

State Finance 101
By: The Oregon State Controller's Division

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Section One: FINANCIAL ACCOUNTING IN OREGON

Section Two: OREGON FINANCIAL MANAGEMENT STRUCTURES

***APPENDIX A: ESSENTIAL FINANCIAL MANAGEMENT STATUTES
IN THE OREGON REVISED STATUTES***

APPENDIX B: DEFINITIONS OF GOVERNMENT FISCAL TERMS

SECTION ONE

STATE OF OREGON FINANCIAL ACCOUNTING STRUCTURE

INTEGRATED SYSTEMS

Similar to large private sector enterprises, Oregon's accounting structure is dependent upon stable and integrated financial management systems. Chart 1 shows some of the relationships between some of the major statewide systems used to keep track and report state government revenues and expenditures. For example, the state's payroll system interacts with the state Personnel system to pay state employees and feed payroll/cost data to the **R*Stars accounting system**. R*Stars uses data from the Purchasing application and feeds revenue and spending data to the state budget system, and for statewide external financial reporting. The State Controller's Division Datamart provides "desktop" access to the state's financial and payroll databases to state accountants, budget analysts, payroll staff and state management.

These systems need to be well planned, maintained, and replaced at regular intervals to improve data credibility, improve functionality, to keep current with ever changing technologies, and to ensure separate, but integrated systems, are kept in reasonable balance with each other. The term "**Statewide Financial Management Systems (SFMS)**" was first coined in a study of various financial systems in the early 1990's. The terminology has been modified today to distinguish between the staff "**Statewide Financial Management Services (SFMS)**" and the system "**Statewide Financial Management Application (SFMA)**". SFMA is comprised of both R*Stars, the accounting component and ADPICS, the purchasing component. Modern information management practices require that structural enterprise systems need to be integrated on a variety of levels to create efficiencies and maximize our technology investments.

