiscal duties and responsibilities currently associated with each of the six components of the state fiscal cycle, the entities given responsibility, and the statutory and/or constitutional references underlying the assignments. Presented below is a brief description of each of the six components of the state's fiscal process. Additional technical detail regarding each fiscal component may be obtained by referring to Appendices A through H, pages 95 through 116. The body of the report focuses only on those components of the fiscal process where review was requested by House Bill 505, 1992 Session.

Planning

Planning as defined by Webster is *"...the act or process of making or carrying out an orderly arrangement of parts of an overall design specifically through the establishment of goals, policies, and procedures."* Currently, the statutory elements of state planning are limited. General guidelines placed in separate sections of the statutes relate to studies of state agencies and general revenue forecasting, but no specific laws direct or require planning.

Planning is primarily handled at the state agency level, as the agencies prepare their annual budget requests. State agencies determine

Exhibit 1
Fiscal Cycle and Processes



SOURCE: PEER compilation.

EXHIBIT 2
MAJOR CURRENT STATE FISCAL DUTIES AND RESPONSIBILITIES

	GOVERNOR	LEGISLATIVE BUDGET COMMITTEE/ OFFICE (LBO)	BOTH HOUSES OF LEGISLATURE	DEPARTMENT OF FINANCE AND ADMINISTRATION (DFA)	OFFICE OF THE STATE TREASURER (OST)
Enabling Legislation	Article 5 Constitution 7-1-1 et. al.	27-103-101, et. al.	Article 4, Constitution 5-1-1, et. al.	7-7-1 et. al. 27-104-1 et. al.	7-9-1 et. al. 27-105-1 through 37
Planning	- Supreme chief executive (Article 5, Section 116; 7-1-5 [a]) - Give the legislature information and recommend measures for consideration (Article 5, Section 122)	- Continuous study of agencies for abolition, consolidation and creation (27-103-115) - Participates in revenue forecasting process	- Enacts laws for operation of the state unless restricted by the state constitution.	- Continuous study of agencies for abolition, consolidation and creation (27-104-1) - Plan and develop revenue forecasts (27-104-5 [2] [b]) - Coordinate planning functions of executive agencies (27-104-103 [1] [g])	- Participates in revenue forecasting process (Nonstatutory)
Budgeting	- Utilization of Budget Officer for executive budget preparation (27-103-139) - May veto parts of appropriation bills (Article 5, Section 73)	- Prepare overall state balanced budget in agency program format (27-103-113) - Adoption of general fund revenue estimate (31-17-123)	- Appropriation (budgeting) of state treasury account monies (Article 5, Sections 64, 68-74)	- Develop and manage executive budget process and prepare executive budget recommendation (27-104-103)	
Resource Flow/ Management	- Acts as State Bond Commission Chairman (31-17-101 et. al.)			- Pre-audit and issue disbursement warrants (7-7-33; 7-7-35) - Control over disbursements through allotments/operating budget (7-7-39; 27-104-5 [2]; 27-104-9; 27-104-17) - Escalate special fund budgets (7-7-40) - Issue receipt warrants, transfer to Treasury (7-7-15) - Prescribe all related forms (7-7-3 [6]; 7-7-23; 7-7-29) - Reduce agencies' allocations to meet state revenue shortfalls (31-17-123) - Regulate purchasing, travel, leases (7-7-25; 25-3-41; 31-7-10) - Public Procurement Review Board (27-104-7)	- Cash management: Receipts monies (7-9-21) Disburses monies (7-9-13) Manages deposits and investments (27-105-33) - Debt management (7-9-29 to 34) - State Treasurer serves on State Bond Commission(31-17-11 et.al.)
Accounting	- Superintendent of Office of State Treasurer & Department of Finance and Administration (7-1-41)			- Maintain complete statewide GAAP accounting system (7-7-3, 9) - Have available daily accounting reports (ledgers) (7-7-45[d]) - Provide training manuals of system (27-104-5[2])	- Keep accounts in books (7-9-9) - Maintain records of OST activities (7-9-53) - Verify records with DFA (7-9-45)
Financial Statements/ Reporting (Annual)	- Executive budget recommendation Nov. 15 (27-103-139) *	- Legislative budget recommendation completed prior to Dec. 15 (27-103-113)* - Appropriations Bulletin (Budget) after session (Nonstatutory)		- Prepare CAFR (27-104-4) - Fiscal affairs of the state as of January 1 (7-7-45 [b])	- Report of collections & disbursements of monies managed by OST (Article 4, Section 115; 7-9-47)
Financial Statements/ Reporting (Interim)	- May require information in written reports from officers in the executive departments on any related subject. (Article 5, Section 120)			- Monthly accounting reports to LBO and Governor (7-7-3 [5] [b])	- Reports to Governor, as required (7-9-49)
Post Audit	- May appoint a special examiner of state records (7-1-45)				

NOTES:
- •This summary represents major duties related directly to the general fiscal process of the state and is not intended to be inclusive of all agencies. It excludes agencies' general annual reports to the Legislature.
- •Article and section references relate to the MISSISSIPPI CONSTITUTION; other references are to the MISSISSIPPI CODE ANNOTATED, 1972.
- * Documents joined as one report for January submittal to the Legislature.

STATE TAX COMMISSION (STC)	OFFICE OF THE STATE AUDITOR (OSA)	LEGISLATIVE PEER COMMITTEE (PEER)	UNIVERSITY RESEARCH CENTER (URC)	OTHER STATE AGENCIES
27-3-1 et. al.	7-7-201 et. al.	5-3-51 et. al.	37-141-1 et. al. 57-13-45 et. al.	
- Working with University Research Center, develop revenue estimates (31-17-123)	- Study agencies, upon request, for elimination, improvement, combination, simplification (7-7-21 [c])		- Working with State Tax Commission develop revenue estimates (31-17-123)	- Agency directors have inherent responsibility to plan use of resources properly for budgeting. (Nonstatutory)
				- Prepare budgets and compile detailed support for submittal in the formal budget process. (27-103-129) - SPB: provides personnel projections (number and costs) to LBO and DFA for budgeting purposes. (25-9-133)
- Receives general tax revenues, deposits to State Treasury, and makes appropriate calculations for diversions and transfers (27-3-57)				- CDPA: approves computer- and telecommunications-related purchases. (25-53-1 to 5; 31-7-201 to 225) - SPB: approves personal service contracts and maintains control over state employee-related personnel matters (25-9-101 et.al.) - AG: approves attorneys' personal service contracts (27-104-105) - AG: Acts as State Bond Commission Secretary (31-17-101, et. al.)
- Maintains records of acts (27-3-61)	- Fixed asset inventory records/control (29-9-13 to 29-9-21)			
- Report of STC collections to DFA (27-3-45)	- Legislative expenses and appropriations per session to Legislature and other officials (7-7-45 [a]; Article 4, Section 113)		- "Tax Expenditure Annual Report" (57-13-45 et. al) - "Mississippi - A Fiscal Summary" (Nonstatutory)	- File budget requests with LBO in agency program format (27-103-129, 131) - Submit GAAP financial statements to DFA (27-104-4 [1]) - SPB: report LBO/DFA on employee costs (25-9-133 [1])
- Monthly report of STC transfers (Nonstatutory) - Monthly cash reports (Nonstatutory)			- "Mississippi Economic Review and Outlook" - Semiannual state econometric model (37-141-7 [m])	- Submit financial reports to LBO as required (27-103-107,109)
	- Annual post audit of CAFR (7-7-211 [d]) - Audit reports on CAFR, internal controls, compliance systems (7-7-215 to 219; 27-104-4) - Pupil accounting and auditing of average daily attendance (37-37-8 to 13)	- Performs program and performance evaluations, audits, investigations, and fact finding projects - report to Governor, Legislature, Agencies, Public (5-3-51) - Appoints an auditor of the correctional system (47-5-35)		- Internal auditing at agency level (7-7-3[5] [d])

their funding needs to continue or improve current activities as established by state law, federal mandates, and agency policies. In effect, these "budget requests" taken as a whole represent the most direct guide currently available to the goals of the state and how they are to be reached. The final expressions of these "planning" efforts are contained in the executive and legislative budget recommendations, as discussed below.

Budgeting

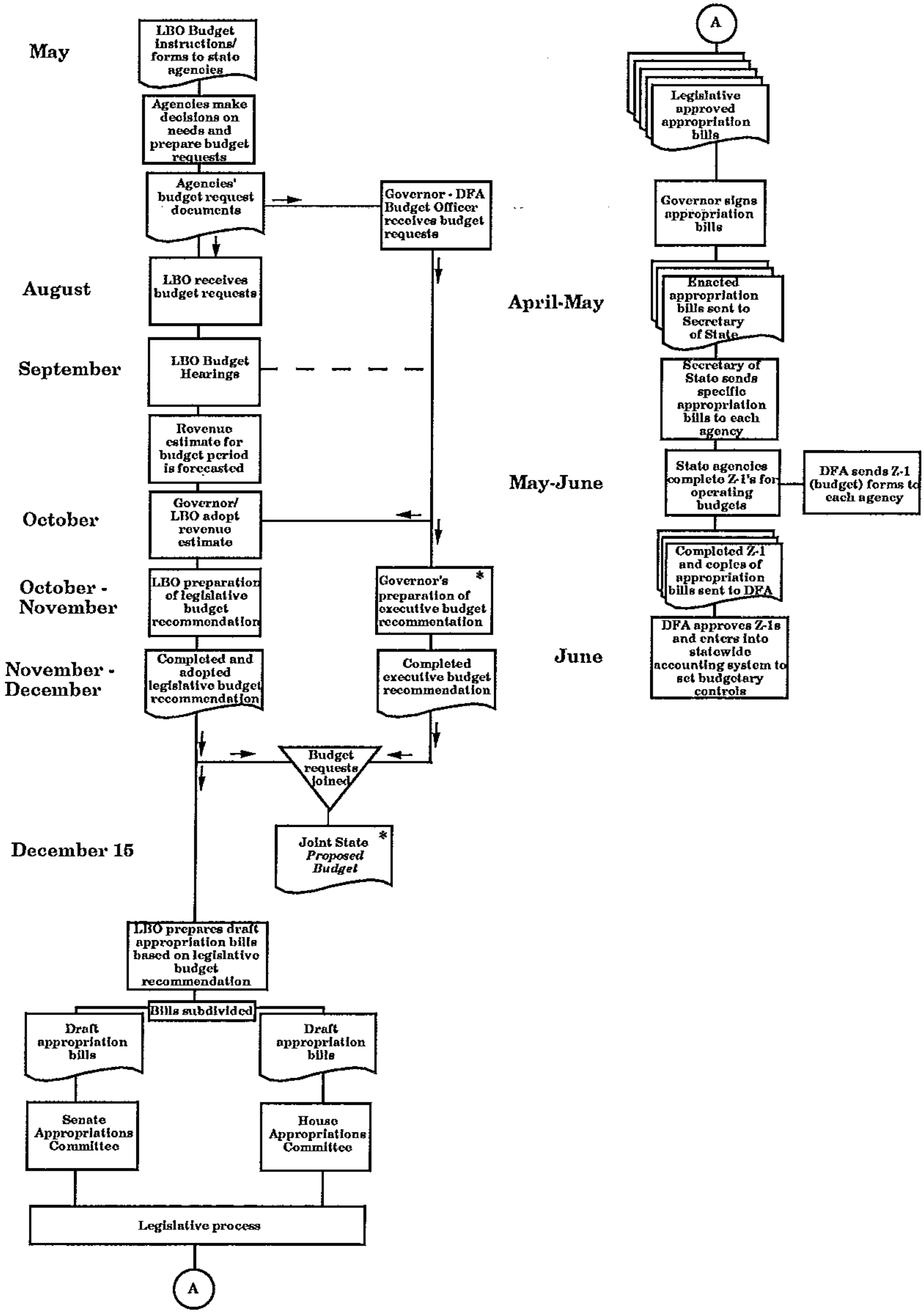
Exhibit 3, page 11, illustrates the flow of the current state budgeting system. MISS. CODE ANN. Sections 27-103-129 and 131 (1972) require that state agencies file annual budget requests with the Legislative Budget Office (LBO) by early August each year. The submission, based on instructions and forms provided by LBO in May, is also provided to the Governor's budget officer (Department of Finance and Administration) for his review.

An agency's budget request is by major objects of expenditures for each appropriation unit (budget) designated by LBO, and agency "program" data is provided for information purposes. The appropriation unit is comprised of one or more budgeted treasury accounts (see Technical Appendix A, pages 95 through 103), with budgetary expenditures accounted for on a primarily cash basis. This system utilizes an encumbrance accounting procedure which includes executed but unperformed purchase orders and a sixty-day year-end lapse period. The state's major objects of expenditure categories are as follows:

- Personal Services:
  - Salaries, Wages and Fringe Benefits
  - Travel & Subsistence
- Contractual Services
- Commodities
- Capital Outlay:
  - Other than Equipment
  - Equipment
- Subsidies, Loans & Grants

LBO holds budget hearings in September for agency heads to discuss their budget proposals and agency needs. These budget hearings are open and may be attended by the Governor's staff. The proposed general revenue estimate is made in October and the Legislative Budget Committee and the Governor jointly adopt the general tax revenue estimate. It is after this formal adoption of the estimate that both LBO and the Governor's

Exhibit 3
Current State Budgeting Process



NOTE: The LBO staff and DFA budget staff analysis occurs throughout the process after receipt of agencies' budget requests.

*Except at 1st regular session after Governor's election, may submit by January 31

SOURCE: PEER analysis.

representative complete their analyses of the state agencies' budget requests to prepare their individual budget recommendations.

As presented in Exhibit 3, page 11, the Legislature's and the Governor's recommendations are published as the Joint State *Proposed Budget* for final dissemination to the Legislature and the state agencies by December 15 each year.

Not all state resources are required to be budgeted. Certain special treasury accounts and separate bank accounts do not go through the appropriations process, such as capital projects, debt service, trust and agency activities.

The Executive Director of DFA has authority within the guidelines of the statutes to amend certain budgets, as stated by the following sections of MISS. CODE ANN. (1972):

7-7-40 Escalate "special fund" (special accounts) budgets as authorized in the appropriation bills.

31-17-123 Reduce appropriations of "general-fund and special fund" state agencies and "administration/other expenses" of the Department of Transportation (Highway Department) as necessary to keep within sum of general tax revenue receipts; any reductions past 5% of total must consist of a uniform percentage reduction of "general funds" and "state source special funds."

Resource Flows

Exhibit 4, page 14, demonstrates the flow of the state's fiscal resources. This flowchart gives an overview of the funding of Mississippi's state government and provides the "big picture" of the sources and uses of the state's resources. Most importantly, it highlights the distinctions and relationships between the accounts where the monies flow and the accounting funds where the monies are controlled. The specific elements of the state's resource flow captured in the exhibit are as follows:

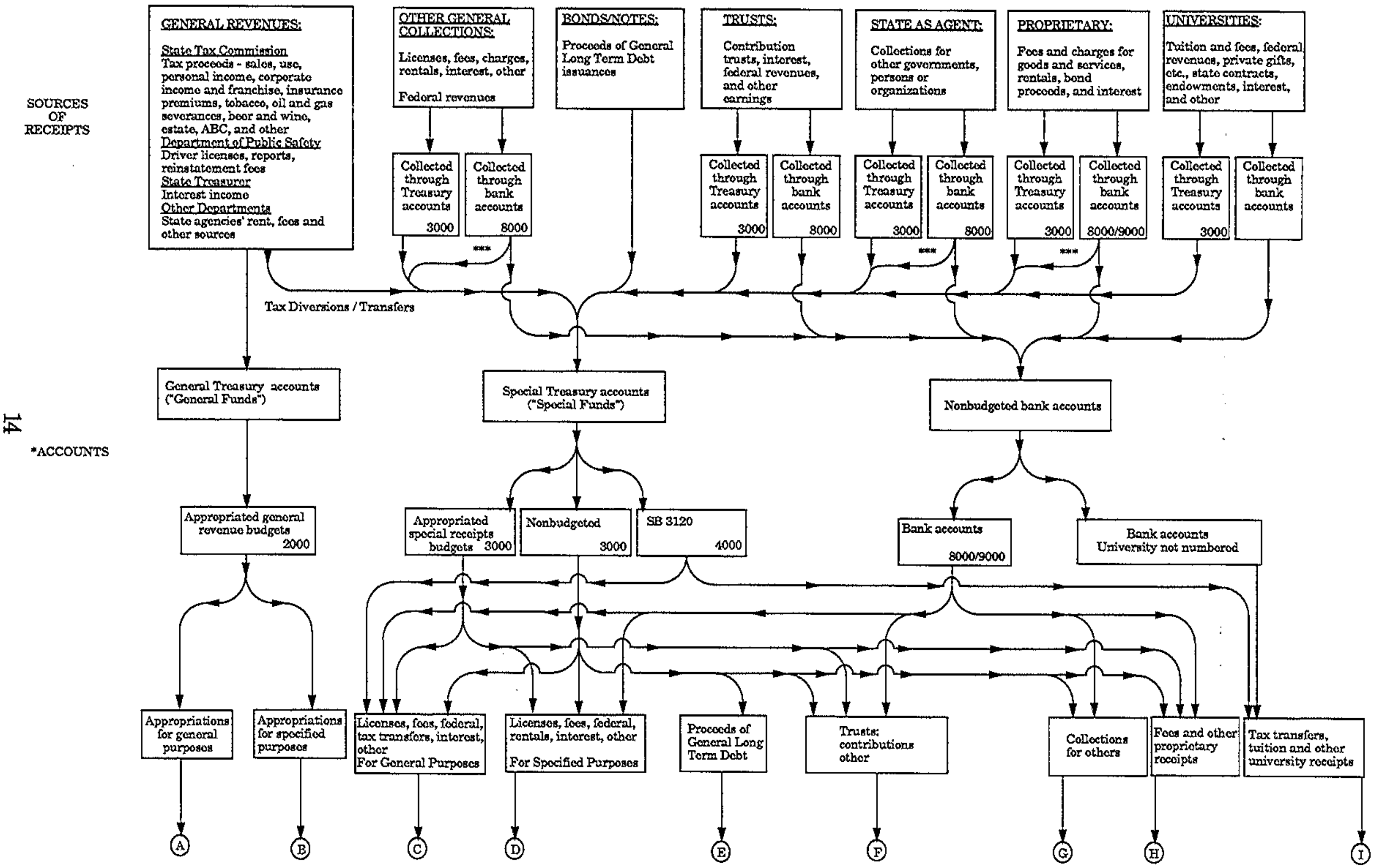
•Resources In:

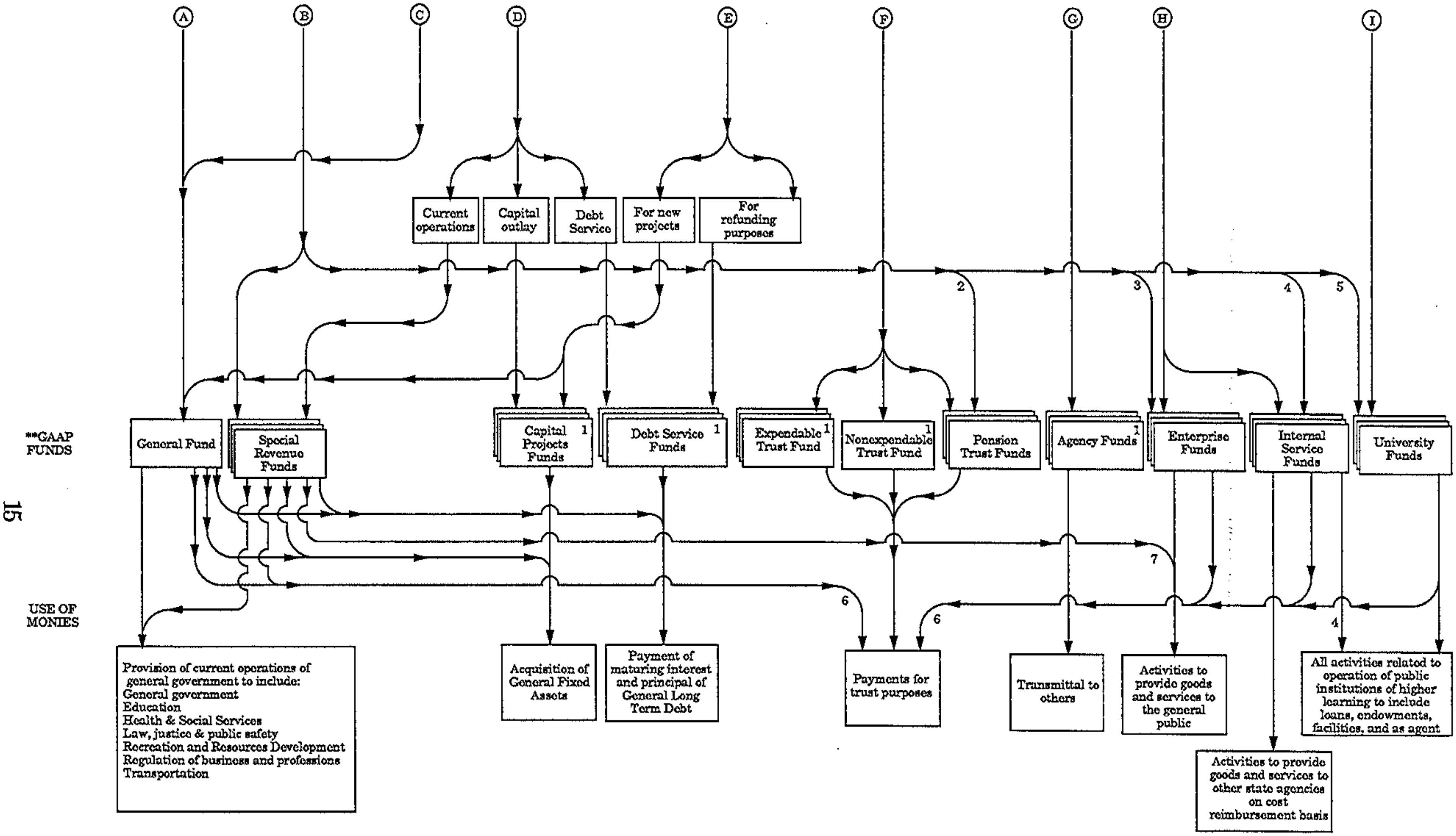
- Sources of receipts (all monies coming into the state)
- Accounts (Treasury or nonbudgeted bank accounts) where the monies flow - - identified by **source**

•Resources Out:

- GAAP (generally accepted accounting principles) funds where the monies are accounted for - - identified by **use**
- Use of all monies

Exhibit 4
Resource Flow - Funding of State of Mississippi Government





NOTES:
* Categorized by source of monies
** Categorized by use of monies
*** 8000 clearing accounts transfer to 3000 Treasury accounts.

1 Nonbudgeted funds
2 Appropriated budget flow for prior retirement obligations
3 Appropriated budget flow for debt payments on Port Authority of Gulfport Bonds
4 Appropriated budget flow for CDPA supercomputer, granted for universities' use
5 Appropriated budget flow for administration at Universities and IHL
6 State agencies' employer contributions to PERS
7 Department of Rehabilitation Services contributions for Allied Enterprises

SOURCE: PEER analysis of state's resource flows and funds.

Appendix B, page 104, provides explanations of these elements of the state's resource flow.

The state's resources ultimately flow into either of two major types of accounts--treasury accounts or nonbudgeted bank accounts. These accounts represent liquid assets (pools of monies) identified by the **source of the resources**. Treasury accounts denote monies held/managed by the State Treasurer, some of which are budgeted and some are not budgeted through the state's appropriations process. Nonbudgeted bank accounts represent monies which are not required by law to be held in the State Treasury. MISS. CODE ANN. Section 7-7-59 (1972) authorizes the establishment of bank accounts to serve as the depository for self-generated and custodial funds.

Resources flow out for operation of state government with general and specific uses set by the state constitution and statutes. These uses are captured in accounting funds in accordance with generally accepted accounting principles (GAAP). Appendix C, page 105, provides an overview of the authoritative bodies promulgating government GAAP.

GAAP funds represent the actual distinct fiscal and accounting entities that make up the use of Mississippi's resources. They are identified by the **use of the resources** by being segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. GAAP funds are established to offer sound and expeditious financial administration. (Exhibit 5, page 17, presents the state's GAAP funds.) To complement the GAAP funds, account groups are utilized to establish control over and accountability for the state's General Fixed Assets and General Long Term Debt.

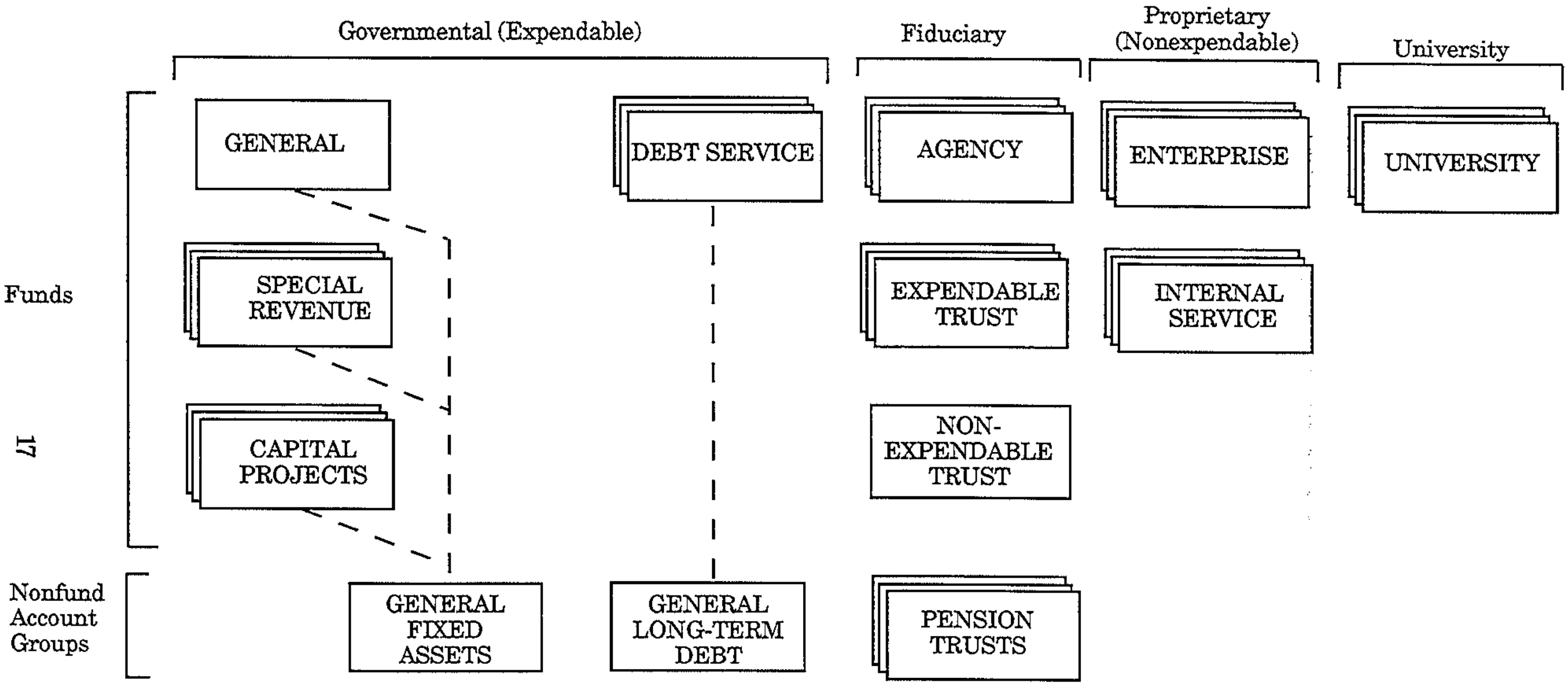
Accounting

The statewide accounting system records all of the above-described transactions related to resources received and used (disbursed). The Department of Finance and Administration is charged by law with maintaining the state's accounting system.

