

Financial & Audit Solutions



June 2005 ♦ Volume VII ♦ Issue 3

Office of the State Comptroller

Alan G. Hevesi

Division of State Services

Strengthening State Procurement Practices – Producing the Best Results for New Yorkers

On April 11, 2005 the Comptroller's Office released a policy report entitled *Strengthening State Procurement Practices – Producing the Best Results for New Yorkers*. The report proposes sweeping reforms to modernize State and local government procurement and contracting rules to make it easier for companies to do business with governments and make government contracting more efficient.

The reforms included in the omnibus legislation will focus contract review resources on more costly, higher-risk purchases. At the request of business representatives and State agencies, the reform package also includes the establishment of a centralized database of State vendors to allow State agencies to easily share information and streamline the contracting process for vendors doing business with the State.

Currently, State contracts worth more than \$15,000 must go through a detailed competitive process and be approved by the Comptroller's Office. The reform would increase the threshold in the State Finance Law for State contracts requiring a formal competitive process and approval by the Comptroller's Office to \$50,000, up from \$15,000 set in statute in 2000. Twenty-three percent of the new contracts currently reviewed by the Comptroller's Office are valued between \$15,000 and \$50,000. A great deal of effort is expended by State employees in conducting these formal procurements and by businesses in competing for these contracts – despite the fact that they account for only one percent of the total value of contracts reviewed by the Comptroller's Office and represent relatively low risk. Raising the threshold will mean State officials can focus attention on larger contracts

Continued on page 6

OSC Announces Plan for a Web-Based Centralized Vendor Responsibility Database

Implementation of the Comptroller's vendor responsibility initiative began in January of 2005. Since its inception, it has become evident that vendor responsibility reviews would be facilitated with a web-based repository of vendor responsibility information. Such a system would provide valuable efficiencies for agencies, vendors and Office of the State Comptroller (OSC) staff.

The envisioned database will allow for self registration and the completion of

Continued on page 8

This Issue

Automated Payroll Interface Goes Live! * Managing Anti-Fraud Efforts in State Government: Check Tampering Software and Consulting Services RFP Reissued for the FOCAS Project * GASB News
New York State Internal Control Task Force

Automated Payroll Interface Goes Live!

In October 2003, the Office of the State Comptroller (OSC), in conjunction with 14 other State agencies, initiated a project to develop a standard computer interface to automate the entry of certain agency payroll transactions into the New York State Payroll (PayServ) System. Since that time, team members from OSC and three “lead agencies” have worked together to define requirements, develop modifications to each of the computer systems involved and successfully test and implement the new “Automated Interface.” The lead agencies that worked directly with OSC on this project were the State University of New York, the New York State Senate and the New York State Office of Parks, Recreation and Historic Preservation.

The new Automated Interface was implemented in late February and early March of this year at the three lead agencies. Since then, several thousand transactions have been processed with over 93 percent of the transactions posting directly to PayServ without any errors. Robin Rabii, Director of Payroll

Services at OSC, reported that “feedback from the three lead agencies has been extremely positive and there has been a significant reduction in the workload at OSC. We are working smarter, more accurately and more efficiently than before.”

Julie Petti, Assistant to the Director for University-Wide Human Resources at the State University of New York (SUNY), noted that “we are very happy that we are getting this kind of performance at this early date.” SUNY revamped its internal processes and trained a majority of its system-wide Human Resources professionals on the internal process changes needed to take advantage of the new interface. “This really helped contribute to the overall success of SUNY’s implementation,” Mr. Rabii commented. “Their staff and systems were prepared for the change. This is reflected in their high success rate and their ability to rapidly analyze errors and make corrections.”

“We are very happy with the Automated Interface,” says Richard Corcione,

Payroll Officer for the New York State Senate, whose agency is currently enjoying the highest overall success rate of any of the agencies using the new interface. “The communication between the functional users and technical staff, both here and at OSC, really helped make this a success.”

