



MONTANA LEGISLATIVE BRANCH

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DATE: February 22, 2006
TO: Legislative Finance Committee
FROM: Lois Steinbeck
RE: Classification of Certain Costs in the State Accounting System

BACKGROUND

During the 2005 legislative session, the Health and Human Services Joint Appropriations Subcommittee (subcommittee) considered an issue related to how certain costs are recorded in the state accounting system by programs in the Department of Public Health and Human Services (DPHHS). DPHHS programs do not record certain types of expenditures consistently. Specifically, some programs record the following types of expenditures as state agency operating costs rather than as benefit and grant expenditures:

- o Direct services for certain individuals, such as cancer screening for low-income persons, disease testing for residents of a certain geographic area, and specialty services to children with metabolic diseases
- o Medical supplies and home safety devices, such as nicotine patches and smoke alarms, to certain individuals
- o Grants to local governments, nonprofit organizations, or other non business entities to provide specific services to individuals or to administer programs that provide broad benefits to the public, such as tobacco control and prevention, home visiting services
- o Pass through funds to non state entities to purchase equipment for non state uses, such as purchase of hospital and laboratory equipment by community hospitals

Most programs within DPHHS, and to a lesser extent programs in other state agencies, record such expenditures in the grants or benefits category of expenditure.

BUDGET ANALYSIS ISSUE

Legislative staff raised this issue in the 2007 biennium budget analysis specifically in relation to 17-7-304(4)(a), MCA¹, which allows state agencies to carry forward 30 percent of unexpended appropriation authority for personal services, operating costs, and equipment. The legislature

¹ (4) (a) Subject to subsection (4)(b), after the end of a fiscal year, 30% of the money appropriated to an agency for that year by the general appropriations act for personal services, operating expenses, and equipment, by fund type, and remaining unexpended and unencumbered at the end of the year may be reappropriated to be spent during the following 2 years for any purpose that is consistent with the goals and objectives of the agency. The dollar amount of the 30% amount that may be carried forward and spent must be determined by the Office of Budget and Program Planning.

explicitly excluded unexpended appropriation authority for grants and benefits from the carry forward provision.

This issue came to the attention of staff due to operating plan changes processed by DPHHS and approved by the Office of Budget and Program Planning to move appropriation authority from the grants and benefits category where it was appropriated to the operating cost category. For example, during the 2005 biennium, about \$28 million in appropriation authority for bioterrorism and tobacco control and prevention funding was moved from the grants category where it was appropriated to the operating cost category where the funds were spent. Expenditures from those appropriations rolled forward in the base budget as operating costs, eligible for the 30 percent carry forward in future years.

There is scant guidance in statute or state accounting policy that clarifies what types of costs should be recorded in the grants and benefits category of expenditure. State accounting policy provides the most detailed guidance for classification of operating costs. DPHHS programs were relying on the state accounting policy guidance to classify the types of costs that should be recorded as operating expenses.

The other concerns raised due to this issue were:

- o Overstatement of state operating costs and funding to support Helena area based state government operations and FTE
- o Understatement of state expenditures that provide direct or indirect benefits to individuals or non state entities
- o Understatement of funding to support non Helena area operations

ISSUE RESOLUTION

The subcommittee requested that the Department of Administration (DOA) Accounting Division, DPHHS, the Office of Budget and Program Planning, and the Legislative Fiscal Division (LFD) meet to address this issue and report to the Legislative Finance Committee (LFC) on outcomes.

Two meetings were held with the entire workgroup and one of the meetings also included representatives from the Departments of Transportation, Labor, and Environmental Quality as well as the Legislative Audit Division. Generally, other state agencies and most programs within DPHHS record expenditures for the direct benefit of individuals and non-state entities as either grants or benefits. So, initially it appears that a change to statewide accounting policy in this area will not be particularly disruptive for most state agencies.

The most recent meeting of the full workgroup in January 2006 had the following results:

- o The Accounting Division within DOA, as part of its periodic revisions to statewide accounting policy, will include more detailed guidance on the types of expenditures that should be recorded as grants or benefits when the updates are published
- o DPHHS has revised its internal guidance on recording expenditures in the grants and benefits categories of expenditures and the guidance has been reviewed and approved by DOA

- o DPHHS will submit several operating plan changes, some of which may trigger the 25 percent threshold for LFC review, in order to comply with the changes in accounting policy guidance
- o Some of the operating plan changes will need to be completed prior to LFC review at its June meeting in order to make the accounting system changes before the significant workload of fiscal year end processing begins

LFD Commitment

LFD staff volunteered to ensure that training in the new accounting policy would be provided to legislative fiscal staff as well as OBPP staff (if they desired), so that appropriations could be correctly entered into the budget tracking system during legislative sessions. The workgroup expressed concerns that new proposals be given special attention to ensure that the appropriations are in the correct expenditure category in case there is a question as to what legislative intent was regarding an appropriation.

CONCLUSION

At this point, the issue raised during the DPHHS 2007 biennium budget analysis is nearing resolution, barring major changes in policy direction. The LFC will be apprised if the final direction changes from what has been proposed in January.

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