State Controller's Division Data System

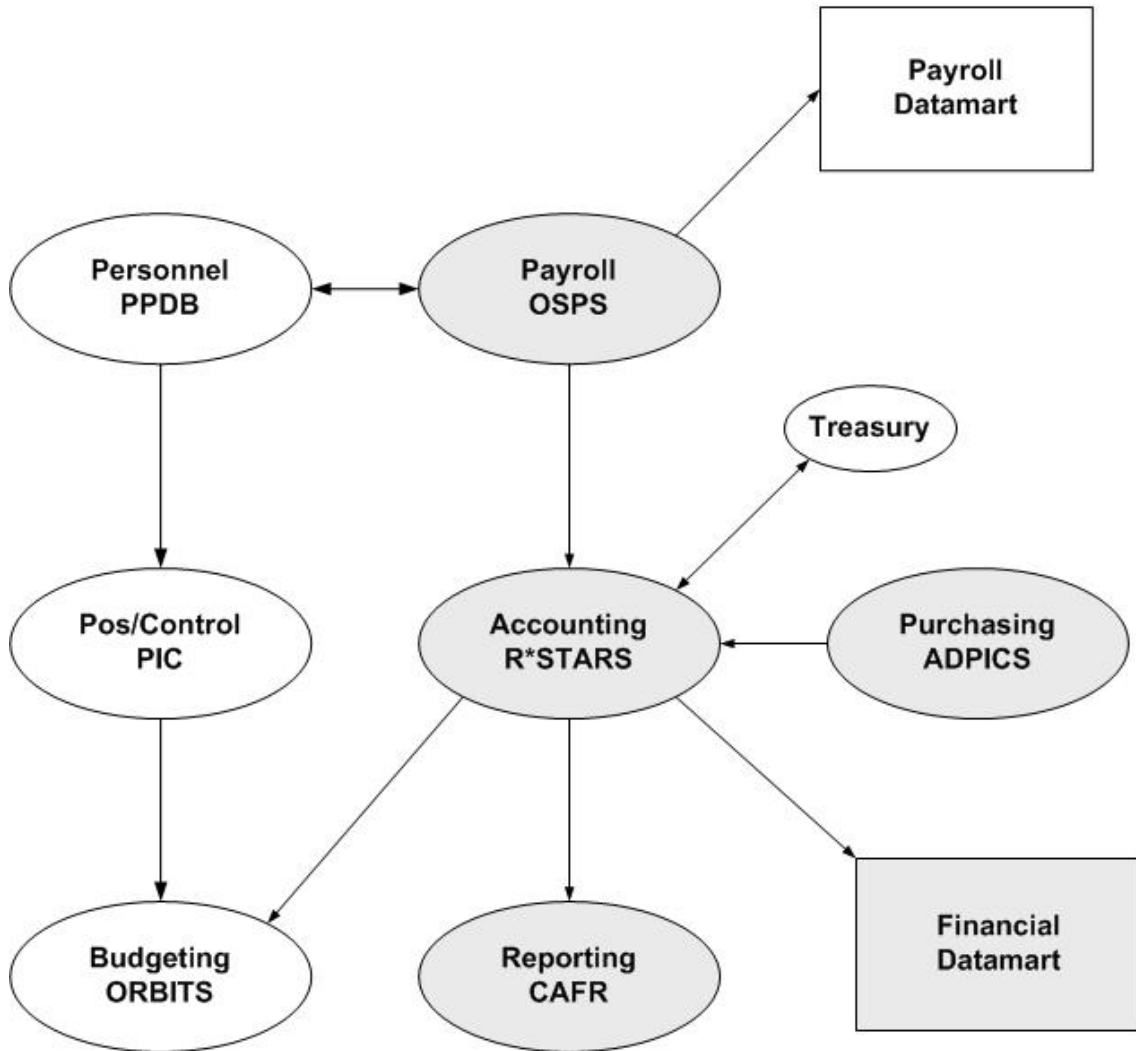


Chart 1

OREGON LEGISLATURE

The legislature authorizes numerous bills that approve revenues and expenditures for state government agencies. One example of such a bill is an agency budget. The budget bill is a plan for income and spending to accomplish agency goals. It appropriates **funds** and limits expenditures. This plan, once approved by Budget and Management, and entered on the state's

accounting system (State Financial Management Application - SFMA-R*Stars) becomes the legal control for agency receipts and disbursements during the period specified in the bill.

Other legislative actions may allow an agency to levy taxes, provide services for a fee, license individuals, or otherwise earn revenues to pay for programs. These "**other funds**" are often separate and distinct from moneys collected for general government purposes (**general funds**) based on statutory language, federal mandate, legal requirements or for specific business reasons. Some funds are said to be "dedicated" in that the income and disbursements are limited by the state's constitution or by law (eg. Highway Fund). The State Treasurer uses separate bank accounts for most funds, some of which may earn and keep interest. Otherwise, interest is retained by the General Fund.

Legislative action regulates some funding mechanisms established by Oregon's Constitution or by voter initiative. Bills may also authorize receipt of **federal funds** for specific purposes. Federal funds may match General Fund dollars, be used for specific programs, or be **passed through** to local governments.

General Fund **appropriations** provide funding to agencies that do not generate revenues, receive federal funds, or generate sufficient funds to meet their approved programs. Agencies do not actually receive money from the general fund. Instead, they expend against an appropriation from the General Fund established for general government purposes, up to the amount approved in their budget bill. The General Fund is largely made up of personal and corporate income tax, collected by the Department of Revenue.

Generally, the Oregon Constitution, the Oregon Legislature, or another legal authority authorizes the collection of revenues and establishes the specific disbursement or expenditure plan for those revenues. Various accounts are created in the Oregon State Treasury (see Chart 2) as a beginning point to collect the revenues and to make disbursements. The state's accounting system which is linked to each specific Treasury Account is used to create accounting "funds", based on generally accepted accounting principles, to keep track of all inflows and outflows. The State's budget system uses this system of "funds" to aggregate data at the budgetary level for budgetary management and Governor and Legislative review.

