

Date of Hearing: August 14, 2014

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Roger Dickinson, Chair
SB 898 (Cannella) – As Amended: August 7, 2014

SENATE VOTE: 35-0

SUBJECT: State government: state funds.

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

- 1) Allows the Treasurer to use the EINs to monitor state money deposited outside the centralized State Treasury System (STS).
- 2) Requires a bank or financial institution, upon request from the Treasurer to provide the following information associated with an EIN to assist the Treasurer in monitoring accounts and state money deposited outside of the centralized STS:
 - a) the account number;
 - b) account balance;
 - c) account owner record;
 - d) account type;
 - e) account opening date;
 - f) account closing date; and,
 - g) account purpose, if known.

EXISTING LAW:

- 1) Creates the STS to deposit state money held by state agencies prior to expenditure.
[Government Code Section 16305]
- 2) Provides that all money in the possession of or collected by any state agency or department, except for money in the Local Agency Investment Fund is referred to as state money.
[Government Code Section 16305.2]
- 3) Requires the California State Controller (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.

- 4) 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 or 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.
- 5) 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: According to the Assembly Appropriations Committee, negligible costs to the Treasurer and other state agencies and departments.

COMMENTS:

According to the author of this bill, this bill 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:

- 1) Roughly \$55 billion of state money is held in accounts within banks that have an agreement with the Treasurer to participate in STS.
- 2) Roughly 14% or \$9.3 billion is in nearly 1,400 bank accounts outside of the treasury system.
- 3) 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.
- 4) The treasury system was established to safeguard and maximize the return on state money with control agencies such as the DOF, the Controller, and the Treasurer all contributing to safeguarding these assets.

- 5) 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.
- 6) 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.
- 7) 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.
- 8) 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.
- 9) 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 STS

In 1949, the California Legislature created the centralized STS 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) oversee all banking aspects of the STS. 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 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

SB 898 requires a bank or financial institution, upon request from the Treasurer to provide specified information associated with an EIN to assist the Treasurer in monitoring accounts and state money deposited outside of the centralized STS. In addition, the measure will require state agencies to provide the Treasurer with EINs. The recent amendments taken on SB 898 provides

clarity as to what the Treasurer can do with the EINs to ensure the recent mishaps in regards to state money in outside accounts is prevented from occurring in the future.

The State Administrative Manual (SAM) references statewide policies, procedures, requirements and information related to outside accounts. It is a uniform approach to statewide management policy which should be followed. Although SAM lays out references for outside accounts under sections 19462, 19463 and 7930, SB 898 will legislatively ensure clarity exists in regards to the Treasurer's authority as it relates to monitoring 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 STS. State departments that have statutory authority to deposit state moneys in banks outside the STS 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 STS must request approval of bank, savings and loan association, or credit union accounts to be maintained outside the STS. 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 STS 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 Controller to include the name of the account, the source of authorization for establishing the account, and the account balance on bank accounts and savings and loan association accounts outside the treasury system in the budgetary-legal basis annual report. This bill would specifically require a state agency that receives revenues for state costs under a cost recovery statute to deposit those revenues into the State Treasury. To engrossing and enrolling.

REGISTERED SUPPORT / OPPOSITION:

Support

California Bankers Association (CBA)
California State Treasurer
Save Our River Parks Committee

Opposition

None on file.

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