

Date of Hearing: June 23, 2014

ASSEMBLY COMMITTEE ON BANKING AND FINANCE  
Roger Dickinson, Chair  
SB 898 (Cannella) – As Amended: May 6, 2014

SENATE VOTE: 35-0

SUBJECT: State government: state funds.

SUMMARY: Requires every state agency, department, and entity to provide its employer identification number to the Treasurer. Specifically, this bill:

- 1) Allows the Treasurer to use the employer identification numbers to monitor state money and state bank accounts that are outside the State Treasury System (STS).

EXISTING LAW

- 1) Creates the STS to deposit state money held by state agencies prior to expenditure.  
[Government Code, Section 16305]
- 2) Requires the Controller to submit specified fiscal reports, including, among others, an annual report to the Governor relating to the state's revenues and expenditures during the preceding fiscal year and a quarterly report to the Legislature on the General Fund that compares state revenues and expenditures for that quarter with the Budget Act, and other expenditures authorized pursuant to statute.
- 3) Provides that all money belonging to the state received from any source by any state agency shall be accounted for to the Controller at the close of each month, or more frequently if required by the Controller or the Department of Finance (DOF), in such form as he/she prescribes, and on the order of the Controller be paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation.
- 4) Allows state agencies to seek approval from the DOF to open outside accounts that have benefits and efficiencies not available through the STS, such as the ability to process credit card receipts.

FISCAL EFFECT: Unknown.

COMMENTS:

According to the Author of SB 898, this measure is needed,

*"Because the Treasurer cannot track outside accounts directly, it must rely on agencies to truthfully report balances and other information about their outside accounts, including their existence. Recently it was discovered that the Department of Parks and Recreation had been sitting on nearly \$54 million in surplus money for as long as 12 years. In 2012, 70 state parks were to close in order to save \$22 million dollars over two fiscal years. Most of those closures did not happen because of near-heroic fundraising*

*by non-profits across the state, but the surplus money could also have prevented cutbacks in hours, staffing, and services system wide. Following the scandal with the Parks Department, it was revealed that the California Department of Forestry and Fire Protection hid \$3.6 million from legal settlements rather than depositing them in the state's General Fund. Cal Fire had neither statutory authority nor finance approval to do so."*

### *California State Auditor Report*

On October 15, 2013, the California State Auditor released a report titled, "Accounts Outside the State's Centralized Treasury System: Processes Exist to Safeguard Money, but Controls for These Accounts Need Strengthening." This report outlined important information such as:

- Roughly \$55 billion of state money is held in accounts within banks that have an agreement with the State Treasurer to participate in California's Centralized Treasury System.
- Roughly 14% or \$9.3 billion is in nearly 1,400 bank accounts outside the treasury system.
- Most of the money in outside accounts, approximately \$8.9 billion is held in accounts authorized by statute. A large number of these accounts with large balances have been established to hold money in trust for others.
- The treasury system was established to safeguard and maximize the return on state money with control agencies such as the DOF, the State Controller and the State Treasurer all contributing to safeguarding these assets.
- While holding state money in outside accounts provides for quick electronic funds transfers and allows for efficiently processing credit card transactions, there is an increased risk of mismanagement and the potential for higher costs related to these accounts.
- Outside accounts are subject to fewer statewide controls and there is risk that banks holding money in outside accounts for state agencies may not maintain the required level of collateral. Additionally, a state agency with outside accounts may also incur higher bank fees than necessary.
- The control agencies do not adequately track which state agencies have outside accounts nor do they adequately ensure that all agencies report on such accounts and, therefore, failed to identify some omissions.
- Although state agencies generally complied with requirements for establishing outside accounts, they did not always completely or accurately report outside accounts as required – some failed to report the balances of these accounts.
- With the exception of the California Department of Forestry and Fire Protection (Cal Fire), the state agencies tested had established proper controls over the handling of revenue. However, Cal Fire established an outside account without statutory authority or DOF approval, circumvented its accounting and budgeting processes, and did not follow state policies for equipment purchases.

### *California's Centralized Treasury System*

In 1949, the California Legislature created the Centralized Treasury System (CTS) thereby requiring agencies of the State to deposit their money in trust with the Treasurer. The legislation also requires the Treasurer to safeguard the money and make safe and prudent investments. The Centralized Treasury and Securities Management Division (CTSMD) oversees all banking aspects of the CTS. The goal of the CTSMD is to maximize the earning of interest consistent with safe and prudent treasury management, and to ensure that the depository banks provide the State with proper and adequate security for the deposit of state monies. The State Treasurer maintains demand bank accounts with eight banks for the purpose of providing necessary statewide depository coverage for the remittance of funds collected by the various State agencies. These eight banks are: Bank of America, Bank of the West, Citibank, JP Morgan Chase, Union Bank of California, U. S. Bank, Wells Fargo Bank; and, WestAmerica Bank.

The CTSMD manages the cash flow of all State funds, forecasts cash balances, revenue, expenditures and the amounts available for daily investments, ensures accurate and timely agency deposits, administers and executes the wire transfer of funds, reconciles State accounts with depository banks and redeems all State items submitted by presenting banks for payments.

### *Outside Accounts*

State departments and agencies can be authorized either by statute or by approval from DOF to deposit moneys not under the control of the State Treasurer in banks outside of the CTS. State departments that have statutory authority to deposit state moneys in banks outside the CTS without DOF approval but must adhere to the conditions prescribed by the Director of Finance and must notify the Treasurer by letter stating the name and location of the bank, amount, source, and purpose of the funds to be deposited, and the type and term of the deposit arrangement.

State departments that do not have statutory authority and desire to open accounts outside the CTS must request approval of bank, savings and loan association, or credit union accounts to be maintained outside the CTS. The request is required to be sent to DOF. If and when outside accounts are deemed necessary, departments are encouraged to establish the account outside the CTS with one of the State Treasurer's Office approved depository banks.

All departments with accounts outside the treasury must submit the, Report of Accounts Outside the State Treasury, Year-End Report No. 14 stating the balance as of June 30, of each year.

### *Related Legislation*

AB 1583 (Allen) requires the California State Controller's Office to collect additional information from state agencies that maintain bank accounts outside of the state treasury system and to annually prepare and submit this information in a report to the DOF and the Legislature. Pending in the Senate Appropriations Committee.

### *Recommended Amendments*

- 1) On page 2, line 6, delete "and state bank accounts that are" and insert "deposited"

- 2) On page 2, line 7, insert "centralized" before "State"
  
- 3) Add Assemblymember Rocky Chavez and Assemblymember Travis Allen as well as Senator Huff as co-authors.

REGISTERED SUPPORT / OPPOSITION:

Support

California State Treasurer  
Save Our River Parks Committee

Opposition

None on file.

Analysis Prepared by: Kathleen O'Malley / B. & F. / (916) 319-3081