As stated in MISS. CODE ANN. § 7-7-9, the Department of Finance and Administration *"shall maintain a complete system of general accounting to comprehend the financial transactions"* of state agencies. Also, MISS. CODE ANN. § 7-7-3 (2) states that the Executive Director of DFA shall prescribe and implement an adequate accrual accounting system in conformity with generally accepted accounting principles and may install a state centralized automated accounting system.

In accordance with this CODE Section, DFA has implemented the Statewide Automated Accounting System (SAAS). Currently, seven agencies use SAAS for their internal accounting system. A discussion of the development, implementation, and benefits of SAAS is presented at pages 49 through 76.

Exhibit 5
State GAAP Funds and Account Groups



SOURCE: PEER compilation; National Council on Governmental Accounting Statement 1 and Governmental Accounting Standards Board Statement 6.

Agency financial statements must be maintained in accordance with generally accepted accounting principles (GAAP). Mississippi agencies use both the budgetary basis and the GAAP basis of accounting because of the way the budgeting system is set up. The budgetary basis is a combination of the cash basis of accounting and the encumbrance method of accounting. The budgetary basis, discussed in Appendix D, page 106, concerns only the actual cash receipts and disbursements during a given period.

GAAP accounting, including the accrual basis and modified accrual basis, measures financial position and operating results. The accrual basis uses a measurement focus which presents the long-term resources available to pay long-term liabilities. The modified accrual basis focuses on current resources available to pay current liabilities. In the accrual basis, amounts paid by the state are referred to as expenses; in the budgetary basis and modified accrual basis, amounts paid are known as expenditures.

Appendix D, pages 106 through 107, contains a description of the budgeting and accounting basis and methods which the state uses for budgeting and for maintaining GAAP financial statements presenting the financial position of the state.

Reporting

Financial reporting is the process of communicating information concerning the state's financial position and activities for internal and/or external purposes. The financial reports can embody formal or informal presentations of financial data. The objectives of each type of report should consider the needs of the users and the decisions they make. See Exhibit 6, page 19, for explanation of reporting objectives.

Exhibit 7, page 20, provides a listing of the state's current major financial statements/reports and related documents. These reports are classified as formal or informal. The focus of this report is on formal financial statements.

Informal reports usually are reports for internal, control, and management's use. They may represent compilations or copies of administrative data or financial information from accounting records, registers, journals and summaries. In addition, informal reports may be prepared by one level of management to support a higher level of reporting within the government.

Formal reports are prepared for internal or external purposes. They are direct products of the fiscal system--accumulating, segregating, and presenting financial and related data. Most of the state's formal financial reports are produced annually.

Exhibit 6
Objectives of Accounting and Financial Reporting

OVERALL GOALS:

(1) To provide financial information for decisions, to demonstrate accountability and stewardship; and

(2) To provide information for evaluating managerial and organizational performance

BASIC OBJECTIVES:	Providing information for flows, balances, and requirements of short-term resources	Providing information for financial condition and changes therein	Monitoring performance under legal and fiduciary requirements	Planning, budgeting, and forecasting the impact of alternative uses of resources	Evaluating managerial and organizational performance	Communicating to facilitate usefulness of material
COMPONENT OBJECTIVES:	Information used for: • Determining: Availability of short-term financial resources Effects of operating activities (sources & uses) •Assessing ability to meet: Short-term financial needs Debt as it matures	Information used for determining: • Value of resources held • Costs of programs or services • Ability and effects of the maintenance of capital • The timing of actions and ability to meet future commitments	Monitoring to determine: • Appropriate use of resources • Sufficiency of funds to support activity • Legality of fees or grants • Proper accounting for funds	Assessing effects of alternative activities on: • Short- term resources • Financial condition • Effectiveness of programs Determining: • Required resources to support planned activities • Sources of resources to fund activities	Evaluating: • Cost & comparison of programs/ activities • Efficiency & economy of programs/activities • Results of activities in terms of established objectives • Equity of financing activities	Providing information that is: • Understandable-- Clear & concise presentation • Reliable-- Comprehensive & fully disclosed • Relevant • Timely • Consistent • Comparable

SOURCE: **PEER adaptation of National Council on Governmental Accounting Concepts Statement 1 in *HBJ Miller 1992 Comprehensive Governmental GAAP Guide***

Exhibit 7
State of Mississippi Financial Statements/Reports and Related Documents

	Produced By	Sent To	Statutory/ MISS. CONST. Reference	Budget Basis		GAAP Basis		Scope and Description of Report	Frequency/ Due Date
				Unaudited	Audited	Unaudited	Audited		
FINANCIAL **FORMAL:** *Comprehensive Annual Financial Report (CAFR)*	Department of Finance & Administration	Office of the State Auditor for postaudit by September 30, then to Governor/ Legislature/ public record	27-104-4 Article 4, Section 115				X	***(All State resources: State Treasury Account Funds and bank accounts)*** The official annual report of the state which includes: (1) General purpose financial statements (combined statements and notes) (2) Combining statements by GAAP fund type and supporting schedules (3) Statistical and economic data of the state (4) Extensive introductory transmittal letter from Executive Director, DFA	Annual Due January 1
Annual Report of Budgetary Basis Expenditures	Department of Finance & Administration	Available to support *CAFR*	27-104-4		X			***(Budgeted State Treasury Account Funds only)*** Supplement to *CAFR* to support individual statement: *Combined Statement of Revenue, Expenditures, Other Financing Sources and Uses and Changes in Budgetary Fund Balances - Budget and Actual (Non-GAAP Basis) - All Budgetary Funds*	Annual Due January 1
Proposed Budget	Governor, Legislative Budget Office	Legislature/ state agencies	27-103-113 27-103-139	X				***(Budgeted State Treasury Account Funds only)*** Overall balanced proposed budget of the expenses and income of the state to encompass the operations of all "general fund" and "special fund" agencies in agency-program format as compiled from the executive and legislature budget recommendations required under these same statutes	Annual Due December 15
Budget (Appropriations Bulletin)	Legislative Budget Office	Legislature/ state agencies	no specific references	X				***(Budgeted State Treasury Account Funds only)*** Compilation of general and special appropriations by budgetary function (program) and agency	Annual
Special report on the fiscal affairs of the state	Department of Finance & Administration	Legislature	7-7-45 (b)	X (Cash)				***(All State Treasury Account Funds)*** Report of the fiscal affairs of the state as of January 1, current year to update Legislature from close of previous fiscal year	Annual Due 15 days after commencement of regular session
Report of collections/ disbursements (receipts/ expenditures)	Office of the State Treasurer	Legislature	7-9-47 Article 4, Section 115	X (Cash)				***(All State Treasury Account Funds)*** Detailed report of receipts and expenditures since last report and suggested taxes to supply any deficiencies (called *Treasurer's Annual Report*)	Annual Due commencement of regular session
State Tax Commission fiscal year collections	State Tax Commission	Dept. of Finance & Admin.	*no specific reference			X		***(Budgeted State Treasury Account Funds)*** List of STC general revenue collections (*issued in STC *Annual Report*)	Annual Due end of fiscal year (June 30)
Expenses and appropriations of legislative session	Office of the State Treasurer	Available for distribution	7-7-45 (a) Article 4, Section 113	X				***(Budgeted State Treasury Account Funds)*** Expenditures as compiled by DFA, under 7-7-45(a), and amounts of all appropriations	Annual Due 60 days after legislative adjournment

SOURCE: PEER analysis of MISSISSIPPI CONSTITUTION, related statutes, and available reports.

Exhibit 7 (Continued)

	Produced By	Sent To	Statutory/ MISS. CONST. Reference	Budget Basis		GAAP Basis		Scope and Description of Report	Frequency/ Due Date
				Unaudited	Audited	Unaudited	Audited		
FORMAL (Continued): *The Annual Tax Expenditure Report*	University Research Center	Secretary of State/ Specific legislative committees/ Dept. of Finance & Admin./ Legislative Budget Office/ available for Legislature	57-13-45	X				***(Effects on Budgeted State Treasury Account Funds)*** Detail of approximate foregone revenue because of specific tax code provisions	Annual Due on or before November 1
Mississippi - A Fiscal Summary	University Research Center	Governor/ Legislature	Nonstatutory	X				***(All State Treasury Account Funds)*** Summarizes various data trends on general revenue estimates, major general and special revenue sources, general cash balances and expenditures	Annual January
Mississippi Economic Review and Outlook	University Research Center	Available for distribution	37-141-7	N/A —	— —	— —	— —	***(Financial related)*** Represents econometric model for the state (forecast and historical values)	Semi annual
Monthly Report of Tax Commission Transfers	State Tax Commission	Governor/ Legislature/ Dept. of Fin. &Admin./ Leg. Budget Office/ Treasurer/ Attorney Gen./Univ. Research Ctr./ others as requested	Nonstatutory	X (Cash)				***(Budgeted State Treasury Account Funds)*** Summary of transfers by tax type (sales, individual income, etc.) for fiscal year cumulative and monthly each compared to estimate prior fiscal year - same period. Detail of transfers by tax type for cumulative and monthly compared to prior fiscal year - same period	Monthly
Cash Report	State Tax Commission	Same as above	Nonstatutory	X (Cash)				***(Budgeted State Treasury Account Funds)*** STC collections by fiscal year by cumulative and monthly for General Treasury account funds, collected for others (transfers/ diversions). Detail of sales tax collections by municipality. Number of tax returns received for same period.	Monthly
INFORMAL: Agency GAAP financial statements (GAAP packages)	State agencies	Dept. of Finance & Admin. for compilation of *CAFR*	27-104-4			X		***(All State Treasury Account Funds)*** Compilation of financial and related data in accordance with generally accepted accounting principles in accordance with DFA requirements	Annual Due as set by DFA
Agency budget requests	State agencies	Legislative Budget Office/ Governor (Dept. of Finance & Admin.)	27-103-129	X				***(Budgeted State Treasury Account Funds only)*** Fiscal year budget requests with agency program information in form and detailed as required by LBO usually including: (1) annual unaudited expenses and budget comparisons including funding sources (2) segregation of budget for continuation, expansion, new activities and narrative explanations (3) Support details for personnel services, contractual services, capital outlay, subsidies, loans and grants	Annual Due as set by LBO, usually August 1

(continued on next page)

Exhibit 7 (Continued)

	Produced By	Sent To	Statutory/ MISS. Const. Reference	Budget Basis		GAAP Basis		Scope and Description of Report	Frequency/ Due Date
				Unaudited	Audited	Unaudited	Audited		
INFORMAL (Continued):									
Legislative session expenditures	Dept. of Finance & Admin.	Office of the State Auditor for compilation	7-7-45 (a)	X				***(Budgeted State Treasury Account Funds)*** Full statement of all monies expended at the session, specifying items, amounts, whom paid and for what	Annual Due 60 days after legislative adjournment
Accounting/ Financial Reports	Dept. of Finance & Admin.	Governor/ Legislature	7-7-3 (5)(b)	X				***(Budgeted State Treasury Account Funds)*** Reports containing state's financial operations and conditions (certain accounting ledgers/ records)	Monthly
Recommend-tion on state employment positions	State Personnel Board	Legislative Budget Office/Dept. of Finance & Admin.	25-9-133	N/A—	— —	— —	—	***(Financial related)*** Number of employment positions and cost with each department, agency or institution	Not specified
Statements of situation of public finances	Office of the State Treasurer	Governor	7-7-49	X (Cash)				***(All State Treasury Account Funds)*** Full and complete statements of the situation of public finances, condition and proceedings of office (cash balances)	As required
Financial related agency reports	All budgeted agencies	Legislative Budget Office	27-103-107 27-103-109	X				***(Budgeted State Treasury Account Funds only)*** Report of agencies' receipts, disbursements, assets, liabilities, encumbrances, and fund balances as determined by the Legislative Budget Office	As required
POST AUDIT									
Independent audit report of *CAFR*	Office of the State Auditor	With *CAFR* Governor/ Legislature/ public record	27-104-4(2)				X	Auditor's opinion that the state's general purpose financial statements, combining and individual fund financial statements and related schedules present fairly in all material respects the financial position of the state as of and for the end of a fiscal year	Annual Due January 1
Independent audit reports related to the Single Audit Act of 1984	Office of the State Auditor	Governor/ Legislature public record	27-104-4 (3)				X	Auditor's opinions related to the schedules of federal financial assistance and related internal controls and compliance requirements	Annual Due 12 months after June 30 close
Compilation of management letters to state agencies	Office of the State Auditor	Available for distribution	27-104-4(3)	N/A —	— —	— —	—	Publication of management letters and state agencies' responses concerning findings and recommendations related to instances of noncompliance with state laws and immaterial weaknesses in interal control	Annual Due 12 months after June 30 close
Performance evaluation and expenditure review reports	PEER Committee	Governor/ Legislature/ State agency/ public record	5-3-61	N/A —	— —	— —	—	Formal audit reports that present favorable or unfavorable findings and recommendations related to specific committee approved performance evaluations, reviews and investigations of state agencies or political subdivisions of the state and agencies thereof.	By project as required

For a comprehensive discussion of financial reporting standards and the reports issued by state's entities, refer to Appendix E, pages 108 through 111.

Post Auditing

Post auditing is the process of examining activities and transactions that have been completed or are in various stages of completion. The audits are performed by means of a systematic collection of sufficient, competent evidential matter (through inspection, observation, inquiries and confirmations with third parties). Post auditing for the state is currently performed by:

- ***Office of the State Auditor***

  Attests to the fairness of management's assertions in the financial statements (or elements thereof), these assertions being:

  -- The fair presentation of the state's financial position, results of operations, and cash flows in accordance with generally accepted accounting principles;

  -- State has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.

- ***Joint Legislative Performance Evaluation and Expenditure Committee (PEER)***

  Evaluates whether management has efficiently and effectively carried out its responsibilities concerning:

  -- Economy and efficiency in the use of resources:

  - Whether the entity is acquiring, protecting, and using its resources economically and efficiently;

  - Causes of inefficiencies or uneconomical practices; and,

  - Whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

  -- Effectiveness of program results:

  - Extent to which the desired results or benefits established by the Legislature or other authorizing body are being achieved;

- Effectiveness of organizations, programs, activities, or tasks/strategies; and,

- Whether the entity has complied with laws and regulations applicable to the program.

Financial and compliance auditing are considered a minimum level of auditing for a government entity. The focuses (thrusts) of post auditing flow into increased degrees of examinations through economy and efficiency to effectiveness auditing.

The United States General Accounting Office (GAO) and the federal Single Audit Act of 1984 also require the Office of the State Auditor to perform additional audit procedures and issue additional audit reports concerning the state's use of federal financial assistance. These audits are concerned with the state's compliance with federal requirements applicable to financial assistance programs, including related federal laws and regulations and the internal control structure used in administering federal financial assistance programs.

Adequacy of Financial Statements

Because the state's financial statements and reports are dissimilar and, in some cases, incomplete, their use by legislators to monitor and evaluate effectively the state's financial condition is diminished.

The state's financial reports are confusing to use, not only because of differences in the state's budgetary basis and accounting basis (see Appendix D, page 106), but because of timing and other differences in the reports as explained in the following findings. To guide these discussions, Exhibit 8, page 26, presents examples of the types of dissimilar and incomplete data present in some of the state's financial statements.

Comprehensive Annual Financial Report (CAFR)

- ***The CAFR is a beneficial and necessary financial document for the state. However, because of the differences between the CAFR funds/basis, generally accepted accounting principles (GAAP), and state's budgeting funds/basis, the report is confusing for the Legislature to use for management and control of state resources.***

As described in Appendix E, page 108, the CAFR provides timely state financial, statistical, and economic data to the Legislature and the Governor by January 1 each year. It is useful in assessing many aspects of the state's finances, including: the overall financial position, the assets held, the short- and long-term obligations and how they will be funded, and the internal and external restrictions upon the state's equity and balances.

Appendix F, page 112, details contents of the CAFR. The CAFR also discloses details through individual financial statements and explanations as to other operations, such as activities from special revenues, for debt service, capital projects, enterprise, internal service, trusts and agency, and universities. All of these are included in the state's financial statements.

The notes to the financial statements provide for a concise explanation of the basis used in valuing the data in the statements. The statistical and economic data of the CAFR provide the Legislature and the Governor with an excellent source to view the state's trends that could affect their decisions related to the direction of the state's government.

Notwithstanding, the CAFR has not been a completely understandable document for the Legislature and the Governor because of the inconsistent method by which the state budgets its resources. As described on page 85, the state's budgetary "funds" are not properly identified.

This inconsistency between the classifications for budgetary and GAAP funds causes a considerable obstruction in the state's financial

EXHIBIT 8
FINANCIAL REPORTS
EXAMPLES OF DISSIMILAR FISCAL YEAR 1991 DATA

	Comprehensive Annual Financial Report	*State Treasurer's Annual Report*	Legislative Budget Office FY93 *Proposed Budget*	University Research Center *Mississippi - A Fiscal Summary*	State Tax Commission *Annual Report*
General Treasury Account Funds					
FY 1991 Year-End Balances	$3,581,998	$24,928,460	$3,581,997	$3,581,997	
Revenues	$1,900,885,586	$2,062,050,927	$1,943,750,374	$1,943,750,374	$1,854,246,403 (a)
Other Financing Sources	$42,864,787				
Expenditures	($1,945,109,526)	($2,093,195,612)	($1,945,320,912)	($1,945,109,526)	
Special Treasury Account Funds					
FY1991 Year-End Balances	$133,062,027	$177,625,208	Not Presented (b)	$160,683,591	
Revenues	$2,219,900,013	$4,391,781,492 (c)	Not Presented (b)	$2,947,383,200	
Other Financing Uses	($46,059,876)				
Expenditures	($2,150,696,963)	($4,441,843,304) (c)	Not Presented (b)	($2,905,770,716)	

Notes:
(a) State Tax Commission collections only; report does not explain relationship to total state general revenues.
(b) MISS. CODE ANN. 27-103-1 et. al. requires the budget report format; no recap of actual Special Treasury Account Funds is provided.
(c) Includes all budgeted/nonbudgeted Special Treasury Account Funds.

SOURCE: PEER analysis of Fiscal Year 1991 actual budgetary/cash basis amounts.

reporting. The Legislature is unable to identify easily the relations between budgeted activities and GAAP financial activities.

The GAAP basis is the preferred method for accounting and financial reporting. GAAP provides for the accepted standards of the accurate measurement and presentation of the state's financial position and results of operations. As described at page 16, MISS. CODE ANN. Section 7-7-9 requires the state's accounting system to provide adequate GAAP accounting.

Government GAAP authorities (Appendix C, page 105) recognize that some differences may exist between a government entity's budgetary and GAAP accounting basis. However, the best financial reporting situation is to have the most comparability between the two.

- ***The supplement to the CAFR, "Annual Report of Budgetary Basis Expenditures," even though not widely disseminated, provides the only source for detailed budgetary audited amounts.***

DFA prepares a supplement to the CAFR which provides detail of state agency budgeted and audited actual expenditures by budgetary function (program) for each enacted budget. Even though this is the only detailed source of audited budgetary data, the supplement is not dispersed along with the main CAFR document. Note 2 to the Fiscal Year 1991 CAFR financial statements explains that the supplement is available at DFA.

This CAFR supplement should be a frequently utilized and valuable tool for the Legislature and the Governor in the state's budgeting process. It provides an instrument for analysis of audited prior year actual budget expenditures by agency budget. The supplement recaps expenditure totals that agree to the CAFR financial statement: Combined Statement of Revenues, Expenditures, Other Financing Sources and Uses, and Changes in Budgetary Fund Balances - Budget and Actual (Non-GAAP Basis.)

Lack of Complete Interim Financial Reports

- ***Public officials' control over the state's financial condition is impaired by the absence of formal interim reports which provide complete information and analysis regarding the state's current financial status, cash flows, and effects on projected year-end balances and subsequent year's budgets.***

The Legislature and the Governor receive no current communication of any conclusions, analysis, concerns, or actual or expected trends that affect the state's resource flow.

This lack of reports of conclusions on analyzed state financial data requires legislators and the Governor to either remain uninformed or piece together and then decipher raw data themselves from other reports, as discussed below.

Currently, the only formal interim financial reports that are available come from the State Tax Commission. The State Tax Commission prepares two reports each month that list its collections and transfers/diversions:

- *Cash Report,* and,
- *Monthly Report of Tax Commission Transfers.*

These reports are mailed to each member of the Legislature and a myriad of other persons. These two reports are described at Exhibit 7, page 20.

The Legislature should receive information on cash receipts and transfers to the extent that it will help legislators fulfill their roles as state representatives. The Legislature could be provided more meaningful data on a periodic basis including formal analysis and conclusions.

**Constitutionally Required Report--
State Treasurer's Annual Transactions**

- ***The Office of the State Treasurer's annual report is prepared based on cash flows through all state treasury account funds for the fiscal period (July 1 through June 30), rather than through the lapse period budgetary cut-off, which causes the reported cash balances of the Office of the State Treasurer to differ from budgetary basis cash.***

The State Treasurer's current method of preparing financial data causes confusion when one attempts to use the information in comparison with other state budgetary basis financial reports. As stated in the Office of the State Treasurer's Annual Report for the fiscal year ended June 30, 1991:

> *The Treasurer's policy is to record receipts when deposited with the Treasurer's Office and disbursements when State warrants are presented to the Treasurer's Office for redemption.*

The cash basis is the proper basis for these reports. However, the differences between the June 30 cut-off represented in the Office of the State Treasurer's report and the lapse period cut-off of August 31 in other reports, such as the CAFR budgetary statement and LBO Proposed Budget, represent a significant barrier to using the information.

State Tax Commission's Annual Report

- ***The State Tax Commission's annual presentation of general revenue collections (included in its Annual Report) does not provide sufficient detail for legislators to determine revenue amounts diverted outside state government, transferred within state government for earmarked purposes, or held for tax refunds, which weakens a legislator's ability to evaluate the allocation of general revenues.***

The State Tax Commission's annual report does not provide adequate information to allow the Legislature to easily determine the amount of general revenue collections used for other purposes and which are not available for its control through the appropriations process.

Presently, the information provided is a listing of State Tax Commission collections, with one column grouping all types of cash flow away from the general treasury account funds. There is no subdivision or details for:

- Earmarked general revenues within state government;
- Diversions to outside state government;
- Amounts held for tax refunds; or,
- Collected amounts that are not revenue to the state.

Lack of Consolidated State Financial Data to Assist Evaluation of Allocation of State Resources

- ***Elected public officials do not receive an adequate financial report which presents in one document financial and policy information, critical trend/statistical data, graphs, and narrative with which to make informed decisions concerning the allocation and control of the state's resources.***

Currently, the Legislature and the Governor receive several different related financial documents at the beginning of each regular session (see Exhibit 7, page 20). These documents should assist them with the critical decisions related to state budgeting and the allocation of state resources. However, currently no expansive report is available that allows easy access to very important financial, trend, statistical and historical budgetary information to aid in decisionmaking.

A prime source of general information should be available for the Legislature's and Governor's analysis and assessments for budgeting the state's resources. This report should be the "one place" that they may turn to obtain the information necessary to gain an understanding of the many aspects and considerations in the state's budgeting process.

The Government Finance Officers Association (GFOA) has established specific guidelines for the accumulation of data toward making effective budgeting decisions. GFOA recommends that specific information be included in one budget document and that the report be a(n):

- Policy Tool;
- Financial Plan;
- Operations Guide; and,
- Communications Medium.

The need for each of these elements in one document is discussed below.

Policy Tool

No single document contains an adequate explanation of the policies of the state. At a minimum, the ideal consolidated report should describe the state's revenue, general debt, spending or other guidelines adopted by LBO, any changes from the prior year, and the rationale behind the policies. Also, no current document provides a complete explanation of the budgetary (and planning) processes, including specific budgeting phases, timing, responsibilities, and legal requirements governing the preparation, adoption, and execution of the budget.

Financial Plan

Presently, no single document communicates thoroughly the state's financial framework, such as the relationship between the budgeting and accounting systems, the level of revenues and expenditures detail presented (line-item versus agency "program"), and the association to the legal level of control.

A complete and consolidated picture of revenues and expenditures for **all** budgeted funds is not available through the presentation of data and the use of graphs and trend analysis. This lack of a historical view of total budgeted activities weakens the ability to see "where the state has been" to assist in the projecting of "where it needs to go."

No single document discusses elements of the state's government that are not budgeted. Therefore, a complete illustration of the state's resources and uses is not provided.

No information is provided on the state's debt management issues or capital financing elements. Even though these are budgeted separately, the Legislature should have information to describe current debt obligations, debt levels and legal debt limits. Any obligations of general revenue sources for debt service should be discussed. Also, legislators should have at least a brief summary of the state's capital projects.

Operations Guide

Agencies (budgets) by budgetary function (programs) should be listed in a consolidated document along with explanations of the relationships and activities performed. The state's organization chart and summaries of the personnel counts should be included for comparison with the detailed agency information.

The Legislature and the Governor should receive performance indicators or measures in this report, as submitted by agencies, for use in evaluating budget data. (See page 89.)

Communications Device

The consolidated report should include a transmittal letter which provides a summary of all the state's projected revenue (general and special) and all expenditures funded by those revenues. This summary should be suitable for the media's and the public's understanding. All items in the document should be sufficiently explained.

The report should contain sufficient charts and graphs to portray clearly the messages for all projections and budgets. In particular, sufficient data should be included on the assumptions made and the trend data used in the revenue estimating process.

Recommendations

Exhibit 9, page 32, presents a summary of the following recommendations related to the state's financial statements and reports.

Comprehensive Annual Financial Report (CAFR)

1. The CAFR would be easier to use and interpret if the Legislature changed the classification of budgetary funds to the same as GAAP by amending MISS. CODE ANN. Sections 27-103-1, et.al. The "general fund" and "special fund" classifications should be eliminated and language added to require the classification of funds for budgetary purposes to be the same as GAAP. The treasury account (general and special funds) would continue to be the means of financing, but would not be the focus. The budgetary basis should the cash basis with a recommended change in year-end lapse period cut-off, as discussed on page 45.

Exhibit 9
PEER Recommendations Affecting Financial Statements/Reports

	Comprehensive Annual Financial Report (CAFR)	*Annual Report of Budgetary Basis Expenditures*	*Proposed Budget*	*Budget* (Appropriations Bulletin)	*Treasurer's Annual Report*	*STC Annual Report* (Collections)	*The Annual Tax Expenditure Report*	*Mississippi - A Fiscal Summary*	*STC Monthly Report of of Tax Commission Transfers*	*STC Cash Report*	New Interim Financial Reports
Financial Statement Recommendations:											
• Change budgetary funds to GAAP funds	X		X								
• Distribute report to Legislature		X									
• Expand into comprehensive report			X								
• Eliminate and move data: Expanded budget report							X	X			
One appropriation bill				X							
• Combine into one report; discontinue automatic mailings									X	X	
• Reporting by formal revenue advisory group											X
• Amend statutes to interpret basis					X						
• Include more detail/ explanations						X					
Fiscal Controls Recommendations:											
• Change year-end cut-off to June 30	X		X								
• Change level of expenditure control to activities		X	X								

SOURCE: PEER recommendations.

Making these changes to the budgetary fund structure would allow for the CAFR budgetary financial statements to be presented in more detail as a part of the individual and combining statements, thus providing the Legislature, the Governor, and the public a better understanding of the uses of state funds as they were budgeted. Also, the CAFR would become a more useful document for the state's management decisions.

