

# Financial & Audit Solutions

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Office of the State Comptroller

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Division of State Services

## Japanese Delegates Visit OSC

Representatives from the Japanese Ministry of Land, Infrastructure and Transport and the Infrastructure Development Institute visited the Office of the State Comptroller (OSC) on January 11, 2005 to discuss New York State's approach to accounting and reporting for Capital Assets. The delegates were led by Senior Researcher Takayuki Masuyama and discussed capital asset reporting issues with David Hasso and David Amedio from OSC's Bureau of Financial Reporting.

Japan currently reports financial operations on a cash basis and does not have a sound reporting methodology for recording capital assets and determining replacement and capital maintenance requirements for infrastructure assets (roads, bridges, dams, etc.). The Japanese government is currently engaged in an effort to establish infrastructure accounting and management known as 'Project Concept 2004' and the delegates were

evaluating best practice approaches for recording capital assets.

With the implementation of GASB Statement 34 for fiscal year 2003, the State was required to report approximately \$77 billion worth of capital assets on the face of the government-wide financial statements. GASB 34 mandated the full accrual basis of accounting for the entity-wide financial statements, an emphasis on long-term financial condition and a financial report presentation very similar to the for-profit sector. The Department of Transportation and Office of General Services maintain various automated systems that record and monitor State-owned capital assets. This information is then forwarded to OSC for inclusion in the State's *Comprehensive Annual Financial Report*.

An interesting aspect of the reporting of infrastructure maintained by the

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## Vendor Responsibility Initiative Implementation

Bulletin G-221 "Vendor Responsibility: Standards, Procedures, and Documentation Requirements" became effective on January 1, 2005. The Bulletin established a framework for contracting agencies' determination of vendors' responsibility and provision of documentation to OSC regarding their determination. The goal of this activity is to ensure that New York State does business with responsible vendors. Agencies have been responsive to the processing requirements that are set forth in the Bulletin and have been submitting vendor responsibility information since the January 1<sup>st</sup> effective date.

The Vendor Responsibility team within OSC's Bureau of Contracts recognized early on that a central review of vendor

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# Payroll Services – 2004 W-2 Improvements

Over the past few years, the Bureau of State Payroll Services has implemented a series of improvements in the production and distribution of W-2s – and this year was no exception. Key improvements this year included a 50 percent increase in the number of W-2s mailed directly to employee’s homes and the introduction of a new, streamlined solution for reissuing W-2s that are lost or destroyed. These initiatives resulted in greatly improved service to the Bureau’s customers and savings in time and money for OSC and its agency business partners.

In 2001, the Bureau began a small pilot program to mail W-2s directly to the home addresses of participating agency employees. In the first year of the program, 40,000 W-2s were mailed to employees in 14 State agencies. Since then, participation has increased each year. In January 2005, OSC mailed

approximately 132,000 W-2s (approximately 42 percent of total W-2s issued) to employees in 50 State agencies. The remaining W-2s are sorted, bundled and delivered to State agencies for distribution to employees.

The direct mailing of W-2s is a service improvement for State employees that results in significant efficiencies and cost savings, especially for State agencies. State agencies benefit from a streamlined process that eliminates staff time and other costs associated with re-sorting, re-bundling and re-distributing W-2s to employees following receipt from OSC. Even though agencies pay their share of mailing costs, they save money overall and are enthusiastic about the service improvement to employees. Overall, the mailing effort

has been a “win-win” for OSC and State agencies; further increases are anticipated in 2005.

For several years, State agencies have been asking for relief from the current manual and time-consuming process for replacing W-2s that are lost or destroyed. Until recently, agencies reproduced lost W-2s by manually typing the replacement on a four-part, four-copy form supplied by OSC. A December 2004 survey provided data from State agencies that confirmed the benefits of pursuing a more efficient alternative. This survey data also

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## Vendor Responsibility Initiative Implementation

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responsibility information would lay the groundwork for normalizing the vendor responsibility processes and improving understanding across contracting agencies. This standardization will benefit both contracting agencies and the vendor community. A significant component of the vendor responsibility initiative is knowledge growth and exchange among agencies and OSC. To this end, OSC committed to conducting agency outreach and facilitating the sharing of best practices.

The Vendor Responsibility team held two agency information sessions in December of 2004 to share best practices and to provide attendees with

a greater understanding of the initiative. These sessions were well attended with over 220 agency representatives. Additionally, the team has provided special individualized training at the request of a number of agencies and sponsored a session in January 2005 regarding vendor responsibility for not-for-profit contractors.

