

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

| Program Budget Comparison | | | | | | | | |
|-------------------------------|---------------------|------------------------|-----------------------|-----------------------|--------------------------|--------------------------|--------------------|----------------------|
| Budget Item | Base Fiscal 2010 | Approp. Fiscal 2011 | Budget Fiscal 2012 | Budget Fiscal 2013 | Biennium Fiscal 10-11 | Biennium Fiscal 12-13 | Biennium Change | Biennium % Change |
| FTE | 66.50 | 66.50 | 66.50 | 66.50 | 66.50 | 66.50 | 0.00 | 0.00% |
| Personal Services | 3,097,980 | 3,436,408 | 3,466,216 | 3,463,919 | 6,534,388 | 6,930,135 | 395,747 | 6.06% |
| Operating Expenses | 5,316,086 | 5,310,510 | 5,757,225 | 5,477,367 | 10,626,596 | 11,234,592 | 607,996 | 5.72% |
| Equipment & Intangible Assets | 9,653 | 0 | 9,653 | 9,653 | 9,653 | 19,306 | 9,653 | 100.00% |
| Debt Service | 5,674 | 25,235 | 5,674 | 5,674 | 30,909 | 11,348 | (19,561) | (63.29%) |
| Total Costs | \$8,429,393 | \$8,772,153 | \$9,238,768 | \$8,956,613 | \$17,201,546 | \$18,195,381 | \$993,835 | 5.78% |
| General Fund | 3,330,441 | 3,359,068 | 3,667,845 | 3,532,965 | 6,689,509 | 7,200,810 | 511,301 | 7.64% |
| State Special | 634,216 | 702,239 | 676,856 | 673,773 | 1,336,455 | 1,350,629 | 14,174 | 1.06% |
| Federal Special | 4,464,736 | 4,710,846 | 4,894,067 | 4,749,875 | 9,175,582 | 9,643,942 | 468,360 | 5.10% |
| Total Funds | \$8,429,393 | \$8,772,153 | \$9,238,768 | \$8,956,613 | \$17,201,546 | \$18,195,381 | \$993,835 | 5.78% |

Program Description

The Business and Financial Services Division (BFSD) provides support services for the department, including financial and accounting oversight, cash management, preparation and filing of federal financial reports, purchasing supplies and equipment, payroll processing, accounts payable, facility reimbursement, audit coordination, lease management, mail handling, property management, and records management.

The division also provides leadership and guidance in the development and implementation of accounting policies and procedures and best business practices.

Statutory authority is in Title 17, Chapter 1, part 1, and Chapter 2, MCA, and 45 CFR Subtitle A, Part 92, Subpart C92.2.

Program Highlights

| Business and Financial Services Division Major Budget Highlights | |
|---|--|
| ◆ | Total funding for the division increases 5.8% when the 2011 and 2013 biennia are compared, primarily due to increases in statewide present law adjustments |
| ◆ | The Governor proposes a 5% general fund reduction in operation costs over the biennium of \$50,062 |

Program Narrative

As shown in the introductory Program Budget Comparison, the division's 2013 biennium request is 5.8% higher than the 2011 biennium. Major increases for the biennium are in present law adjustments:

- Over \$1.2 million in statewide present law adjustments that primarily support increases in:
 - Personal services of just over \$1.0 million that are partially offset by reductions in vacancy savings of about \$0.3 million
 - Fixed cost of \$0.5 million
- \$140,000 for the biennium in present law adjustments for contracted services that is partially offset by a reduction in operating costs of \$50,062 over the biennium to continue the FY 2011 reductions ordered by the Governor in April 2010.

The increase in statewide present law adjustments for personal services is primarily due to fully funding positions that were not filled or partly filled in the base year. The Fiscal Policy and Support Services units used 67.8% and 76.8% of the base funded hours for FTE, respectively. Three positions were vacant for the entire year. Most of the increase is due to fully funding these positions and a few others throughout the division.

Because BFSB is the centralized business center for the agency, fixed costs annually comprise a large portion of operating expenditures. One of the largest fixed costs in the BFSB budget is the annual, agency-wide audit expense, which, as with all agencies, is assessed in the base year. The cost of the audit is estimated at nearly \$400,000 for the 2013 biennium. The increase in audit costs over the base year accounts for over half of the increase in the general fund in FY 2012. The other large fixed cost increase is the sum of the state-wide cost allocation and other costs that are set and assessed by the Department of Administration. These assessments represent the balance of the increases over the biennium in fixed costs.

Goals and Objectives

2013 Biennium Goals

The Legislative Finance Committee recommends the legislature consider the following critical goal and performance measurement(s) as part of its decisions on the executive's budget requests for this program.