2. The Department of Finance and Administration should continue to prepare the *Annual Report of Budgetary Basis Expenditures* at the level of detail necessary to explain the state's legal level of budgetary controls. However, DFA should distribute this report along with the CAFR to the Legislature and the Governor.

Lack of Complete Interim Financial Reports

3. The Legislature should require formal interim reports (at least quarterly) be provided to them. These reports should provide summarized and analyzed state data:

   - state's current financial status,
   - complete cash flows (in and out),
   - information on transfers/diversions from general revenues,
   - comparisons with historical data through trend graphs and statistical data,
   - effects of state's economic data,
   - conclusions of the effects on projected year-end balances and the subsequent year, and
   - any other significant information that would assist in evaluation of the state's current and projected financial condition.

   The publication of better interim reports could be accomplished through the formalization of the group that currently projects and informally monitors revenue estimates. MISS. CODE ANN. Section 31-17-123 (1972) requires the University Research Center and State Tax Commission to work together toward revenue forecasting. However, the process has been informal and has included the following participants:

   - Department of Finance and Administration
   - Legislative Budget Office
   - University Research Center

- State Tax Commission

- State Treasurer

The Legislature should create a statutory revenue advisory group to include these current informal participants. The group should meet quarterly and produce formal quarterly reports to the Legislature and the Governor based on its analysis and conclusions as documented in the minutes of the meetings.

4. The State Tax Commission should discontinue the automatic mailing of the monthly *Cash Reports* and *Monthly Report of Tax Commission Transfers,* and should send formal notices, allowing recipients to request continued mailing, if desired. Improved interim reports should substitute for the State Tax Commission nonstatutory reports not specifically requested by legislators and others. The State Tax Commission should purge the mailing lists annually. Also, these two State Tax Commission reports should be combined into one report.

Constitutionally Required Report--
State Treasurer's Annual Transactions

5. The Legislature should provide statutory language to interpret the MISS. CONSTITUTION requirement at Article 4, Section 115, for the State Treasurer's compilation of that office's fiscal year transactions. The statute should provide that the cut-off for the fiscal year transactions coincide with the state's budgetary cut-off. (See page 48 for recommendation concerning year-end cut-off.)

State Tax Commission's Annual Report

6. The State Tax Commission should revise the information concerning general receipts in its *Annual Report* to make it more meaningful. Separate columns should be provided to segregate transfers from diversions, refunds, and nonrevenue type collections. Transfers that stay within state government should be distinguished from diversions of general revenues to local governments and should be easily recognizable as to what agency they are transferred. The report should include any explanations and information that will make the data easier to understand and evaluate, such as statutory references for the collections and transfers/diversions. Exhibit 11, page 38, presents PEER's compilation of fiscal year 1992 amounts, based on the State Tax Commission's categorization.

Lack of Consolidated State Financial Data
to Assist Evaluation of Allocation of State Resources

7. The Legislative Budget Office should provide the Legislature and the Governor with a comprehensive document by January 1 of each year that would assist with budgeting and provide a policy tool, financial plan, operations guide, and communications medium as recommended by Government Finance Officers Association (GFOA).

   To achieve this, the *Proposed Budget,* published by the Legislative Budget Office (LBO) could be expanded to include graphs, trend data, narratives, and financial and other information on all budgeted and nonbudgeted state resources to provide a more complete report of the state's finances. (Appendix G, page 113, lists the contents of the *Proposed Budget.*)

   The report should provide extensive detail on each agency's proposed measurable objectives to be achieved by activity detailed at the requested and proposed funding levels. See discussion at page 89.

8. The University Research Center should discontinue publishing the annual *Mississippi - A Fiscal Summary* (nonstatutory). LBO should accumulate this data and narrative as a part of the expanded *Proposed Budget* report. In addition, the information in the University Research Center's *The Annual Tax Expenditure Report* on foregone revenues related to tax codes should be statutorily required to be included in the expanded report produced by the University Research Center.

9. In order to provide a more complete expanded *Proposed Budget*, the Legislature should consider enacting only one appropriation bill for the funding of the general operation of state government as allowed by Section 69 of the MISSISSIPPI CONSTITUTION.

   Currently, the Legislature enacts over 100 appropriation bills annually. The enactment of only one general appropriation bill would mean that legislators could avoid handling multiple bills and perhaps better understand the state budget as a whole.

   The Legislature should consider using the single appropriation bill, including references to the proposed agency objectives to be achieved at the enacted level of appropriation. The bill (including any subsequent deficit appropriations) should be used along with the LBO report as the state's budget. The name of the report could be called the State of Mississippi *Budget.*

   LBO should compile an appropriate reconciliation between proposed budget data and the enacted appropriation to reconcile differences.

Adequacy of Fiscal Controls

Fiscal controls consist of all the policies, procedures, laws and regulations established to provide reasonable assurance that the specific goals and objectives of state government will be achieved. The components of fiscal controls go far beyond the accounting controls necessary to only assure an effective accounting system.

Fiscal controls also consist of aspects within a structure that relate to the control environment and the control procedures. Control environment consists of the overall attitude, awareness and actions of the Legislature and the Governor, as the state's governing bodies, and management controls. The control procedures are represented by the specific policies and procedures to control and safeguard assets and manage resources toward objectives.

The management and fiscal control of the state's resources are very important responsibilities of state government. As noted in the Background section, resources flow into the state through various sources of general revenues and through special collections at the state agency level.

Most general revenues are collected by the State Tax Commission, some of which are transferred for specific (earmarked) use within the state's government and some of which are diverted outside of state's government. The general revenues that are not transferred or diverted are utilized within the general treasury account funds for appropriation to state agencies. Exhibit 10, page 37, provides a summary of the total Fiscal Year 1992 general revenue collections that were available for appropriation from the general treasury account funds.

Exhibit 11, page 38, provides a summary of the Fiscal Year 1992 diversions of general revenues outside state government and the transfers made to special treasury account funds for use within state operations.

The State Tax Commission collected 96% of the general revenues for the state during Fiscal Year 1992. The State Tax Commission deposits these revenues into the State Treasury's clearing account. The State Tax Commission prepares monthly calculations of the statutory transfers and diversions, and the funds are transferred from the clearing account for disbursement for the diversions or transfers.

The general treasury account funds maintain the appropriation balances, as enacted by the Legislature, for use by the state agencies. The Office of the State Treasurer manages these funds and the special treasury account funds (which represent collections at the various state agencies) until the cash is needed for the expenditures of state government. See Exhibit 4, page 14, for flow of resources into the treasury accounts.

During Fiscal Year 1992, the Department of Finance and Administration (DFA) issued a total of 1,561,419 warrants against the state

Exhibit 10

Fiscal Year 1992 Collections
General Treasury Account Funds

State Tax Commission general collections		$1,892,977,806
Other collections:		
Interest on investments	$16,339,527	
Highway Safety Patrol fees	16,523,598	
Rental of state office space	5,392,352	
Insurance Department	3,298,545	
Crime tax	3,663,670	
Criminal law assessment	2,224,128	
Miscellaneous	1,878,154	
	$49,319,974	
Transfers of special treasury account funds	7,671,019	
Unbudgeted transfers:		
ABC bailment	2,000,000	
1992 SB 2707	4,584,199	
	$63,575,192	
		63,575,192
TOTAL before Department of Transportation		$1,956,552,998
*Department of Transportation		12,000,000
TOTAL general treasury account funds		$1,968,552,998

* Under SB 2707, $12,000,000 was obligated to be transferred from the Department of Transportation's special treasury account funds to be paid back during Fiscal Year 1993. However, there has been no appropriation of general treasury account funds for the repayment of the loan.

SOURCE: Department of Finance and Administration unaudited Fiscal Year 1992 amounts.

EXHIBIT 11
TRANSFERS/DIVERSIONS OF STATE GENERAL REVENUE
FISCAL YEAR ENDING JUNE 30, 1992

	Transfers Within State Government	Diversions to Local Governments	Held for Tax Refunds/ Other (1)	Collected for Others (Nonrevenue)	TOTAL
Sales Tax:					
Allocated to Municipalities		$178,351,390			$178,351,390
Public School Building Fund	$9,999,996				9,999,996
4-Lane Construction Project	3,128,625				3,128,625
(1) Motor Vehicle Rental Sales Tax		1,102,764			1,102,764
Special Refund Account			$2,088,435		2,088,435
Total Sales Tax	13,128,621	179,454,154	2,088,435	0	194,671,210
Individual Income Tax			125,165,723		125,165,723
Corporate Tax			17,206,334		17,206,334
Use Tax			419,659		419,659
Insurance Premium Tax:					
Municipalities		5,456,156			5,456,156
County Fire Protection		5,456,157			5,456,157
State Fire Academy Fund	1,727,010				1,727,010
(1) City of Jackson		99,146			99,146
Special Refund Account			119,774		119,774
Total Insurance Premium Tax	1,727,010	11,011,459	119,774	0	12,858,243
Tobacco Tax			83		83
ABC Taxes	3,975,271				3,975,271
Oil Severance Tax		6,106,121			6,106,121
Gas Severance		3,791,559			3,791,559
Estate Tax			250,008		250,008
Installment Loan Tax			11,418		11,418
Title Fees			13		13
(1)Gaming Fees and Taxes	148,780				148,780
(1) Nuclear Plant In Lieu		18,800,000			18,800,000
Petroleum Tax:					
Highway Dept. & Highway Bonds	220,567,802				220,567,802
State Aid Road Fund	45,000,000				45,000,000
Counties (5/14ths;Seawall; Rd. Prot.)		35,742,166			35,742,166
Mississippi Groundwater Trust	3,838,516				3,838,516
Fire Marshal's Office	414,481				414,481
Municipal Aid		1,400,885			1,400,885
Aeronautics Commission	901,440				901,440
Department of Wildlife Conservation	4,000,000				4,000,000
Refund Account			6,710,652		6,710,652
Petroleum Decal Fees Escrow			4,447,281		4,447,281
Total Petroleum Tax	274,722,239	37,143,051	11,157,933	0	323,023,223
Auto Privilege Tax:					
Highway Department	32,374,660				32,374,660
Highway 4-Lane Project	9,794,000				9,794,000
Counties		4,395,654			4,395,654
Public Service Commission	4,297,773				4,297,773
(1) Apportioned Tags				11,870,819	11,870,819
Refund Account			138,318		138,318
Mailing Fees	145,450				145,450
Total Privilege Tax	46,611,883	4,395,654	138,318	11,870,819	63,016,674
(1) Miscellaneous Taxes		3,955,812			3,955,812
Railroad Regulation Tax	344,641				344,641
City Utility Tax				530,422	530,422
Municipal Gas Utility Regulation	48,417				48,417
Trailer Registration Fees	75,536				75,536
Special County Taxes				9,878,613	9,878,613
Collection Fees	261,648				261,648
Special Agent Warrant Fees	101,082				101,082
(1) Railcar In Lieu Tax				1,390,125	1,390,125
Rice Promotion				681,043	681,043
Public Utility Regulatory Tax	2,955,134				2,955,134
Soybean Assessment Fees				1,303,331	1,303,331
Sales and Services	216,713				216,713
Dept. of Agriculture (Rice & Soybean)				7,200	7,200
TOTAL FY 92 TRANSFERS/DIVERSIONS	$344,316,975	$264,657,810	$156,557,698	$25,661,553	$791,194,036

(1) State Tax Commission makes the disbursements from the State Treasurer's clearing account (includes portion of Miscellaneous Taxes only.) All others made by State Treasurer.

SOURCE: PEER presentation of State Tax Commission FY92 unaudited amounts transferred /diverted from total STC collections of $2,686,171,839.

treasury accounts. The following presents a summary of these warrants by type:

State employee payroll	442,485
Regular disbursements (vendors)	568,586
Income tax refunds	550,348

The state's fiscal control system places too much emphasis on detailed control of expenditures and does not concentrate on methods for more effective control and direction of the state's financial resources.

Cash Receipts

- ***The State Tax Commission receives all the state's general tax revenue through checks, rather than electronic funds transfers, which delays deposits and results in lost interest revenue to the state.***

The State Tax Commission receives all forms of general tax revenues in the form of checks accompanied by tax return forms. Because of unavoidable mail time, the State Tax Commission may not receive the deposits until one to five days after the due date. (The tax returns must be postmarked only by the due date.)

Most of the State Tax Commission's collections are received at the end of each month, generally between the fifteenth and twenty-fifth day. The largest State Tax Commission collection is represented by state sales taxes and use taxes (51% of State Tax Commission collections for general treasury account funds in 1992). The following summarizes the Fiscal Year 1992 collections that were maintained by the general treasury account funds:

Sales Tax	$854,716,557
Use Tax	106,557,356
	$961,273,913

State Tax Commission receives the majority of the sales and use tax collections (due on the twentieth) usually between the twenty-first and twenty-fifth days, which represents a delay in deposits.

The next largest State Tax Commission collection is for income tax deposits: individual income tax withholdings and corporate income tax deposits. These taxes are collected quarterly. Individual income taxes are collected in April, July, October, and January; corporate income taxes are collected in March, June, September, and December. The State Tax Commission 1992 collections for these income taxes represented 36% of general treasury account funds collections. The total collection for taxes within these two categories (net of refunds) for 1992 was:

Individual	$490,305,604
Corporate	191,007,844
	$681,313,448

The total of these two revenue sources, $1,642,587,361, represents 87% of the State Tax Commission's collections for the general treasury account funds.

Assuming an average delay of two days' mail time for these taxes and utilizing the Office of the State Treasurer's average investment yield as of June 30, 1992, of 3.9%, lost "general fund" interest could be as much as $877,000 on Fiscal Year 1992 sales, use, and income taxes alone.

Even though MISS. CODE ANN. Section 27-3-57 (1972) requires the State Tax Commission to make daily deposits to the Office of the State Treasurer for its collections, the loss of interest from the delays of receiving the monies presents a cash management and control problem that should be remedied.

- ***Presently, the State Treasurer does not have control over all disbursements from that office's clearing account. The State Tax Commission actually makes tax transfers and diversions from this clearing account as required by separate statutes. This prevents the Treasurer from efficiently managing state funds.***

MISS. CODE ANN. Section 27-3-57 (1972) states:

> *All funds collected by the chairman of the state tax commission and by the state tax commission under the provisions of any law are designated as public funds of the state of Mississippi. All such funds shall be deposited in the state treasury on the same day in which said funds are collected in accordance with section 7-9-21* [State Treasurer Code Section], *The state treasurer shall transfer such monies to municipalities, counties and other special accounts, as provided by law.*

This provision is to satisfy the Office of the State Treasurer's obligation to manage and invest the state's funds in accordance with Section 27-105-33. These monies are deposited into the state's demand accounts as accounted for by the Office of the State Treasurer, clearing account 9171, until the settlement of the monies is made at the end of the month.

However, the Office of the State Treasurer does not have the statutory authority to make certain transfers from its own clearing account to make the required monthly settlement of transfers and diversions. This has come about since 1984 with the passages of specific separate tax codes directing the State Tax Commission to make the transfers. This practice is inconsistent with the intent of the statute concerning the State Treasurer as the "State Depository," Chapter 105 of the MISS. CODE ANN. (1972), and the statutory requirement for the State Treasurer's management of the state treasury accounts.

Exhibit 11, page 38, presents a summary of the subdivision of transfers and diversions and which amounts the State Tax Commission transfers.

Special Treasury Account Funds

- ***The Legislature's control over the state's general revenues is diminished by the use of special treasury account funds, earmarking and transferring general revenues outside the appropriation process and state agencies' collection of fees which could be considered general revenues.***

As presented at Exhibit 11, page 38, over $344 million of the Fiscal Year 1992 general revenues was transferred to special treasury account funds outside the appropriations process for use within state government. This represents eighteen percent of the total net transferred by the State Tax Commission of $1,894,977,803 for use by general treasury account funds.

Because of the general law's mandating of the transfers of these funds, the Legislature's control over resources through the appropriations process is diminished. Earmarking of revenues makes it more difficult for the Legislature to evaluate and allocate the state's resources toward the state's immediate and long-term needs.

Also, some fees collected at the state agencies could, because of the nature of the receipts, possibly be considered general revenues of the state. Permitting state agencies to maintain fees (whether statutory or nonstatutory) that could be classified as general revenues restricts the Legislature's access to all available sources for its allocation. The Legislature loses control and the ability to manage the use of the resources toward the priorities of the state.

PEER was unable to determine within the time available the extent and total amount of these fees and the legal restrictions for specified purposes. However, several categories of collections are noted that are not statutorily required to transfer their year-end balances to the general treasury account funds, as follows:

- Feed, fertilizer, meat and other fees and permits--Department of Agriculture and Commerce
- Driver's license report, reinstatement and other fees--Department of Public Safety

- License, fees, and permits--Department of Wildlife, Fisheries & Parks (those not restricted by federal law)

These types of fees should be considered for transfer to the general treasury account funds, and the Legislature should require the appropriation of general revenues for the agency activities.

- ***The state's current classification of special treasury account funds does not provide a subdivision to discern and control federal revenues from other agencies' special collections.***

The special treasury account funds are established for the cash received by state agencies. These accounts are not subdivided to allow for easy identification of federal revenues from other agency receipts.

Since these treasury accounts represent cash accounts held by the State Treasurer, it should be possible to amend the current numbering of accounts to establish subaccounts. This would allow for the segregation of cash use (federal versus other) without the necessary dual reporting of two distinct treasury accounts.

Cash Disbursements

- ***Methods used by DFA and the Office of the State Treasurer to process and pay disbursements are inefficient because they are paperwork-intensive and do not fully utilize available electronic and computer processing.***

  -- *DFA issues paper warrants for almost all disbursements of state treasury account funds, rather than relying on electronic processing, which represents a more efficient means.*

Over 1.5 million State Treasury warrants were issued during Fiscal Year 1992. The Office of the State Treasurer has estimated that the state currently pays approximately 14 cents per warrant for bank charges alone. This cost does not include employees' processing time or mailing costs. Applying this per-warrant cost to these FY 1992 warrants, the approximate costs per type of warrants were:

State employee payroll	$ 61,948
Regular disbursements	79,602
Income tax refunds	77,049
	$218,599

In addition to the bank charges and $324,491 (at 29 cents each) to mail warrants in FY 1992, the following elements should be considered:

- Transaction time--period from approved payment vouchers through the mailing of warrants.

- Employee lost time to deposit/cash payroll warrants.

- State Treasury sort time, computer processing, microfilming.

- DFA printing of warrants and related costs.

The Office of the State Treasurer currently utilizes Automated Clearing House, rather than warrants, for certain recurring disbursements and for established amounts: the State Department of Education's minimum program monthly payments to public schools; Medicaid weekly disbursements for claims; and Education Enhancement (1992 SB 3120) transfers to IHL, community colleges, and the State Department of Education.

The Automated Clearing House represents the utilization of a commercial bank that operates under a National Automatic Clearing House Association for the exchange of electronic payments. The Automated Clearing House is different than wire bank transfers, which are used for one transaction rather than several disbursements. Automated Clearing House payments are actually direct entries into the payees' bank accounts performed under agreement/authority by the respective payees. The Automated Clearing House may also be used to withdraw funds, such as recurring revenue receipts, monthly tax deposits.)

The effects of utilizing Automated Clearing House are the savings of the above-mentioned costs, net of any interest earnings lost because the monies move out of the Treasury faster (the float is lost). This currently represents a problem with the disbursement of federal dollars as a result of the "Cash Management Act," which requires the state's rebate of these interest earnings.

Careful planning for Automated Clearing House utilization would be needed to accompany the enactment of electronic funds transfer or Automated Clearing House procedures for the state's revenue receipts.

-- *As required by state law, DFA performs extensive preaudit of agency expenditures, resulting in extensive paperwork and over-controlling of state disbursements which could be more effectively handled through standardization of agencies' internal auditing and reliance on internal controls.*

MISS. CODE ANN. Section 7-7-33 (1972) requires DFA to issue warrants only upon satisfactory preaudit of claims by standards established by that office in consultation with Office of the State Auditor. This system usually has been a random selection of payment vouchers (such as every third voucher.)

This preaudit function has been in effect, in some form, since 1962. However, the state now has a statewide accounting system that can provide significant controls (see SAAS section, page 49). Also, DFA has in place standard procedures for agencies to follow concerning the financial transactions. As discussed in Appendix A, page 95, the state also utilizes specific procurement procedures.

The statute also requires preaudit functions at the state agency level. CODE Section 7-7-3(5)(d) states that one of the duties of DFA is:

> *To require of each state agency, through its governing board or executive head, the maintaining of continuous internal audit covering the activities of such agency affecting its revenue and expenditures, and an adequate internal system of preauditing claims, demands and accounts against such agency as to adequately ensure that only valid claims, demands and accounts be paid.*

DFA is required under this section to monitor state agencies' compliance, and if agencies fail to comply, may require the state agencies to furnish competent and adequate personnel to carry out the provisions of that section.

Some of the internal audit functions at the state agencies are performed by personnel actually in "Internal Auditor" positions; others achieve these requirements by having cross-checks within the accounting system. Nevertheless, the state agencies' internal auditing activities presently do not receive any oversight or controls. This lack of oversight weakens the reliability of the internal audit reviews and processes. There is no assurance that the internal reviews and appraisals:

- are guided by objectivity;
- are led by qualified and trained personnel;
- provide complete and proper evaluations;
- are performed by a complete and standard process; and,
- are properly managed.

Also, there is no assurance that state agencies, because of significance of resources and operations, have "Internal Auditor" personnel to achieve the responsibilities satisfactorily.

To be effective, internal auditing needs to be directed by standards and specific guidelines. The Institute of Internal Auditors represents the authoritative body in the development and maintenance of the practice of internal auditing. The Institute of Internal Auditors has promulgated professional standards which address the basic principles of conduct, roles and responsibilities and specific standards for the practice of internal auditing.

Statutorily Allowed Year-End Disbursements Cut-Off

- ***The state's fiscal controls are weakened by the statutorily allowed year-end lapse period cut-off of August 31, rather than June 30. Also, this cut-off method causes confusion in understanding and using the state's financial statements.***

MISS. CODE ANN. Section 7-7-23 (1972), states:

> *All purchase orders covering purchases to be paid for out of funds appropriated for any fiscal year shall be executed by June 30 of the fiscal year and shall be filed with and received for recording by the State Fiscal Officer within five (5) working days thereafter, and for electronically submitted purchase orders, the State Fiscal Officer shall issue regulations as to the last filing date required for purchase orders;* ***otherwise the same shall not be deemed to constitute valid obligations against the state within the meaning of Section 64 of the Constitution. . . .*** [Emphasis added]

However, Section 64 of the MISSISSIPPI CONSTITUTION does not require the method of fiscal year cut-off, but only restricts the continuance of an appropriation bill for longer than sixty days after fiscal year-end. It does not require that amounts be paid against the appropriations after the June 30 year-end. Section 64 states:

> *No bill passed after the adoption of this Constitution to make appropriations of money out of the state treasury shall continue in force more than two months after the expiration of the fiscal year ending after the meeting of the legislature at its next regular session; nor shall such bill be passed except by the votes of a majority of all members elected to each house of the legislature.*

The effect of allowing these uncompleted year-end orders to become current year budgetary expenditures cripples the state's management and proper measurement of the actual obligations for goods and services actually received. In accordance with generally accepted accounting principles, an open obligation to purchase does not become an indebtedness until the good or services are received (incurred).

For enhanced fiscal controls, budgetary expenditures for a fiscal period should be recognized only for true obligations for that period (not orders.) Any amounts that represent open purchase orders (encumbrances) should be considered obligations (when the goods and services are received) for the subsequent fiscal year and reappropriations of the monies should be budgeted.

Recommendations

Cash Receipts

1. The State Tax Commission, working with the Office of the State Treasurer, should immediately initiate a process to allow for electronic funds transfers of general tax revenues. The process should begin as soon as possible--Fiscal Year 1994, with the largest tax depositors being required to perform electronic funds transfers first. Once the State Tax Commission and the Office of the State Treasurer implement a system, optional use of electronic funds transfer should be available to all taxpayers.

2. The State Tax Commission should not perform transfers or diversions of general revenues collected. The Legislature should require that the State Treasurer make all transfers of general revenues from the Office of the State Treasurer's clearing account into the appropriate special treasury account funds, and subsequent diversions of those funds outside of state government. The applicable statutes that require amending include MISS. CODE ANN. Sections 27-65-231, 27-35-309, and 27-3-57 (to affect all current and future creation, expansion, or amendment of general tax revenues.)

Special Treasury Account Funds

3. The Legislature should carefully evaluate the effect of earmarking general tax revenues on the Legislature's ability to appropriate resources toward the state's priorities.

   LBO should study these earmarked general revenue transfers outside the appropriation process. This study should determine if the distributions meet the goals of the state. LBO should provide a formal report with recommendations and draft legislation to the Legislature.

4. LBO should also study all state agencies' collections to determine proper restriction of the collections for their exclusive use. The LBO study should determine the nature of the receipts and by what authority the agency maintains the revenues, rather than transferring them to the general treasury account funds and receiving an allocation of those funds for the operation of activities.

   LBO's study should produce a formal report to the Legislature, with proposed changes and recommendations, and draft legislation as appropriate.

5. DFA should examine the feasibility and possibility of establishing a further subdivision of special treasury account funds into subaccounts to allow for the segregation of those accounts for federal funds. It

should consider utilizing these subaccounts combined into one reporting "fund" for GAAP reporting purposes.

Cash Disbursements

6. After the state's implementation of electronic funds transfers for the general revenue system, the Office of the State Treasurer should work with DFA toward the implementation of the use of Automated Clearing House for state disbursements.

7. The Office of the State Treasurer and DFA should first consider and implement direct deposit of state employee payroll. These agencies have been working toward that objective the last several years and have performed some preliminary work.

   DFA should consider implementing the Automated Clearing House on a volunteer basis for current employees, and on a mandatory basis for all new hires after a specified date. DFA and the Office of the State Treasurer should initiate an extensive education program for state employees to make them aware of the service and the benefits derived from the direct deposit of the funds.

8. DFA and the Office of the State Treasurer should work toward using Automated Clearing House for vendor payments (all other payees.) DFA, utilizing the SAAS vendor information, should provide a system of disbursements issuing only one weekly Automated Clearing House payment to each vendor. This should be performed by accumulating the weekly payment voucher data for all funds and distributing one Automated Clearing House payment to each vendor's bank account. DFA would send each vendor one payment advice, through the mail, that would summarize all applicable order, invoice, and agency accounting data. The agency would be notified of the issuance of the Automated Clearing House through a register (similar to the current warrant register.)

9. In conjunction with the above Automated Clearing House payments to vendors, the state should execute contracts between the Office of the State Treasurer and vendors that would obligate vendors to make all related tax deposits to the state via electronic funds transfers (e.g., sales, withholding, corporate, beer and wine)

10. The Legislature should amend MISS. CODE ANN. 7-7-33 (1972) to allow DFA's reliance on the internal control systems at the agency level.

    Effective February 1, 1992, DFA set standards for agencies in evaluation of internal controls and provided guidance on the aspects of internal auditing. The Legislature should amend MISS. CODE ANN. Section 7-7-3(5)(d) in conjunction with the "Internal Audit" portion of proposed legislation, as discussed below, to require a formally established monitoring system and reliance on the Office of the State Auditor's audit procedures and opinions.

11. The Legislature should give DFA the authority to set the levels of preauditing or subsequent reviews of expenditures (per sampling--post auditing) that an agency should receive based on its analysis of the levels of controls at the agency.