The Office of Parks, Recreation and Historic Preservation led the way, as the first agency to adopt the Automated Interface. Stephanie Butkiewicz, Payroll Manager for the agency, stated, “When we started this project, we weren’t sure what to expect. As the project went on, it became clear that OSC recognized our needs and built the Automated Interface to support our needs extremely well.”

“This is a real step forward toward integrating the PayServ system here at OSC and the HRMS systems at agencies,” according to Chris Gorka, Project Director. “We feel that this project serves as a ‘best-practice’ example of how we and our partner agencies can work together to get things done, and get them done right.”



PayServ Team Members from OSC:

**Ina Harney (left)
Carol Preusser (center)
Janice Nizinkirck (right)
Josephine Irving (absent)**

Managing Anti-Fraud Efforts in State Government: Check Tampering

In our last newsletter, three key principles that guide the Comptroller's Office in addressing fraud and corruption in the public sector were addressed: cooperation, capacity building and public interest.

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.

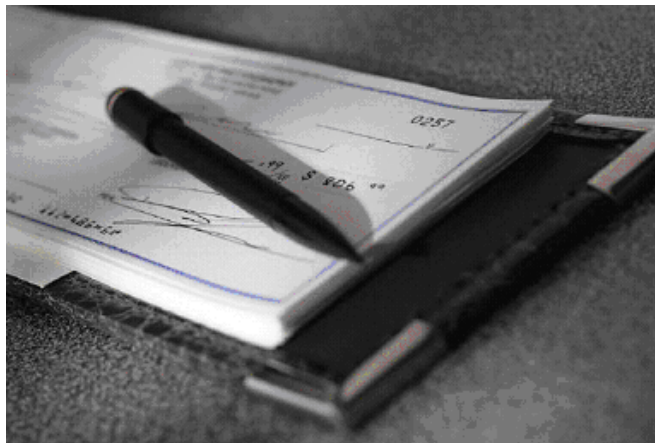
There are many reasons why people commit fraud. Some of those reasons include:

1. Personal financial pressure.
2. Vices - such as substance abuse and gambling.
3. Extravagant purchases or life-style.
4. Real or imagined grievances against the company or management.
5. Ongoing transactions with related parties or relationships with vendors.
6. Increased stress and
7. Internal pressure, including management pressure to meet budgets, goals or objectives.

There are many ways one can steal. In coming issues, various techniques will be discussed and suggestions on how you can prevent or detect these schemes

will be presented. Now it may sound odd, but you have to know how people steal if you are going to detect or prevent it from happening. Therefore, a critical component of an internal control system is the control environment created by management. The ethics and integrity of staff is important. Knowing how to steal doesn't mean you should do it. Remember, the Comptroller's Office has many auditors and investigators looking for the cheaters. We may not find them today - but we will find them tomorrow!

In this issue, we are going to explore check tampering. Many agencies use sole custody accounts, revenue accounts, advance accounts or petty



cash accounts. Each of these is maintained with checking accounts.

Picture this: You are the business officer in a facility that houses clients of the State. You maintain an account in the business office for each person housed in your facility. When clients die, the money remaining in their account is available potentially to the client's relatives. You have a process in place to authorize the transfer, but one of your

employee's understands the system and is able to obtain the checks. The employee takes the checks to a local bank and convinces a teller to cash the check without the employee's endorsement on the check. What a deal!

Or, how about a more up-to-date scheme? Your employee goes to a local office supply store and buys check printing software. This check printing software application works with your existing accounting system. The laser check printing software enables the employee to convert a blank sheet of security check paper (that the employee buys) into a printed check in seconds - complete with check layout, logo, signatures, MICR encoding and variable information. The only problem is, the employee has put the account number of a State checking account on it and now has direct access to your checking account.

Check tampering is a scheme in which the perpetrator physically prepares or alters a check and fools the organization into handing over its money. There are at least five methods used in check tampering:

- Forged maker schemes
- Forged endorsements
- Altered payees
- Concealed check schemes
- Authorized maker schemes

The first two schemes will be explored in this newsletter and the other three in our next newsletter.

