Treasury Bureau

Department of Administration

This report contains recommendations for improvements in the maintenance of depository bank accounts. The recommendations address:

- Criteria for determining compensating balances.
- Obtaining banking services.
- Consolidating the number of depository banks.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620
PERFORMANCE AUDITS

Performance audits conducted by the Office of the Legislative Auditor are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy. In performing the audit work, the audit staff uses audit standards set forth by the United States General Accounting Office.

Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, computer science, and engineering.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of four members of the Senate and four members of the House of Representatives.

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The Legislative Audit Committee
of the Montana State Legislature:

We conducted a performance audit of the Treasury Bureau, Department of Administration, as a component of our review of the state’s cash management practices. The report contains recommendations concerning controls over compensating balances, management of the local depository bank accounts, and compliance with state laws.

We wish to express our appreciation to the department and Treasury Bureau staff for their cooperation and assistance.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor
Treasury Bureau
Department of Administration

Performance Audit

Members of the audit staff involved in this audit were Dave Gould, manager; Mary Reynolds, senior auditor; and Joe Murray, staff auditor.
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<td>Karen Munro, Administrator</td>
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<td></td>
<td>Centralized Services Division</td>
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Report Summary

Our performance audit concentrated on the operation of the Treasury Bureau, Department of Administration, one component of the State of Montana's cash management practices. The bureau receives and disburses funds, and monitors the records of all approved state depository accounts throughout the state. The following sections summarizes the audit results.

Bureau Administration

The bureau receives money from state agencies in the capital complex for deposit in the State Treasury Account. We found Treasury Bureau controls over the collection/deposit process are adequate. We also found bureau staff perform reconciliations of the State Treasury Account and depository banks.

Improving Controls Over Balances

Services provided by the banks are paid for by interest earned on state funds in compensating balances. The amount of compensating balances maintained in each depository bank is established through negotiations with each bank. Activity levels and interest rates dictate the amount of the balance.

To determine the proper compensating balance, information on the account activity is necessary. Initially, the bureau documented the cost and account activity on cost assessment forms, but these forms have not been updated. An effective method for obtaining this information is through account analysis statements. We believe the process of negotiating and setting the compensating balances would be improved by obtaining available account analysis, developing criteria on the reasonableness of compensating balances, and documenting the process and results of the compensating balance setting process. In some cases, the size of the bank and the low level of account activity may not warrant the additional analysis and expense of periodic statements.

Banking Services are Contracted Services

Depository banks provide a service to the state. Banking services therefore fall within the definition of "services" in the Montana Procurement Act, Section 18-4-123, MCA. The bureau is required to follow state purchasing guidelines in obtaining these services. While many of the depository banks can be considered sole source providers, we believe the bureau should follow the state purchasing guidelines or obtain an exemption from the Montana Procurement Act for procuring banking services.
# Report Summary

## Banking Agreements are Needed
State agencies deposit money in banks throughout the state. These banks initiate transfers to the state treasury account after moneys are deposited. No written agreements between the bank and the bureau are in place concerning when transfers shall be made. Oral agreements are subject to the interpretation of the parties, and conflicts end up being one party's word against the other party's word. We believe written agreements should be used so there is no question of the rights and duties of respective parties.

## Excessive Depository Banks
Currently the bureau uses 113 banks as depositories throughout the state. In 14 cities, the bureau has more than one depository bank. Six cities contain a total of 26 banks with state depository accounts. We believe the bureau could consolidate the number of banks in towns with multiple depository banks to gain administrative efficiency.

## Timeliness of Transfers and Deposits
We found the bureau is transferring money deposited with the Treasury in the State Treasury Account in a timely manner. The bureau is also adequately monitoring transfers from the depository banks and ensuring money is being transferred as agreed.

## Late Transfers from Counties
Counties are required to transfer money which they collect to the state by the 25th of the month following the collection. If the transfer is late, the counties are required by law to pay 10% interest per annum. We noted, based upon our sample of 6 months during fiscal year 1987–88, interest was not charged on late transfers and the State of Montana should have received $20,185 of interest from the counties.