12. The Legislature should strengthen state agencies' internal auditing activities by requiring DFA to direct these functions in addition to the responsibilities as established at Section 7-7-3(5)(d.) DFA should establish policies and regulations to require that the standards of the Institute of Internal Auditors are satisfied.

    Specifically, DFA should be statutorily required to develop and maintain internal audit programs, assuring appropriate internal management controls to assist in safeguarding assets, accurate accounting and reporting of financial transactions, and providing effective and efficient management in accordance with applicable state and federal laws.

    DFA should assign these oversight duties to either a certified public accountant or a certified internal auditor within its staff. The Legislature should provided DFA with the necessary powers to carry out the purposes and direction of the Institute of Internal Auditors.

    DFA should also establish guidelines and present considerations for state agencies' needs for internal audit personnel.

Statutorily Allowed Year-End Disbursements Cut-Off

13. The Legislature should amend CODE Section 7-7-23 to eliminate the reference to Section 64 of the MISSISSIPPI CONSTITUTION. Additional language should be added to set the fiscal year cut-off for the recognition of expenditures to be in accordance with GAAP, wherein expenditures are only recorded for goods and/or services actually received.

    The statutes should be amended to reflect that encumbrances at year-end, represented by open purchase orders, are obligations of the state, but will be funded and budgeted to the year in which the indebtedness occurs as a result of an obligation of payment for actual goods and/or services delivered.

Development, Implementation and Benefits of SAAS

In accordance with House Bill 505, PEER reviewed the development, implementation and benefits of the Statewide Automated Accounting System (SAAS). PEER also presents the problems associated with the implementation of SAAS and makes recommendations to address those problems.

Background

The Department of Finance and Administration is charged by law with maintaining the state's accounting system. As stated in MISS. CODE ANN. Section 7-7-9, the Department of Finance and Administration "*shall maintain a complete system of general accounting to comprehend the financial transactions*" of state agencies. MISS. CODE ANN. Section 7-7-3 (2) states that the Executive Director of DFA (known previously as the State Fiscal Officer):

> *shall prescribe and implement in the office of each state agency an adequate accrual accounting system, in conformity with generally accepted accounting principles, and a system for keeping other essential financial records or, in lieu thereof, may install a state centralized automated accounting system which facilitates reporting the financial position and operations of the state as a whole, in conformity with generally accepted accounting principles. All such accounting systems so prescribed or installed shall be as uniform as may be practicable for agencies and offices of the same class and character. Each state agency shall adopt and use the system prescribed and approved for it by the State Fiscal Officer, and the State Fiscal Officer shall have the authority and power to impound all funds of such agency until it complies with the provisions of this section.*

This CODE section states that agencies must either use agency-specific manual or automated computer accounting systems, or a state centralized automated accounting system. As computer systems became a practical alternative to manual systems, larger state agencies began to use automated accounting systems to record their transactions.

Because the Division of Public Accounts in the Office of the State Auditor (prior to DFA) was responsible for preauditing agencies' purchasing transactions, it developed a computer system in the 1960's to enter agency transactions which it approved. That computer system kept track of the cash receipts and disbursements of agencies but did not record agency liabilities, and therefore did not present the true financial position of agencies. In 1988, the state purchased SAAS to be used as the internal accounting system by all agencies, as well as a state-level accounting system for DFA (see **Development of SAAS**, page 50). DFA planned eventually to require most agencies, depending on size, to use SAAS as their internal accounting systems. SAAS would then replace agencies' manual systems or their non-SAAS automated systems. As shown in Exhibit 12, page 51, only seven agencies (known as on-line agencies) currently use SAAS as their internal accounting system. The remaining "off-line" agencies still maintain separate manual or computerized accounting systems.

Development of SAAS

Planning for the System

In October 1985 state officials began planning for a statewide automated accounting system. Seven years later, SAAS has provided various benefits to the state, but the system's potential to meet all objectives has not currently been met.

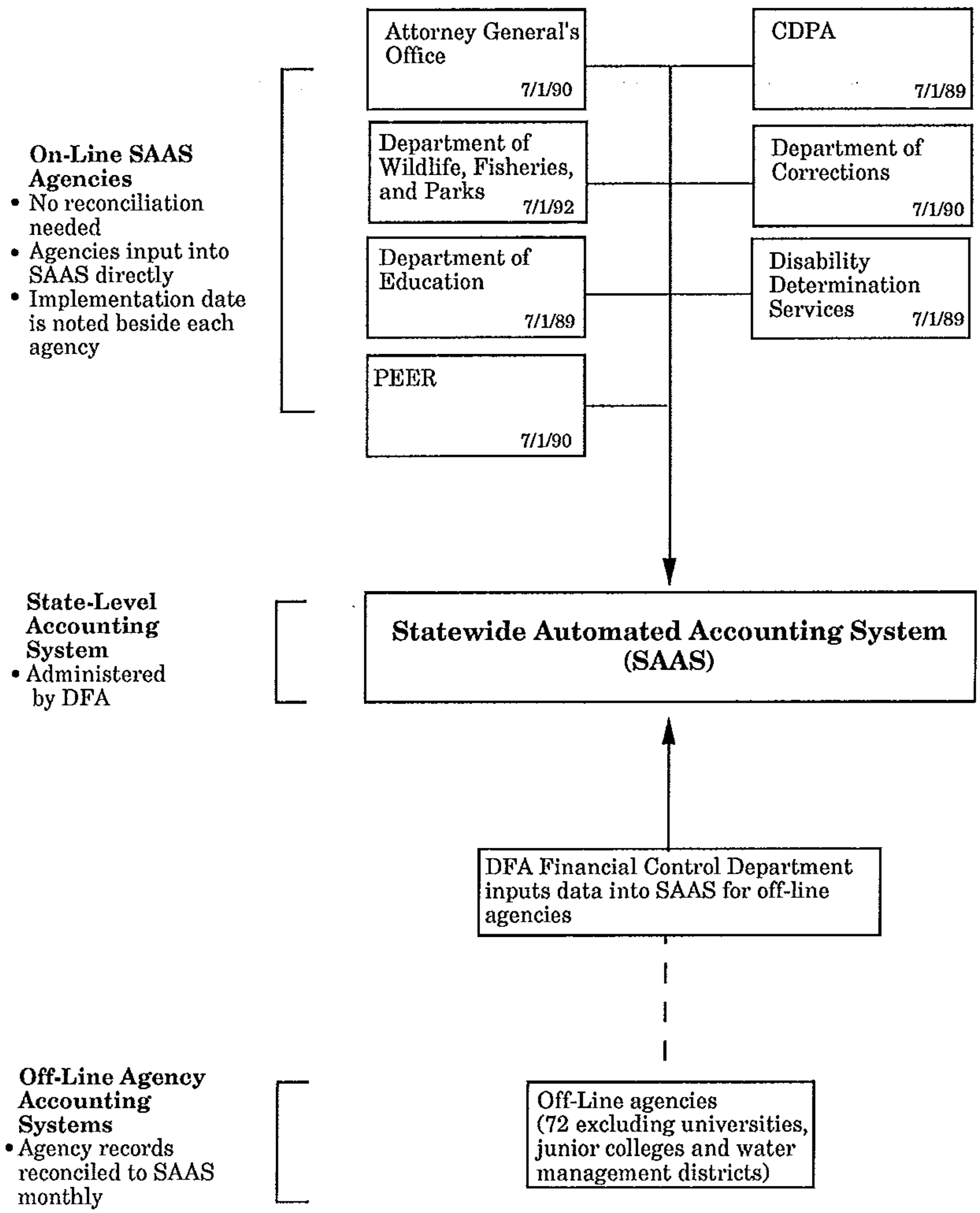
In 1985 state agencies began to consider the purchase of a computerized accounting system which would meet generally accepted accounting principles. On October 15, 1985, Ray Mabus, then State Auditor, and Frank Stebbins, Executive Director of the Central Data Processing Authority (CDPA), met with state agency heads interested in pooling resources to develop a state agency computerized accounting system. The rationale for cooperation among agencies was to spread the high cost of such an accounting system across numerous agencies.

A state task force developed specifications for a Request for Proposal (RFP), and CDPA accepted a proposal from Arthur Young and Company in August 1986 for a cost of $710,000 plus expenses. During the period from September 1986 to early 1988, problems arose with the implementation of the contract. CDPA expressed concern with the amount of guidance and level of knowledge of Arthur Young's project management team. The Fiscal Management Board (FMB) determined that additional enhancements and modifications were necessary to meet the needs of the state. The additional enhancements which had not been included in the original contract would cost the state $387,397, according to Arthur Young. FMB disputed that changes to the contract would require approval of CDPA. After an Attorney General's opinion in January 1988 declared that CDPA had jurisdiction over the contract, representatives of CDPA, FMB and the State Department of Audit held several meetings with Arthur Young. As a result of these meetings, Arthur Young notified the state it was terminating the contract.

The state implementation team began in April 1988 to develop more detailed specifications from the work that the state team had done in preparing the system requirements for Arthur Young and Company. Three vendors bid in response to RFP 1366 dated July 22, 1988:

- Peat Marwick Main and Company;

Exhibit 12
SAAS On-Line And Off-Line Agency Accounting Systems



NOTE: SAAS is the accounting system for the on-line agencies.

SOURCE: PEER analysis.

- Arthur Andersen and Company/American Management Systems (Government Financial System--GFS); and,

- Management Science America, Inc./Deloitte Haskins and Sells.

Contract Procurement

Because a system was not available to meet all the state's needs, DFA would have had to modify any system purchased.

The vendors which bid in response to Mississippi's RFP offered all three of the basic commercial software packages available for statewide accounting systems. Since states and other public entities requiring software have various local laws and procedures which must be met, many public entities buy basic systems which have to be customized to meet their individual needs. Mississippi, like other states, had to purchase a basic system to be modified to meet its needs. The alternative would have been to develop a customized system from the ground up, potentially costing the entity much more overall.

- ***According to a CDPA analysis of bids, DFA accepted the "lowest and best" of three bids for an accounting system, including modifications by consultants.***

In late 1988, the state evaluated the bids for acquisition and implementation of an automated accounting system for state agencies. An internal CDPA memo dated October 18, 1988, explained why the lowest bid from Peat Marwick totaling $1,135,000 did not meet the requirements of the state. Management Science of America submitted the highest bid at $3,935,819. The second lowest bid from Arthur Andersen for installation of the American Management Systems' Government Financial System (GFS) at $2,148,500 was acceptable. The staffs of CDPA, FMB and the State Evaluation Team recommended that Arthur Andersen be selected as the lowest and best bidder. The actual contract which CDPA entered into with Arthur Andersen on behalf of FMB on December 30, 1988, totaled $1,973,500.

- ***The original SAAS contract did not require that all changes be made by the consultant. Because DFA did not plan properly for an adequate implementation period or budget enough state staff hours to complete the modifications during the initial implementation period, DFA is still working on modifications that are in the RFP.***

Arthur Andersen's response to the RFP stated that Arthur Andersen would not assume primary responsibility for the project tasks related to the:

--design of custom reports,

--interfaces of off-line agency accounting systems to the SAAS system, and

--design of conversion programs which would convert agencies' historical accounting data into the new SAAS system.

DFA had limited personnel resources devoted to these tasks. In fact, in fiscal years 1990 and 1991, a CDPA consultant to DFA repeatedly advised DFA to hire additional personnel to facilitate implementation of SAAS. (DFA had hired a CDPA Systems Policy and Planning employee to serve as project coordinator and advisor from October 1989 to October 1990.) In addition, the initial implementation period of six months was inadequate. Other states have taken up to a year or more to implement statewide accounting systems.

Lack of planning for the staff hours and appropriate time needed to complete system modifications resulted in a system which has not yet met all agency needs.

Costs of SAAS

SAAS has cost the state $3,263,486 to implement and approximately $5,568,666 to operate over a six-year period.

Since fiscal year 1987 the state has spent $3,263,486 in implementing SAAS, as shown in Exhibit 13, page 54. During that period SAAS operating costs totaled $5,568,666. Exhibit 14, page 55, compares the trends in development and operating costs during the six-year implementation period.

As shown in Exhibit 13, $641,793 of the $5,568,666 in SAAS operating costs represents the amount which would have occurred regardless of whether the state had developed SAAS. Of the $641,793, $431,493 was spent on salaries and benefits of DFA Management Information Systems (MIS) personnel during three fiscal years who were already on the state payroll and would have been paid to operate the old accounting system. The remaining $210,300 ($70,100 per year) represents the amount which would have been paid to CDPA for computer time user charges if DFA had continued to use the old accounting system. (The $70,100 is the actual cost of computer time charges in fiscal year 1989, prior to SAAS implementation.)

CDPA user charges represent the majority of SAAS operating costs, as shown in Exhibit 15, page 56. Of the $5,568,666 in total operating costs over a six-year period, $3,170,348, or 57%, was spent on CDPA user charges.

Since FY 1987 DFA has received $8,869,255 in general and special treasury account funds to pay the total $8,832,152 in development and operating costs incurred since inception. As shown in Exhibit 16, page 57, the greatest source of revenues to fund SAAS costs has been DFA special treasury account funds totalling $5,458,818, 62% of total revenues during the six-year period.

Exhibit 13
SAAS Funding

	FY87	FY88	FY89	FY90	FY91	FY92	TOTAL
SOURCES OF FUNDS							
DFA General Treasury Account Funds			$245,000	$544,593	$554,901	$533,437	$1,877,931
DFA Cost Allocation Fund	188,976	76,471	1,063,448	699,905	1,133,676	873,594	4,036,070
DFA Local Loan Disaster Fund				699,288	139,234	160,800	999,323
DFA PreSort Mail Fund						200,000	200,000
DFA Aircraft Fund				223,425			223,425
CDPA Computer Center Fund				811,595			811,595
DWFP Funds--Implementation Costs (a)						320,876 a	320,876
Agency Reimbursements to DFA for:							
CDPA Computer Time Charges						174,100 b	174,100
Implementation Costs (c)					119,031	78,220	197,251
Training					694	2,510	3,204
Other					260	25,220	25,480
TOTAL SOURCES	**$188,976**	**$76,471**	**$1,308,448**	**$2,978,806**	**$1,947,796**	**$2,368,757**	**$8,869,255**
USES OF FUNDS							
Development Costs							
Initial SAAS Implementation:							
Software			175,825	241,675			417,500
Consulting-outside vendor	179,946	74,760	821,336	892,961			1,969,003
Consulting-CDPA			48,705	266,273	63,430		378,408
Additional Consulting Fees:							
System Modifications						95,300	95,300
Additional On-Line Agency Implementations					82,400	320,876 a	403,276
Total Development Costs	$179,946	$74,760	$1,045,866	$1,400,909	$145,830	$416,176	$3,263,486
Operating Costs--SAAS-Specific							
DFA SAAS personnel	9,030	1,711		299,733	293,419	306,677	910,570
DFA MIS personnel				17,283	115,736	138,578	271,597
Consulting					76,692	134,380	211,072
CDPA computer time user charges			190,159	889,674	952,784	927,431 b	2,960,048
Vendor Maintenance/License					46,740	98,154 d	144,894
Other			72,423	165,645	93,913	96,711	428,692
Subtotal	$9,030	$1,711	$262,582	$1,372,335	$1,579,284	$1,701,931	$4,926,873
Operating Costs--Not SAAS-Specific ***(These costs would occur with any accounting system.)***							
CDPA computer time user charges				70,100	70,100	70,100	210,300
DFA MIS personnel				135,459	143,375	152,658	431,493
Subtotal				$205,559	$213,475	$222,758	$641,793
Total Operating Costs	$9,030	$1,711	$262,582	$1,577,894	$1,792,759	$1,924,690	$5,568,666
TOTAL USES	**$188,976**	**$76,471**	**$1,308,448**	**$2,978,802**	**$1,938,588**	**$2,340,866**	**$8,832,152**
EXCESS SOURCES OVER USES	$0	$0	$0	$4	$9,208	$27,891	$37,103

(a) Fees paid directly by Department of Wildlife, Fisheries and Parks to outside consultants.

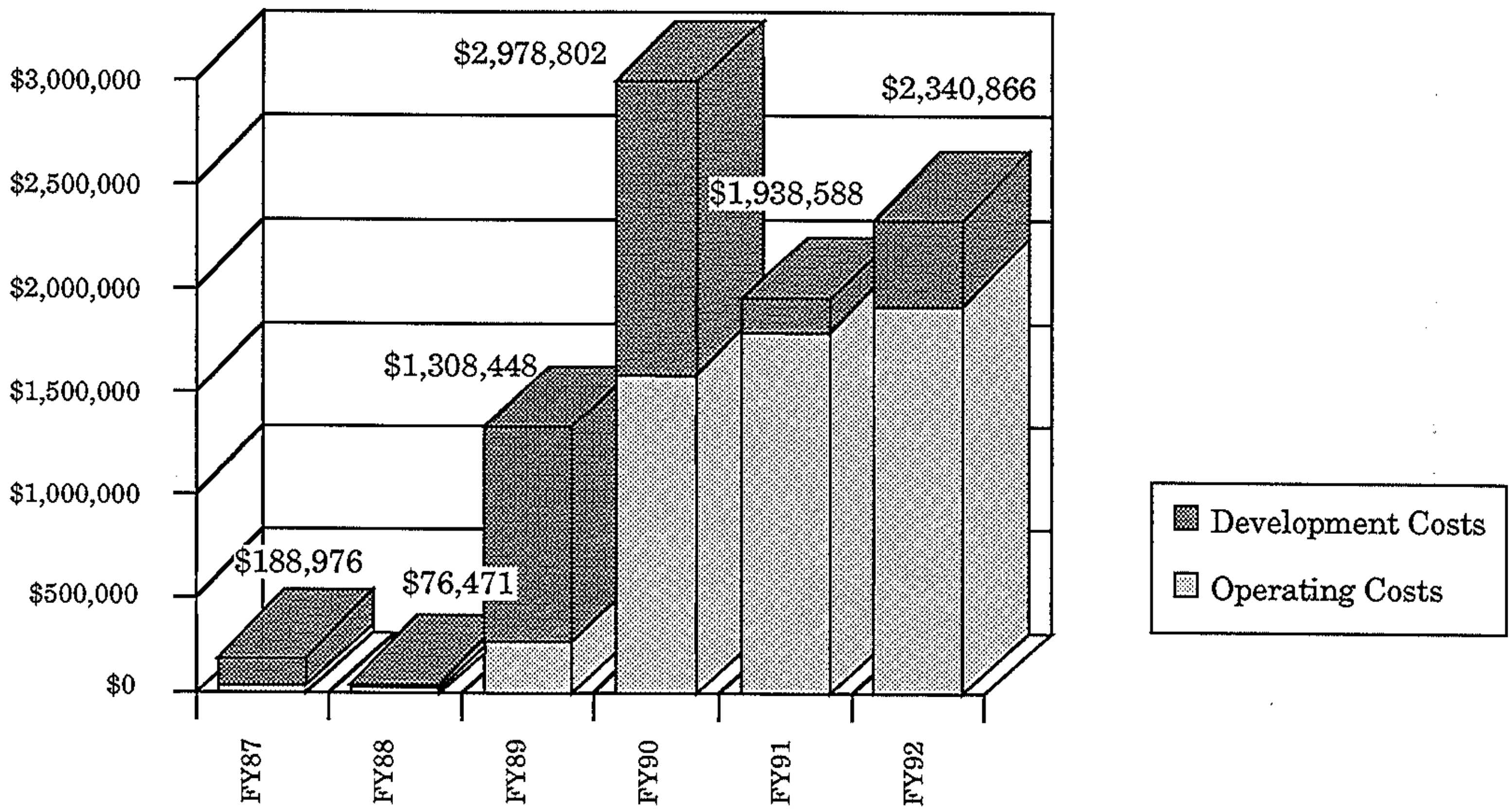
(b) Senate Bill 3119 authorized DFA to escalate funds by charging agencies for operating SAAS and to use the funds to defray expenses of any division of DFA. Accordingly DFA billed agencies for their pro rata portion of CDPA user charges incurred for SAAS. During FY92 DFA received $791,995 in payments from agencies and applied $174,100 to pay SAAS costs and the remainder to pay for other DFA operations. In FY93 the total amount of agency payments received will be used to pay for SAAS operations.

(c) FY1991 fees were paid by the Attorney General's Office ($23,480); Department of Corrections ($46,300); PEER Committee ($12,620); and Department of Human Services ($36,631). FY1992 fees were paid by Department of Wildlife, Fisheries and Parks ($62,680) and DHS ($15,540).

(d) Includes 1991-92 fee of $46,740 and 1992-93 fee of $51,414.

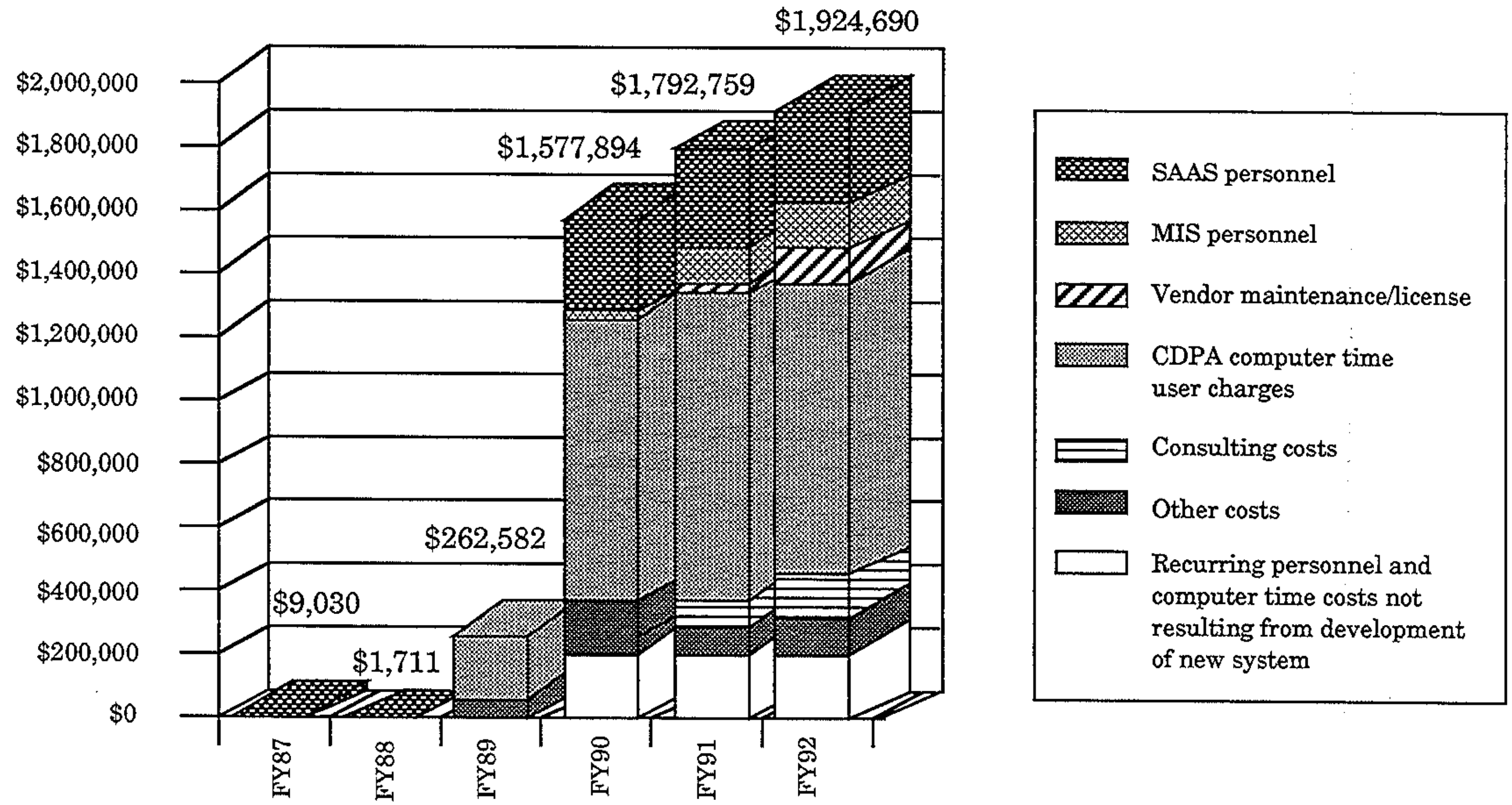
SOURCE: PEER compilation of DFA and agency unaudited information.

Exhibit 14
Development and Operating Costs of the Statewide Automated Accounting System



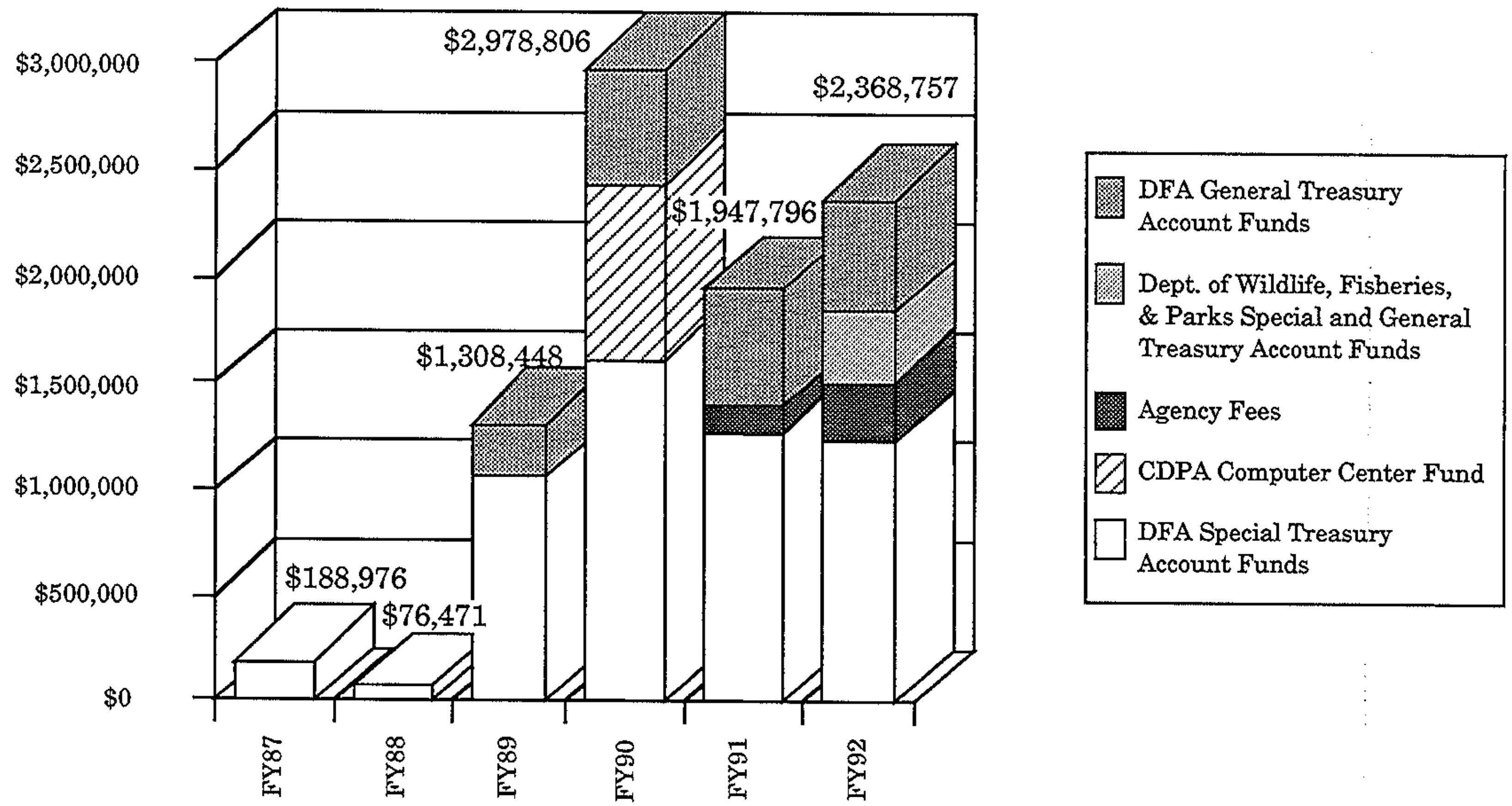
SOURCE: PEER analysis of Department of Finance and Administration statements of cost.