Throughout the initial implementation period OSC received input from a number of agencies regarding the need to identify a mechanism that would eliminate the need to have vendors submit, and agencies assess, new responsibility questionnaires for every procurement. OSC understands the

potential inefficiencies that this requirement presents both for the agencies and for the vendor community, and the Vendor Responsibility team has been working on a solution that will meet agency and vendor needs while remaining true to the goals of the vendor responsibility initiative.

To learn more about the Comptroller’s vendor responsibility initiative, find answers to the most frequently asked questions or to request training please visit the Comptroller’s vendor responsibility website at [www.osc.state.ny.us/vendrep/](http://www.osc.state.ny.us/vendrep/), send an e-mail to [vendrep@osc.state.ny.us](mailto:vendrep@osc.state.ny.us), or call 518-408-3687.

# Agency Information Management (AIM)

## A Collaborative Series with State Agencies

At the Division of State Services' 2004 Fall Conference, the Agency Information Management (AIM) Project was introduced. The goal of this project is to develop indicators of successful financial management practices to enable agencies to measure their success. At the Conference, we promised to continue discussions on AIM with agency representatives through a series of meetings, the first of which would be held before the end of the calendar year.

On December 14, 2004, the Division of State Services held its first AIM seminar in Albany, with a total of 110 staff from

40 agencies attending. The purpose of this meeting was for State agency fiscal officers to share their financial management experiences and to continue collaborating on development of an AIM system by discussing performance data and factors that would improve performance.

During the seminar, several key indicators were highlighted and discussed by OSC. Tom Mahoney, Director of Accounting Operations, discussed the improvements realized over the past year in agencies reconciling sole custody accounts via the web. Bernie McHugh, Director of the Bureau

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## Japanese Delegates Visit OSC

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Department of Transportation is that the 'modified approach' allowed by GASB Statement 34 is used. This method stipulates that assets do not have to be depreciated if they meet the following criteria:

1. an asset management system including a current inventory of infrastructure assets must be maintained,
2. condition assessments must be conducted and summarized,
3. estimates must be made each year of the amount necessary to maintain and preserve assets at a condition level established and disclosed by the State, and
4. documentation must be provided that the assets are being preserved approximately at, or above, the established condition level.

All capital assets reported under GASB 34 must be presented at historical cost (estimated fair market value for donated assets) rather

than current values. This requirement surprised the Japanese delegates, who seemed to believe that using current values might be more appropriate. However, the logic behind this

approach is that the State will probably never sell assets such as the Capitol building or various historic collections and, therefore, the historic cost valuation methodology makes sense.

We enjoyed interacting with the Japanese delegates and discussing best practices in capital asset reporting and look forward to the successful implementation of 'Project Concept 2004' for recording and reporting capital assets in Japan.



*David Hasso (second from right) and David Amedio (right) from the Bureau of Financial Reporting meet with representatives from the Japanese Ministry of Land, Infrastructure and Transport and the Infrastructure Development Institute.*

# Managing Anti-Fraud Efforts in State Government

In its 2004 Report to the Nation on Occupational Fraud and Abuse, the Association of Certified Fraud Examiners estimates the typical United States organization loses six percent of its annual revenues to fraud. Applied to the United States Gross Domestic Product for 2003, this translates to approximately \$660 billion in total losses; applied to New York State government, and excluding public authorities, this translates to \$6 billion.

Fraud and corruption take many forms. Fraud is normally characterized by the presence of some form of deliberate deception to conceal the

misappropriation of assets. Corruption involves a breach of trust in carrying out official duties.

Every manager accountable for public resources has a responsibility to safeguard those resources and assure they are only used for official purposes. The challenge confronting managers is two-fold. First, people committing fraud are working hard to conceal their efforts. And second, if a manager does not know about fraud schemes, it becomes even more difficult to detect – you don't know, what you don't know!

Fraud and corruption should be of

concern to all people working in public service. When it occurs, it affects our reputation, wastes resources and creates a climate of distrust that makes it harder for good people to carry out important public programs, functions and activities. Recently, restaurant owners in New York City were arrested for offering bribes to undercover health department inspectors. But the bribery has cut both ways, with city inspectors convicted in many cases of demanding payoffs in exchange for overlooking violations.

According to the New York Times, "Corruption among restaurant

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New York State Comptroller-List of Selected Accounting Bulletins - Microsoft Internet Explorer

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Address <http://www.osc.state.ny.us/agencies/abulls/alist.htm>

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## Internet Access to CAS Reports

State agencies can access Central Accounting System (CAS) reports over the Internet. Accounting Bulletin A-545 announced that Web Control-D software, currently used by agencies to access PayServ reports over the Internet, can now be used to access CAS reports.