We recommend the bureau assess interest on late revenue transfers from counties as required by Montana statutes, or seek a change in the statutes to make the assessment of interest on late revenue transfers discretionary.
Chapter 1 Introduction

Audit Objectives

The Legislative Audit Committee requested a performance audit of the State of Montana's cash management practices. This report addresses a major component of cash management practices, the operation of the Treasury Bureau, Department of Administration.

The objectives of the performance audit were to determine if:

1. There are adequate internal controls at the Treasury Bureau concerning the collection and deposit of money into the State Treasury Account.

2. Local depository banks transfer money to the State Treasury Account in an efficient and timely manner.

3. Compensating balances of the accounts at the local depository banks and the State Treasury Account are reasonable and actively monitored.

4. Compensating balances are the appropriate way to fund banking services.

5. The Board of Investments receives appropriate and timely information from the Treasury Bureau.

6. The Board of Investments invests available funds deposited by the Treasury Bureau.

7. Counties send county collection reports and remittances to the bureau in a timely manner.

8. The bureau is in compliance with applicable laws and rules.

Scope of Audit

The audit was conducted in accordance with government auditing standards for performance audits. The audit of the bureau covered activity during fiscal year 1987-88.

As part of our performance audit work, we reviewed bureau files, observed procedures, and examined related activities. We examined bureau internal controls over collections and deposits. We conducted tests to determine if depository banks and the Treasury Bureau deposit collections in the state's primary bank account in a timely manner. We also tested timeliness of transfers of funds from the counties to the Treasury Bureau.
Chapter I Introduction

Scope of Audit (continued) We examined access controls to the Cashfax fund transfer system. We contacted other states to compare their organization and activities with those in Montana.

We tried to determine if payment of banking services via compensating balances was more expensive than the direct payment method. We were unable to complete this test because adequate information does not exist at state agencies to determine the exact number of checks processed by the banks. Banks normally base direct payment of banking services upon the number of items processed.

Compliance Generally, we found the Treasury Bureau to be in compliance with state laws and rules. We noted the bureau is not following purchasing guidelines when obtaining banking services as described on page 10, and is not assessing interest charges on late transfers from the counties as described on page 16.

Management Memorandums During our audit we asked officials at the Treasury Bureau for written responses to selected audit points. These areas related to potential report issues and recommendations. In addition, we sent management memorandums to bureau officials on issues which were less significant. These issues addressed:

-- ensuring bureau personnel document reconciliations of treasury deposit tickets and the coins and currency received by initialling treasury deposit tickets; and

-- developing procedures to ensure a complete audit trail exists in the deposit process by requiring the person making the deposit sign the treasury deposit ticket. This procedure would identify who had custody of the deposit from the agency to the bureau.
Chapter II  Bureau Background

Introduction

In 1977, the Legislature moved the Office of the Treasurer to the Department of Administration (Chapter 468, Montana Session Laws of 1977). The previously separate office became the Treasury Division within the department and the director of the Department of Administration became the ex-officio State Treasurer. In 1982, the department established the Treasury Bureau and placed it within the Centralized Services Division.

Bureau Duties

Duties of Treasury Bureau personnel include administering accounts in 114 banks throughout the state; ensuring money is deposited in the state's primary bank account in a timely manner; and disseminating information concerning availability of funds to the Board of Investments. The following sections discuss these duties in detail.

Types of Accounts

Bureau personnel are responsible for administering the state's primary account (State Treasury Account) located in Helena. All money collected by agencies throughout the state is ultimately deposited in this account. The Board of Investments invests the money in the State Treasury Account.

Bureau responsibilities also include administering local depository bank accounts throughout the state. State agency offices outside of Helena collect money which is deposited in local depository banks. Examples of agencies who use depository banks include Department of Revenue's liquor stores and Department of Highway's Gross Vehicle Weight Division. The bureau receives accounting and deposit documents from these agencies, allowing bureau personnel to monitor deposits and prepare reconciliations. The bureau forwards the accounting documents to the Accounting Division of the Department of Administration after processing.