Exhibit 15
Trend in SAAS Operating Costs--Fiscal Years 1987 to 1992



SOURCE: PEER analysis of Department of Finance and Administration statements of cost.

Exhibit 16
Sources of Revenue for SAAS Development and Operation



SOURCE: PEER analysis ofDepartment of Finance and Administration statement of revenues.

PEER asked the on-line agencies and DFA's Department of Financial Control to respond to a questionnaire regarding additional costs or savings which may have occurred as a result of their using SAAS instead of previous accounting systems. The agencies reported the implementation costs and CDPA computer time user charges already included in Exhibit 13, page 54. The agencies also reported additional costs of $76,597 and savings of $264,699, for a net cost savings of $188,102. The savings consisted of efficiencies reported by agencies in the area of personnel. Some agencies stated they had reduced personnel due to SAAS, other agencies eliminated positions but utilized those positions to perform new or different functions, and one agency eliminated a yearly personal services contract for part-time work in preparing GAAP packages.

Benefits of SAAS

The state has realized several benefits from having a statewide accounting system. Although SAAS has not been fully modified to meet all agency needs for internal financial management, as explained in the section entitled **Problems with Implementation of SAAS**, page 61, SAAS has improved financial management in the state. Other benefits may be derived from capabilities within the system that are available but not yet utilized. SAAS can accumulate costs in the system by various methods, providing flexibility to the state to make changes in policy, budgeting and control.

Primary benefits of SAAS include facilitating maintenance of a statutorily required GAAP accounting system and DFA's preparation of the CAFR, eliminating reconciliation of two sets of books for the seven on-line agencies, improving accuracy of financial records, allowing on-line agencies to control spending on a detailed level, improving timeliness of financial information, and consolidating statewide information to ease federal reporting.

Facilitating Maintenance of a Statutorily Required GAAP Accounting System and Preparation of the Comprehensive Annual Financial Report-- As explained on page 1, CODE Section 7-7-3 (2) requires DFA to implement an accounting system in accordance with generally accepted accounting principles (GAAP). Prior to the implementation of SAAS, the state's old accounting system did not record the liabilities and fund balances of the state. Before SAAS, DFA and the state agencies used a completely manual process to generate GAAP financial statements. SAAS has increased the automation of financial statement preparation. The resulting GAAP financial statements are compiled into the *Comprehensive Annual Financial Report* (CAFR) which presents the financial position of the state, as required by CODE Section 27-104-4 (2).

In pre-SAAS years, agencies without automated systems had to prepare manually the entire financial statement preparation package submitted to DFA (GAAP package). Now SAAS generates an automatic

Balance Sheet and Revenues and Expenditures Statement for all state agencies, which the agencies can then adjust as needed. Another benefit of the SAAS system is the automation of some transactions (reversing entries) which occur under generally accepted accounting principles.

Eliminating Reconciliation of Two Sets of Books for On-line Agencies--The seven state agencies which use SAAS as their internal accounting systems no longer must reconcile their books to DFA's accounting records. On-line SAAS agencies enter their transactions directly into the SAAS system, which generates their internal accounting records. Therefore, they do not have to keep a second set of books. As an example of time savings, Department of Corrections, an on-line agency, determined that half of an accountant's time was no longer used in the reconciliation function since coming on-line, but was utilized in another capacity.

Improving Accuracy of Financial Records--SAAS improves accuracy of financial records for on-line and off-line agencies. On-line agency records are more accurate because transactions included in reports have already been approved by DFA. Transactions included in off-line agency reports might be cancelled or altered by DFA at a later date.

The automatic SAAS-prepared trial balances for off-line and on-line agencies assure that the year-end GAAP financial statement balances are always balanced. Other automatic transactions and edit checks reduce the possibility for mistakes. This improved accuracy allows the Office of the State Auditor to rely more on agency financial records.

SAAS improves internal controls by requiring that purchase order, payment voucher and receiving documents agree and therefore insuring accurate and appropriately approved transactions. For example, SAAS does not allow an employee to enter a payment voucher which does not match the purchase order, thus improving internal control.

Allowing Improved On-line Agency Financial Management by Controlling Spending on a Detailed Level--DFA controls agency spending on an agency level according to enacted appropriation bills. SAAS allows agencies to establish and manage their budgets at a more detailed level than the enacted appropriation.

Larger agencies, especially the State Department of Education, derive improved internal financial management and accountability from this SAAS capability. For instance, State Department of Education personnel can view their 250 different organizational budgets on the computer screen daily to determine their available balances. SAAS will not allow these personnel to make expenditures when the appropriation balance is insufficient. The State Department of Education's SAAS capabilities also insure that cash is not overspent within 300 different federal grant reporting categories. The SAAS security capabilities allow top agency management to determine which personnel can access accounting and budgeting information and at what level. These security levels, which improve management and control of funds, were not available under pre-SAAS accounting systems.

SAAS also contains a complex account coding system to allow agencies to account for costs in a variety of ways, including by major and minor object codes, agency-wide projects, federal grants, program activities, and organizational budgets.

Improving Timeliness of Financial Information--SAAS improves timeliness of financial information by allowing on-line agencies (and off-line agencies with access to the state computer center) to view information on the computer screen daily. Examples of on-line information include budget balances within the agency by organizational divisions and the status of documents in process and waiting for approval by internal agency personnel and DFA.

For some agencies the month-end reports generated by SAAS are more timely than those generated by their previous accounting systems. For instance, many SAAS reports generated for the State Department of Education are printed from the second to the fifth day after month end. This was an improvement over timeliness of State Department of Education internal reports printed twenty-five to thirty days after month-end prior to SAAS.

Consolidating Statewide Information to Improve Federal Reporting--As the federal government regulations on states increase, federal reporting requirements also become more complex. The SAAS system allows the state to complete some federal reports which the previous state-level accounting system could not. For instance, the federal government is in the process of requiring states to track detailed interest transactions on federal funds under the Cash Management Improvement Act; the SAAS system can handle this tracking. In addition, according to DFA officials, the pre-SAAS state-level accounting system could not accurately perform annual IRS Form 1099 reporting for the federal government on a statewide basis; DFA plans to report 1099 information from a statewide level in the future through the SAAS system.

A CDPA official stated that SAAS was important in allowing CDPA to follow the November 5, 1991, federal directive of the U. S. Department of Health and Human Services that computer user rates reflect the actual costs for agency use by state fund account. The requirement was set so that agencies' reimbursements from the federal government for indirect costs would be accurate.

Additional Benefits--SAAS also consolidates statewide vendor information so that legislators can request information regarding payments to vendors. For instance, legislators and others could request the total amount paid to one vendor on a statewide basis and receive an accurate figure from SAAS.

Problems with the Implementation of SAAS

DFA never developed a comprehensive plan for implementing SAAS, including projecting the full implementation and operating costs of SAAS, planning for the proper personnel structure to support the system, and planning for meeting statewide objectives and agency needs.

Various problems with SAAS implementation can be traced to DFA's lack of planning. Until PEER requested cost projections in September 1992, DFA had not begun to plan for costs of implementing SAAS on a statewide basis. PEER also found that DFA had not properly set up its organization in order to best implement SAAS and had not set up a plan to address comprehensively meeting the needs of agencies. Many unmet needs of agencies can be traced to problems with SAAS reporting, training and communications with agencies.

Inadequate Planning for Implementation and Operating Costs

The purpose of the original $2 million Arthur Andersen consulting and software contract for SAAS implementation was to set up SAAS as the state-level accounting system and to implement SAAS as the internal accounting system for three agencies (on-line agencies). The original plan was to bring all or most state agencies on-line at a later date. According to DFA officials, state budget problems reduced SAAS as a priority of the prior executive administration. As a result, there was no push to bring additional agencies on-line and make additional modifications needed to solve all problems of the system. Since initial implementation, only four additional agencies have come on-line.

- ***DFA did not originally plan for the total implementation costs of SAAS on a statewide basis, which DFA now estimates could be at least $10,672,580 in additional costs.***

DFA originally spent $2,764,911 to purchase software and implement the system at the state level and in three state agencies--the Department of Education, the Central Data Processing Authority, and the Office of Disability Determination Services (a division of the Department of Rehabilitation). Since that time the state has spent an additional $498,575 in development costs, with a total of seven agencies currently on-line.

When PEER began its review, DFA had not developed plans outlining the cost of implementing SAAS on a statewide basis as initially envisioned. Planning should have included determining which agencies should be on-line, which should use a proposed "less-costly" personal computer version of SAAS and which should remain off-line. DFA had not developed criteria for determining which agencies should become on-line agencies. In addition, although DFA discussed plans for bringing twenty or more agencies on-line during fiscal year 1993, DFA had not determined which agencies would actually be coming on-line.

DFA officials have stated that DFA did not plan for the costs of the system because of funding problems and not being able to project more than a year ahead. However, DFA should have determined needs of agencies and a blueprint for implementing the system, so that when funding became available DFA would not have to implement agency systems on such a short time frame, as occurred with the original six-month implementation of SAAS. When projects are not properly planned, there is less chance for success in terms of a smooth implementation and in terms of agencies being able to derive the full benefits of SAAS.

In September 1992 PEER requested that DFA estimate total implementation costs and factor into the projections the determination of which agencies should be on-line agencies, which should use DFA's proposed "less costly" personal computer version of SAAS, or whether they should remain off-line. DFA responded with an estimate totalling at least $10,672,580, but stated that the projections were still "educated guesses." In order to achieve realistic cost figures, DFA stated: *"much research should be undertaken at each state agency to determine the degree of detail the agency wishes to use SAAS, their desired organizational structure, any agency specific modification to the software which may be needed, any interfaces to existing systems which will need to be programmed, the type of training and number of people to be trained, and agency specific procedures to be documented and put into place."* DFA's estimate includes implementing the regular version of SAAS at sixteen large agencies, implementing the "less costly" personal computer version of SAAS at thirty-three agencies, and leaving unchanged the off-line systems of twenty-two agencies with appropriations of $250,000 or less.

The breakdown of estimates by category and by agency is as follows:

Outside consulting costs*	$6,576,000	
State personnel costs**	3,675,455	
Total Personnel Costs		$10,251,455
Additional software costs/other		421,125
Total Costs		$10,672,580
Personnel costs by agency:		
Department of Transportation		$3,500,000
Department of Human Services		3,500,000
70 remaining state agencies		3,251,455
Total Personnel Costs		$10,251,455

*Could be decreased or increased by more or less use of state personnel.
**State personnel could include DFA personnel; CDPA Systems, Policy and Planning personnel; and internal agency personnel.

In order to use SAAS for meeting specific agency needs, implementation involves detailed planning and programming, including:

- -- interfacing agencies' payroll and other systems to SAAS;
- -- converting existing agency data into the SAAS system;
- -- reviewing SAAS codes to determine how agency costs will be presented in order to get the appropriate management information from the system;
- -- designing special agency-specific reports;
- -- deciding at how many levels the organization will budget;
- -- structuring the agency to determine who will approve transactions up to the four levels allowed within SAAS;
- -- training agency personnel;
- -- revising agency procedures; and,
- -- building agency-specific information tables.

The smaller the agency, the greater the likelihood that some of the above steps are not necessary. Large agencies must address all these concerns. The more complex the agency, the higher the implementation costs. Over 65 percent of the total projected costs of implementation of SAAS was attributable to implementation at just two large agencies, the Department of Transportation and the Department of Human Services.

- ***DFA will spend more than $636,026 on consulting costs to upgrade the system. In its monthly meetings, CDPA affirmed these consulting expenditures as a necessary and non-recurring cost.***

In addition to long-term costs of implementing SAAS, DFA plans to spend over $636,026 to upgrade the system to take advantage of a new release of SAAS. Mississippi annually pays maintenance agreements approximating $50,000 in order to be able to get free releases of software upgrades, generally issued about every eighteen months. Such upgrade releases allow the state to take advantage of new technology. In fact, in June 1992, DFA upgraded SAAS to a new release of the CORE operating software as explained on page 74. Because DFA did not modify the CORE operating software, it was not difficult to upgrade. But because Mississippi's SAAS version of GFS application software was so heavily modified to tailor it to the unique aspects of Mississippi state government budgeting and purchasing controls, it was difficult for DFA to upgrade to new application software releases.

Since SAAS was initially implemented, DFA discovered the modifications had made SAAS especially difficult to support and maintain. As a result, DFA entered into three contracts with American Management

Systems, the GFS vendor, to document where modifications were made to the original release of the software; determine how those modifications could be made to the new release in a manner efficient and easy to maintain on an ongoing basis; develop a project plan and specific plans for program migration, system conversion, and testing; and perform project management and technical assistance.

DFA's goals for the contract are to have its technical staff trained to assume full responsibility for future upgrades and to improve SAAS efficiency by streamlining the system and removing as many custom modifications as possible. The total project costs will exceed $636,026 because DFA will also enter contracts with CDPA for additional in-state programming support and project management assistance. As of October 28, 1992, DFA and CDPA had drafted a tentative agreement for $93,600. AMS was the only vendor which bid on the contract, which made it more difficult for the state to obtain a competitive price.

During the implementation period, Arthur Andersen did not use "user exits," which would have improved computer programmers' ability to keep up with modifications made to the system. When user exits are not used, programmers have to rewrite the original vendor's lines of code, making it less recognizable in comparison to the original software programs. Then when the vendor releases a new version of the software with updated capabilities, it is harder for programmers to locate their modifications on the old software and add them to the new software. DFA plans to utilize "user exits" in the FY 93 upgrade.

Better planning by DFA and a longer implementation period might have resulted in the consultant's taking extra time to add user exits to the system, in AMS's spending less time to document the modifications to the code, and in the state's determination that certain modifications were not necessary.

- ***DFA did not adequately project the CDPA computer-time cost to operate the system, which totals approximately $1 million yearly.***

The largest component of operating costs consists of computer charges from CDPA which have totalled approximately $1 million yearly. DFA spent only $70,100 per year on computer charges prior to SAAS. SAAS is more expensive to operate than the old centralized accounting system because:

-- it accounts for balance sheet transactions, which the old system did not maintain.

-- it accounts for the transactions of all state agencies on both a budget basis and a generally accepted accounting principles basis.

-- it maintains accounting and budgeting information in various tables so that agencies can view updated information on the computer screen rather than waiting for a report.

-- it updates transactions three times weekly rather than once a month.

--it holds accounting information in more detail than did the old accounting system (e.g., vendor tables, organization budgets).

DFA did not adequately project the computer user charges to operate the system. DFA originally budgeted $282,500 to pay SAAS and non-SAAS related CDPA user charges for FY 1990, the first year of SAAS operation, which was four times the previous charges. However, the actual computer-time charges were $959,774 for SAAS operation during that year. Because DFA had a shortfall in funds to pay for all user charges, CDPA transferred $811,595 into the SAAS treasury fund which DFA paid back to CDPA. The transfers were authorized by House Bill 796 and Senate Bill 3228 of the 1990 session because Article 14, Section 258, of the MISSISSIPPI CONSTITUTION prohibits state agencies from writing off indebtedness. The lack of planning led to an additional shortfall in funding and deficit appropriation to pay user charges in the amount of $500,000 for FY 1991.

DFA should have performed an in-depth study on the numbers of agency transactions to project more accurately the cost of operating SAAS. Although DFA was responsible for implementation of SAAS, CDPA (which assisted in selection of the software vendor) should have offered more guidance to DFA to project and budget properly for user charges.

In addition to the fact that DFA did not budget properly for user charges, SAAS user charges through June 1992 may have been higher than CDPA's actual cost to provide computer time. In July 1992, CDPA reduced its rates in compliance with a federal general directive. Also, some other states fund computer center user charges from general revenue appropriations rather than billing agencies.

Insufficient DFA Personnel Structure to Support the System

DFA has not properly planned its organization to be responsive to agencies' needs. DFA placed its personnel for implementing and maintaining daily operations for SAAS in two separate departments of the agency. DFA did not hire a director whose sole responsibility was to oversee all aspects of SAAS, including planning and meeting agency needs. In addition, DFA never became an on-line agency, which would have given managers in charge of policy-making the actual experience of using SAAS as a budgeting and accounting tool.

- ***DFA did not hire a full-time director of SAAS for planning and overseeing the meeting of agency needs. SAAS responsibilities are spread between two departments at DFA.***

SAAS is jointly administered by two departments within DFA--the SAAS team within the Office of Fiscal Management and personnel within the Office of Information Management Systems (MIS). (See the organization chart in Exhibit 17, page 67.) The exhibit highlights the fact that no single person is responsible for seeing that all aspects of SAAS are successful. The SAAS team includes accounting staff who work with agencies in using the system and programming staff who modify the system to meet the state's needs. The SAAS team is responsible for:

-- implementing SAAS in the state agencies, including

  -- helping agencies plan for implementation and

  -- programming new SAAS capabilities and eliminating bugs in the new systems,

-- upgrading SAAS to conform to new releases of GFS software, and

-- training state agencies in the use of SAAS.

The MIS programming personnel functions include:

-- daily maintenance of the SAAS system,

-- processing SAAS accounting transactions three nights a week,

-- operating the help desk, referring questions to the SAAS team when necessary,

-- maintaining security levels, determining which state personnel can access certain portions of the SAAS system

-- eliminating bugs in existing programs

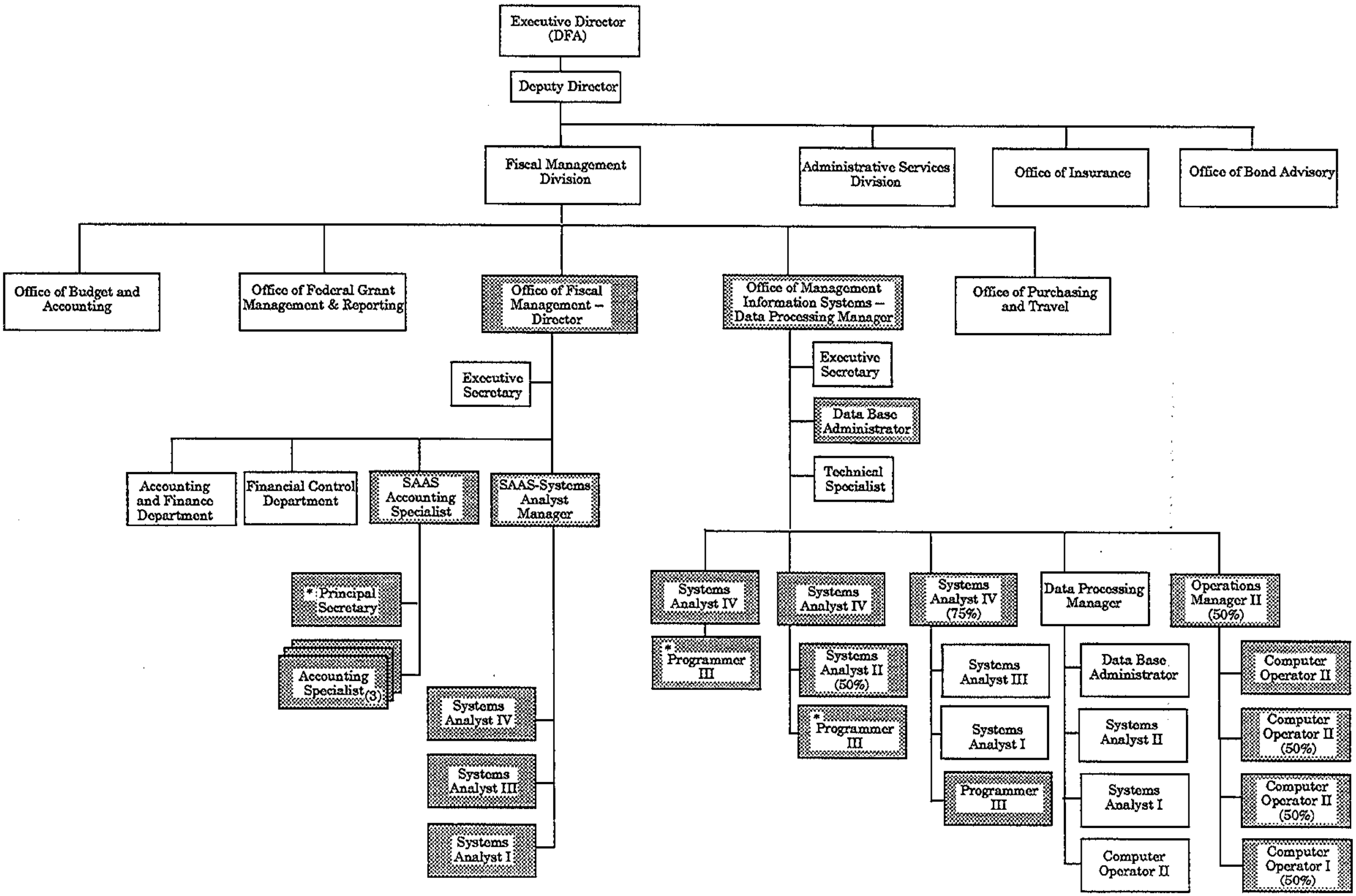
-- designing special reports requested by agencies, and

-- printing standard and other reports.

The director of the Office of Fiscal Management is responsible for two departments in addition to SAAS and the Director of the Office of Management Information Systems is responsible for overseeing computer systems other than SAAS. These managers who oversee SAAS operations are responsible for other functions within DFA and cannot direct their total attention to SAAS. As a result no one person is responsible for answering to the total needs of agencies who are on-line SAAS.

Exhibit 17

Organization of Department of Finance and Administration Personnel Responsible for Implementation and Ongoing Operation of SAAS



SOURCE: Analysis of Department of Finance and Administration organization chart.

NOTE: Positions shaded in gray on the chart represent personnel assigned to SAAS. Personnel in the Office of Fiscal Management are responsible for implementing SAAS. Personnel in the Office of Management Information Systems handle daily operations of SAAS.

* The Principal Secretary position and two Programmer III positions are vacant.

- ***By not going on-line itself, DFA has acted as the controller of the internal accounting systems of other agencies without having the practical experience of using SAAS as its own internal system.***

The DFA Department of Financial Control enters purchasing and other documents into the SAAS system for all state agencies except the seven on-line agencies. However, DFA does not use SAAS as its internal accounting system, but instead uses the accounting system developed by personnel of the Governor's Office of Federal/State Programs (Fed/State), which merged with the Fiscal Management Board (DFA's predecessor) in 1989.

Since DFA is not an on-line agency, DFA management does not receive the benefits of using SAAS as an on-line system nor does it experience the problems and challenges of using the complicated SAAS system as an internal accounting and budgeting system. DFA officials stated that DFA has not yet become an on-line agency due to lack of funding and lack of time in training both FMB and Fed/State employees who were engaged in consolidating operations in FY 90. However, proper planning would have alerted DFA to the importance of being knowledgeable about SAAS as an on-line agency in order to better respond to other agencies' needs. As a result, the managers who are responsible for prescribing appropriate accounting systems in other state agencies do not have the practical experience of using SAAS as a budgeting and accounting tool.

DFA's director of fiscal management stated that DFA has discussed implementing SAAS during the fiscal year 1993. If DFA had been an on-line agency from the original implementation of SAAS, DFA managers would have better understood the needs for developing timely ad hoc reporting, training and communication between SAAS personnel and end users of the system.

Insufficient Planning for Meeting Statewide Objectives and Agency Needs

- ***DFA has placed highest priority on meeting the needs of DFA as a control agency and not on meeting the direct needs of on-line agencies which use SAAS as their internal accounting system.***

PEER staff met with on-line agencies to determine the benefits and problems associated with SAAS from an agency perspective and discussed with DFA personnel its priorities in implementing and maintaining SAAS. DFA's priorities have been stabilizing the nightly processing cycle to increase cost- and time-efficiency, upgrading the system to current releases of the software, working on implementing SAAS in the Department of Wildlife, Fisheries and Parks and Department of Human Services (not yet on-line), developing a system so that DFA could approve state contracts automatically through the system, establishing a historical data base so that agencies may report on historical data in the future, and planning for new SAAS capabilities.

While all of these projects have merit and in fact various agencies see the benefit of a historical data base, DFA should review the priority of its projects and determine whether they meet the highest priority needs of the agencies which are already on-line. By taking an objective look at whether SAAS has met all basic agency needs, DFA will be better able to plan for bringing additional agencies on-line. DFA could better meet agency needs by concentrating immediately on reporting needs of agencies, training and communication with agencies.

- ***Of the nine objectives listed in DFA's original request for proposals for the computerized accounting system, SAAS has met three and DFA has shown progress in the other six areas.***

When DFA compiled the Request for Proposal for the SAAS implementation in summer 1988, the RFP included several statewide objectives which the SAAS system should meet. (See Appendix H, page 114, for a list of the objectives.) SAAS has the potential to meet the objectives, but the system has not yet been modified to meet all the objectives fully.

PEER found SAAS met the following objectives: meeting generally accepted accounting principles (GAAP), maintaining data on both a cash and GAAP basis, providing timely information through on-line access and standard reports, providing audit trails which link one document to another, providing internal controls, performing external financial reporting as expected, containing the tools to achieve program (activity) budgeting, eliminating reconciliation between each on-line agency and the state control agency, and maintaining accumulated data on grants.

PEER found that SAAS had not yet been programmed or modified to meet other objectives, as follows: providing timely information through user-defined reports, providing audit trails to identify employees who approve documents, providing budget forecasting tools, being easily understandable by all levels of users, and providing crucial standard reports for grant management. In addition, PEER found that although some aspects of internal financial management had been improved as described in **Benefits of SAAS**, page 58, other aspects of internal financial management had not been met. These objectives, which were combined into nine separate points in the RFP, are included in Appendix H, with notes on which objectives have been met and specific explanations of how some of the objectives have not been fully met.

- ***Many unmet needs can be traced to problems with SAAS reporting, training and communications with agencies.***

PEER found that there were four key areas where DFA should concentrate to meet statewide objectives: allowing agencies easy access to the accounting data to do internal agency/"user-defined" reporting; assuring all basic reports have been designed for agencies; developing easily understandable training manuals; and providing regular training sessions on basic SAAS operation tailored to specific types of users. In addition, DFA should improve communications with agencies to improve the operation of SAAS overall.

Agency Reporting

- *After three years, DFA still has not utilized the important SAAS capability of allowing on-line agencies easy access to their own data for internal agency reporting. When ad hoc reporting is established, agencies can be more responsive to legislative requests for SAAS-generated information.*

  DFA's plan has been to develop a historical data base to make thirty-two months of historical data available for agencies to use as a basis for reporting. Once the historical data base is developed, projected to be in the near future, DFA plans to develop "ad hoc reporting," the ability of agencies to load this data autonomously from SAAS down to computers at the agency level for internal agency-generated reports, and to train the agencies on user-friendly reporting software. (DFA purchased the Report Painter module for this purpose in 1989 for $5,000.)

  DFA's effort to develop the data base has been worthwhile and will benefit agencies. However, DFA should have already developed ad hoc reporting on the current one month of information so that agencies could more easily report on the previous month of data. DFA does download data for some on-line agencies by special request so that agencies can develop their own reports. However, agencies need control over their own data so they can retrieve it at their own convenience and need methods such as Report Painter to ease preparation of management reports. When ad hoc reporting is established, agencies can be more responsive to legislative requests for SAAS-generated information and to needs of agency mangers.