State Account Structures

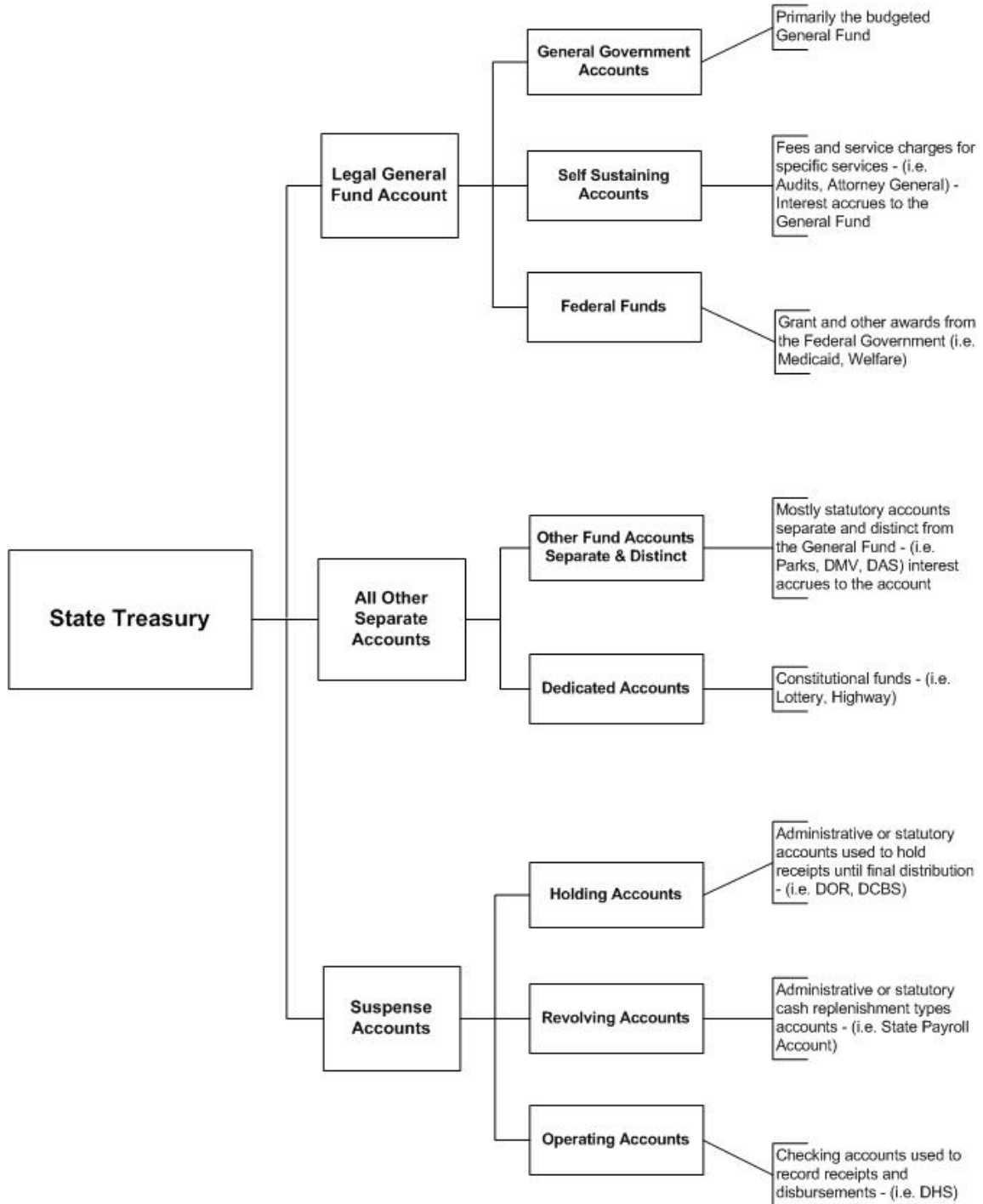


Chart 2

STATE TREASURY

The State Treasury is the bank for most non-semi-independent state agencies. Deposits are made to an agency's account at Treasury, and checks or state **warrants** are drawn on Treasury. Treasury provides statements to agencies detailing the account activity, invests idle cash balances, and pays interest to those accounts authorized to retain interest earnings. Treasury also offers safekeeping services, provides consulting on banking and cash management issues, and contracts with certain banks for services to state agencies.

Agencies receive money for a variety of reasons and from a variety of sources which they deposit at a local bank. Most agencies do not have an account at a bank; instead, the agency's account is with Treasury. However, some agencies have cash with fiscal agents (generally bond or **COP** related) that is held in banks outside of the Treasury. When agencies deposit money at a bank, in most cases they are actually depositing to Treasury's account at the local bank. Treasury credits the agency's account when notified of the bank deposit. Agencies may receive money electronically through an automated clearing house (ACH) or wire transfer, which is fast and efficient. Treasury encourages agencies to use these options.

There are two basic ways to disburse money from an account at Treasury: by paper and by electronic funds transfer (EFT). A paper disbursement can take the form of a state warrant, agency check, or a transfer if the recipient is another state agency or a local government with an account in the Treasury's **local government investment pool (LGIP)**. EFT disbursements may be by ACH or wire transfer. All disbursements require the approval of authorized agency personnel.

The Treasury is responsible for investing and managing all moneys held, with the mission of generating the highest returns prudently possible. The **Oregon Investment Council (OIC)** sets the Treasury's investment policy and may contract with others to perform investment management functions.