Administration of Accounts

Treasury Bureau personnel approve banks used as depositories. The bureau chief negotiates with the banks to establish dollar limits in each account and when transfers of money to the State Treasury Account should occur. Bureau personnel monitor the balance levels in the accounts in the depository banks.
Chapter II  Bureau Background

Transfers From Depositories

Depository banks initiate transfers to the State Treasury Account. The banks make the transfers through an automated clearing system called Cashfax. The bureau, in conjunction with the Board of Investments and other state agencies, established this system in 1983. Bureau staff monitor the frequency of transfers from the depositories by daily accessing the Cashfax computer system.

Bureau Collections

Agencies located in the capitol complex take collected money to the Treasury Bureau. Bureau personnel prepare the money for deposit in the State Treasury Account. Along with the money, staff receive accounting documents and a calculator tape listing the amounts of all the checks to be deposited. Bureau personnel verify the amount of cash agrees with the amount on the accounting documents before accepting the deposit. The total amount on the calculator tape is also agreed to the amount on the accounting documents.

Bureau personnel combine money from various agencies and prepare bank deposit tickets. During this process, bureau personnel ensure the amounts on the deposit tickets equal the accounting documents. The following day, the bureau receives a statement from the bank showing the previous day’s deposits. Bureau personnel compare the statement amount to the accounting records to ensure accuracy of recorded amounts.

Reconciling of Accounts

The bureau is also responsible for reconciling the accounts in the depository banks and the state’s primary account. The bureau receives statements from the banks with the depository accounts and State Treasury Account. The reconciliation process ensures bank records agree to the state’s accounting records. Bureau personnel reconcile the State Treasury Account every month. The depository banks are reconciled every three months unless activity levels or history indicates more frequent reconciliations are needed.

Sharing of Deposit Information

Each day, Treasury Bureau staff inform Board of Investments personnel of the amount of money deposited in the State Treasury Account. The Board has the responsibility for investing State Treasury Account funds. The Board attempts to maintain the minimum amount needed in the State Treasury Account to cover warrants and the required compensating balance. The
Sharing of Deposit Information (continued)

Board invests available funds in short and long term investments. The State Treasury Account is an interest bearing account.

Compensating Balances

State agencies deposit money in 113 banks located around the state in addition to the State Treasury Account in Helena. The State of Montana pays for banking services by maintaining a compensating balance in each account. Compensating balances are funds left in accounts on which the bank earns interest. The money earned pays for services provided by the bank. Compensating balances in depository banks can range from $200 to $100,000. The total of depository banks' compensating balances was $1,021,500 as of June, 1988. The following chart shows the number of depository banks which have compensating balances within identified ranges.

<table>
<thead>
<tr>
<th>Compensating Balances</th>
<th>Number of Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 200 - 1,000</td>
<td>30</td>
</tr>
<tr>
<td>$ 1,001 - 5,000</td>
<td>45</td>
</tr>
<tr>
<td>$ 5,001 - 10,000</td>
<td>17</td>
</tr>
<tr>
<td>$10,001 - 30,000</td>
<td>14</td>
</tr>
<tr>
<td>$30,001 - 100,000</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
</tr>
</tbody>
</table>

Source: Compiled by the Office of the Legislative Auditor from Treasury Bureau records
Chapter II  Bureau Background

Funding

The Legislature funds the activities of the bureau through the General Fund and the Board of Investment's proprietary fund. The following chart shows expenditures for fiscal years 1986-87 and 1987-88.

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 1986-87</th>
<th>FY 1987-88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Services</td>
<td>$181,160</td>
<td>$173,399</td>
</tr>
<tr>
<td>Operating</td>
<td>24,851</td>
<td>34,832</td>
</tr>
<tr>
<td>Equipment and Intangibles</td>
<td>1,574</td>
<td>434</td>
</tr>
<tr>
<td>Total</td>
<td>$207,585</td>
<td>$208,665</td>
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</table>

Source: Compiled by the Office of the Legislative Auditor from the Statewide Budgeting and Accounting System

The difference in operating costs from fiscal year 1986-87 to 1987-88 resulted from: 1) audit fees; 2) increased costs for the vault; and 3) costs related to developing a computer program used to sort a portfolio.
Chapter III
Bureau Administration

Introduction

This chapter outlines our audit areas. These areas include the examination of internal controls over the bureau's deposit process; the method of transferring funds to the State Treasury Account; and the State Treasury Account's cost. We reviewed the bureau's procedures for procuring banking services; the agreements between the bureau and depository banks; and bureau management of the local depository bank accounts. We also examined the timeliness of transfers and deposits. The following sections discuss our findings and recommendations.