BFSB could be impacted by the following overarching critical goals that the LFC recommended be discussed during the division budget presentation and, if appropriate, followed through the budget cycle:

- Implement components of federal health insurance reform
 - Integrate Medicaid eligibility determination in the health insurance exchange design
 - Evaluate the potential for a single system to determine Medicaid eligibility
 - Estimate the cost of Medicaid eligibility expansion for consideration by the 2013 Legislature
- Continue to monitor implementation of Healthy Montana Kids
- Review impact of economy on workload and programs
- Study the effect of broad based budget reductions such as the proposed 4% FTE/personal services reductions

Additionally, the LFC lauded the interim reports by the BFSB about its financial controls and asked BFSB to present an update on its work to the subcommittee during its budget presentation for the 2011 Legislative Session because the functionality of the goal provides on-going information for legislative discussion of efficient and effective business practices, as shown in the following summary of interim reports.

Interim Reporting / Successful tasks: The risk assessment baseline was completed by June 30, 2009. A risk assessment model was developed using qualitative and quantitative information to evaluate the existing failure risk for major business objectives. Twelve major business processes were evaluated. The risk process identified two high risk business processes: Facility Reimbursements and Medicaid Payments. Risk management steps were completed in the areas of procedure development, claims audits, workload reassignments, staff development and increased management involvement.

The FY 2010 risk assessment began with 34 significant business processes identified in categories such as procurement and payment processes, client service provision and payment processes, grants management, cash flow, financial reporting and resource management. Each business process would be scored under a weighted risk evaluation model and business processes scoring the highest on the risk evaluation model would be targeted for risk management activities and increased testing.

LFD COMMENT

Continuation of Reports

Because this performance measure ties to DP 6003 for internal controls contract annualization, the

2013 session joint appropriations subcommittee may wish to recommend continuation of this goal, and visit with the division about its ability to provide information on any major current or estimated expenses or cost savings for discussion during the interim since this component has not been addressed. There is further discussion and options about this goal in the Present Law section.

5% Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5 percent. The following summarizes the plan submitted for this program.

The total 5% reduction plan for the BFSB would reduce general fund by \$116,276 over the biennium and contains:

- A \$50,062 general fund request in DP 55140 for reductions in operations over the biennium. The total funds reduction would be \$120,124
- A \$66,214 general fund proposal that is not in the executive budget. Over the biennium this proposal would reduce general supplies, travel, training and education, and temporary services. Reductions would also be made through the utilization of multi-function printers rather than stand alone or network printers, copiers, and scanners.

There is a detailed listing of the 5% plans in the Operations Branch Overview.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as requested by the Governor.

| Program Funding | Base FY 2010 | % of Base FY 2010 | Budget FY 2012 | % of Budget FY 2012 | Budget FY 2013 | % of Budget FY 2013 |
|---|---------------------|----------------------|---------------------|------------------------|---------------------|------------------------|
| 01000 Total General Fund | \$ 3,330,441 | 39.5% | \$ 3,667,845 | 39.7% | \$ 3,532,965 | 39.4% |
| 01100 General Fund | 3,330,441 | 39.5% | 3,667,845 | 39.7% | 3,532,965 | 39.4% |
| 02000 Total State Special Funds | 634,216 | 7.5% | 676,856 | 7.3% | 673,773 | 7.5% |
| 02382 6901-02 Indirect Activity Prog 06 | 634,216 | 7.5% | 676,856 | 7.3% | 673,773 | 7.5% |
| 03000 Total Federal Special Funds | 4,464,736 | 53.0% | 4,894,067 | 53.0% | 4,749,875 | 53.0% |
| 03591 6901-03 Indirect Activity Prog 06 | 4,464,736 | 53.0% | 4,894,067 | 53.0% | 4,749,875 | 53.0% |
| Grand Total | <u>\$ 8,429,393</u> | <u>100.0%</u> | <u>\$ 9,238,768</u> | <u>100.0%</u> | <u>\$ 8,956,613</u> | <u>100.0%</u> |

The program receives general fund, state special revenue, and federal funds through a complicated, federally approved cost allocation formula that is generally referred to as indirect activity. The funding formula is derived from those funds expended on functions benefitting or serving other programs in the department. As shown in the funding table, federal funding comprises 53.0% of the budget, general fund nearly 39.7%, and state special revenue about 7.3%.

As mentioned in the program narrative, while the 2013 biennium funding percentages nearly match those of the 2011 biennium, the actual amount of general fund increases by over \$0.5 million primarily due to the agency-wide audit that is traditionally placed in the base year and expended over the biennium.