Continued on page 7

Software and Consulting Services RFP Reissued for the FOCAS Project

The Software and Consulting Services RFP has been reissued. A prior release of the RFP (RFP 04-10) generated four responses. Preliminary review of those responses concluded that the proposals received did not meet the mandatory requirements set forth in the RFP. After considerable research on software industry business models and informational sessions with the vendor community, the RFP was revised. The revisions to the Software RFP resulted in very few significant changes to the functional requirements. The most substantial changes were made to the requirements for contract terms and conditions. These revisions reflect, where appropriate, software industry business models while maintaining the standards, policies and business needs of OSC.

The revised RFP for Software and Consulting Services was reissued on May 3, 2005. Responses to the revised RFP were due on May 31, 2005. The evaluation team has been mobilized. Oral presentations will begin in June, and a software selection will be made by mid-July.

Project Timeline Extended

The FOCAS Executive Steering Committee and Project Team are committed to implementing the best possible Central Accounting System (CAS) for New York State. In order to meet this commitment and to allow sufficient time to design and implement a CAS which closely matches constituent specifications, the FOCAS timeline has been extended to April 2008. This will allow the team to:

- Honor its commitment to allow State agencies at least one year to prepare interfaces for the new CAS.
- Pursue continued cooperation with the statewide Financial Management System (FMS) team as new leadership drives that project forward.
- Gather and review all necessary requirements for system implementation.
- Adequately train and prepare staff.

We look forward to continued work with internal and external FOCAS project stakeholders. Stay tuned for more information concerning FOCAS as the team emerges from the cycle of procurements and into the project itself.

FOCAS Project Timeline

WHAT	WORK BEGINS
Quality Assurance RFP Released Selection	March 2005 June 2005
Software RFP Released Selection	May 2005 July 2005
ID RFP Release Selection	July 2005 November 2005
Design Meetings Interface Specifications System Development Test Interfaces	February 2006 - August 2006 August 2006 - February 2007 February 2007 - March 2008
GO LIVE!	April 2008

Governmental Accounting Standards Board Issues Concepts Statement Related to Communication Methods



The Governmental Accounting Standards Board (GASB) has issued Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*. The purpose of the Concepts Statement is to provide a conceptual basis for selecting communication methods to present items of information within general purpose external financial reports that contain basic financial statements. These communication methods include

recognition in basic financial statements, disclosure in notes to basic financial statements, presentation as required supplementary information (RSI), and presentation as supplementary information.

The Concepts Statement defines the communication methods commonly used in general purpose external financial reports, develops criteria for each communication method, and provides a hierarchy for their use. The definitions, criteria, and hierarchy should help the

GASB or, in the absence of authoritative guidance, a preparer of a financial report determine the appropriate methods to use to communicate an item of information. Greater consistency in the use of communication methods ultimately should result in the more efficient and effective use of financial reports. The Concepts Statement (Product Code GC03) can be ordered through the GASB's order department at 800-748-0659 or via its website at www.gasb.org.

New York State Internal Control Task Force

In 2003, with the advent of numerous corporate scandals rooted in the breakdown of internal controls, OSC undertook a focused effort to examine internal controls in State agencies. A significant component of this effort was evaluation of compliance with the Governmental Accountability, Audit and Internal Control Act (Act), and in particular, the organization and effectiveness of agency internal audit units. Under our traditional audit approach, the Division's State Audit Bureau would have individually examined the internal audit operations at each agency and made recommendations for improvement directed to each agency commissioner. However, just as the Act had brought statewide awareness and focus to the need for internal controls and internal auditing, a comprehensive evaluation of the initiative conducted across agency lines would better help to demonstrate impact and ensure consistent

implementation of the resulting recommendations. To this end, our auditors engaged the Division of the Budget (DOB), which is charged with coordinating the implementation of the Act, in an effort to evaluate the collective internal audit activities of 34 separate State agencies in a single engagement.

Response to the audit was even better than expected. While some agencies argued their degree of compliance with individual criteria, the composite picture of the state of internal auditing was compelling. As a result, the Division of the Budget proposed a jointly sponsored task force to correct the noted deficiencies and ensure continued compliance. The scope of the task force was ultimately expanded to include the role of the agency Internal Control Officers and their efforts to evaluate and maintain a comprehensive system of internal controls for each agency.