Internal Controls Over Collection/Deposit Adequate

The bureau receives money from state agencies in the capital complex for deposit in the State Treasury Account. We examined Treasury Bureau controls over the collection/deposit process and found the controls appear adequate. As part of our internal control testing, we ensured bureau staff perform reconciliations of the State Treasury Account and depository banks.

State Treasury Account

Approximately two billion dollars was deposited in the State Treasury Account in fiscal year 1987-88. The average compensating balance in the State Treasury Account was $4,798,491 from October 1, 1987 to September 30, 1988.

Fund Transfer Method Reasonable

At the time of our audit Montana was an independent banking state. All state moneys deposited in depository banks had to flow through the Federal Reserve in Minneapolis during the transfer of funds to the State Treasury Account. This resulted in a two or three day delay in funds deposited to the State Treasury. Recent legislation allows branch banking in Montana. We do not know how this will affect the timeliness of transferring funds to the State Treasury Account.

During the audit we compared the current system, which uses Cashfax, to other alternatives such as the use of armored car and wire transfer services. We believe the current system is a reasonable method for transferring funds from depository banks to the State Treasury Account since it is the lowest cost alternative examined.
Chapter III  Bureau Administration

Account Balance Reasonable

The Board of Investments is responsible for the investment of funds in the State Treasury Account. The Board determines the balance required each night to cover warrant clearing and account activity.

We found the compensating balance for the State Treasury Account for the last contract year was reasonable when compared to account activity. The following chart compares the cost of the bank account (activity costs) with the earnings allowance. Activity costs include such things as check clearing, armored car service, administrative costs, etc. Earnings allowance is the interest earned by the bank on the money maintained as the compensating balance.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earning Allowance</td>
<td>$305,029</td>
</tr>
<tr>
<td>Activity Costs</td>
<td>$303,017</td>
</tr>
<tr>
<td>Difference</td>
<td>$ 2,012</td>
</tr>
</tbody>
</table>

Source: Compiled by the Office of the Legislative Auditor from Treasury Bureau records

The Board revises the compensating balance amount each month. As shown above, the Board minimized the difference between the cost of the banking services and amount earned.

Local Depository Banks

The following discusses our findings and recommendations concerning compensating balances, contracting banking services, banking agreements, and the number of depository banks.

Improving Controls Over Compensating Balances

Use of cost assessment forms, with account analysis statements and established criteria, would improve documentation of balance setting decisions and increase bureau control over setting compensating balances. In 1983 the bureau used cost assessment forms to document the cost and level of activity of each bank account but have not updated the forms.
Currently, the bureau and each bank negotiate to set the compensating balance and frequency of transfer of funds. As activity in the account or interest rates change significantly, compensating balances are adjusted. The bureau has no specific criteria, policies, or procedures documenting and explaining the process for setting compensating balances and frequency of transfers.

One effective method of obtaining information for monitoring the activity level and compensating balance in a bank account is through an account analysis statement. These statements normally show the number and per item cost of deposits, account maintenance costs, miscellaneous costs, average collected balances, and the monthly profit or loss to the bank for handling an account. The bureau currently obtains analysis statements for the State Treasury Account and 17 of the 113 depository banks. The combined balances of these 17 accounts is approximately 51 percent of the total compensating balances in the 113 depository banks. Our audit work showed these analysis statements provide the bureau with useful information to effectively monitor the balance and services provided for the applicable account.