  DFA has made progress in developing the historical data base. However, if DFA had given overall agency ad hoc reporting needs higher priority over concerns of DFA as the control agency, SAAS would now be a more valuable management tool.

- *Although DFA has greatly improved standard reports generated by the system since the original SAAS implementation, DFA staff have not yet designed all reports needed by on-line agencies.*

  DFA has not met all the reporting needs of agencies. For example, DFA has not yet developed a federal grant report for

Disability Determination Services which is needed monthly to report to the federal government. Because the report has not been properly designed, Disability Determination Services must make manual adjustments to the report.

DFA set up a report committee to allow the agencies to request needed reports. The report committee is part of a system of support which DFA has set up to handle agency needs, shown in Exhibit 18, page 72. However, in this instance, the agency support structure is not working satisfactorily. The failure to develop such a basic need for an agency indicates a lack of responsiveness on the part of DFA. DFA should have contacted Disability Determination Services and other agencies to determine that all basic reports necessary to the operations of the agency were developed on a timely basis. Instead Disability Determination Services has been on-line three years and still does not have accurate grant reports which should be generated from a computerized accounting system.

Agency Training

- *DFA has not developed easily understandable training and procedures manuals for agencies to use, which is very important because SAAS is complicated and not user-friendly.*

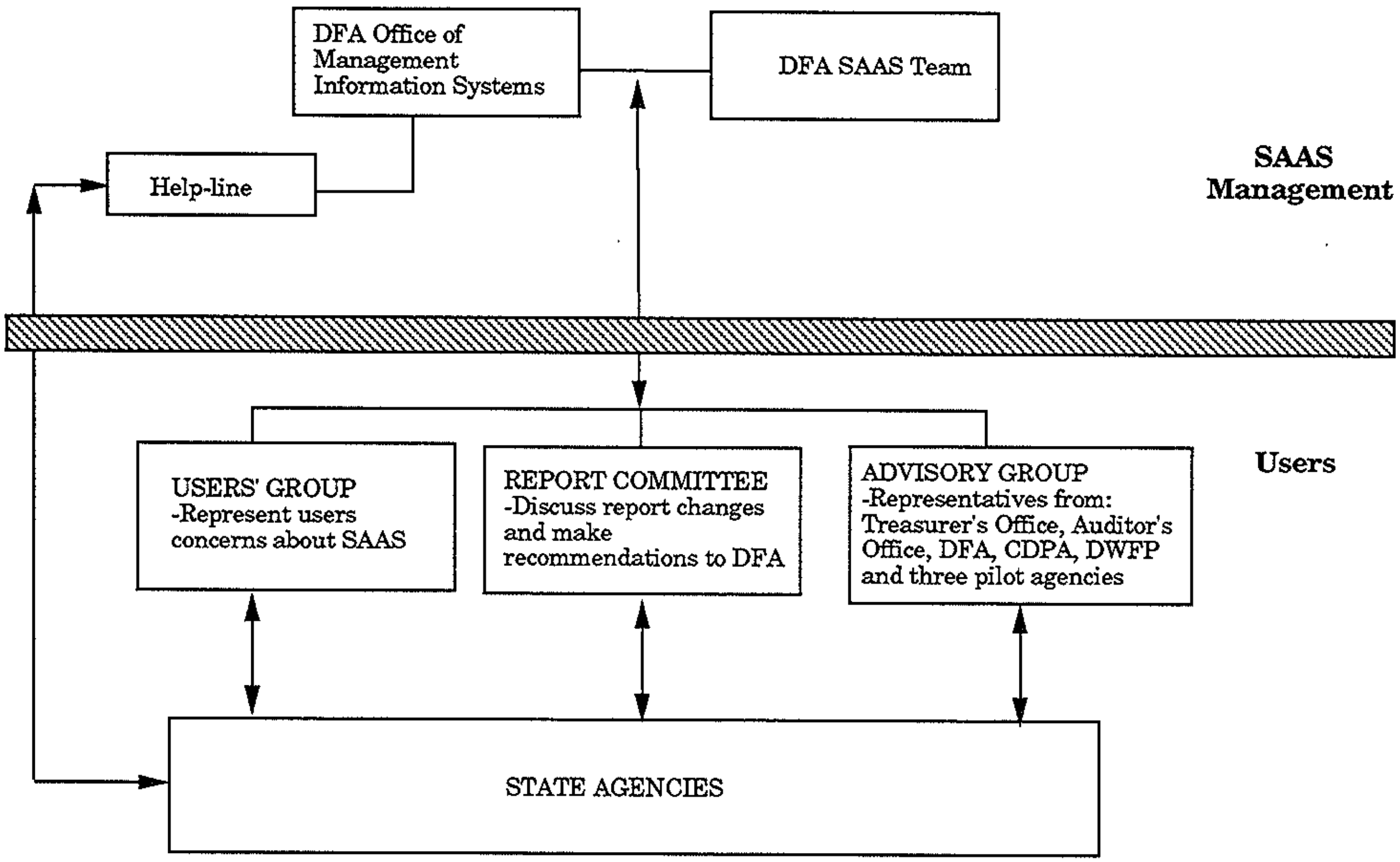
Large computer accounting systems such as SAAS and the other two leading competitors (Dun & Bradstreet and Peat, Marwick and Main systems) are complicated systems which tend to be less easy to use than the small systems developed for the personal computer user. Therefore, it is important that users have easy-to-use training manuals to reduce the amount of time spent by employees in learning the system and in resolving problems that may occur in entering data on a daily basis.

The vendor, American Management Systems, provided user manuals with the purchase of the system. However, these manuals are very large, not targeted for specific types of users, and not easy to use. Even though agencies may have internal procedures which are unique to their own agencies, a basic SAAS manual would serve as the necessary starting point for all agencies and could be adjusted by each agency as needed. If a simplified manual is developed for all agencies, duplication in the development of manuals for all agencies would be eliminated.

The original SAAS contract did not require the consultant to design simplified training and user manuals. In addition, DFA has not directed its limited SAAS staff resources to place high priority on developing easy-to-use system-wide manuals. Although a SAAS team manager stated that DFA was planning to develop a more simplified manual, DFA does not have a specific

Exhibit 18

SAAS Agency Support System



SOURCE: PEER analysis.

timetable for developing the manual and has not developed a training plan for the SAAS system. Because easy-to-use training manuals are not available, first-time users are more dependent on being taught by other individuals on how to use the system. This reduces productivity of all concerned.

- *DFA conducts five to six training sessions per year on specific topics. However, DFA has not complied fully with MISS. CODE ANN. § 7-7-3 (2) requiring regular training, because DFA does not conduct regular training on basic SAAS operations for all SAAS users.*

  MISS. CODE ANN. § 7-7-3 (2) requires that:

  > *The State Fiscal Officer shall conduct training seminars on a regular basis to ensure that agencies have access to persons proficient in the correct use of the statewide automated accounting system.*

  DFA conducted training seminars five to six times per year in FY 1991 and FY 1992. These sessions were necessary to instruct certain agencies on specific topics. In FY 1992, DFA conducted six training sessions the following subjects:

  -- on-line agency retraining on all aspects of the system;

  -- off-line agency retraining on scanning and inquiry, purchasing, and accounts payable;

  -- special training for the Secretary of State's office (off-line agency) in scanning and inquiry into the system;

  -- training for Department of Wildlife, Fisheries and Parks during the implementation phase;

  -- training for DFA's Office of Purchasing and Travel in reading statewide contract tables and inquiry on contract and commodity tables; and,

  -- training agencies regarding use of the new statewide contract tables.

  As shown above, DFA has not provided regular training to regular SAAS users on all aspects of the system. In addition, DFA charges for training, which discourages some agencies from sending employees. PEER interprets Section 7-7-3 to mean that all agencies should have regular access to training sessions. The CODE section also authorizes DFA to charge for services to agencies. DFA charged for training during fiscal years 1991 and 1992, but received only $694 in 1991 and $2,510 in 1992 compared to nearly $2 million spent for annual operations. (See Exhibit 13, page 54.) Since DFA derives less than 1 percent of its revenues from charging agencies for training, PEER staff does not believe that conducting free training sessions for agencies would hamper DFA's ability to operate SAAS.

Only once during FY 1992 did DFA offer retraining sessions to on-line agency personnel on all aspects of the system, nor were beginning classes offered during the year to which all agencies were invited. DFA has not directed its limited SAAS staff resources to place high priority on developing regular training programs for agencies. As a result, agencies do not have access to the regular training which would accelerate agency personnel becoming proficient in the use of the system.

Communications with Agencies

- *DFA has not developed strong communications with agencies, which would promote smooth operation of SAAS.*

Agency personnel have stated that communications from DFA to agencies would improve the operation of SAAS. For instance, the SAAS team failed to notify agency users in advance that the SAAS computer screens would be changed on June 13, 1992, after implementation of updated software. By putting needs of the overall system ahead of agency needs, DFA has lost sight of facilitating better use of the system. Lack of communications results in a system not running as smoothly as necessary to maintain agency personnel productivity.

DFA must give highest priority to serving the needs of SAAS on-line agencies who use SAAS as their internal accounting system. Only when DFA develops a customer-orientation approach toward the user agencies will an attempt to bring additional agencies on-line be successful.

- ***DFA has not developed plans for reduction of paperwork which SAAS made possible.***

Although reduction of paperwork was not one of the nine major objectives to be met in obtaining the SAAS system, paperwork reduction and increased efficiency could be obtained through SAAS. However, DFA has not developed a plan to improve procedures and reduce paper in particular to take advantage of system capabilities made available during an operating software upgrade in June 1992. The new release in the software allows SAAS to be programmed to identify individuals who have placed approvals on transactions. The audit trail can be documented on the computer system itself, which provides opportunities for procedure changes to reduce paper.

While SAAS currently automatically generates triplicate copies of both purchase orders and payment vouchers for on-line agencies, SAAS could be programmed to stop producing paper documents. For instance, SAAS generates a copy of the purchase order for DFA's Financial Control Department (FCD). With the proposed programming FCD will be able to determine who approved the purchase order by looking at a table of identification numbers; therefore, DFA's copy of the purchase order will not be necessary. In fact, MISS. CODE ANN. 7-7-23 states that DFA *"may approve electronically submitted purchase orders"* and *"exempt agencies from furnishing a copy of the purchase order to the State Fiscal Officer."* DFA officials stated that the agency intends to program the system to allow elimination of the purchase order but that they had not had time to do so since the June 1992 upgrade.

Under the current preaudit requirements discussed on page 43, DFA reviews invoices of state agencies to match them with purchasing documents. With the proposed change in programming, DFA would still have to receive invoices from state agencies, but would not have to actually receive copies of payment vouchers from the on-line agencies. DFA could devise a system whereby on-line agencies would stamp the invoice with information which would allow DFA to match the invoice to the electronic payment voucher in the system. In addition, with the passage of PEER's proposed strengthening of internal audit, DFA could eliminate paperwork transfers from agencies which DFA had deemed to have adequate internal controls.

DFA has discussed the purchase of an imaging system which would greatly reduce paperwork by taking electronic pictures at the agency level of managers' signatures and other documentation, including outside vendor invoices, which could be stored on the computer. The proposed system would create an automated audit trail and would eliminate all paperwork flow between the agencies and DFA. PEER believes that DFA should not wait for the purchase of a new imaging system before implementing paperwork reduction ideas now possible. In addition, DFA should study costs and benefits of the alternative methods of paperwork reduction in detail.

Conclusion

Because no vendor offered a packaged software program in 1988 that would meet all state and agency needs, CDPA (on behalf of DFA) had to contract with a consultant to modify an existing accounting software system to meet as many state needs as possible.

SAAS has been costly to implement and to operate, but abandoning the system would be very costly as well. If the state abandons SAAS, the agencies would have to replace it with another system. Despite the costs of running the SAAS system, replacing the system would also be expensive. As noted on page 50, DFA uses SAAS as the state-level accounting system, and seven state agencies currently use SAAS as their internal accounting system. If one system was purchased to replace SAAS for DFA and the seven on-line agencies, the replacement system would have to be large enough to meet the needs of agencies such as the Department of Education. Development costs might reach as high an amount as has been spent on SAAS. As mentioned on page 52, the two other bids received in response to the 1988 request for proposals ranged from $1,135,000 to $3,935,819. One could assume that it would cost at least as much as has been spent to "start from scratch" again with a comparable system. In order to purchase a system less expensive to operate, DFA and state agencies would have to rethink what they want the state's computerized accounting system to accomplish and whether they would be willing to forgo some of the features SAAS can provide.

SAAS has provided a variety of benefits for the statewide system and also to the seven on-line agencies which use it as their internal accounting system. However, DFA's staff is still in the process of modifying the system to meet state needs and DFA has given less weight to meeting the needs of on-line agency users than it has to meeting its own needs as the state control agency. DFA's lack of planning has affected SAAS's current operation as well as the future of the system. DFA had not properly planned for the total costs of implementing SAAS or for organizing internally to ensure that agency needs were met. Although DFA has improved the system and standard reports since initial implementation, DFA has not placed a high priority on internal agency reporting and training or on increasing efficiency allowed with SAAS through paperwork reduction and other methods. Meeting these needs and improving communications with agencies would help to fulfill the potential of SAAS.

Recommendations

Training

1. DFA should develop training manuals which include step-by-step procedures outlined in a concise fashion, describing every computer key stroke which is necessary to complete transactions. The manuals should include sections on mistakes most often encountered by users and should be developed by personnel who use the system daily so that they will know the variety of errors that can occur. The training manuals should outline the steps pertaining to specific types of document input. For instance, training manuals for purchasing, payment voucher, and budget document entry should be in separate sections. There should also be a separate chapter or training manual tailored for agency managers who do not enter documents but who scan and inquire into the system and also a section in the manual targeted to managers who only enter approvals over transactions.

2. DFA should produce the above-described training manual in electronic formats and distribute it to state agencies via various forms of computer-readable media. DFA should make the manuals available

in a variety of formats, including ASCII, so that agencies could access and modify them to fit their particular in-house procedures.

3. DFA should include the above-described SAAS training manual as an appendix to the MAAP manual and cross-reference the SAAS information to appropriate MAAP manual sections.

4. DFA should offer brief training sessions free of charge every three to six months for specific targeted groups, as follows:

   --1/2- to 1-day basic training for purchasing clerks (every three months);

   --1/2- to 1-day advanced training for purchasing clerks (every six months);

   --1/2- to 1-day basic training for payables clerks (every three months);

   --1/2- to 1-day advanced training for payables clerks (every six months);

   --1/2-day training for managers who place security approvals on documents;

   --1/2-day training for managers who do not enter documents and need scan and inquiry capability only.

   Other training on specific topics could be conducted on an as-needed basis. DFA should set the training schedule at least six months in advance so that agencies may plan ahead for training new employees who will be using the SAAS system.

5. DFA should better utilize its training time by allowing trainees to choose to attend short training modules directed specifically toward different types of employees, such as purchasing clerks and managers. DFA should not require trainees to attend training modules which do not relate specifically to their area of work. For instance, some employees may not be interested in attending historical overviews of the SAAS system and managers responsible for approving documents may not be interested in learning about initial input of purchasing documents.

Communication

6. The SAAS team and DFA MIS should immediately develop procedures requiring SAAS on-line agencies to check the SAAS message screen daily. DFA should then use the SAAS message screen to notify SAAS users of any items or events which will affect SAAS operations. Changes in the system should be posted on the screen well in advance.

In addition, the answers to the "most frequently asked questions" regarding SAAS should be included on the message screen.

Before DFA begins using the message screen, DFA should strongly communicate to the agencies that the message screen will be used often, and follow up with agencies regularly for a month to ensure that agency personnel understand that the screen will be used.

7. The Director of Fiscal Management and the Director of Management Information Systems should give authority to SAAS and DFA MIS personnel to communicate readily to agencies appropriate information regarding operation of the SAAS system. Obtaining management approval for communicating routine information is unnecessary and inefficient.

8. SAAS and MIS personnel should develop strong communications with on-line agencies. As soon as information about the system is known, agencies should be contacted immediately.

Planning

9. DFA should:

    -- implement a long-term planning mechanism to determine the most efficient way to derive the most benefit from SAAS based on both agency and state needs;

    -- develop standards for determining which agencies should be on-line, which agencies need to be SAAS PC users, and which can be off-line;

    -- send a questionnaire to all off-line agencies which is designed to determine agency needs for accounting systems;

    -- project costs to implement SAAS in various agencies, to modify the system as needed to address agencies' concerns, to develop fully ad hoc reporting for on-line and off-line agencies, and to complete implementation in agencies which may need to use additional subsystems;

    -- set a five-year goal, detailed by year, for implementing SAAS in agencies and follow the plan as funding allows. This should be prioritized, so that higher priorities can be implemented if not all funding is available. The goal should be based on individual agency needs as well as the needs of the state as a whole;

    -- work to understand and address agency needs fully when planning for implementation of SAAS.

10. DFA has indicated it will seek a funding mechanism for SAAS implementation. Before finalizing implementation cost estimates, DFA should determine the amount of consultant versus state personnel time needed in the implementation process as follows:

    -- project the number and types of state workers needed in the long term to service the accounting system and provide ongoing training and help-desk needs

    -- utilize these workers in the implementation process, which will prepare them for their future support duties

    -- utilize consultants to supplement the state employees in the areas of project management and programming as needed.

11. If DFA determines that additional personnel and consultants are needed to accomplish tasks to implement plans, then DFA should outline the funding needed to perform specific tasks by number of personnel, consultant hours and other costs. The Legislature and the Governor should review those plans and objectives in conjunction with the amount of money spent to determine that the SAAS team performs as projected. The Legislative Budget Office should review DFA's accomplishments to determine that its plans to serve agencies are implemented. By requiring DFA to set objectives and report whether the objectives have been met, accountability will improve.

12. DFA should develop an implementation manual to help agencies structure their agencies and plan to come on-line SAAS. DFA should use the Colorado Financial Reporting System Department Implementation Guide as a blueprint. DFA should develop this blueprint to help agencies reduce dependency on outside consultants.

Management

13. DFA should redesignate one of its vacant management positions as manager of all SAAS-related implementation and daily operational functions, overseeing the planning function and assuring agencies' needs are met. The manager should meet with agencies to determine whether all basic computerized accounting and reporting needs of each agency are being met. The manager should then be responsible for or delegate responsibility to an employee for following up to be sure that agency requests are being handled satisfactorily. The manager should place top priority on meeting existing needs before bringing additional agencies on-line. Information learned from responding to agency needs should be used as a basis for future implementations of SAAS.

14. DFA should require agencies to perform cost/benefit analyses prior to coming on-line to determine whether agency procedures can be streamlined by using SAAS, how SAAS can produce cost savings for

the agency and whether any circumstances of additional cost for the agency could prohibit going on-line with SAAS.

15. DFA should require agencies which plan to come on-line in the future to keep records of their costs occurring prior to SAAS implementation, including computer user-time charges for their accounting-only functions and accounting personnel expenditures. DFA should then analyze agencies' expenditures after they have become SAAS on-line agencies to determine if cost savings or additional expenditures occur. This information can be used to determine the cost benefits of additional agencies coming on-line.

16. The DFA Executive Director should immediately instruct DFA managers at the appropriate levels to plan for implementing SAAS as the internal accounting system at DFA. The SAAS team should instruct DFA managers on the decisions and organizational planning which must occur. Regardless of date of implementation, DFA managers should, as soon as possible:
    - -- determine how many levels of organizational budgeting will be appropriate;
    - -- determine who will approve transactions and how to structure the internal agency security levels allowed within SAAS (a maximum of four levels);
    - -- study how agency procedures can be revised to streamline agency accounting processes;
    - -- review SAAS codes to determine how agency costs will be presented;
    - -- determine what types of agency reports will be needed by all levels of management.

Reporting

17. DFA should place top priority on developing ad hoc reporting to allow agencies to download accounting data at their own convenience and easily develop their own reports using appropriate reporting software. Developing the historical data base is a related issue which will allow agencies needed access to historical data. However, problems with development of the historical data base should not delay DFA's development of agencies' capability to report on their current monthly data through ad hoc reporting mechanisms as described above.

18. DFA should immediately develop grant reports for Disability Determination Services which are complete and usable for federal reporting purposes.

Paperwork Reduction

19. DFA should place top priority on creating SAAS system files to capture the system's capability (gained in the June 1992 operating software upgrade) to catalog the identification of users who have approved SAAS transactions.

20. DFA should develop a short- and long-term plan to implement paperwork reduction ideas. Immediate plans could include programming the system as outlined in the previous recommendation and eliminating the extra copy of the purchase order sent to DFA by on-line agencies.

21. DFA and the Office of the State Auditor should work together pro-actively, moving the state forward to reduce paper and increase efficiency made possible with internal control capabilities gained in the June 1992 SAAS operating software upgrade.

22. In conjunction with understanding automated internal control possible with SAAS, the Office of the State Auditor should immediately conduct a cost/benefit analysis of becoming an on-line SAAS agency. Office of the State Auditor managers and, therefore the department as a whole, could better understand agencies' use of the SAAS system as an internal control, accounting and budgeting tool if they have first-hand knowledge of the system as an internal accounting system for the Office of the State Auditor.

23. DFA should not wait for the purchase of a new imaging system before implementing paperwork reduction ideas now possible. DFA should study the alternative methods of paperwork reduction in detail before making any additional purchases of software. DFA should:

    -- study agency procedures;

    -- develop a specific plan for the actual purchasing and payment procedures of agencies and DFA which would be appropriate with the use of an imaging system. Determine the exact paperwork which the imaging system would eliminate;

    -- develop a plan for more efficient procedures and reduced paperwork using the current SAAS system without an imaging system;

    -- obtain agreement from the Office of the State Auditor regarding acceptable procedures under both plans which would assure internal controls;

    -- consider the effect on efficiency of agency personnel which any procedures would make;

-- compare the cost savings, additional costs, and benefits which would result from both plans;

-- consider how changes which may occur in state policy (moving from centralized pre-audit functions to decentralized internal audit functions) would affect the purchase (increased internal auditing in the agencies could reduce the need for paperflow between agencies and therefore the need for an imaging system.);

-- project the present value of costs and savings which would occur over a specified number of years in the future for both methods;

-- choose the most beneficial system for the state based on all factors which affect not only DFA but all state agencies.

After DFA has implemented paperwork reduction ideas it should measure the actual cost avoidance which occurs due to the new procedures.

Effects of Budgeting on Fiscal Controls

The budgeting system provides the dominant influence of the state's fiscal controls over the use of resources and requires that agencies' disbursements be controlled by major objects of expenditures. This detailed level of control prevents more effective fiscal controls and management of costs by agency activities. In addition, the focus on treasury accounts concentrates on the sources (inputs) rather than the uses (outputs) of resources, which causes primary budgeting and accounting differences, confusing the state's financial statements. Also, the Legislature's controls over the allocation of state's resources are destroyed by DFA's independent control of agencies' budget reductions.

Agencies' Activities Not Identified/Budgeted--Because of the required budgetary controls at the major objects of expenditures level, the Legislature and Governor currently focus on those details and budget at that level rather than concentrating on the agencies' activities and the achievement of objectives.

State agencies and LBO prepare budgets at the level of major objects of expenditure. The Legislature and the Governor evaluate the budget recommendations and enact most agency budgets at that finite level. This method has led them to micro-manage costs and become buried in the elements of costs.

No specific statutory reference requires the legal level of budgetary control to be at the expenditure level. The Legislature enacts some agency appropriations at lump-sum amounts. However, the Legislature has traditionally received and acted on the state's budget recommendation that is detailed by state agency budget by the major object of expenditure.

Nevertheless, the statutory budget requirements at MISS. CODE ANN. Section 27-103-1, et.al. mandate that LBO prepare the state budget in "agency program format" (**hereinafter called agency activity.**) There are problems that have caused this format to work ineffectively:

- State agencies generally do not account for expenditures at activity levels. The only method that agencies currently have for accumulating costs at that level is a further subdivision of treasury accounts (unless they are an on-line SAAS agency, as discussed below). Thus, the actual amounts presented by the agencies are probably estimates.

- Currently defined agency activities do not necessarily represent the pure definition of an activity. In other words, the activities do not represent distinct endeavors to achieve focused objectives.

For example, as described in PEER's February 19, 1992, report *A Review of the State Department of Education's Internal Management and Its Oversight of District and Student Performance,* the Department of

Education's budgetary activities ("programs") include groupings of activities, monies, and statutory mandates, not the focused and undiluted undertakings of the agency. The State Department of Education's identified "programs" consist of Education Reform Act (1982 Law--representing various activities) and Federal/Special Projects (Various federal monies for different purposes). A more accurate definition of the State Department of Education's activities would include the following, as described in that report:

- Instruction: (Regular Education; Vocational Education; Special Education; Remedial Education; Textbooks)

- School Support: (Child Nutrition; Transportation; Public School Building)

- Direct Operation of Schools: (Schools for the Deaf and Blind; School for Math and Science)

- Administration of the State Department of Education

As a result of the state's budgeting of detailed expenditures and weak or nonexistent activity classifications, the Legislature and Governor cannot decipher what the agencies are "doing," what activities are occurring, what objectives are being met, what tasks are being performed to achieve the objectives.

Agencies presently only report costs by major categories (e.g., personal services, contractual services, commodities). The Legislature and the Governor currently spend an inordinate amount of time dealing with line-item expenditures, yet do not have sufficient control over meeting state agency objectives (and the state's goals). (See page 88.)

As demonstrated in Exhibit 19, page 85, the state utilizes functions and programs for accounting and financial reporting purposes. What is missing is the identification of the activities at the state agency level that accumulate costs and related data to explain what is being done within each of the state programs.

Focus on Treasury Accounts as "Funds"--The current method of budgeting at the treasury account level, used to identify the state's budgetary "general and special funds," ineffectively focuses on the sources (inputs) of resources rather than the use of the resources (outputs).

In accordance with MISS. CODE ANN. Section 27-103-103 (1972), "general-fund agency" and " special-fund agency" are identified based on the source of revenues that support the agency. "General fund," for budgeting purposes, has become associated with appropriations of general revenues; "special fund" has become associated with other collections at the (or transfers to) state agencies that are not considered "general funds."

Exhibit 19

Current State Functions and Programs

FUNCTIONS	PROGRAMS WITHIN EACH FUNCTION
Governmental:	
• Current:	
General government	Legislative Executive & administrative Fiscal affairs
Education	Public education Higher education
Health and social services	Public health Hospitals Social welfare
Law, justice and public safety	Judicial and justice Corrections Public protection & veterans' assistance
Recreation and resources development	Agriculture, commerce & economic development Conservation & recreation
Regulation of business and professions	Insurance & banking Motor vehicle/ other regulatory
Transportation	Public works (highway)
• Debt service	
• Capital outlay	
Other functions:	
• Enterprises • Internal service • Trusts: expendable, nonexpendable, pension • Agency	

SOURCE: PEER analysis of current DFA classifications of GAAP functions and programs (called budgetary functions in SAAS)

These treasury accounts represent the **cash or appropriations** held at the State Treasury for the state agencies' use. They are not funds. The state's funds are the GAAP funds, as explained in Appendix A, page 95. This misapplication of terms complicates the Legislature's ability to compare the state's budgeting and use of dollars to the state's financial reports. It also misleads the communication of where Mississippi stands as far as general fund resources and uses. The actual general fund of the state (GAAP) is used to account and report all receipts for the general purposes of running state government.

