TRE Dept Comeback Questions

S1 Departmental Staffing

1. *[McCluskie]* Is 1.0 FTE for 33 employees appropriate? The general rule has been 1.0 for every 100 employees.

Department of Treasury Response

The Department consulted with DPA for responses to Questions 1 and 2.

A) State agencies and departments are subject to meeting the highest level of HR compliance, comparable to private company requirements of large employers.

B) HR has become a specialty area, especially as relates to state and federal rules and regulations.

C) Recent increases in demands and requirements including: ARPA rules, COVID-19 response, WINS changes, and EDI requirements necessitate a dedicated HR professional for the Department.

A) In contrast to private industry, State agencies and departments are required to meet the full complement of rules and regulations to which usually only larger companies are subject.

In general, in private industry, state and federal HR compliance obligations increase at certain employment levels, and are triggered by the number of employees. Increased HR compliance responsibilities are commonly triggered by employment of 50 employees or 100 employees.

In contrast, however, such triggers are not necessarily applicable at the State level. While the administration of State HR responsibilities is decentralized, departments are expected to be in full compliance with all rules and regulations that apply to the State as a whole, comparable to large, private employers. Thus, because each department must maintain full compliance with all federal, state, and local rules and regulations, as well as meeting all other typical HR functions, the number of FTE as a stand-alone measure does not necessarily provide the full picture of HR needs and obligations that a Department must meet.

B) HR continues to become an ever-more specialized area of expertise. Changes to existing rules and regulations, as well as additions to HR responsibilities (for example, new requirements related to WINS or EDI), particularly at the State level, requires dedicated HR FTE.

The Turning the Corner study, which involved an in-depth analysis of Department processes, as well as individual interviews with each Department employee, identified the HR position as one of critical import, and one at potential risk, due to the current split of responsibilities.

Treasury's present HR arrangement is a .5 FTE, with the other .5 FTE dedicated to supervising the department's accounting team. In reality, in addition to that .5 FTE, other Department positions have needed to pull away from their Departmental responsibilities to either meet urgent HR needs, or to address pressing accounting needs. As a reminder, the Department's accounting responsibilities are not limited to the Department alone, but involve state-wide accounting review and tracking. Pulling employees away from their responsibilities, particularly in the current COVID environment, at a minimum creates a tremendous strain on Department employees. In addition to a risk of burnout, it increases the risk of error on the accounting side.

The current Treasury arrangement also creates an inherent potential conflict of interest when addressing HR issues specific to the accounting team. Given the increasingly specific nature of HR responsibilities, splitting an FTE between HR and other, just as critical responsibilities, results in an almost impossible challenge in successfully meeting the requirements of each role.

C) Full-time HR responsibilities, combined with growth in the Department, both in FTE, as well as in increased statutory responsibilities (as examples, increases in debt management responsibilities, growth in the state's investment pool, a new focus on retirement savings, and a new statewide loan program as a result of the pandemic), necessitate a dedicated HR FTE.

In addition to the Treasury Department's growth in FTE and responsibilities, HR compliance requirements have grown significantly in recent years. New HR changes as relates to WINS, EDI standards, and short and long term response to the pandemic, including a dramatic upswing of employees working remotely, has strained the HR capabilities of much larger state departments. The Treasury Department has been equally impacted, but lacks the ability to fully and adequately address those compliance issues, in addition to everyday HR demands, without a full time, dedicated HR FTE.

2. *[Moreno]* What is the feasibility of DPA continuing to provide HR services to Treasury?

<u>Department of Treasury Response</u>

In repeated discussions with the Treasury Department, DPA emphasized that it does not have the capacity to provide the Treasury Department the type of long-term HR services as discussed above. Additionally, DPA raised concerns that such an arrangement could result in a conflict of interest, as the unit dedicated to providing short-term relief has compliance appeal adjudicative responsibilities as one of its main functions.

In general, due to the decentralized nature of HR throughout the state system, this DPA unit provides consultative services to state departments, as well as providing guidance for rulemaking and policy. While it can provide relief to state departments in the short-term, it does not have the capacity to provide the type of long-term HR support that a state department must have.

3. *[Rankin]* Why does Treasury need an exception to add administrative staff as a supplemental when this is usually done through the regular budget cycle?
4. *[Ransom]* What is the nature of the unforeseen contingency? This is in response to a study, and other FTE were requested in the Nov budget submission, so why is funding needed for these three immediately?