The **Oregon Short-term Fund** is managed by the Treasury and includes moneys from the State General Fund, dedicated funds and the LGIP. Policy restricts investments as to maturity and diversification of the portfolio. Treasury allocates interest monthly to agency accounts authorized to retain their interest earnings based on average daily balance. For the LGIP, Treasury designed and implemented an Automated Investment Pool Service. This program increases internal controls and improves the level and quality of service provided to LGIP participants.

Treasury maintains an automated record system of all **general obligation bonded debt** issued by agencies. Each December, after the final bond sale for the calendar year, each state agency with outstanding bonds receives an annual bonded debt report. If an agency issues bonded debt during the year, or calls bonds prior to maturity, the agency receives an updated bonded debt report. Agencies receiving these reports should confirm that the reports agree with their records. General obligation bond-issuing agencies submit debt service payments to Treasury for processing. Some agencies issue their own **revenue bonds** for which debt service payments are made through their bond trustees.

STATE CONTROLLER'S DIVISION

The State Controller's Division (SCD) is comprised of 48 full time staff. The SCD is responsible for the administration and coordination of payroll, accounting, and financial reporting. This responsibility involves policies, procedures, controls, and automated financial systems used by state agencies. These systems provide information that is consistent with national accounting standards; accurate, timely, and appropriately detailed for the purpose of maintaining

management and legal control. Systems must process transactions efficiently while complying with requirements of the state Constitution, state statutes, **federal mandates, generally accepted accounting principles, and accounting financial controls.** This facilitates the compilation of the **Comprehensive Annual Financial Report (CAFR).**

The SCD has six units described below:

Administration

Division Administration staff provide division level program leadership, management, accountability, and control. They oversee statewide fiscal actions and initiatives, and take a leadership role in resolving statewide issues. This team provides daily division management and administrative support. They develop policies and controls, performance measures, web development, division planning, and manage the SCD budget. They process employee records, division training and vendor payments. They provide receptionist, internal communications, word processing and general office support. They promote team building, career development and government efficiency.

OSPS - Oregon Statewide Payroll Services

Oregon State Payroll Services staff provide a centralized payroll system to state agencies to pay the approximately 36,000 state employees. The OSPS team ensures that the system is functional according to federal and state payroll tax laws, forty-two collective bargaining agreements, the PEBB and other payroll related regulations. They ensure that system changes and fixes are well managed and documented. They provide daily off-cycle payments to comply with BOLI, statutory and contractual requirements. The team provides system support through a help-desk environment and offers monthly modules of the OSPA Training Series. They sort and distribute weekly and monthly payroll informational and management reports. They maintain a payroll data mart for ad hoc reporting.

SARS - Statewide Accounting & Reporting Services

Statewide Accounting and Reporting Services staff develop and coordinate statewide accounting, financial reporting, and fiscal management policies and procedures in accordance with generally accepted accounting principles (GAAP), federal regulations, and state laws. They provide professional guidance, training and consultation to agencies on state accounting policies. SARS staff coordinate the statewide year-end closing and prepare the Oregon Comprehensive Annual Financial Report. They provide development and support services for the statewide ad hoc reporting database. The staff also coordinate federally mandated fiscal accounting, reporting and monitoring statewide. Other services include preparation of various statewide financial reports, development of specific financial processes, training and reporting services, and financial systems security administration and support.

SCS - Shared Client Services - Small Agency Financial Accounting

Shared Client Services staff provide daily processing for accounts payable, accounts receivable, receipts and disbursements to selected small state agencies and the Governor's Office. They provide budget preparation and execution services. They prepare quarterly allotment plans for their clients, financial plans and reports, project future cash and expenditure needs and alert clients about potential trouble areas. Other services include establishing and linking accounting structures to support financial information needs assuring that the accounting and budget structures provide decision-makers with appropriate and reliable information.

SFMS - Statewide Financial Management Services

Statewide Financial Management Services staff provide operational control, improvements to system functionality and efficiencies, system policies, training, and support for approximately 4,500 R*Stars (Accounting) and ADPICS (purchasing) users. The systems feature a general ledger, accounts payable and receivable, and fiscal reporting. Grant, project and contract accounting are also available options on the system. SFMS is responsible for training and preparing agencies for implementation as well as re-implementation on R*STARS and ADPICS. The SFMA and manual controls cover budgetary accounting, purchasing, payments, cash control and security. SFMS staff is also responsible for the reconciliation of the 0401 General Fund, the 10503 Payroll Account as well as the 0539 Lottery Account.

