



Solutions

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Office of the State Comptroller

Alan G. Hevesi

Division of State Services

John Moriarty Appointed Director of Contracts

John Moriarty was recently appointed Director of the Bureau of Contracts. Mr. Moriarty, who served as Director of Contracts for the Office



of Children and Family Services, brings a wealth of talent and experience with him to OSC.

John, who is a graduate of LeMoyne College, began his New York State public service career 28 years ago as an

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FOCAS Project Agency Workgroup Sessions

Over the past two months, the FOCAS Project conducted six agency workgroup sessions to provide information about the envisioned new Central Accounting System (CAS) and to confirm our understanding of business process interfaces between the CAS and agency processes and systems. Session topics included: *Spending Authority, Accounting Structure,*

Agreements, Vendor Repository, Payments, and Revenue / Financial Reporting / Fringe Benefits.

Agency representatives were able to review the new business process and information models for each topic and then were led through real-life scenarios using the new processes. Agency representatives provided candid

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Agency representatives review information and ask questions during the "Revenue" topic session on April 23, 2004.

This Issue

Citibank...the Next Frontier * Equipment and Asset Management * Payroll Bulletins
Maximizing Competition While Maintaining Equal Footing for All Bidders * Steel Industry Price Increases
Public Authority Reform * Fall 2004 Training Conference

Citibank...

the Next Frontier

In the March 2004 edition, you read about how small dollar payments stifle State productivity. Agency staff spend a significant amount of time processing paper vouchers for payments under \$250. Processing small dollar payments using the State's credit card saves significant time and resources and allows agency staff to spend time on more important activities, such as obtaining contracts or performing data analysis.

In August 2003, the Office of General Services awarded New York State's procurement and travel card contract to Citibank. Since last August, the Office of General Services, the Governor's Office of Employee Relations and the Office of the State Comptroller have been working collaboratively to set up the Citibank credit card program.

Since January 2004, New York State agencies have been working to convert from the American Express credit card program to the new Citibank credit card program. This conversion includes a three-step process whereby agency officials first create a credit card hierarchy. A hierarchy is like an agency organizational chart that identifies employees for the purpose of supervision and financial reporting.

Agency officials then choose and add program administrators to the program. Program administrators run the agency's credit card program by adding and maintaining cardholders in the CitiDirect Card Management System, using Citibank's online tools to manage the program for oversight and reporting, assisting cardholders in using their cards and reconciling their charges and assisting in processing payments to Citibank.

The final step in conversion is to add cardholders using an auto enrollment spreadsheet. Once the auto enrollment spreadsheet is submitted, cards will be normally mailed to the program administrator within five to seven business days.

Several improvements in the new program include:

- *Using "smart cards."* These cards allow agency officials to restrict spending to only certain merchant category codes (MCCs) or to incorporate dollar or transaction number limits. For example, agency officials could restrict spending on a department's credit card to its yearly budget, or could limit purchases to hardware stores exclusively.

- *The availability of online tools to help agency officials manage their card program.* The most exciting web tool offered is the Citibank Custom Reporting System (CCRS). This system allows administrators to create custom ad hoc reports to help track spending. There are hundreds of fields to choose from, including line item detail of some transactions. Reports can be downloaded into a variety of formats, including Microsoft Excel. The Custom Reporting System keeps transaction data for 18 months.

- *The Citibank Electronic Reporting System (CERS), which produces reports on a monthly, quarterly and yearly basis.* Administrators who are not as technically savvy and are looking for an easy way to track credit card activity should use this system.

- *Receiving Citibank bills electronically.*

Administrators can set up various employees in multiple departments, including Accounts Payable, to receive a copy of the bill each month. When the bill is ready, Citibank will e-mail each employee on the list telling them the bill is ready to view. Employees can sign in and view, print or download the bill into .pdf or Excel format.

If you need help converting your card program from American Express to Citibank, contact Kara Mitchell at 518.486.5862 or kmitchell@osc.state.ny.us or Anne Marie Miller at 518.486.5866 or amiller@osc.state.ny.us. You can also view the program administrator reference guide at http://www.osc.state.ny.us/agencies/travel/citibank/pa_refguide03_04.pdf.

Helpful Hints for Program Administrators

Cardholders automatically have access to the CitiDirect Card Management System. Their client code is nys-p for procurement or nys-t for travel. Their user name is the first four characters of their last name followed by the last six digits of their card number. Their password is their user name backwards in all capital letters. Ex. John Smith xxxx-xxxx-xx12-3456 user name is smit123456 and password is 654321TIMS.