Web Control-D benefits include:

- Immediate viewing (agencies will no longer need to wait for ROPES printing or report file transfers which must be uploaded and processed before using.);
- Advanced search capabilities for more direct access to specific information needed;
- Print-on-demand at agency locations - either entire reports or selected pages;
- Automatic archiving of reports at OSC for easy agency retrieval; and,
- Easy-to-use software with an online manual.

Each user must have a license in order to access Control-D and the online manual. Visit our website at [www.osc.state.ny.us](http://www.osc.state.ny.us); select Comptroller's News for State Agencies, and read Bulletin A-545 for details on how state agencies can request free licenses.

Try Control-D, and see if you agree with pilot agencies that it's "great", "easy to use" and "a useful tool for viewing agency accounting reports."

Done Internet

# Bureau of Contracts

## Procurement FAQ's

**H**ave you ever been in the process of opening bids and had a problem arise? Have you been in the process of developing your procurement document and been asked to include a provision that you are not sure is appropriate? If you answered yes to either of these questions you are not alone.

On a daily basis the Comptroller's Office Bureau of Contracts receives numerous questions from agency staff seeking help with the procurement process. We are always glad to assist. A problem addressed upfront may save not only time and money, but also the procurement itself. In addition to offering outreach sessions throughout the year, we are continuously working to develop new ways to assist outside agency personnel in the procurement process. Therefore, beginning with this edition of Solutions we will share, in question and answer format, previously addressed procurement questions in order to assist other procurement staff that may encounter the same issues.

Q & A's:

**Q.** Is Appendix A required on agreements for databases, subscriptions, etc?

**A.** Yes, any contract a state agency enters into is subject to Appendix A.

**Q.** Demonstration scripts were developed for mandatory bidder presentations and published in the RFP. The evaluation team wishes to have the vendors provide additional demonstrations that were not included in the demonstration scripts. The intent is to assure the vendors did not "mask" their demo. Is this appropriate?

**A.** The Evaluation Instrument and methodology, which must be developed prior to the initial receipt of bids, must outline what will be covered in the demo. The scripts and demo format, a part of that evaluation methodology, cannot be changed once the proposals are initially received.

**Q.** Is it appropriate to include language in the RFP which gives the agency the right to disqualify a bidder from receiving the award if such bidder, or anyone in the bidder's employ, has previously failed to perform satisfactorily in connection with public bidding or contracts?

**A.** Typically the evaluation of past performance is part of an agency's determination as to whether a bidder is a responsible vendor. While it is appropriate to include the language, the agency cannot simply disqualify a vendor based on past performance. The agency is required to give the bidder due process before deeming them non-responsible.

## Managing Anti-Fraud Efforts in State Government

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inspectors may have peaked in 1988 when 43 health inspectors, about half the number assigned to inspect restaurants, were charged with extorting hundreds of thousands of dollars on the threat that they would close restaurants down."

The restaurant inspectors convicted of accepting bribes created an environment that caused restaurant owners to believe they could bribe their way out of legitimate health violations.

Under the provisions of the New York State Accounting System User Procedures Manual, Volume 11, Section 7.0200, State agency staff and managers are required to report the theft, loss or misuse of State assets and supplies to the State

Comptroller's Office (<http://www.osc.state.ny.us/agencies/accmanual/special/70200.htm>).

The State Comptroller's Office is committed to creating an anti-fraud culture in the State and teaching managers in public service how to maximize deterrence of fraud in their programs, functions and activities. In addition, working in partnership with agencies, our Audit and our Investigations Division will help you ferret out fraud and corruption within your organization, or help you determine if your organization is a victim of fraud. You can contact our Investigations Division at: [Investigations@osc.state.ny.us](mailto:Investigations@osc.state.ny.us), (212) 383-2502 or (518) 474-4331.

There are three key principles that guide the Comptroller's office in addressing fraud and corruption in the public sector:

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# GASB Clarifies Reporting Of Net Assets

The Governmental Accounting Standards Board (GASB) has issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34. The purpose of Statement 46 is to help governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation.

A government's net assets should be reported as restricted when the purpose for or manner in which they can be used is limited by an external party, a constitutional provision, or enabling legislation. Enabling legislation is a specific type of legislation that both

authorizes the raising of new resources and imposes legally enforceable limits on how they may be used. Statement 46 is intended to alleviate difficulties in identifying enabling legislation restrictions by clarifying that "legally enforceable" means that an external party—such as citizens, public interest groups, or the judiciary—can compel a government to use resources only for the purposes stipulated by the enabling legislation.