SFS - Statewide Financial Services Manager

Statewide Financial Services staff provide controls, direction, focus, and support for statewide accounts receivable management, financial technical and service support for the statewide E-Commerce application and statewide internal controls. They ensure inter-agency coordination of accounts receivable management, manage outside revenue collection contracts, and provide policy, coordination, and controls for statewide E-Commerce activities, as well as working with agencies on internal control functions and policies.

STATEWIDE FINANCIAL MANAGEMENT SERVICES (R*STARS)

The R*Stars Accounting System provides automated controls to ensure that expenditures and agency commitments stay within legislatively approved budget plans. R*Stars provides a flexible financial structure that fosters effective fiscal policies and procedures and allows daily monitoring of expenditure activity. The system prevents agencies from exceeding budgetary limits.

R*Stars automatically tracks cash balances in other and federal funds and prevents spending in excess of cash balances. R*Stars also allows agencies to monitor cash balances at the same level as the Treasury account. Agencies can use R*Stars to limit these accounts further to help monitor cash balances and expenditures at a user-defined level, such as for specified programs, grants, or projects. While agencies with their own accounts at the Treasury are responsible for reconciling these accounts with R*Stars, the SCD reconciles Treasury accounts shared by multiple agencies. Examples of such statewide accounts are the state general fund and the lottery account.

SUMMARY

The State's financial process begins with legislative actions establishing the legal framework for the creation of authorized revenues, expenditures, and agency budgets. Bank accounts are established in the State Treasury to capture the financial flows of receipts and disbursements in accordance with law. Revenues and expenditures are grouped into **Governor's Programs** and the major funding categories of General Fund, Other Funds, Federal Funds, and Lottery Funds for statewide views. Accounting funds in the Statewide Financial Management Application are created to account for multiple funds (revenue sources and related agency budgets) that track back into the statewide budget. **Cost accounting organization and program structures** help track and report financial flows for management decision making at agency and statewide levels. **Revenue and expenditure objects** track individual revenue sources and expenses, such as a particular revenue fee or an office supply expenditure. The reporting layer provides standard and ad hoc reports plus on-line desktop access to the states financial database.