The final date to submit paperwork related to the initial rollout of the Citibank program is July 1, 2004.

To add a new cardholder after the initial rollout of the program, use the CitiDirect Card Management System. Click on card, management, then account maintenance, then new account.

Equipment and Asset Management

In the last three issues, we have presented articles that have concentrated on the internal control problems small agencies and authorities have encountered with their payroll, cash handling, and revenue billing and collection processes. In this issue, we will discuss the common problems we have identified in the equipment and asset management processes of these entities. The primary focus of the internal controls for the equipment and asset management process is to provide assurance that equipment acquisitions and dispositions are properly authorized and recorded and that a comprehensive inventory of the equipment is maintained and periodically verified. In addition, the internal controls should provide assurance that equipment is properly secured and used as intended.

A good system of controls for equipment and asset management requires entities to maintain accurate and complete inventories of their equipment items. Entities should identify their equipment with identification tags or decals, have procedures to track the movement of equipment between locations, and periodically verify that the inventory records accurately reflect the current

location and condition of equipment items. We found several entities did not have an equipment inventory system in place. In some cases, the entities had no procedures for adding or deleting items from the inventory records and made no attempts to verify the inventory records. Consequently, the records at these entities were either missing completely or were very inaccurate. Thus, management at these entities did not know the condition or whereabouts of their equipment. These problems exist because management at these entities did not develop and/or communicate proper equipment control procedures to employees who had these responsibilities. In addition, the entities did not monitor the few procedures they had in place to ensure the records were at least accurate.

Another important internal control concept for equipment requires entities to properly identify their equipment. Entities usually accomplish this by affixing serially numbered tags or decals to each piece of equipment, identifying the equipment as their property. In addition, the entities can use the serial numbers to identify equipment on their equipment inventory systems. Several

entities we reviewed did not place identifying tags on their equipment and did not maintain accurate records of these items. At these entities, the lack of equipment identification was ultimately a control environment issue. Top management did not see the value in properly identifying and controlling the equipment and, thus, did not require staff to develop and follow proper procedures. As a result, one entity could not positively identify to the police a piece of equipment that was stolen, and likewise could not file a claim with its insurance company to obtain reimbursement to replace the item.

As we have seen, internal controls are a system with five interrelated components – control environment, risk assessment, communication, control procedures, and monitoring. When one or more of these components is compromised or missing, the entire system of internal controls is weakened and an entity's assets are placed at risk. In the next issue, we will discuss some of the problems we have encountered with the procurement and contracting processes at the entities we have visited.