Exhibit 20, page 87, presents the Fiscal Year 1992 unaudited budgeted amounts categorized by GAAP fund type. This exhibit is derived from the PEER compilation and conversion of the treasury accounts to GAAP.

As this exhibit shows, only 86 percent of the state's total cash expenditures of treasury accounts for FY 92 was from state agency appropriated budgets. The $755,721,359 of nonbudgeted disbursements represent primarily cash flows related to debt service or capital projects.

Because of the current focus on budgeting treasury accounts ("general-fund" and "special-fund" agencies), the Legislature has not been provided sufficient information of all sources and uses of resources for the state as whole.

Also, the statutory requirement of recognizing agencies based on the source of the "funds" and focusing on those "funds" for budgeting has deterred a careful evaluation of all available resources to operate all aspects of state government. It makes the process of identifying and tracing the uses of resources very difficult. Ultimately, this segregation results in the Legislature's and Governor's lack of controls and inability to make effective planning and budgeting decisions for the state.

Method of Budget Reductions--The responsibility to reduce state agency budgets, because of funding deficits, rests totally with DFA (as representative of the Governor.) This method not only eliminates the Legislature from the decision and control process, but does not provide for an optimum method of selecting the affected budgets.

MISS. CODE ANN. Sections 27-104-13 and 31-17-123 (1972) give DFA the right to reduce "general-fund" or "special-fund" agencies' budgets and "administration and other expenses" budget of the Department of Transportation (Highway Department) up to five percent at its discretion. If reductions above five percent are determined necessary, the reductions are made based a uniform percentage to the above "funds."

This method of balancing the budget hampers the Legislature's role, and bars a more appropriate evaluation of cutting budgets based on the state's priorities and the accomplishment of missions and goals. As of a 1988 survey by the National Conference of State Legislatures, twenty-six states have some degree of legislative approval required for budget reductions.

Exhibit 20
Fiscal Year 1992 Budgeted and Actual Expenditures

	General	Special Revenue	Capital Projects	Debt Service	Expendable Trust	Nonexpendable Trust	Pension Trust	Agency	Enterprise	Internal Service	University	Memorandum Totals
BUDGET												
GENERAL TREASURY ACCOUNT FUNDS	1,656,361,626	10,102,634	411,788	0	0	0	0	0	0	950,000	280,972,716	1,948,798,764
SPECIALTREASURY ACCOUNT FUNDS	2,525,609,238	452,164,981	0	0	0	0	5,423,562	933,912	86,458,229	26,789,925	1,546,293	3,098,926,140
TOTAL BUDGET	4,181,970,864	462,267,615	411,788	0	0	0	5,423,562	933,912	86,458,229	27,739,925	282,519,009	5,047,724,904
ACTUAL--BUDGET												
GENERAL TREASURY ACCOUNT FUNDS	1,653,119,541	9,540,031	411,788	0	0	0	0	0	0	950,000	280,972,716	1,944,994,076
SPECIALTREASURY ACCOUNT FUNDS	2,210,965,453	339,623,134	0	0	0	0	5,187,342	837,347	50,552,400	16,893,837	960,944	2,625,020,457
TOTAL ACTUAL--BUDGET	3,864,084,994	349,163,165	411,788	0	0	0	5,187,342	837,347	50,552,400	17,843,837	281,933,660	4,570,014,533
ACTUAL--NONBUDGETED TREASURY ACCOUNTS												
GENERAL TREASURY ACCOUNT FUNDS	0	0	0	0	0	0	0	0	0	0	0	0
SPECIALTREASURY ACCOUNT FUNDS	480,041,714	12,897,381	72,565,029	114,533,091	10,947,214	65,000	0	48,640,885	14,443,262	0	1,587,783	755,721,359
TOTAL ACTUAL-NONBUDGETED	480,041,714	12,897,381	72,565,029	114,533,091	10,947,214	65,000	0	48,640,885	14,443,262	0	1,587,783	755,721,359
ACTUAL-- ALL TREASURY ACCOUNTS												
GENERAL TREASURY ACCOUNT FUNDS	1,653,119,541	9,540,031	411,788	0	0	0	0	0	0	950,000	280,972,716	1,944,994,076
SPECIALTREASURY ACCOUNT FUNDS	2,691,007,167	352,520,515	72,565,029	114,533,091	10,947,214	65,000	5,187,342	49,478,232	64,995,662	16,893,837	2,548,727	3,380,741,816
TOTAL ACTUAL- ALL TREASURY ACCOUNTS	4,344,126,708	362,060,546	72,976,817	114,533,091	10,947,214	65,000	5,187,342	49,478,232	64,995,662	17,843,837	283,521,443	5,325,735,892

SOURCE: PEER compilation of DFA unaudited Fiscal Year 1992 budgetary/cash basis expenditures.

Recommendation

To achieve optimum fiscal controls for the state, the budgeting system must provide a strong and stable foundation on which to build. The following recommendation provides a blueprint to initiate this process. The components of the recommendation are in the chronological order of recommended implementation. Exhibit 21, page 89, provides a guide for the fiscal direction that the state's government should achieve in implementing the recommendation.

1. The Legislature should amend the budgetary statutes, MISS. CODE ANN. Section 27-103-1, et.al. (1972), to mandate the following specific elements for budget and accountability measures. Emphasis is added to these recommendations to distinguish responsibility for the recommended component:

   a. *Funds:* As discussed in the section on Financial Statements, the ***Legislature*** should discontinue using treasury accounts as the budgetary "funds." The enacted level of state budgeting should be the state agencies' activities classified by GAAP fund type. treasury accounts represent the method of financing only.

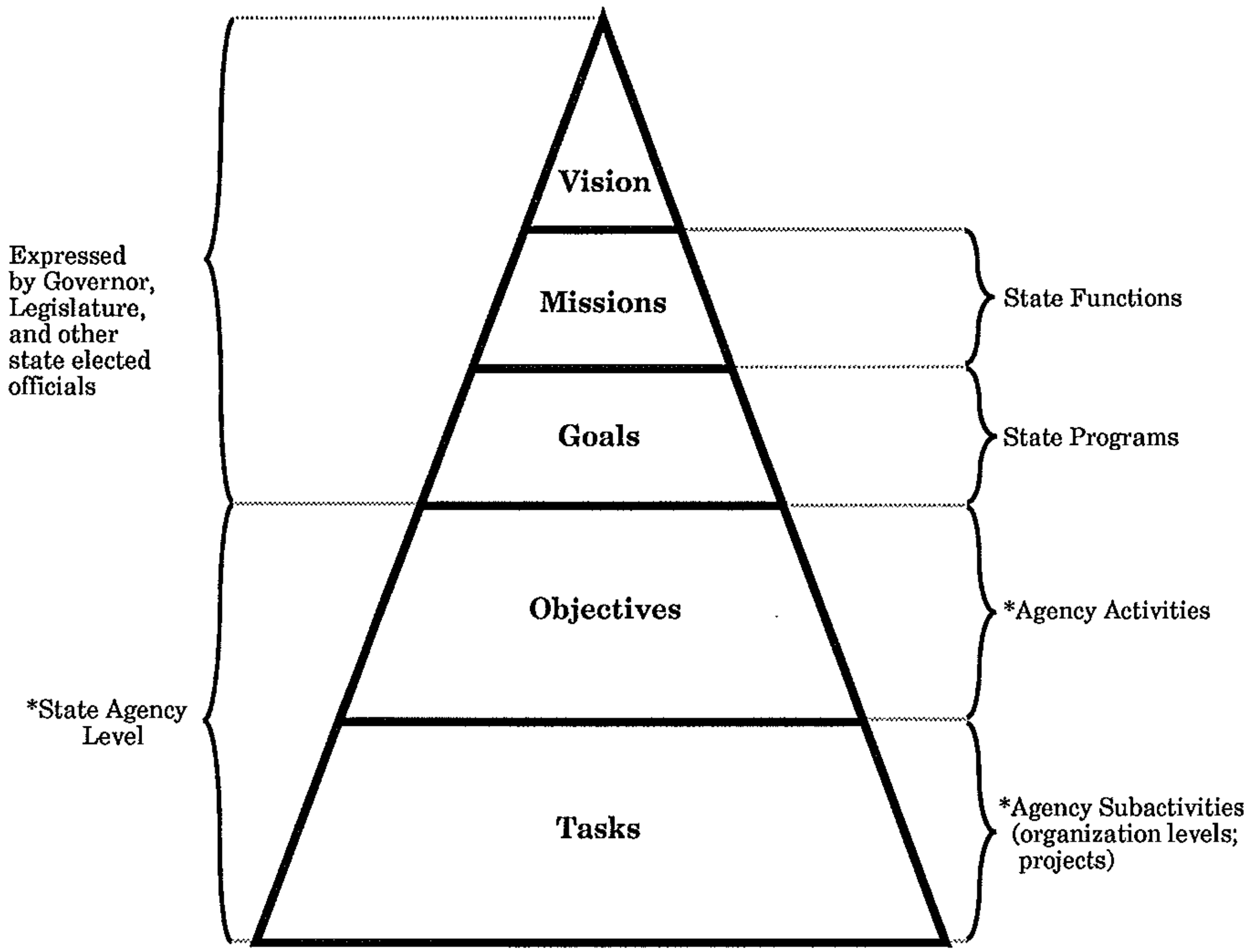
   b. *Agencies' activities:* The ***Legislature*** should require state agencies (within Fiscal Year 1994) to identify all activities at their organization. Along with these activities, the ***state agencies*** should determine the specific measurable agency objectives of each activity that are necessary to achieve the Legislature's and Governor's state goals, as discussed below. State agencies should utilize the accumulation of necessary subactivities (within each activity) at the various organization levels or project levels, as appropriate, to determine the tasks necessary to achieve the agency objectives.

   To be effective these agency activities should attain objectives to meet state missions and goals. The Legislature and Governor should work together to develop and maintain these missions and goals to provide stability, direction and controls over the allocation of resources. See Exhibit 21, page 89. These responsibilities should be established by law and amended through Title 5, Legislative Department, and Title 7, Chapter 1, Governor--Executive Department. These statements should be established and formally set as policy during the 1993 Legislative session.

   The ***state agencies*** should report their elements to LBO which will be responsible for the maintenance and initial evaluation of the activities and objectives. ***LBO*** should set specific standards for the evaluation of the material to determine whether the activities are indeed representative of the specific state programs and that the

Exhibit 21

Fiscal Direction for Mississippi Government



*The level at which performance measurements are established to determine whether resources are used efficiently and program results through effectiveness, relevance and sustainability measures.

SOURCE: PEER analysis.

objectives represent measurable targets that will meet the state goals.

c. *DFA Duties:* The Legislature should require ***DFA*** to provide activity level codes and perform the necessary SAAS modifications, reevaluate the effect of the GAAP fund classifications, and perform other administrative duties to start the pilot program identified below. Also, DFA should work expeditiously toward the satisfactory implementation of SAAS at all appropriate agency levels or other appropriate DFA inputs/controls or other accounting systems that will allow the eventual ability of all state agencies to utilize activity budgeting and accounting. See SAAS section, page 49.

d. *Pilot Implementation--Activity Level Controls:* After state agencies have identified and LBO has initially approved the above elements, ***LBO*** should initiate a pilot implementation of activity level budgeting. The initial agencies to implement activity level budgeting and accounting would be the on-line SAAS agencies. Exhibit 12, page 51, presents the current on-line agencies.

   These ***on-line SAAS agencies*** should be directed to prepare their Fiscal Year 1995 budget requests (due to LBO/Governor by August 1994) in an actual agency activity format. The statutory budget level would be the lump-sum by activity categorized by the GAAP fund level. This would allow the agency directors and managers the opportunity to utilize funding to meet the activity objectives. The agencies' resource flows, accounting and administration would remain disciplined by the control agencies (such as purchasing, personnel, and other controls as discussed in Appendix A at page 95.) The subsequent evaluation of these objectives through performance measurement is discussed below.

e. *Determination of Agencies' Activity Level Capabilities:* ***DFA*** should determine and report to LBO annually (before the initiation of the state's upcoming budget cycle) the other state agencies that may enter into activity level budgeting. DFA's determination should be based on the agencies' accounting systems (either on or off SAAS) and their ability to accumulate, budget, and account for costs at the statutory level (by activity). Within the constraints of the state's goals and the Legislature's assignment of priorities to agency activities, DFA's objective should be to move all agencies to this budgeting and accounting level as soon as possible.

f. *Justification of Activities:* The ***Legislature*** should mandate that state agencies, required to submit agency activity budgets, provide LBO and the Governor with sufficient levels of information to provide justification for the all aspects of the activity, not just the continuance of the activity. LBO should be provided with the actual major object of expenditures detail for analysis purposes only. Also, ***state agencies*** should provide all measurable objectives of the activities and the computed level of historical achievement of those objectives.

g. *Assigning Priorities to Activities:* During the appropriations process, the ***Legislature*** should assign priority levels to each state agency activity for the purpose of mandating budget reductions by DFA, as performed in accordance with Section 27-104-13. The Legislature should require DFA to utilize legislative priorities in determining which activity budgets to reduce in the event of budget deficits.

h. *Activity Performance:* The Legislature should require the state agencies' inclusion of associated measurable objectives. These objectives should identify the agencies' desired and actual activity results. See Exhibit 22, page 92.

Beginning with the on-line SAAS agencies in Fiscal Year 1995, the Legislature should require a system to analyze annually the results of these agencies' activity performance measures. LBO could perform this function in the normal process of budget analysis.

The following summarizes the process and methodology that should be considered in measuring, analyzing, interpreting, and reporting agencies' activity performance:

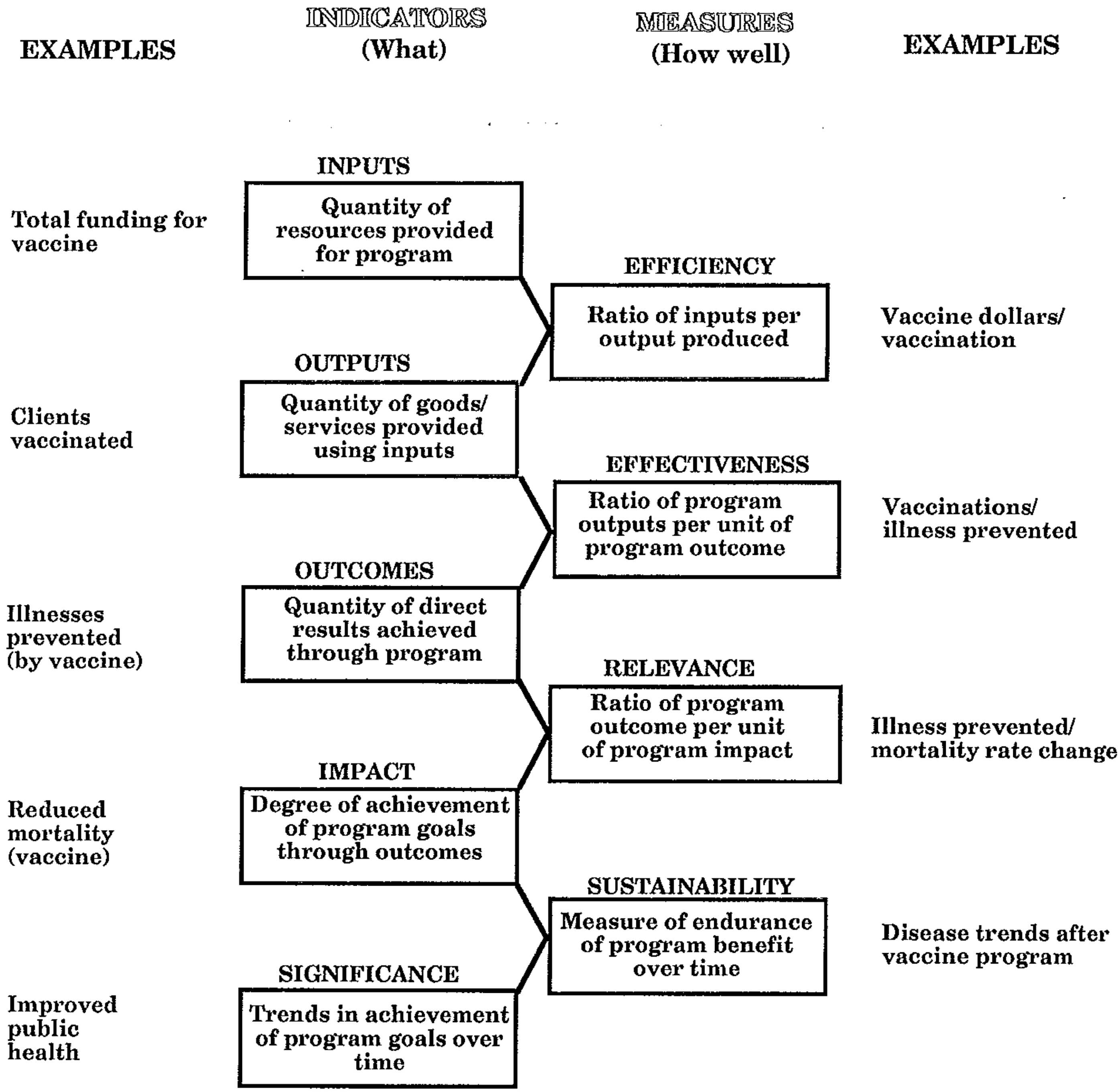
-- *Measuring achievement:* the actual calculation and determination of the performance measures. The indicators to be utilized include:

- inputs--costs of the activity.
- outputs--quantity provided.
- outcomes--results (timeliness, quality, delivery, price)
- impact--degree of current achievement.
- significance--trends in achievement.

-- *Analyzing results:* to analyze the measures. The techniques for analyzing data may include:

- trend or time-series--examination of variable over time.
- variance analysis--compares actual results with a standard.
- cross-sectional--compares attributes between entities.
- structural or decomposition--breaks a variable into components.

Exhibit 22
Performance Measurement



SOURCE: *The Government Accountants Journal,* Summer 1992

- causal or statistical--isolates factors causing changes in variables.

-- *Interpreting results:* to identify the causes of trends, comparisons and results and linking the causes/results to the responsible organizational level within the agency.

-- *Reporting performance measurement results:* The fourth step is to write the discussions and analysis in a understandable manner for implementation in the budgeting process.

Appendix A

Elements of the State's Resource Flow

RESOURCES IN

<u>*Sources of Receipts*</u>

- **General revenues** (taxes and fees) collected by the State Tax Commission, Department of Public Safety, Department of Insurance, and other departments.

- **Interest** earned on general revenues in demand deposits and investment accounts managed by the State Treasurer and earned by agency clearing accounts prior to transfer to the treasury.

- Collections by other agencies for **licenses, fees, charges, rents, and federal revenues.**

- **Bond and debt proceeds** for governmental capital projects or other needs.

- **Contributions to trusts** for such operations as the Public Employees' Retirement System, the state's self-insured medical plan and life insurance program, state employees' unemployment insurance, workers' compensation, and oil and gas taxes on state-owned land.

- Collections for other governments, persons, or organizations with the **state acting as an agent.**

- **Proprietary-type activities** wherein the state collects fees and charges for goods and services to the general public or to other state agencies, bond proceeds for loan/finance programs, and interest earned.

- **Interest** earned on funds held **outside the Office of the State Treasurer.**

- **University collections** of tuition, fees, private gifts, federal revenues, endowments, interest and other various collections.

The State Tax Commission receives the majority of general state tax revenues for the state. MISS. CODE ANN. Sections 27-3-45 and 57 and 7-9-21 (1972) require the State Tax Commission to pay daily to the State Treasurer all monies collected.

The State Tax Commission deposits the collections into the state's demand deposit accounts which are managed through the treasury clearing account, until the tax transfers and diversions are made. Currently, both the State Tax Commission and the State Treasurer make transfers and diversions from the account. They are generally made at the end of each month, except for sales taxes to the municipalities, which are made on the fifteenth of each month.

The state is one month behind in paying sales tax diversions. Monthly payments made on the fifteenth for sale tax diversions to the municipalities (approximately $15 million) are made from the current month's collections of taxes. From inquiries to the State Tax Commission, PEER could not determine the actual history of this predicament. It appears that the sales taxes were paid in arrears even when the municipalities assessed their own local sales taxes (up to 1%) before the local assessments were discontinued in 1968.

All monies received by the state for deposit into treasury accounts, whether general revenues through the State Tax Commission or collections of fees, charges, rents or revenues at other state agencies, must be accompanied by an Application for Receipt Warrant form to DFA. This form represents the agencies' request to deposit receipts into the State Treasury. Because of the large amount of daily collections by the State Tax Commission, those general receipts go directly to the treasury accompanied by the receipt warrant. The State Treasurer then forwards the receipt warrant to DFA.

Accounts (where the monies flow)

TREASURY ACCOUNTS:

Treasury accounts have traditionally been called "funds" because the general and special classifications have been the focus of the category of agencies and monies for the budget process. However, the accounts are actually the pools of monies that represent the means of financing uses. The actual state "funds" are the GAAP accounting funds, as described at page 98 of this appendix.

Agencies receive authorization for establishment and deletion of treasury accounts from DFA based on formal justifications. DFA assigns a GAAP classification to the accounts based on the predominant purposes of the monies.

- **General revenue accounts ("general treasury funds")** established to receive and distribute general tax revenues, other general revenues, and interest generated thereon:

  --Appropriated budgets (2000 accounts) - allotments of the state's cash controlled by the State Treasurer in account 2999.

General revenue accounts receive general state tax and other general revenues, the majority of which are collected by the State Tax Commission. Most of these general revenues are ultimately appropriated to the state agencies for the general purposes of operating the state government and are accounted for in the GAAP general fund. However, some of the appropriations are made for specified purposes. Based on Fiscal Year 1992, these specified purposes are represented by:

--Administration and operation of the universities,
--CDPA supercomputer operation (for universities' use),
--Payment of Port Authority at Gulfport debt,
--Operations support of various GAAP special revenue funds,
--Prior retirement obligations (employees never under PERS).

- **Special accounts ("special treasury funds"):** established to receive federal grants, fees, proceeds from the sale of goods and services, taxes levied for specific purposes and interest generated thereon, and to support the functional activities of the agencies that generate such revenues:

  --Appropriated budgets (3000 accounts) - authorizations for state agencies to spend their own collections of resources or transfers into the accounts.

  --Nonbudgeted (3000 accounts) - no formal budgetary authority needed by agencies to spend monies in these Treasury accounts.

  --SB 3120 Education Enhancement (4000 accounts) - authorizations for specific state agencies to spend these earmarked resources.

Special accounts receive all other collections at the state agency level that go through the Treasury, as presented at Exhibit 4, page 14. These accounts are also used for the collections of general revenues that are diverted/transferred to outside and inside the state government.

These special accounts represent resources that are budgeted and nonbudgeted. As described above, the accounts are acknowledged to accumulate resources to support only the activities that generate such revenues or earmarked resources. The special accounts that are not budgeted (do not go through the appropriations process) consist primarily of capital projects, debt service, trust and agency activities.

Appropriated budgets under these special accounts are currently subdivided into 3000 and 4000 accounts. The 3000 accounts are resources that, once budgeted, give the agencies authority to spend the federal revenues, fees, charges, or other resources that they collect.

The 4000 accounts were established with the 1992 enactment of SB 3120, which created the Education Enhancement Fund and enacted other education reform matters. The bill requires changes and increases in sales taxes and the earmarking of sales and use taxes for various levels of educational support to include elementary and secondary, community colleges, and universities.

The Office of the State Treasurer serves as the State Depository as required by MISS. CODE ANN. Section 27-105-1, et.al. (1972). The State Treasurer is responsible for managing the State Treasury account deposits and investments in accordance with Section 27-105-33, and in doing so must determine the state's current cash flow demands and provide appropriate investments.

NONBUDGETED BANK ACCOUNTS:

Bank accounts with treasury numbers 8000 - 9000

Bank accounts - no treasury numbers assigned

Agencies must receive authorization from the State Treasurer and DFA to open bank accounts. DFA also assigns a GAAP classification to each of the bank accounts, just as it does to treasury accounts. Most bank accounts are numbered and registered with the State Treasurer. However, some bank accounts are established under blanket authority from authorized state depositories, because of specific statutory allowance (predominantly those of universities.)

As shown in Exhibit 4, page 14, some of the nonbudgeted accounts (at the 8000 level) are used for collection/clearing accounts only. The resources collected at the state agency level through these accounts are transferred to the 3000 level special accounts. However, some of the 8000 and the 9000 special accounts are used for operating accounts.

RESOURCES OUT

<u>*GAAP funds (where the monies are accounted for)*</u>

Exhibit 5, page 17, presents the types of GAAP funds and account groups utilized by the state. Explanations of these fund and account groups follow:

Governmental Funds: Expendable fund category through which most governmental functions typically are financed.

General Fund: to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds: to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Debt Service Funds: to account for the accumulation or resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds: Nonexpendable fund category used to account for ongoing activities similar to those in the private sector.

Enterprise Funds: to account for operations to the general public -
- – Financed and operated similar to private business enterprises Intent is that the costs of providing goods or services be recovered by user charges; or
- – Where periodic determination of net income is appropriate for public policy, management control, accountability or other.

Internal Service Funds: to account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis.

Fiduciary Funds: To account for assets held by the government in a trustee capacity or as an agent for other governments, persons or organizations:

Expendable Trust Funds: resources, including both principal and earnings, may be expended. (Accounted for similar to Governmental Funds.)

Nonexpendable Trust Funds: Principal may not be expended. (Accounted for similar to Proprietary Funds.)

Pension Trust Funds: to account for a public employee retirement system.

Agency Funds: to account for assets held by the government as an agent.

University Funds: to account for transactions related to public institutions of higher learning; including current, loan, endowment, plant and agency funds. These funds are represented in a discrete presentation for financial statement purposes.

Account groups are accounting entities that supplement the Governmental Funds category for establishing control over and accountability over noncurrent assets and obligations, only. These account groups are not used to account for sources, uses and balances of financial resources.

General Fixed Assets: to account for all fixed assets acquired or constructed for use by the state, other than those accounted for in the Proprietary, Fiduciary, and University funds.

General Long-Term Obligations: to account for general obligation bonds, limited obligation bonds, compensated absences, and other long-term obligations not recorded in the Proprietary, Fiduciary, and University funds.

The states' specific GAAP funds consist of the grouping of treasury accounts along with all related financial activity to include cash/appropriation balances, liabilities and equities or balances and changes therein. The classification of accounts for GAAP purposes is the responsibility of DFA, along with the maintenance of the statewide accounting system and related functions. The basis for recording transactions related to these GAAP funds is discussed at Appendix D, page 106.

DFA's *Mississippi Agency Accounting Policies & Procedures* Manual (updated June 1992) provides a listing of the state's funds with related treasury (cash/appropriation) account numbers, GAAP fund type, and explanations of the revenue sources and descriptions of purposes.

<u>*Use of all monies*</u>

The uses of the state's resources are accounted for through the GAAP funds for specified purposes as established by those funds. The treasury accounts represent the liquid assets accessible for agencies' disbursements. The general accounts maintain appropriation balances, and the special accounts maintain cash balances in the State Treasury. Again, Exhibit 4, page 14, presents the flow of the state's resources toward their ultimate use.

Controls over Use:

The use of the state's resources is controlled through budgets established by the appropriation/budgetary process. Because the budgetary basis is cash, the budgetary controls are focused on expenditures of the cash/appropriations balances in the treasury accounts.

Some treasury accounts are not budgeted. Also, some state agencies are allowed to receive lump-sum withdrawals (usually monthly) of treasury accounts as allowed by MISS. CODE ANN. Section 7-9-41. Currently, these agencies that receive lump-sum withdrawals are:

- Mississippi Employment Security Commission - special treasury accounts for operation and administration.