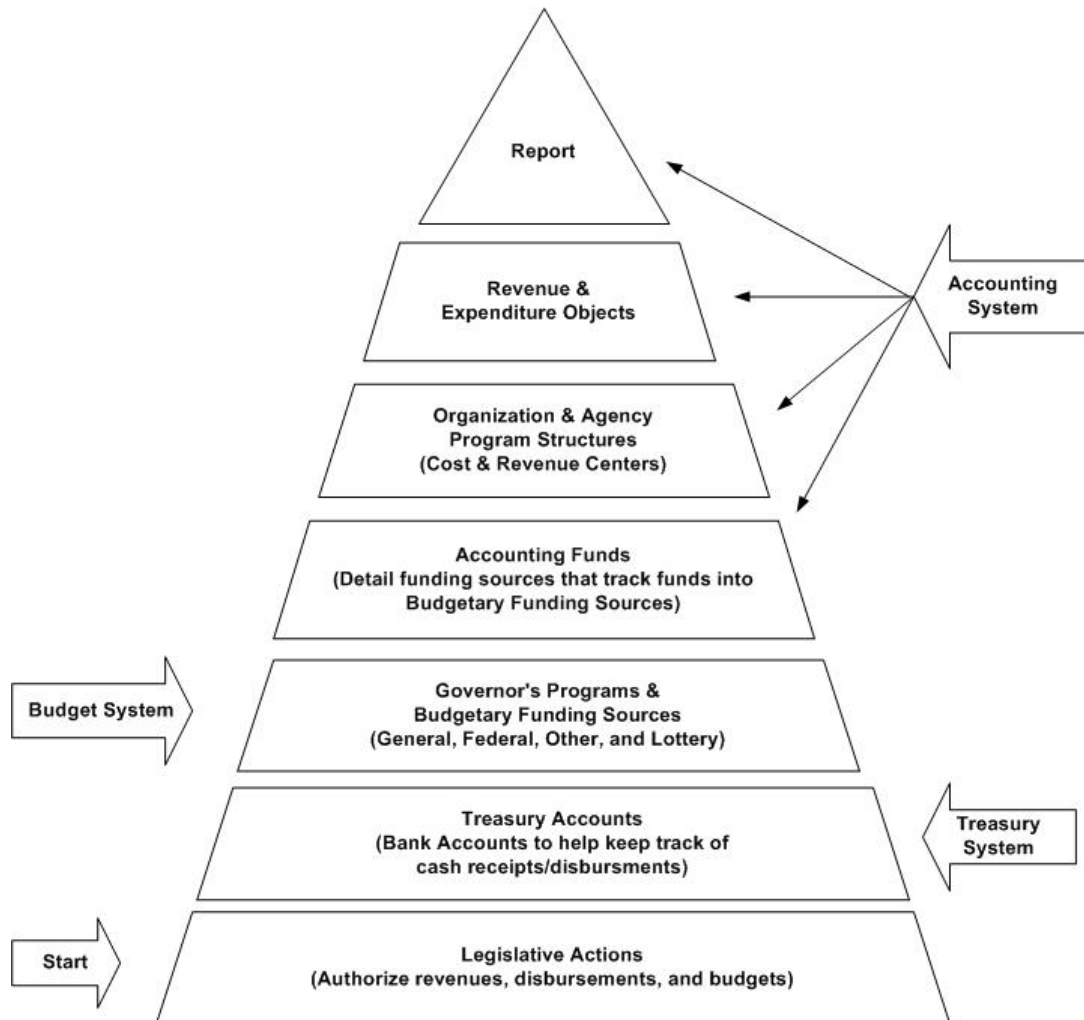


Chart 3

SECTION TWO

STATE OF OREGON FINANCIAL MANAGEMENT STRUCTURE

Financial management in Oregon is a blend of central and distributed principles and processes dictated by the Oregon Constitution, state statutes, and public financial administrative policies and practices. In relation to financial management, the Oregon Constitution defines the role of the Governor, the Legislature, the Treasurer, and the Secretary of State. State statutes further define the roles and responsibilities of these constitutional officers plus state agencies, financial policies, and financial procedures. For example, state statutes frequently define the legal authority for establishing accounts within the State Treasury, legal authority for various sources of taxes and other revenues, the legal authority for particular uses of these revenues, the creation of specified funds, financial checks and balances, and reporting requirements. See Appendix A, ESSENTIAL FINANCIAL MANAGEMENT STATUTES IN THE OREGON REVISED STATUTES.

BUDGET MANAGEMENT

The legislative approved budget gives a state agency, board, or commission the funding to accomplish its statutory mission. It also provides funding to enact policy directives. The budget preparation begins at the agency level (using the ORBITS system) with a "base budget" that maintains current programs and "program option packages" that fund new or expanded activities. The authorized full time equivalent positions (FTE) for the agency are also established through the budget process (using the PICS system).

The agency budget is sent to the DAS Budget and Management Division for review and approval as part of the Governor's Recommended Budget. Statewide policy initiatives help direct the final budget document. The Governor's Recommended Budget is delivered to the Legislative Fiscal Office in early December for presentation to the legislature as they convene in January. Through the legislative process, the base budget and packages are reviewed, modified, and updated with comparisons to actual accounting data for the current biennium.

After legislative approval, the final budget is implemented by the agency and actual expenditures and revenues are compared to budget amounts throughout the biennium. The positions are established in the personnel system (PPDB) which controls the payment of salaries and benefits through the payroll system (OSPA). The approved budget amounts are recorded on the statewide accounting system (R*STARS) to control expenditures against approved levels.

As money is received and spent by each agency, those decisions are recorded in the accounting system and summarized by program or function. Agency management make future decisions based on actual experiences recorded. Accuracy and timeliness are critical for good decision making. The summarized accounting data is used as a basis for developing the agency budget request covering the next biennium.

PROCUREMENT

Each agency is responsible to make procurement decisions based on statutory authority, budget availability, and good business practices. Small purchases can be made using a state charge card designed to give adequate control and reduce the costs for processing these small payments. Larger purchases require a more formal process, depending on the dollar amount.

Routine purchases usually require a purchase order to be prepared and approved. A number of agencies use the new statewide purchasing system (ADPICS) to generate the purchase order documents and automatically record the related accounting transactions. A manual process can also be used. When the vendor provides the goods or services ordered, they issue an invoice. The agency also records the delivery of the goods or services. A payment is initiated when the three documents (purchase order, invoice, and receiving report) are matched. A warrant is produced through the accounting system (State Printing Plant) and, in most cases, is mailed (State Mail located at the State Print Plant) directly to the vendor without being reprocessed by the agency. SFMA has the capability to send vendors electronic fund transfers, if the vendor signs up for the direct deposit payment.