To determine if the other depository banks have the ability to produce account analysis statements, we called 29 depository banks of various sizes and locations. Twenty-two (76 percent) of the banks contacted said they currently produce account analysis statements. They would send the bureau a monthly copy if requested. Some banks indicated there would be an additional cost of approximately $5.00 per month to produce the statement but this could be included in establishing the compensating balance. With analysis statements, bureau personnel would have better assurance minimum compensating balances are maintained in the banks. In some cases, the size of the bank and the low level of account activity may not warrant the additional analysis and expense of periodic statements.

After obtaining information concerning the cost of banking services from the account analysis, bureau personnel should develop criteria to evaluate the costs of banking services. Formal criteria would provide management with information to determine reasonableness of current balances and provide guidelines for establishing balances and transfer frequencies in
Chapter III    Bureau Administration

Improving Controls Over Compensating Balances (continued)

the future. Presently there is no written record of the process used to set balance levels or transfer frequencies.

One person is currently responsible for negotiating with the banks. If turnover occurred, other staff members, who have not been involved in the negotiating process, would not have the experience and understanding to perform the duties. Therefore, the bureau should have adequate written procedures and document the results of negotiations.

Recommendation #1

We recommend the bureau:

A. Require account analysis statements from depository banks where cost beneficial;

B. Develop criteria to determine the reasonableness of compensating balances; and

C. Establish written procedures and document the results of the negotiation process.

Banking Services are Contracted Services

Depository banks provide a service to the state. These services include accepting deposits, initiating transfers to the State Treasury Account, and providing account statements. The bureau did not follow state purchasing guidelines when obtaining banking services.

Banking services fall within the definition of "services" as defined in the Montana Procurement Act. Section 18-4-132, MCA, requires the bureau to follow state purchasing guidelines in obtaining these services. These guidelines include requirements for preparing descriptions of services required, selecting sources (banks), and preparing and awarding contracts.

We believe banking services are a procurable service. For example, the State Treasury Account is under contract with a Helena bank. One of the universities let for bid its banking services.

In some areas, only one bank is available to use as a depository. In these cases, the bureau should have documentation of a sole
Banking Services are source service. Purchasing guidelines allow bid proposals to be designed to ensure agency needs are met. For example, bids can specify the bank must be in a specific location.

Bureau personnel indicated attempts in the past by state agencies to procure banking services through bids resulted in a limited number of bids received. Only one bank bid for the State Treasury Account. One university unit tried to let for bid their required banking services. The university received no bids from any of the local banks.

The bureau indicated a strict low-bid award may be inconvenient to the agencies who make the deposits. Bureau personnel believe most contracts could be considered sole source contracts because additional criteria, besides cost, must be considered.

State law requires contracts for services procured by state agencies. Adequate documentation for these services, whether procured by sole source or competitive bidding, must be available for review.

**Recommendation #2**

*We recommend the bureau follow purchasing guidelines when obtaining banking services.*

Banking Agreements Are Needed

The bureau has oral agreements with depository banks concerning when to transfer money to the State Treasury Account. These banks transfer funds to the state account on a weekly or daily basis. Bank and bureau personnel agree to the frequency of transfers based upon account activity. Bureau staff rely upon the banks to initiate the transfers.

Approximately $179.4 million was transferred from depository banks to the State Treasury Account in fiscal year 1987-88.

Montana law does not specifically require contracts for the procurement of services be in writing. However, good business practice dictates agreement for services be in writing so there is no question of the rights and duties of the respective parties.
Banking Agreements are Needed (continued)

Oral agreements are subject to the interpretation of the parties, and conflicts end up being one party's word against the other party's word. Written agreements help prevent misinterpretation and should clearly specify the responsibilities of the parties. Bureau personnel do not believe written agreements are necessary. They believe written agreements would cause excessive paperwork for the bureau staff because of the need to continually update such agreements. The department believes the bureau's system of daily reviewing bank balances, combined with the ability to make the transfers for any bank, precludes the necessity for written agreements.

Bureau staff continually monitor balances but this process only identifies problems. It will not prevent misunderstandings between the parties involved. Clear written agreements would help prevent misinterpreting of existing agreements.