Currently the Internal Control Task Force, comprised of nine representatives from OSC, DOB and the New York State Internal Control Association, is pursuing a broad agenda to establish baseline standards and showcase best practices for both internal control and internal auditing. Through direct solicitation of agency heads, the Task Force has organized six working groups to address important statewide issues. These groups are comprised of 74 Internal Audit Directors and Internal Control Officers representing 44 different State agencies and are tasked with:

- developing guidance on organizing and staffing internal audit units;
- preparing guidance and identifying best practices for the operational aspects of the Standards and the Act, including risk-based audit planning;

Continued on page 6

Strengthening State Procurement Practices – Producing the Best Results for New Yorkers

Continued from page 1

where potential savings are greater.

Current State law provides an incentive for State agencies to enter into contracts with New York small businesses and with certified Minority- and Women-Owned Business Enterprises (MWBEs), and to purchase recycled or remanufactured products, by establishing a higher threshold for competition. To maintain this incentive, the proposal increases the discretionary threshold for small businesses, MWBEs and recycled or remanufactured products from its current level of \$50,000 up to \$100,000.

The Comptroller's Office plans to redirect resources to higher value, higher risk contracts and improve our oversight to ensure that the State is doing business with the best-qualified firms offering the most reasonable prices.

In response to requests from both State agency personnel and businesses that enter into contracts with the State, the Comptroller's Office plans to create a centralized system for agencies to use in determining vendor responsibility as required by law. Currently, the same

vendor may have to provide different information or the same information in various forms in order to secure contracts with various state agencies. The system to be developed in consultation with State agency representatives and the business community will allow vendors to provide information once and update it periodically on-line.

The reform proposal also includes recommendations for changes to the state's Procurement Stewardship Act, which was scheduled to sunset this year, but has been extended until June 30, 2006 as part of the legislation enacting the 2005-06 State budget. These proposals include:

- Requiring State agencies to provide an explanation to unsuccessful bidders, if one is requested, of the reasons they did not win in an effort to improve their chances for success in the future.
- Creating separate, more appropriate rules for awarding grants when for-profits join the competition.

- Clarifying aggregate purchasing rules by requiring agencies to consider all purchases of the same good or service during one year to be part of a single purchase.

- Clarifying "piggybacking" rules.

- Giving the Comptroller's Office the ability to waive minor deviations and allow the award of a contract as long as no vendor is adversely affected.

- When situations arise that the law did not anticipate, the reforms would give the Comptroller's Office the flexibility to work with State agencies to utilize different contracting methods not specified in law on a pilot basis.

Please visit the OSC's website at www.osc.state.ny.us to access the Comptroller's April 11, 2005 press release on procurement reform and a copy of the report entitled, "Strengthening State Procurement Practices, Producing the Best Results for New Yorkers."

New York State Internal Control Task Force

Continued from page 5

- designing plans to help internal audit units meet CPE requirements;
- establishing a cost-effective system for internal audit units to meet the peer review requirements of the Standards;
- providing guidance and assistance on the development, evaluation and maintenance of internal control systems; and
- developing an ongoing internal control education and training plan for

all agency officers and staff.

The Task Force will receive recommendations from the work groups at the end of June, although some activities will likely continue indefinitely. A web site has also been established to share interim developments and best practices, (www.osc.state.ny.us/agencies/ictf/index.htm) and a full-day leadership seminar was organized in early May where over 400 internal control and audit professionals heard presentations from each of the six

working groups. To date, the Task Force has been a landmark example of interagency cooperation made possible only by the constructive and innovative approach to examining this program across agency lines. Where individual reports would have certainly taken longer and effected only smaller improvements at individual agencies, this comprehensive approach promises to bring about fundamental change of a scope and breadth not seen in the almost 20 years since the Act was first implemented.