Large, non-routine purchases require a bid document or a request for proposal (RFP) to be prepared. The DAS Purchasing Section usually assists with these purchases, many of which must also be reviewed and approved by the Attorney General's Office. There is an automated bid system (Vendor Information and Procurement System VIPS) available for agencies and vendors to track this process. A contract is issued to the successful vendor. The agency initiates payments through the accounting system as delivery of goods or services are received.

CASH MANAGEMENT

All cash received by an agency is deposited with the State Treasurer, the State's banker, unless specifically authorized by statute to deposit the money with an independent bank. The Treasurer invests the cash in excess of immediate needs to maximize the state's income. Agencies with cash in excess of their own immediate needs can also make investments through the Treasurer. Agencies like PERS have significant investment portfolios.

The Treasurer manages the daily cash flow and makes sure that cash is available for operating needs. Individual agencies must also monitor their cash flows to be sure that money is available when payments must be made. The cash flows are monitored through analysis of the accounting records, sometimes on a daily basis.

DEBT MANAGEMENT

The State Treasurer is responsible for managing all debt issued by the State and also assists local governments with their debt activity. A state agency works with the Treasurer and their Bond Counsel when issuing General Obligation or Revenue Bonds. Some agencies use Certificates of Deposit (COP), in lieu of issuing debt, to provide funding for approved activities.

When bonds are sold or COPs issued, the proceeds are deposited with the Treasurer and recorded in the accounting system. As payments are made for the purpose intended (activity funded by the bond issue), those expenditures are recorded in the accounting records according to the nature of the payment. Payments for debt servicing costs (principle and interest on the debt outstanding) are recorded separately in the accounting records so that financial reporting can be correct and complete. Accurate tracking of expenditures and timely payments have a direct bearing on the State's bond rating (and the interest rate we must pay).

FINANCIAL REPORTING

The State of Oregon is required by statute to prepare an annual financial report (the CAFR) within 180 days. The CAFR is based on agency financial information (revenues and expenditures) recorded in the accounting system. DAS State Controller's Division gathers additional information to complete the CAFR and meet professional accounting's reporting standards. For each of the past six years the CAFR has earned the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association, a national governmental accounting professional organization. The Secretary of State Audits Division completes an annual independent audit of the CAFR.

While most of the state agencies are exempt from preparing formal annual financial reports, all prepare periodic management financial reports to assist in decision making. Those agencies that prepare formal reports usually do so to meet bonding company or other specific requirements. The individual agency's formal financial reports are also audited by the Secretary of State Audits Division.

AUDITING

The Secretary of State is charged by the Oregon Constitution to be the "auditor of public accounts." The Division of Audits is dedicated to fulfill that requirement. Staffed by professional auditors, many of whom are certified by national audit organizations, the Division audits the statewide financial report and specific agency reports. Their audits certify that the financial reports are "fairly presented" and "materially correct" or they highlight areas in need of

improvement. The audit report provides independent assurance to financial report readers that the information is reliable. The Audits Division also does performance audits and specific reviews as directed by the Legislature.

APPENDIX A

ESSENTIAL FINANCIAL MANAGEMENT STATUTES

IN THE OREGON REVISED STATUTES

Chapter 173, Legislative Fiscal Officer

173.420 - Describes the powers of the Legislative Fiscal Officer.

Chapter 286, State Bonds; Private Activity Bonds

286.301 - The State Treasurer is to issue all state bonds.

Chapter 291, State Financial Administration

291.015 - The Department of Administrative Services (DAS) is responsible for administration and coordination of accounting and fiscal controls for state government and its agencies.

291.200 - Describes the intent of the Legislative Assembly regarding the biennial budget.

291.202 - DAS assists the Governor in preparing required budgetary reports to be presented to the Legislature.

291.236 - Describes the Emergency Board Powers.

Chapter 292, Salaries & Expenses of State Officers & Employees

292.026 - DAS prepares and issues payroll checks for state agencies.

Chapter 293, Administration of Public Funds

265. - Moneys collected for the State are to be deposited with the State Treasurer.

293.590 - DAS shall direct and control the accounting for all fiscal affairs of the state government and its agencies.

875. - The State Treasurer is the state's cash management officer.