John Moriarty Appointed Director of Contracts

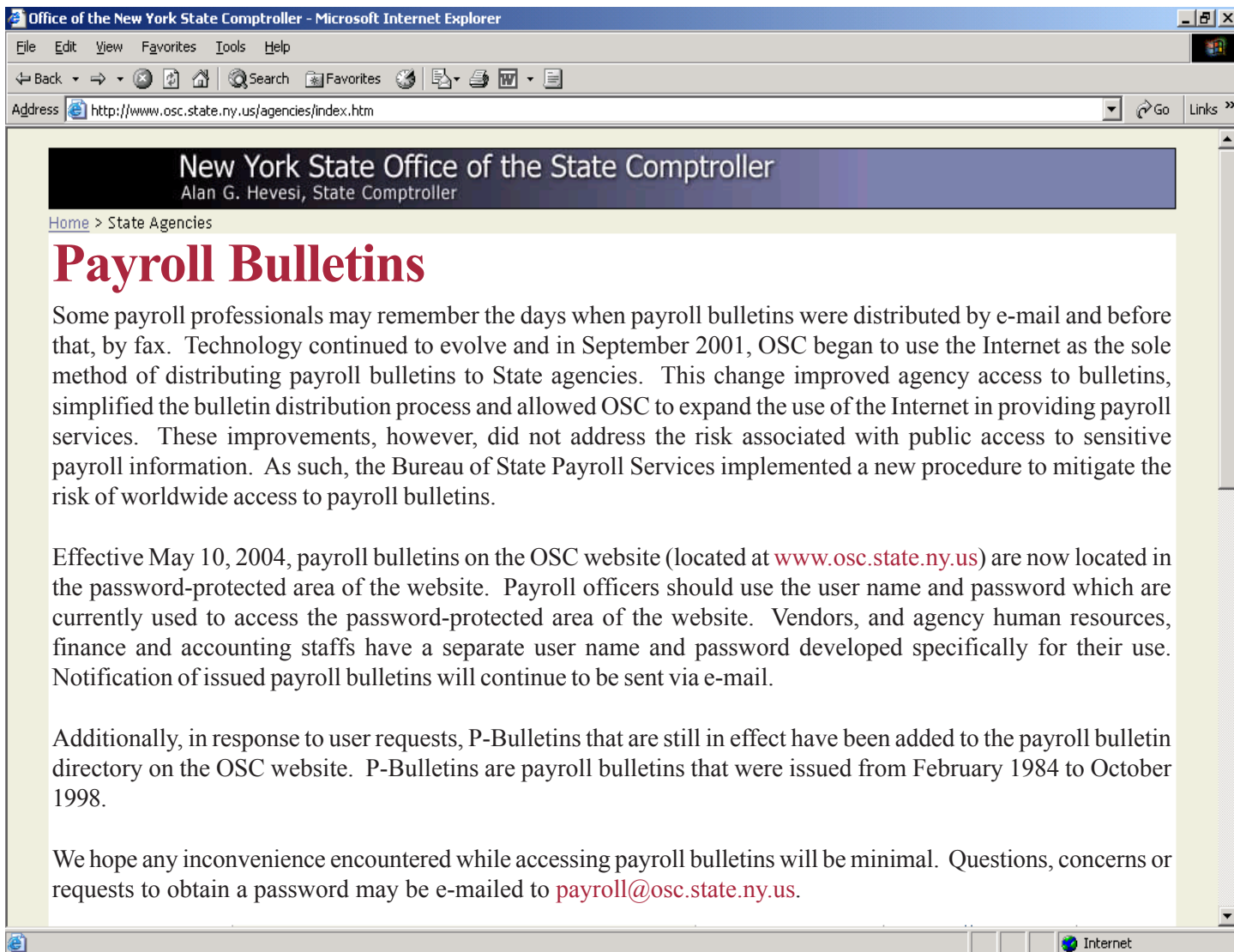
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auditor with the Department of Motor Vehicles. He then accepted an opportunity with the former Department of Social Services where he devoted himself to contract administration activities for that agency. Upon agency restructuring, John managed the procurement activity for the Human Services Application Service Center, an organization supporting the system

needs of the Office of Children and Family Services, Office of Temporary and Disability Assistance, Department of Health and Department of Labor. John then later moved as Director of Contracts for the Office of Children and Family Services. Throughout his career, John has successfully facilitated several large system procurements, including the development of an automated finger

imaging system and the centralization of child support collection activities. He also coordinated the Northeast Coalition of State's procurement for an electronic benefit transfer system.

John joined the Bureau as Director of Contracts on April 22, 2004.



Maximizing Competition While Maintaining Equal Footing for All Bidders

Contracting officers must be diligent in the development of bid documents to both maximize competition and ensure all potential bidders are placed on equal footing. Similarly, contracting officers should exercise due diligence in looking for alternative procurement approaches to increase competition and reduce procurement costs. The following examples illustrate the principles involved.

Lease-Purchase Agreements vs. Third-Party Financing

An agency bid for the purchase of 87

Electrocardiograph (ECG) machines in which the specifications allowed for an outright purchase or five-year lease of the equipment. Although the purchase cost was considerably less, the agency did not have sufficient funds budgeted for the purchase, so they intended to award for the lease. In discussing the situation with the agency, we determined that the lease finance rate was 25.55%, far in excess of normal financing rates. We suggested that the agency do a mini-bid using the statewide third-party financing contract or conduct their own separate bid for financing. The agency had neither thought of bidding a separate

financing contract nor were they aware of the statewide backdrop contract. We explained they could expect a finance rate of around 4%, which would reduce their monthly payment by approximately \$2,900, resulting in a potential savings over the five-year term of \$150,000.

IFB vs. Sole Source

An agency received bids for the purchase of various pavement markings of various widths and pre-formed symbols and letters. The awarded bid was based on the grand total for all items. Only one of five bidders, the

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FOCAS Project

Agency Workgroup Sessions

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feedback, positive comments of support, and also raised concerns for the FOCAS Team to consider that could affect the new CAS. Interface issues between agencies and the new CAS were a hot topic. The FOCAS Team was aware of many of these issues, and the feedback from the agency reps validated these concerns. They also identified other interface issues that will need to be considered as the Project moves forward.