Department of Treasury Response
Responses to Questions 3 and 4 are combined below.

The Treasury Department recognizes that the request to add FTE as part of the supplemental process is out of the ordinary. After consideration, and based on the reasons described below, the Department determined that the need is urgent enough that it would have been an abdication of its responsibility not to bring the request before the Committee for its consideration.

The Treasury Department's request for additional FTE, based on the Turning the Corner report, was part of its annual budget request. The positions requested to be added through the supplemental process, a dedicated HR professional, an Operations Manager, and a dedicated cybersecurity FTE are critical needs for the Department.

As the supplemental request details, the Department made its original budget request when the HR/Accounting position was fully staffed. In the interim, and since that budget request was filed on November 1, the person in that staff role has left the Department, which necessitated the current short-term arrangement with DPA described above.

The HR need identified is significant. While the Department is able to address its most basic HR needs, efforts at compliance (discussed, at length, above) are strained, at best. In addition, Department personnel are under incredible stress to meet their specific job responsibilities, a strain that continues as we enter the third year of the pandemic. The Department's accounting division has, in fact, faced the highest level of turnover of any Treasury division in the past few years.

When the budget request was originally filed in November, though the Department had identified this as a critical need as part of its request, it believed it could continue with the situation in the short-term, as the position was staffed. The loss of staff was unforeseen, and has created significantly more workload on the rest of the Department.

Likewise, the need for the Operations Manager FTE, a position which will address short and long term projects, compliance, and accounting needs for the Department has only become more acute since the filing of the Department's original budget request. Again, the Department is straining to meet its growing needs, and at the same time, ensure that in its reconfigured, more remote-oriented role it is meeting its requirements and obligations, to the highest level possible.

Last, to clarify, the IT position requested is not that of a generalist. The Treasury Department shares IT resources with the Governor's office related to basic hardware and software needs. After discussions with OIT, and at OIT's recommendation, in addition to the request for funding for a penetration test, of which the Joint Budget Committee is aware, the Department is requesting 1.0 FTE with a dedicated focus on cybersecurity.

As detailed in its supplemental request, the Department currently has no internal FTE dedicated to cybersecurity, instead relying on OIT, as do most other state departments. To deliver on its core mission of keeping state funds safe, the Department must be adequately prepared with policies, practices, and processes which are continually monitored, enforced, reviewed, and updated. While the recently publicized Log4jam vulnerability did not expose the Department's system to risk, it was a reminder that there is a constant and increasing need for robust cybersecurity protection. The Department believes this need is important enough to shift to a supplemental request for the Committee's consideration, and appreciates the opportunity to present its reasoning.

S3 Deferred Property Tax Expansion

1. *[Committee]* What is the feasibility of putting this in the regular budget cycle? (The focus of this question seemed like it was on the timing of implementing by Jan 2023.)

The Committee basically just seemed like they wanted to hear more about the implementation plan and everything that needs to happen for the program to be up and running when it needs to be.

<u>Department of Treasury Response</u>

While many details will be fleshed out in legislation this year, including ongoing funding to support this program, the Treasury Department and the Governor's office are advocating for a supplemental appropriation of a portion of startup funds in order to ensure enough time is available to meet the current statutory deadlines for this project.

Approval allows the ability to move forward with the RFP process, vendor onboarding, and collaborative project management with the state, including developing and testing a technology solution prior to July 1, 2022. Given the January 1, 2023 compliance deadline, with funding not occurring until the start of a new fiscal year in July, it multiplies the risk that the State will be unable to meet its statutory deadlines. The Department is concerned that there simply will not

be enough time to complete the full procurement RFP process, and onboard a vendor who can work with the State to ensure we have a functional and compliant IT solution that is ready to go live by January 1, 2023.

The approximate timeline:
January 2022: Joint Budget Committee considers Budget Supplemental. If approved:
February — April 2022: [using currently existing staff resources] RFP process for Third Party Administrator
January — May 2022: General Assembly considers legislation providing program details and appropriation for FY 22/23 and beyond
May 2022: Third Party Administrator hired and contract finalized
July 2022: If possible, program manager is hired in Treasury
May — December 2022: Third Party Administrator works with CST, OIT, and other departments to build a technology solution and complete program design. County Treasurers are involved and included as stakeholders. Marketing materials are developed.
January 2023 — Property Tax Deferral Program is Live