Bureau staff could develop standardized formats for the agreements. The agreements should address compensating balances and the frequency with which the banks are to transfer funds. The agreements could specify a range for the compensating balances, as opposed to specific dollar amounts, and the transfer frequencies based on activity level. An agreement written in this manner would avoid frequent modifications to the agreements.

**Recommendation #3**

We recommend the bureau obtain written agreements with depository banks.

Excess Depository Banks

In 14 Montana cities, the bureau has more than one depository bank. Six cities each have four or five depository banks. These six cities contain a total of 26 banks with state depository accounts. We analyzed the location of the banks in relation to the major depository users.

We found the bureau could close 13 of the 26 depository bank accounts without affecting service provided to state agencies.
For example, one city has four depository banks within several blocks of each other (see Table #4). The aggregate compensating balance for those four banks was $36,000 in September 1988. Another example is a city that has 4 banks with a total balance of $70,000 (Table #5). The total compensating balance for the 26 banks is approximately $526,000.

The following maps illustrate the location of the depository banks in two of the six cities.

Table 4
Depository Bank Locations
Kalispell, Montana

X - Depository Bank Locations
Source: Treasury Bureau records
Treasury personnel indicated in 1983 there were 164 depository banks. This number was reduced to 114, including the State Treasury Account, by December 1986. The majority of the closures resulted from the reduction of state operated liquor
stores. Treasury Bureau personnel believe further reduction in banks would be quite involved since multiple user agencies would need to be involved. Agencies have resisted efforts in the past to close additional banks. They also questioned whether the cost of the consolidations would be worth the effort.

Treasury personnel believe that since the compensating balances are based upon account activity, and the level of activity would be the same whether one or several banks are used, the total compensating balances would be the same.

Reducing the number of depository banks would decrease workload at the Treasury Bureau. There would be fewer banks to monitor and reconcile. Also, the bureau should be able to reduce the overall compensating balance amount when the number of depository banks are reduced. This money could then be invested by the Board of Investments. In some of the larger cities, the location of banks used by state agencies may be a factor for keeping more than one bank in a city.

**Recommendation # 4**

*We recommend the bureau consolidate, where feasible, the number of depository banks in cities with multiple banks.*

**Timeliness of Transfers and Deposits**

To determine if money is transferred to the State Treasury Account in a timely manner, we reviewed three areas. These areas included money deposited at the bureau by capitol complex agencies, transfers from depository banks, and transfers from the counties.

**Bureau Transfers and Deposits Reasonable**

We found the bureau deposits money received from capital complex agencies in a reasonable, timely manner. Bureau staff monitor transfers from the depository banks and ensure money is transferred as agreed upon between the banks and the bureau. We found the banks transfer money in accordance with the agreed schedule and the staff monitor the transfers. We noted the following weakness with the timeliness of transfers from counties.
Chapter III  Bureau Administration

Late Transfers From Counties

Montana law (section 15-1-504, MCA) requires counties to remit to the state treasurer, by the 25th of the month, all moneys belonging to the state collected by the county treasurer during the preceding month. If the counties do not remit collected funds by the 25th, the county treasurer shall pay interest at a rate of 10 percent per annum.

We selected a judgmental sample of six months during fiscal year 1987-88 to determine if the Treasury Bureau received money from counties in a timely manner. For each month we reviewed county collection reports from the 56 counties. We found 57 out of 336 collection reports were delinquent. Delinquent reports ranged from 1 to 100 days late. A majority of the reports included notes attached explaining the cause of the delay. The most common cause was computer trouble. Based upon the interest rate specified in the law, the state of Montana should have received $20,185 during the six months sampled as a result of late payments.

A contract audit report, presented by a public accounting firm to the Legislative Audit Committee in September 1980, recommended the state treasurer collect the interest due on the county collection reports. The report suggested warning counties of the change in policies before implementation. In the state treasurer's reply to this report, she indicated her office would implement the recommendation as of October 1980.

The current bureau chief said the bureau was not charging interest at the time he became bureau chief in 1982. Department personnel indicated they would need to notify the counties before implementing a change in policy. Bureau personnel indicated they will review the bureau's current policy, and may charge interest on late reports if an acceptable reason is not provided by the county.