“Thank you so much for all of your help so far. We are committed to collecting end-user feedback every step of the way, and this is only the beginning! As we look forward from here, we will look to you for help and feedback from the detailed design sessions to testing the new CAS - really, throughout the life of this Project.”

Roseanne Kryjak, FOCAS Project Manager



Agency representatives ask questions during the “Spending Authority” topic session on March 5, 2004.

On May 21, 2004, a “Wrap-Up Session” was held with over 150 NYS agency representatives attending. The wrap-up meeting outlined the plans for addressing the issues gathered at the sessions and the next steps for the Project. A new and improved website dedicated to improving communication between the FOCAS Project and all of its stakeholders was also unveiled.

More information about the FOCAS Project, including information about each of the training sessions, copies of the documents distributed at each of the sessions and agency feedback, may be obtained at the OSC website at www.osc.state.ny.us, click on State Agencies. If you have any questions or comments, please e-mail the FOCAS Team at FOCAS@osc.state.ny.us.

Maximizing Competition While Maintaining Equal Footing for All Bidders

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incumbent contractor, offered all width sizes. The remaining four vendors’ bids were deemed incomplete and non-responsive and were rejected even though the unit prices offered for comparable items was lower than those offered by the incumbent contractor.

Our review showed that only the incumbent contractor offered the 40-inch wide material, yet the agency responded that it had not purchased any of this 40-inch wide material during the previous year. The agency further stated that this was an “old”

specification and in years past, had cut the letters and symbols from the 40-inch material. When manufacturers introduced pre-formed letters and symbols, the bid specifications were modified to include these items, but the 40-inch material requirement remained. We suggested the agency might want to consider removing the 40-inch wide material from the bid and seek to justify a sole source contract if the agency still needed the material. The agency withdrew their award recommendation, deleted the 40-inch material and rebid the procurement on grand total. Again,

five bids were received with all bids being complete and responsive. The award was made to the low bidder at 40% lower pricing than previously obtained.

These two procurements demonstrate a need to think outside the box. Equally important is the need for purchasing professionals to share and disseminate proven tactics with their colleagues and to continue to seek additional means and methods to improve the procurement process and reduce associated purchase costs.

Steel Industry Price Increases

Demand for steel has caused it to become a precious metal in the world economy. Over the last 18 months, steel prices have risen dramatically thanks to many factors, including a rapidly expanding Chinese economy, a rebounding U.S. economy, short supplies of raw materials and rising transportation shipment and fuel costs.

Most of the steel produced depends on scrap metal. One reason for steel price increases is China purchasing U.S. scrap metal. China's economy is soaring and they are becoming a dominant manufacturing country and the largest steel producer in the world. Much of Chinese steel is used to make the containers that the exported manufactured goods are shipped in. Steel is also in demand in China for building projects, new power plants and automobile manufacturing. Another factor in the steel price increases in the U.S. is a shortage of coke, a key ingredient used in purifying iron ore. China is no longer exporting coke and a major U.S. supplier's mine is temporarily out of commission. The high cost of natural gas is a factor as well. Natural gas is used when turning scrap steel into

new steel product.

This rapid and largely unforeseen rise in steel prices may be putting some heavy construction projects at risk. Generally, construction contracts are fixed price contracts with no remedy available to the contractor if its raw material costs increase. Some steel companies are adding surcharges or even renegotiating contracts to raise the prices to help offset the higher costs. There is great concern that some large highway construction projects that are steel-intensive, which were bid some time ago, are in jeopardy because the contractors may not be able to absorb those increases and remain going concerns.

For smaller steel-related contracts, this situation has created a major challenge. Since prices are so volatile, their suppliers are only giving price quotes for short terms and deliveries are taking much longer than they have historically. For many smaller contractors, even if they could afford to stock-up on steel, they don't have the space to hold it.

For contracts not yet awarded, there is

also a concern. Bidders may have to inflate their prices to cover any anticipated rise in steel costs. If the rise doesn't occur, the State will have overpaid for the product. If the bidder underbids, the vendor and/or the project could be in jeopardy. The lack of flexibility in fixed price contracts already let or to be let causes major hardships for contractors in times of industry volatility.