- Institutions of Higher Learning - general treasury accounts for administration of central office and operation of universities.

- Department of Human Services - general treasury accounts for payments to recipients of public welfare programs.

- Others: Beauvoir Shrine and Tennessee-Tombigbee Waterway.

These agencies must comply with the normal personnel, travel and purchasing controls concerning the applicable treasury accounts, but do not receive DFA preaudit or approvals on each disbursement.

Monies in the nonbudgeted bank accounts are spent by the responsible agencies without the budgetary controls or DFA controls as discussed in this section. (Exhibit 20, page 87, presents the level of the state's budgeted to total expenditures for Fiscal Year 1992.)

The state maintains specific accounting and administrative controls to assure that state agencies do not overspend these enacted budgets. The process for budgeted treasury accounts requires that budgetary controls be established as a part of the accounting system. DFA creates the budgetary level based on the Z-1 forms that are submitted for each agency's budget (one or more treasury accounts.) Unless otherwise authorized, the major object of expenditure is the level of control within each budget.

Personal Services - Salaries, Wages, and Fringe Benefits:

The State Personnel Board controls expenditures for personal services-salaries, wages, and fringe benefits. The State Personnel Board maintains control over all state employee positions, classifications and salaries, as guided by the applicable MISS. CODE ANN. Sections 25-3-1, et.al. and 25-9-1,et.al. The agency keeps updated files on all officers and employees approved for state employment and maintains manuals delineating specific state agency hiring, reclassifications, and other matters relating to personnel.

DFA, Financial Control, utilizes the State Personnel Board's approved state employee files as a control before issuing payroll warrants. DFA maintains a separate payroll system for the issuance of payroll warrants. State agencies enter the payroll expenditures into the accounting system through the use of the payment voucher system.

Personal Services - Travel and Subsistence:

DFA, Office of Purchasing and Travel, regulates travel expenditures (personal services - travel and subsistence) as required by Section 25-3-41. Travel vouchers are utilized for state officers', employees' and officials' claims for reimbursement of costs incident to official travel. DFA publishes a *State Travel Information* handbook to support relevant statutes and travel requirements. State agencies utilize payment vouchers to request payment (issuance of a warrant) for reimbursement of the state employees' travel. DFA, Financial Control, preaudits the travel payment vouchers along with normal procurements, as described below.

Other Major Objects of Expenditure:

The state's purchasing system controls the uses of budgeted treasury account funds for the following major object expenditures:

- Contractual Services (except as described below)
- Commodities
- Capital Outlay:
  - Other than Equipment
  - Equipment
- Subsidies, Loans & Grants

Disbursements under the Contractual Services category for the following minor object expenditures do not require purchase orders:

- Tuition, rewards, awards
- Communications & transportation of commodities
- Utilities

Appendix B, page 104, presents the purchasing disbursements process for the expenditures under the above major categories.

State's Purchasing System:

Purchase Orders: The state's purchasing system utilizes purchase orders to record encumbrances for budgetary control purposes. These encumbrances represent the estimated amount of expenditures related to the state's commitments concerning unperformed obligations or contracts for goods or services. In other words, open purchase orders for goods or services not yet received are the budgetary encumbrances against resources.

State agencies initiate purchase orders to record the verbal or written obligation to vendors to purchase specified goods or services. These purchase orders are only issued after consideration of compliance with the applicable purchasing laws and DFA regulations. As indicated at Appendix B, page 104, state agencies are required to evaluate their purchasing need(s) and, based on the costs under consideration, select the appropriate method for procurement.

DFA, Office of Purchasing and Travel, maintains statewide contracts that are competitively procured or negotiated with vendors for established prices for specified periods of time. Also, CDPA maintains select vendors for the purchase of computers and telecommunication equipment.

After state agencies receive the required oversight approvals to purchase, they issue purchase orders to record the requisitions for goods or services. State agencies must forward copies of purchase orders to DFA the day of issuance. DFA verifies the appropriate purchase prices, use of authorized contracts and vendors, and the agencies' compliance with state purchasing laws (MISS. CODE ANN. Section 31-7-1, et.al.)

Payment Vouchers: The agencies receive the goods and services and must complete a payment voucher form (as prescribed by DFA) to request the issuance of a warrant against the appropriate funds in the State Treasury.

DFA, Financial Control, performs additional preaudit functions on the transactions to assure accuracy of amounts, validity and appropriate agency approvals, sufficiency of treasury account balances, compliance with applicable approved purchase orders, and other system checks for coding/other errors.

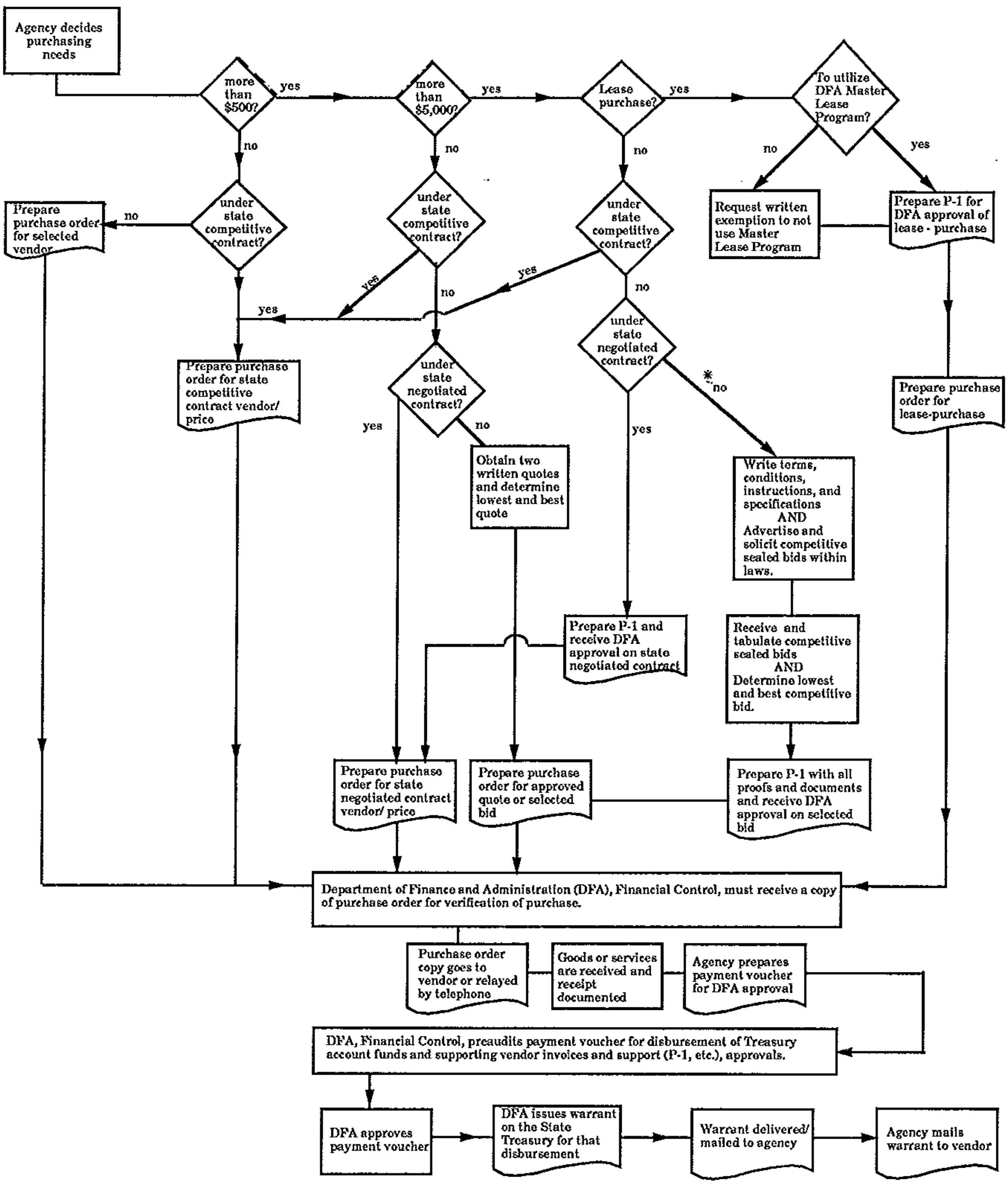
State Treasury Warrants: Once DFA approves a payment voucher, it issues a warrant payable to the appropriate vendor (one warrant per each payment voucher). The warrants represent negotiable instruments drawn on the funds held by the State Treasury. The State Treasurer receives the warrants from financial institutions and disburses checks, issued on the state's bank demand accounts, to cover the obligations.

MISS. CODE ANN. Section 7-9-14 (1972) authorizes the State Treasurer to use electronic funds transfers in lieu of warrants, as follows:

> *. . .to receive, disburse or transfer public funds under his jurisdiction by means of wire, direct deposit, or electronic funds transfer. . . .*

The State Treasurer makes a few payments through banks using Automated Clearing House disbursements of cash rather than warrants. Automated Clearing House is a form of electronic funds transfer wherein various payees can be paid simultaneously for similar disbursements. It can also be used for an accumulation of many payables due to one payee (vendor.) The State Treasurer also occasionally uses federal wire transfers between banks to satisfy immediate cash flow needs between depositories, rather than writing checks.

Appendix B
Purchasing/ Disbursement Process
(for Treasury Accounts)



Notes: P-1 represents *Request for Authority to Purchase* form to DFA, Office of Purchasing and Travel.
Single source and emergency purchases over $500 require P-1 issuance.

*If purchase is for general personal service contract, attorney personal services, or computer/telecommunications goods/ services, other oversight agencies' approvals must be received.

SOURCE: PEER compilation, *Mississippi Agency Accounting Policies and Procedures* Manual.

Appendix C
Authoritative Organizations Governmental Generally Accepted Accounting Principles (GAAP)

CATEGORIES	Governmental Accounting Standards (GASB) 1	National Council on Governmental Accounting (NCGA) 2	Financial Accounting Standards Board (FASB) 3	American Institute of Certified Public Accountants (AICPA) 4	Government Finance Officers Association (GFOA) 5	Others 6
1 (Pronouncements of Governmental Authorities)	Statements Interpretations	Statements Interpretations				
2 (Pronouncements for topics not addressed in 1)			Statements Interpretations	Accounting Principles Board (APB) Accounting Research Bulletins		
3 (Pronouncements & literature from expert accountants)	Technical Bulletins		Technical Bulletins	Industry audit guides and accounting guides Statements of position		
4 (Practices & application of pronouncements)				Accounting intrepretations		Recognized and prevalent industry practices or pronouncements
5 (Other accounting literature)	Concepts Statements Action Report	Concepts Statements	Concepts Statements Status Report	APB Statements Issues papers	1988 GAAFR GAAFR Review Accounting Topic Series Financial Reporting Series	Textbooks Articles

NOTES:--Above categories are represented from: most authoritative (1) to least authoritative (5/6).

--NCGA was replaced by GASB in 1984. GASB recognizes its statements.

--Universities' accounting complies with principles of National Association of College and University Business Officers (NACUBO) above these categories.

SOURCE: PEER adaptation of chart from *Governmental Accounting, Auditing and Financial Reporting (GAAFR), GFOA, 1988.*

Appendix D

Basis of Accounting

STATE OF MISSISSIPPI BUDGETARY BASIS

Under the budgetary basis of accounting, revenues and expenditures are recognized as cash is received and disbursed. The balance sheet reflects only a balance in the cash and fund balance accounts, while the statement of revenues and expenditures summarizes cash receipts and cash disbursements for the period. Most governmental units, including Mississippi, use an encumbrance system to assure that budgets are not overspent. Encumbrances are outstanding purchase commitments which are not yet liabilities because the goods or services have not been received.

The financial position of an agency (the amount of assets held by the agency and the amount owed to other entities by the agency) is not accurately reflected when the budgetary basis is used, therefore the state uses the GAAP basis of accounting for reporting purposes. Under the budgetary basis of accounting, the amounts owed to others for goods and services received are not recorded on the balance sheet. Neither is a portion of the fund balance on the balance sheet reserved to represent outstanding purchase orders of the agencies.

STATE OF MISSISSIPPI GAAP BASIS

Governmental, Agency and Expendable Trust Funds
(Modified Accrual Basis of Accounting)

The modified accrual basis recognizes revenues in the fiscal year in which they become both measurable and available to finance expenditures. Available means collectible within the current fiscal year or within a specified number of days in time to pay liabilities existing at the end of the fiscal year. (Mississippi has specified a sixty-day period.) Expenditures are recorded if an agency has received and accepted the goods and services. Since expenditures are accrued when they are expected to be paid out of revenues recognized during the current period, purchases of supplies and capital expenditures are not recorded as deferred costs but rather as current expenditures.

Encumbrances representing outstanding purchase commitments for goods and services not yet received are not recorded as liabilities, but as a reservation of the fund balance in GAAP financial statements.

Proprietary Funds and Nonexpendable and Pension Trust Funds
(Accrual Basis of Accounting)

The accrual basis is used in the CAFR to account for the government operations which are similar to business enterprises. Examples of accrual basis funds include Mississippi Industries for the Blind, Department of Corrections Prison Industries, CDPA Data Processing Services, and the Public Employees' Retirement System. Under the accrual method, revenues are recognized in the fiscal year in which they are earned and become measurable; expenses (rather than expenditures) are recognized in the year incurred, if measurable.

The GAAP measurement focus used in accrual accounting is the Flow of Economic Resources, which recognizes the deferral and capitalization of expenditures and the deferral of revenues. The statement of revenues and expenditures represents all costs of providing goods and services during the period, including depreciation of fixed assets and the cost of inventories consumed during the period. The accrual basis exhibits a smoothing effect on the statement of revenues and expenditures, for example, because expenditures do not include the full cost of purchasing depreciable property during the period and revenues do not include the proceeds from the issuance of long-term debt.

Appendix E

Reporting

STANDARDS

Accountability is the primary reason for external financial reporting. It expresses the responsibility and obligation to explain the government's and government representatives' actions and accomplishments.

The Governmental Accounting Standards Board (GASB) has identified three primary groups of users of external financial statements (excluding management):

- Citizens: taxpayers, voters, public interest groups, the media (those to whom government is primarily accountable);

- Legislative and oversight bodies: state legislatures, county boards, city councils, school boards, boards of trustees (those who directly represent the citizens); and

- Investors and creditors: individual and institutional investors, securities underwriters, bond rating agencies, bond insurers (those who lend or who participate in the lending process).

The objectives of financial reporting, as identified by GASB, are as follows (see Exhibit 6, page 19, for more detailed explanation):

- Assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.

- Assist users in evaluating the operating results of the government entity for the year.

- Assist users in assessing the level of services that can be provided by the government entity and its ability to meet its obligations as they become due.

Financial reports should provide useful information for making economic, political, and social decisions; demonstrating stewardship of public funds; and evaluating managerial and organization performance. These objectives can be accomplished through reporting by:

- Comparing actual financial results with the legally adopted budgets,
- Assessing financial condition and results of operations,
- Assisting in determining compliance with finance-related laws, rules, and regulations, and
- Assisting in evaluating efficiency and effectiveness.

Exhibit 7, page 20, lists and describes the state's current major financial statements and related reports that are either distributed or are available for use by the Legislature, Governor, state agencies, and the public. Some of these reports are required by statute and some are nonstatutory, with no specific requirement for the report.

Some of the more significant formal reports are described below to augment the information at Exhibit 7, page 20:

Comprehensive Annual Financial Report (CAFR)

The state's predominant financial report for **external** purposes is the CAFR. This is a formal report that provides an extensive overview of the government financial position, for the state as a whole, as of the end of each fiscal year. It is prepared by **Department of Finance and Administration (DFA)** and audited by the **Office of the State Auditor** in accordance with MISS. CODE ANN. Section 27-104-4 (1972). It is printed and available for the Legislature in January each year, for the previous fiscal year ending June 30.

Mississippi has produced the CAFR since Fiscal Year 1986. That was the first year that one document was available to present the financial position of the state as a whole. Prior to that time individual general purpose financial statements were compiled and audited for each state agency.

Mississippi has received the Government Finance Officers Association "Certificate of Achievement for Excellence in Financial Reporting" for the CAFR for fiscal years 1987 through 1990. Mississippi is one of twenty-two states to have ever achieved this distinction.

The state's CAFR is an audited report prepared in accordance with GAAP. The CAFR contains three distinct sections: introductory, financial and statistical. Appendix F, page 112, provides the contents of these sections of the CAFR.

Annual Report of Budgetary Basis Expenditures

To supplement the CAFR, **DFA** prepares the *Annual Report of Budgetary Basis Expenditures.* This report supports the CAFR Budgetary Basis financial statement and is the only source for audited fiscal year budgetary basis budget and expenditures amounts. The report segregates the year-end amounts by general treasury account and special treasury account funds and is presented by:

- Budgetary function (**program**), and
- Agency (department/**activity**).

Budget Report (Proposed Budget)

Another of the state's principal reports is the Joint State *Proposed Budget*. This is a joint report that presents the executive and legislative budget recommendations for the upcoming fiscal year prepared by the Governor's staff (**DFA**) and **LBO**. In accordance with MISS. CODE ANN. Section 27-103-113 (1972), the report is due by December 15 for presentation to the Legislature and the state agencies. This report represents the Legislature's sole source for accumulated information to evaluate the state's proposed budget situation.

The *Proposed Budget* traditionally has consisted of two major sections each with distinct parts for both the executive and legislative budget recommendations. Section I provides summary information and Section II provides the detail and parts as required by CODE Sections 27-103-123 through 127. Appendix G, page 113, presents the contents of the legislative section of report, based on the report for the 1992 legislative session--Fiscal Year 1993 Recommendation (there was no Executive recommendation that year because it was the new Governor's first regular session after his election.)

In the spring of each year, the Legislative Budget Office also publishes the *Budget,* which presents the compilation of the actual enacted appropriations during the preceding session. Also, in accordance with Section 7-7-45(b) and Article 4, Section 113, of the MISS. CONSTITUTION, the Office of the State Auditor prepares a report summarizing the expenses of the legislative session and the appropriations enacted during that session.

Other Formal Reports

Exhibit 7, page 20, describes other formal reports that certain state agencies prepare. Descriptions by state agency follow:

The ***University Research Center*** prepares three reports which provide information, both actual, proposed (estimates), and related data, that supports the state's decisionmaking processes concerning planning and budgeting.

Two of the reports are statutorily required: *The Annual Tax Expenditure Report* (CODE Section 57-13-45) and *Mississippi Economic Review and Outlook* (Econometric Model - CODE Section 37-141-7). These reports present data that can be used to make revenue policy and forecasting decisions. The *Mississippi Economic Review and Outlook* (published semi-annually) is also a prime source to assist the Legislature and the Governor in making decisions on the state's missions and goals and how the government may better meet the needs of the citizens and direct the state toward continued and expanded growth.

Another report that the University Research Center prepares is not statutorily required, but the center has formally presented it at the beginning of each legislative session for the past few years. *Mississippi - A Fiscal Summary* consists of actual fiscal year information contributed by DFA. The report shows trend information (usually ten years), graphs, estimates and narratives on the revenues, expenditures, and cash balances of the state. The University Research Center produces the report in six sections, as follows:

A	General treasury account fund revenue estimates for current and subsequent fiscal years
B	State Tax Commission- general treasury account fund revenues (detail)
C	General treasury account fund cash balances fluctuations
D	Special treasury account fund, state and federal sources
E	Governmental expenditures
F	Appendices (columnar exhibits to support graphs)

The ***State Tax Commission*** currently prepares three reports to summarize that agency's general tax revenue collections and transfers:

- **Annual:**
  --A report of State Tax Commission fiscal year general revenue collections (included in the State Tax Commission's *Annual Report,* formerly *Service Bulletin).*

- **Monthly** (no specific statutory requirements):
  --Monthly Report of Tax Commission Transfers:
  Transfers to state Special Treasury fund accounts for other state agencies and diversions outside state government (to localities).
  --Cash Report:
  Collections received by type of tax.

The Office of the State Treasurer: In accordance with Section 7-9-47 and Article 4, Section 115, MISS. CONSTITUTION, the State Treasurer annually prepares a report of the Office of the State Treasurer's fiscal year collections/disbursements (referred to as receipts/expenditures). This information is published as the *Treasurer's Annual Report,* which supplies other information, such as:

- Historical trend information concerning the state's June 30 cash balances, interest revenues, bonded indebtedness.
- Annual summary of activities in:
  --general treasury accounts,
  --special treasury accounts,
  --clearing accounts
- Funds invested by the Office of the State Treasurer and annual interest revenues
- Bonded indebtedness information

Appendix F
Contents of *Comprehensive Annual Financial Report* (CAFR)

INTRODUCTORY

Letter of transmittal: familiarizes the reader with the overview of the state's government, specifically-
- Economic conditions,
- Accomplishments,
- Future initiatives,
- Financial information,
- General government functions (Governmental funds), summarized financial data,
- General Fund balance,
- Enterprise Operations,
- Pension Trust Fund Operations,
- Debt Administration,
- Cash management,
- Risk management, and
- Other matters.

Certificate of Achievement for Excellence in Financial Reporting*
Officials of State Government
Organization Chart

FINANCIAL

Auditor's Report
General Purpose Financial Statements (including notes)
Combining and Individual (GAAP) Fund Financial Statements and Supporting Schedules

STATISTICAL (and Economic Data)

Ten fiscal years' presentation on the state's:
- Governmental Fund Type--
  - Expenditures by Function
  - Revenues by Source
  - State Tax Revenues by Source
- Net General Long-term Bonded Debt Per capita
- Ratio or Annual Debt Service for General Long-term Bonded Debt to Total Revenues and Expenditures
- Revenue Bond Coverage

Computation of Legal Debt Margin (Article 4, Section 115, MISS. CONSTITUTION requirement)

Ten calendar years' presentation on the state's:
- Demographic Statistics
- Economic Characteristics
- Bank Deposits, Retail Sales, Median Household Disposable Income
- Population and Employment
- Average Annual Employment by Sector
- Average Annual Wages by Sector

Principal Industrial Employers

Ten academic years' presentation on the state's:
- Public School Enrollment
- Full-time Equivalent Student Enrollment - Community and Junior Colleges
- Full-time Equivalent Student Enrollment - Universities

Miscellaneous Statistics

NOTE: *For prior fiscal year, when awarded by GFOA.

SOURCE: PEER analysis of Mississippi CAFR, Fiscal Year Ended June 30, 1991.

Appendix G

Contents of Joint State *Proposed Budget*

Section I

Letter of transmittal
Discussions -Estimated general treasury account funds revenues and expenditures
Statements:
- I Calculated general treasury account funds available
- II Detail of general treasury account funds estimate
- III Recommended general treasury account funds by "general fund" agency budget *
- IV Recommended total treasury account funds by "general fund agency budget *
- V Recommended special treasury account funds by "special fund" agency budget *
- VI Recommended total state budget--all treasury account funds
  - Part I - "General fund agencies"
  - Part II - "Special fund agencies"

Section II (Requests and Recommendations)

Parts**:
- I Detail and narratives of "general fund" agencies
- II Detail and narratives of "special fund" agencies
- III Detail and narratives of State Highway Department (Department of Transportation)

NOTES:
* Includes requested amounts from agencies and two previous years' unaudited total amounts; all "general fund" agencies' budgets subdivided by governmental **program**.

** Includes amounts by major object of expenditure for other than lump sum budgets.

SOURCE: PEER analysis of *Proposed Budget* for FY 1992 legislative session.

Appendix H

Original Statewide Objectives Listed in the SAAS Request for Proposal

1* SAAS was to meet "all generally accepted accounting principles (GAAP) for governmental entities."

SAAS meets this objective because it was programmed to allow the state to meet GAAP.

Some on-line agencies have expressed a desire that DFA modify SAAS to further automate the process. DFA should consider the concerns of these agencies and direct its procedures toward maximum efficiency and reduced paperwork for all agencies.

2* maintain accumulated data on both a cash and GAAP basis for budgetary and financial reporting;

SAAS meets this objective.

3 provides timely information through on-line access and/or standard or user-defined reports;**

SAAS has not been programmed to meet this objective fully.

As mentioned in the "Benefits of SAAS" section of this report, SAAS provides timely information through on-line access and standard reports. However, after three years DFA has not developed modifications to allow agencies to program their own reports in a timely manner. A discussion of reporting needs not yet met is discussed on page 70.

4 provides internal controls and complete audit trails;**

SAAS meets the objective of internal control, but requires an additional programming change to meet fully the requirement for complete audit trails.

***Denotes that SAAS has met this objective fully.**
****Denotes that SAAS has met this objective partially.**

SAAS contains edit checks to catch errors and is set up to require a separation of duties which is important to internal control. SAAS also links one document to another so that auditors may trace transactions from start to finish. A weakness existed in SAAS audit trails because auditors could not determine which Financial Control Department operators or internal agency personnel had approved transactions in SAAS. When DFA upgraded SAAS to an updated version of AMS's Core operating software in June 1992, SAAS gained this basic capability. The weakness will continue to exist until DFA creates SAAS system files to take advantage of this GFS capability.

5 is understandable by and practicable for all levels of users within each agency;**

This objective will not be met fully until training is improved.

SAAS is not easy to learn quickly. Many SAAS users say that it is not "user-friendly." The answer to this problem is a support system for employees consisting of easy-to-use training manuals and regular training sessions conducted by SAAS staff which are available to all users. These have not been a priority of DFA. These suggestions are discussed in detail on page 76.

6 performs internal financial management and external financial reporting as expected;**

This objective has not been met fully.

SAAS meets external financial reporting requirements as exhibited in the CAFR. Some aspects of internal management have improved as described under the "Benefits of SAAS" section. SAAS has improved internal financial management by allowing small departments to be managed within a larger budget and by allowing on-line and off-line agency personnel access to up-to-date information appearing on computer screens daily. But SAAS has fallen short in meeting some other internal financial management needs of agencies because ad hoc reporting for agencies has not been developed. Some agencies have other suggestions for programming SAAS to add information helpful in management. DFA should listen to the concerns of agencies and program SAAS to allow for the greatest efficiency for all agencies.

***Denotes that SAAS has met this objective fully.**
****Denotes that SAAS has met this objective partially.**

7 includes budgeting and forecasting tools to achieve program budgeting for legislative and management reporting;**

SAAS has not been programmed nor have procedures been set to meet this objective.

DFA purchased the Advanced Budget Preparation (ABP) module to provide budgeting and forecasting tools. ABP would allow agencies to pull information automatically from the actual SAAS financial statements to use as a base for developing next year's budget, thus reducing manual preparation of the budgets. DFA paid $16,000 for the ABP in FY 1990 and later paid $28,180 for additional programming modifications to meet state specifications. However, DFA did not properly plan and coordinate an agreement between the DFA Budget Office, LBO and the on-line agencies on use of the subsystem before purchasing it and paying the additional $28,180 in modifications. Because consensus was not reached between the parties on use of ABP, DFA tabled the project. As a result, the agencies still do not have use of a budgeting program to ease the preparation of budgets.

SAAS has the capability to be modified for program (activity) budgeting, as explained on page 69.

8* eliminates reconciliation between each individual agency and state control agency;

SAAS meets this objective for the seven on-line agencies. The seven on-line agencies do not have to reconcile their internal accounting records to the state-level records generated by SAAS.

9 maintains accumulated data for grant reporting."**

SAAS maintains accumulated data for grants; however; DFA has not programmed SAAS to allow for satisfactory grant reports. For instance, Disability Determination Services makes monthly reports to the federal government which it must manually complete because SAAS has not been programmed to produce these reports correctly.

***Denotes that SAAS has met this objective fully.**
****Denotes that SAAS has met this objective partially.**

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