An alternative the department has to charging interest is to seek a statutory change. The current law requires the bureau to charge interest. A change to permissive language would allow the bureau the flexibility to assess interest charges if necessary.
Recommendation #5

We recommend the bureau:

A. Assess interest on late revenue transfers from counties as required by law, or
B. Seek a change in the statutes requiring the assessment of interest on late revenue transfers.
<table>
<thead>
<tr>
<th>Responding Agency</th>
<th>Department of Administration</th>
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</thead>
</table>

*Agency Response*
June 7, 1989

Scott Seacat
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Scott:

We have reviewed the recommendations pertaining to the performance audit of the Treasury Bureau. Our responses follow:

Recommendation #1

WE RECOMMEND THE BUREAU:

A. REQUIRE ACCOUNT ANALYSIS STATEMENTS FROM DEPOSITORY BANKS WHERE COST BENEFICIAL;

B. DEVELOP CRITERIA TO DETERMINE THE REASONABleness OF COMPENSATING BALANCES; AND

C. ESTABLISH WRITTEN PROCEDURES AND DOCUMENT THE RESULTS OF THE NEGOTIATION PROCESS.

Response

A. Concur. Account analysis statements will be requested with the June statements, from banks where the Bureau determines it would be cost-effective for the State.


Recommendation #2

WE RECOMMEND THE BUREAU FOLLOW PURCHASING GUIDELINES WHEN OBTAINING BANKING SERVICES.
Response

Concur. We will meet with agencies; consolidate banks where possible; and procure banking services within purchasing guidelines as appropriate. Implementation date is June 1990.

Recommendation #3

WE RECOMMEND THE BUREAU OBTAIN WRITTEN AGREEMENTS WITH DEPOSITORY BANKS.

Response

Do not concur. This recommendation is concerned with the frequency of transfers to the State Treasury. The Treasury Bureau is not limited in our ability to ensure timely transfers. It is true that the Treasury relies upon the banks to initiate the transfers. However, a daily report of the cash balances in the various bank accounts is received from the State's accounting system. This report is monitored on a daily basis to verify that the banks are calling in the deposits recorded by the state agencies. If the daily review indicates a bank has not transferred its deposits, the Treasury Bureau will contact the bank and resolve the problem. The Treasury staff can also manually input the information for the bank into the automated clearinghouse system, thereby, reducing the bank balance.

The Department believes its present system of daily review of the bank balances, plus the ability to manually make the transfer entries for any bank, has worked fine. The auditors even mentioned in their report that they "found the banks transfer money in accordance with the agreed schedule and the staff monitor the transfers."

Recommendation #4

WE RECOMMEND THE BUREAU CONSOLIDATE, WHERE FEASIBLE, THE NUMBER OF DEPOSITORY BANKS IN CITIES WITH MULTIPLE BANKS.

Response

Concur. The Department has been continually reviewing and striving to reduce the number of banks over the years. As the auditors indicated in their report, the number of banks has decreased from 164 in 1983 to the present 114 (one bank is the primary state bank in Helena). We will continue to reduce the number of state depository banks where feasible.
Recommendation #5

WE RECOMMEND THE BUREAU:

A. ASSESS INTEREST ON LATE REVENUE TRANSFERS FROM COUNTIES AS REQUIRED BY LAW, OR

B. SEEK A CHANGE IN THE STATUTES REQUIRING THE ASSESSMENT OF INTEREST ON LATE REVENUE TRANSFERS.

Response

A. Concur. Interest is charged on late reports if an acceptable reason is not provided by the submitter. The Treasury Bureau does not want to jeopardize the working relationship of the State and the counties. Presently, some of the counties already have complained that they work as "free" collection agents for the State.

B. Concur. The Department will work with the Legislative Audit Committee to seek a change in the statutes requiring the assessment of interest on late revenue transfers.

We appreciate the opportunity to interact with your staff on these issues.

Sincerely,

Dave Ashley
Interim Director