While general fund supports programs throughout BFSB via cost allocation, it is the primary support for the Facility Reimbursements Unit at \$1.4 million over the biennium. Facility reimbursement staff collects private funds, insurance, Medicaid, and Medicare funds that reimburse the general fund. Collections in FY 2010 were over \$29.4 million – an increase from \$20.0 million in FY 2006 and \$26.7 million in FY 2008.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

| Budget Summary by Category Budget Item | -----General Fund----- | | | | -----Total Funds----- | | | |
|---|------------------------|--------------------|-----------------------|-------------------|-----------------------|--------------------|-----------------------|-------------------|
| | Budget Fiscal 2012 | Budget Fiscal 2013 | Biennium Fiscal 12-13 | Percent of Budget | Budget Fiscal 2012 | Budget Fiscal 2013 | Biennium Fiscal 12-13 | Percent of Budget |
| Base Budget | 3,330,441 | 3,330,441 | 6,660,882 | 92.50% | 8,429,393 | 8,429,393 | 16,858,786 | 92.65% |
| Statewide PL Adjustments | 335,104 | 200,224 | 535,328 | 7.43% | 764,406 | 482,251 | 1,246,657 | 6.85% |
| Other PL Adjustments | 2,300 | 2,300 | 4,600 | 0.06% | 44,969 | 44,969 | 89,938 | 0.49% |
| New Proposals | 0 | 0 | 0 | 0.00% | 0 | 0 | 0 | 0.00% |
| Total Budget | \$3,667,845 | \$3,532,965 | \$7,200,810 | | \$9,238,768 | \$8,956,613 | \$18,195,381 | |

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

| Present Law Adjustments | -----Fiscal 2012----- | | | | -----Fiscal 2013----- | | | | | |
|--|-----------------------|------------------|-----------------|------------------|-----------------------|-------------|------------------|-----------------|------------------|------------------|
| | FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 512,665 | | | | | 510,269 |
| Vacancy Savings | | | | | (144,429) | | | | | (144,330) |
| Inflation/Deflation | | | | | 499 | | | | | 1,143 |
| Fixed Costs | | | | | 395,671 | | | | | 115,169 |
| Total Statewide Present Law Adjustments | | \$335,104 | \$32,034 | \$397,268 | \$764,406 | | \$200,224 | \$28,951 | \$253,076 | \$482,251 |
| DP 6003 - Internal Controls Contract Annualization | 0.00 | 27,331 | 10,606 | 32,063 | 70,000 | 0.00 | 27,331 | 10,606 | 32,063 | 70,000 |
| DP 55140 - 17-7-140 Reduction - Operations Reduction | 0.00 | (25,031) | 0 | 0 | (25,031) | 0.00 | (25,031) | 0 | 0 | (25,031) |
| Total Other Present Law Adjustments | 0.00 | \$2,300 | \$10,606 | \$32,063 | \$44,969 | 0.00 | \$2,300 | \$10,606 | \$32,063 | \$44,969 |
| Grand Total All Present Law Adjustments | 0.00 | \$337,404 | \$42,640 | \$429,331 | \$809,375 | 0.00 | \$202,524 | \$39,557 | \$285,139 | \$527,220 |

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – There were no exceptions to the pay plan across the divisions of DPHHS
- o **Program Specific Obstacles** – BFSF competes with salaries from the financial sector or management professions in recruitment of workers for qualified staff for accounting, statistical and financial management tasks.
- o **Vacancy** - The 7% vacancy savings was addressed at the agency level where each division was given a target. Overall management of the vacancy savings was based on critical needs and resources agency-wide with the agency director having final approval.
- o **Legislatively Applied Vacancy Savings** - The division eliminated an architect position responsible for oversight of facility planning and management, remodeling, lease improvements and associated contracts. The agency is restructuring its approach to meeting these needs. The position was transferred to the Department of Administration.
- o **Pay/Position Changes** - BFSF did not have any employee pay upgrades or pay changes.
- o **Retirements** - BFSF has 37 out of 60 employees eligible to retire. There are 5 FTE estimated to retire in the 2013 biennium at a liability of \$44,275.

DP 6003 - Internal Controls Contract Annualization - This request is to provide for \$70,000 in contracted services in the Business and Financial Services Division for additional assistance in enhancing the department's internal control structure. Funding for this decision package is \$27,331 general fund, \$10,606 state special revenue, and \$32,063 federal funds in each year of the biennium.

These funds were previously appropriated as contracted services during the 2009 legislative session for FY 2011 and are being requested again to continue internal audit review of the division's internal control structure and data systems, provide training to department staff in internal controls and fraud detection, and continue assistance in preparation of a continuous improvement plan for managing collections and receivables activities.

DP 55140 - 17-7-140 Reduction - Operations Reduction - This decision package reduces the general fund base budget for the BFSD. The amount represents the 5% budget reduction ordered by the Governor per 17-7-140, MCA in April 2010 and represents a continuation of the operations reduction implemented in FY 2011. BFSD will make operations reductions in areas of travel, conferences, supplies, newspaper ads, cell phone use, postage, and contracting.