The General Contractors Association of NY Inc., steel fabricators and other industry representatives are asking for relief. The Commissioner of Transportation recently asked Comptroller Hevesi to appoint a representative to work with NYS DOT, construction industry representatives and steel fabricators to devise a method to deal with ongoing contracts in a fair way that is consistent with our stewardship of the State's infrastructures and funds, without putting contractors out of business. Jerry Lipfeld of the Bureau of Contracts and John Dalton and Monica Norris of OSC's Division of Legal Services are representing Comptroller Hevesi on that task force. Many other State agencies

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Public Authority Reform

One of Comptroller Hevesi's principal goals since taking office in 2003 has been the review and reform of public authorities in New York State. Public authorities have operated in New York since 1921 and have made major contributions in terms of meeting the State's transportation, education, housing, economic development, energy and infrastructure needs. More than 640 public benefit corporations have been created by the State, these entities operate with little or no public accountability or oversight. While there are benefits to establishing entities to operate outside the State bureaucracy, in some cases, the freedoms enjoyed by

public authorities have resulted in mismanagement, wrongdoing or the misuse of public assets. Revelations about these activities diminish public confidence in government.

Various divisions within the Comptroller's Office work with public authorities: audits are conducted to review operations of most large authorities; financial and other reports submitted by 53 authorities are reviewed annually; debt transactions of more than 85 public benefit corporations are subject to the approval of the Comptroller; numerous authorities participate in the New York State and

Local Retirement System; select authorities use the State payroll system to issue checks for employees; and, on a limited basis, certain authority contracts are reviewed by the Office of the State Comptroller (OSC). Despite widespread interaction with authorities by OSC, there was no central repository for authority information. In fact, comprehensive information about public authorities was not readily available in any centralized way in the State.

In February 2004, Comptroller Hevesi issued a report on public authorities entitled *Public Authority Reform, Reining in New York's Secret*

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Office of the State Comptroller's Fall Conference 2004



The topic of the conference is **Building Accountability into Government**.

The conference will be held at the Hudson Valley Resort & Spa, Kerhonkson, New York. After a one-year hiatus, OSC is looking forward to an interesting and informative Fall Conference 2004. We believe you'll enjoy both the financial management topics presented and the quality of the presenters.

In addition to offering continuous professional education credits (CPE's), we are also offering continuous legal education credits (CLE's) to attorneys who attend the Contracts sessions on the afternoon of October 8.

Date: October 7 and 8, 2004

Place: Hudson Valley Resort and Spa
400 Granite Road, Kerhonkson, NY
(845) 626-8888

Cost for attendees: \$35 per day plus meals and lodging, if appropriate

Overnight attendees:

\$157 per day which includes meals, lodging, refreshments at breaks and the \$35 administrative fee

Day attendees:

\$50 per day which includes lunch, refreshments at breaks and the \$35 administrative fee

Who Should Attend:

This conference is designed for agency financial managers and staff at all levels. Several knowledgeable presenters will share their thoughts and experiences. OSC staff will also provide updates on current initiatives.



An announcement, agenda and registration details will be sent to agency fiscal/budget offices in July 2004.

For more information, contact Ms. Linda Malloy at (518) 486-3017 or e-mail at lmalloy@osc.state.ny.us.

Financial & Audit Solutions

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Public Authority Reform

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Government, and proposed an omnibus legislative proposal: The Public Authority Reform Act of 2004. For the first time in nearly 50 years, these documents identified all public authorities in New York State. The count of more than 640 included in the report and the legislation, as classified by definitions describing jurisdiction, has continued to grow since the listing was made public. In response to the legislation, which was introduced this spring (S-7301/A-11414), grassroots support for authority reform has produced an active coalition of good government, labor, business, civic, senior, environmental and other advocacy groups.

In addition to classifying and defining the

public authorities operating in New York, the proposed legislation establishes a temporary State commission to review all public authorities and make recommendations on operational improvements, elimination, consolidation, or continued operation. Other provisions in the bill require authorities to establish stronger corporate governance standards, improve procurement practices – particularly in regard to competitive bidding and contracts – and expand lobbying disclosure information to diminish undue influence.

Additional information about the Comptroller's efforts can be found on the OSC website: www.osc.state.ny.us.

Steel Industry Price Increases

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affected by the steel increases have also joined this task force.

The task force is considering many potential solutions, including a steel index on State highway projects to help offset rising steel costs similar to how asphalt price increases are currently handled. They are also considering the possibility

of granting price relief to existing contractors that can show significant loss or hardship due to unforeseen rises in steel prices. In 1974, the State Legislature passed a law to grant such relief when steel prices were a factor. The legality of such price relief without legislation must still be determined, however.



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