Statement 46 confirms that the determination of legal enforceability is a matter of professional judgment, which may entail reviewing the legislation and determinations made for similar legislation, as well as obtaining the advice of legal counsel. The Statement indicates that governments



should review the legal enforceability of enabling legislation restrictions when new enabling legislation has been enacted to replace existing legislation and when resources are used for purposes not specified by the enabling legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. Statement 46 is effective for periods beginning after June 15, 2005.

The Statement can be ordered through the GASB's order department at 800-748-0659 or via its website at [www.gasb.org](http://www.gasb.org).

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## GASB Issues Exposure Draft on Accounting for Termination Benefits

The Governmental Accounting Standards Board (GASB) has published an Exposure Draft, *Accounting for Termination Benefits*, that would establish accounting guidance for state and local governmental employers regarding benefits provided to employees who terminate employment. It would establish guidance for benefits, such as early-retirement incentives and severance benefits that are provided as the result of voluntary or involuntary terminations. The intent is to enhance comparability of financial statements by requiring governments to account for similar termination benefits in the same manner.

The proposed Statement would require employers to recognize, in financial statements prepared on the accrual basis of accounting, the cost of voluntary termination benefits when the offer is accepted and the cost of involuntary termination benefits when a plan of termination has been approved and communicated to the employees. In addition, the proposal would establish measurement and disclosure requirements for termination benefits. If enacted, the proposed standards would become effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of the proposed Statement would be required

to be implemented simultaneously with the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. For all other termination benefits, the proposed Statement would be effective for financial statements for periods beginning after June 15, 2005.

Additional information about the Exposure Draft is available on the GASB's website at [www.gasb.org](http://www.gasb.org).

# Agency Information Management (AIM)

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of State Expenditures, described the importance of paying vendors on time and provided agency-specific data on timeliness of vendor payments and John Moriarty, Director of Contracts, discussed preliminary retroactive contracting data gathered and analyzed by his Bureau.

In addition, designated OSC staff facilitated small group discussions with participants to identify obstacles and key factors affecting on-time vendor payment. *Inspiration Software* was used to document ideas and concepts and the results were reported out to attendees.

This spring, we look forward to an AIM website and to holding an AIM project meeting to seek input and feedback from agencies regarding their indicators of successful financial management practices. Progress made on the AIM project will be reported on in future editions of Solutions.



AIM session held in Albany.



## Did you miss an earlier edition?

Visit us at our web page at:  
[www.osc.state.ny.us](http://www.osc.state.ny.us)

## Payroll Services – 2004 W-2 Improvements

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reconfirmed Payroll Director Robin Rabii's commitment to making a viable alternative available as soon as possible.

In February 2005, an innovative alternative to the manual W-2 replacement was launched — to the delight of State agencies. Through the collaborative efforts of subject matter experts in Payroll Services and technical experts in the Bureau of Information Technology Services (BITS) payroll applications group, agencies were given the ability to print replacement W-2s “at their fingertips” through the introduction of a new, customized page in PayServ (the New York State Payroll System). This new page allows authorized

payroll system users to enter an employee's identification number and request a reprint of the employee's W-2 right from the desktop.

On average, this new process eliminates the 15-20 minutes required to produce a replacement W-2 through the current manual process. In addition, it eliminates potential typing errors and standardizes the format of all replacements. Perhaps most importantly, this improvement provides the opportunity to put a replacement W-2 in the hands of an employee almost immediately – once again resulting in happier customers for OSC and its agency business partners!

## Financial & Audit *Solutions*

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## Managing Anti-Fraud Efforts in State Government

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cooperation, capacity building and public interest.

**Cooperation** means our office works with public sector agencies to prevent and detect fraud and corruption.

**Capacity Building** means helping public sector agencies deal with and prevent fraud and corruption and recognizing the need for public sector managers to receive support and training on fraud and corruption schemes.

**Public Interest** means the overriding responsibility of the Comptroller's

Office is to promote public confidence in the integrity of public sector agencies. Public interest should also be the overriding responsibility of every agency leader.

The incidence and cost of fraud and corruption plague the private and public sector. New areas of fraud and corruption are evolving, especially in the area of electronic commerce and identity fraud. In coming **Solutions** newsletters, we will further explore this issue and offer ideas and suggestions to help you deal with our three key principles.