Managing Anti-Fraud Efforts in State Government Check Tampering

Continued from page 3

Forged Maker Schemes

This scheme involves an individual who signs an authorized signature on a check without the knowledge or authorization of the person authorized to sign the check (the “maker” of the check). Forging signatures is becoming easier in today’s environment, because we have access to incredible array of equipment and software. Here are some ways people forge signatures when they have access to legitimate check stock:

1. Free-hand forgery – physically sign the check in a reasonable approximation of the true signature.
2. Photocopy forgery – make photocopies of legitimate signatures and affix them to a check. One way to do this is to place the signature on a transparency and place a check in the copy machine so it is aligned with the signature line and the transparency. With a little practice, it’s pretty easy to do!
3. Scanning forgery – scan a legitimate signature into a computer file and use the scanned image when printing checks.
4. Signature stamp forgery – scan a legitimate signature into a file, print it out and bring it to a stamp-making company to have a signature stamp made.

There are a variety of ways people can get access to check stock. These include:

1. Have direct access to check stock through your normal job duties.
2. Obtain check stock through an accomplice.
3. Void checks that are not mutilated.
4. Produce counterfeit checks with unauthorized software and blank check stock.

Once the fraudulent check is obtained and a signature is available, the fraudulent check can be payable to:

1. The person committing the fraud.
2. A business owned by the person committing the fraud.
3. A fictitious person or business.
4. An accomplice.
5. A legitimate vendor for personal purchases.

Forged Endorsement Schemes

The forged maker scheme is generally easier than the forged endorsement scheme. In the forged endorsement scheme, the person committing the fraud must intercept a signed, legitimate check. They then either forge the endorsement or alter the payee designation on the check. There are several ways a legitimate check gets in the hands of the wrong person. These include:

1. Checks are normally available to the person because of the person’s duties.
2. Signed checks are not properly secured.
3. A request is made to return a signed check to a person or Department. This often happens in organizations.
4. Checks may be returned as undeliverable and a person obtains access.
5. Checks may be rerouted to a new address. A person in the mail room may know where a check should be delivered, but alters the address to an accomplice or to his or her home address. The person doesn’t just have to be in the mail room though. It could be accounts payable clerks, secretaries, payroll clerks or a variety of other people.

Once a person has the check in hand, a variety of check altering schemes could take place. These will be explored in greater detail in the next newsletter. Keep this in mind though: all check tampering schemes can be prevented or detected in a short period of time if your staff is alerted to the schemes and understand that internal control systems are important to the prevention or detection of the schemes.



*Direct
Deposit*

*Encourage your employees to take advantage of
this convenient, safe and timesaving option.*

Financial & Audit Solutions

Solutions is published as a customer service by the Office of the State Comptroller, Division of State Services, 110 State Street, Albany, NY 12236.

Lynn Canton
Deputy Comptroller

Joan M. Sullivan
Assistant Comptroller
State Financial Services

Jerry Barber
Assistant Comptroller
State Audit Bureau

Editor
Dave Hasso
Assistant Director
Bureau of Financial Reporting

Assistant Editor
Suzette Baker
Principal Accountant
Bureau of Financial Reporting

Materials may be freely reproduced. For more information about the content or to comment on the newsletter, contact:
Bureau of Financial Reporting
Office of the State Comptroller
110 State Street - 11th Floor
Albany, NY 12236
(518) 486-1235 or e-mail at
finrep@osc.state.ny.us

OSC Announces Plan for a Web-Based Centralized Vendor Responsibility Database

Continued from page 1

standard vendor responsibility questionnaires by vendors on-line. This information will be available to State agencies when conducting their assessment of a vendor's responsibility at the time of contract award. This information will streamline and strengthen agency responsibility reviews.

This initiative will involve OSC stakeholders along with contracting agency and vendor representatives. The new web system will be designed with Bureau of State Expenditures Vendor Management Unit, FOCAS, OSC portal and other enterprise initiatives in mind to facilitate that system integration.

Coming Soon.....

State Financial Services Group's Annual Fall Conference

Details on dates, times, curriculum and location will be announced shortly.

If you are interested in receiving information on the Fall Conference, please e-mail the State Financial Services Group at fallconference@osc.state.ny.us or telephone Kim Peacock at (518) 486-3017.