Chapter 297, Audits of Public funds & Financial Records

210. - Secretary of State Audits Division is to audit the records of state agencies.

APPENDIX B

DEFINITIONS OF GOVERNMENT FISCAL TERMS

Accounting Financial Controls. Policies and procedures that provide "checks and balances" to assure that the financial data is within specified controls and not easily subject to manipulation or distortion.

Advanced Purchasing & Inventory Control System (ADPICS). The purchasing component of **SFMA**. Provides for the automated development of purchase documents and immediate integration with the accounting system. This is a purchasing system and not an inventory or fixed assets system for tracking asset accountability.

Appropriations. Legislative approvals to spend. Spending can come from the State's General Fund, other funds, or federal funds.

Certificates of Participation (COP). Financing source for State government, but not legally defined as borrowing. Purchasers of COPs own an interest in a specific asset or other item of value to fully secure their purchase.

Comprehensive Annual Financial Report (CAFR). The annual financial statement for the State of Oregon prepared by the Department of Administrative Services. The report is required by statute and must be completed by December 31.

Federal Funds. Money provided by the federal government for specific federal programs and initiatives.

Federal Mandates. Required activities associated with federal funds that may or may not be paid for with federal money.

1. **Funds.** This term can have several meanings in government finance which can lead to confusion. It can be used to describe money, accounts, or accounting structures.
2. **Money.** This is an inappropriate use of the term, but is often used to describe money such as "funds are available to make this purchase."
3. **Accounts.** This can be an inappropriate use of the term in certain circumstances. An account at Treasury that has specific statutory or constitutional meaning is called a fund (General Fund, Highway Fund). An account at Treasury that is used to separately account for money is not an appropriate use of the term "fund."

Accounting Structure. A fund in governmental accounting terminology means a separate fiscal entity where all the accounts balance within that entity. Governmental accounting is sometimes called fund accounting. For reporting purposes, individual funds are grouped into "GAAP Funds" (generally accepted accounting principles) such as "Special Revenue Funds" or "Internal Service Funds." Funds normally are used by governments to segregate resources related to specific activities.

Generally Accepted Accounting Principles (GAAP). A set of rules, procedures, and practices developed by national accounting bodies to provide consistency and order to the financial accounting records and reports of governmental and corporate entities.

General Funds. Moneys dedicated to pay for general government activities. Most General Fund revenue comes from corporate and individual income taxes.

General Obligation Bonds. State borrowing supported by the "full faith and trust" of the State. Lenders are secured by the fact that the State can assess taxes to pay the debt service costs should a default occur.

Governor's Programs. Major categories of State government that can change from time to time. The current list includes 10 programs: Economic & Community Development, Education, Human Resources, Natural Resources, Public Safety, Transportation, Administration, Consumer & Business Services, Legislative, and Judicial.

Local Government Investment Pool (LGIP). An investment opportunity for local governments managed by the State Treasurer consisting of various authorized investments pooled to minimize risks. The LGIP is part of the Oregon Short-Term Fund.

Oregon Investment Council (OIC). The three person body that decides on major investment policy issues. Members include the Governor, Secretary of State, and the State Treasurer.

Oregon Short-Term Fund. A cash and investment pool used to commingle state and local government monies to maximize interest earnings. The Fund is managed by the State Treasurer.

Organization & Program Structures. The logical breakdown of accounting records to track revenues and expenditures by agency organization or by agency programs. These records are normally developed in a hierarchy so that summarization from detail records to more and more summary records is possible.

Other Funds. Moneys available to pay for state government operations that are not generated by tax revenues (general funds) or from the federal government (federal funds). Usually consist of fees, licenses, and related revenue sources.

Pass Through. Federal money that is received by the State and then sent to local governments or not-for-profit entities that actually spend the money for the federal program being supported.

Relational Statewide Accounting & Reporting System (R*STARS). The accounting component of SFMA. The accounting system records revenues and expenditures, assets and liabilities, receivables and payables.

Revenue Bonds. Borrowings that are to be repaid with future governmental revenue streams. Usually the future revenues are dedicated to pay off the bonds.

Revenue & Expenditure Objects. Classification identifiers to differentiate between the various sources of revenue and uses of money to pay for goods and services.

Statewide Financial Management Application (SFMA). The State's integrated accounting (R*Stars) and purchasing (ADPICS) systems.

Warrants. Pledges by the State to pay cash to a person or business. It is similar to a check except that the State can choose to not honor a warrant if there is insufficient cash in the State account upon which it is drawn.