

Financial & Audit Solutions

September 2004 ♦ Volume VI ♦ Issue 4

Office of the State Comptroller

Alan G. Hevesi

Division of State Services

FOCAS Project Update

During June 2004, the FOCAS team met with a large group of New York State agency Financial Directors and Deputies of Administration. The interaction centered on the envisioned advantages of the new Central Accounting System (CAS), including:

- √ Elimination of redundant data entry and reduction in reconciliation efforts.
- √ Creation of a centralized vendor effort.
- √ Enhanced revenue accounting and bank account sweeps and transfers.
- √ Enhanced tracking of workflow and status.
- √ Web accessible ad hoc reports.
- √ Revised charts of accounts, cost centers, and object codes.

Another part of the discussion focused on the impact to agency resources, including staff participation on the CAS Stakeholder Workgroup.



The CAS Stakeholder Workgroup is comprised of FOCAS Project staff and representatives from selected New York State agencies. The State Comptroller's business process analysis, and the input received from the agency interface sessions, highlighted a number of CAS

and Financial Management System (FMS) interface issues. The CAS Stakeholder Workgroup has been charged with carefully examining these issues and identifying

recommended solutions. The kick-off meeting of the CAS Stakeholder Workgroup was held on August 17 and the Workgroup will continue to meet monthly. Interested in the issues? Check out the latest issues, discussions, and recommendations from the Workgroup at: <http://www.osc.state.ny.us/agencies/cas/index.htm>.

July 2004 was a very busy and exciting
Continued on page 4

Gary Armstrong Appointed Director of the Bureau of Financial Reporting

With the recent retirement of Paul Wilkes, Gary Armstrong has been appointed as Director of the Bureau of Financial Reporting at OSC.



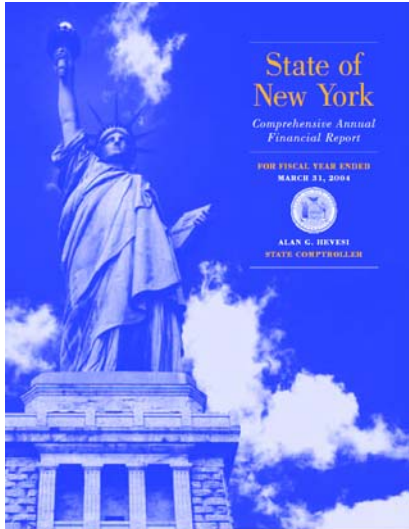
Continued on page 6

This Issue

2004 Fiscal Year-End Highlights * Ethics & Management in Organizations
Procurement and Contracting * Thank You to the Agencies
Fifth Annual Purchasing Forum Held * GASB News * Then and Now

2004 Fiscal Year-End Highlights

The 2004 Comprehensive Annual Financial Report, the State Comptroller's 2004 Report on the Financial Condition of New York State, and the Cash Basis Annual Report on State Funds are now available. For the 15th consecutive year, the Comptroller's Office was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association. The award was presented for the 2003 Comprehensive Annual Financial Report. You can view the reports in the State Finances' section of the State Comptroller's website at www.osc.state.ny.us.

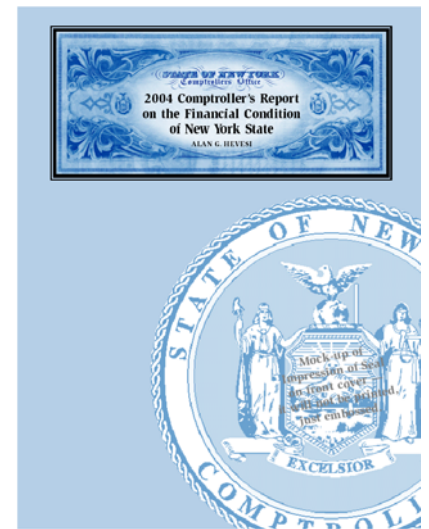


Highlights of the Comprehensive Annual Financial Report include:

- The State reported net assets of \$41.2 billion.
- The State recorded a General Fund GAAP operating surplus of \$3.039 billion compared with a \$4.221 billion operating deficit in 2003.
- The General Fund is reporting a GAAP accumulated deficit of \$281 million compared with a \$3.320 billion deficit in 2003.
- The State's governmental activities had total revenues of \$92.5 billion, which were exceeded by total expenses of \$94.6 billion, net of transfers of business-type activities of \$1.2 billion.
- Total debt outstanding was \$46.9 billion at March 31, 2004, an increase of \$7.7 billion over the prior year.
- \$4.2 billion in tobacco revenue bonds was included in the State's General Fund revenues in 2004.

Highlights of the State Comptroller's 2004 Report on the Financial Condition of New York State include:

- The State's economy has begun to recover from the last recession. For the first five months of 2004, compared with the same period in 2003, employment in the State rose by 0.3 percent. In May 2004, the State unemployment rate was 5.5 percent compared with 6.1 percent a year earlier.
- Total State spending in 2004 was \$97.7 billion, of which \$6.7 billion was paid from borrowed funds.
- Total spending in 2004 included \$1.9 billion in disbursements planned for 2003, but deferred until 2004 and then financed.
- The State reported \$46.9 billion in borrowed debt outstanding at March 31, 2004, an increase of 19 percent from the prior year.
- The State reported \$42.3 billion in revenues from taxes, which is a 6.4 percent increase from 2000.



Highlights of the Cash Basis Annual Report on State Funds:

- The 2003-04 year-end General Fund balance was \$1.076.9 billion. This was comprised of \$793.9 million in the Tax Stabilization Reserve Fund, \$20.6 million in the Contingency Reserve Fund, and \$262.4 million in the Community Projects Fund.
- General Fund receipts, including transfers from other funds, totaled \$42.3 billion, a \$4.9 billion or 13.2 percent increase from the prior year, primarily due to \$4.2 billion in receipts from tobacco bond proceeds and \$645.2 million in one-time Federal fiscal relief.
- General Fund spending, including transfers to other funds, totaled \$42.1 billion, a \$4.5 billion or 11.8 percent increase from 2002-03. The increase was primarily due to the deferral of spending (\$1.9 billion) from 2002-03 that was financed with tobacco bonds sold in 2003-04.

Continued on page 5

Ethics & Management in Organizations

Management is always thinking of ways to better control the enterprises they run. In the last several years, at least four different organizations have issued comprehensive documents representing current thinking on internal controls. Our thinking on internal controls in the United States and throughout the world is in a period of transformation.

Where we used to think about:

- policies,
- procedures,
- rules,
- top-down decisions,
- penalizing mistakes,
- restricting information,
- adding controls on to an organization, and
- controlling people.

We are now thinking about:

- principles,
- local decision-making,
- empowering employees,
- building competence,
- learning from mistakes,
- sharing information,
- building controls into an organization, and
- control with people.

In light of this new thinking, it is easy to see why we believe competent people are the foundation of a good system of internal controls. And the mortar that holds this foundation together is the ethics and integrity of the people involved in an organization.

The problem of ethics and integrity in government is apparent by the fact that at least ten Governors have been indicted this century and our current and former Presidents and Congressional leaders have been plagued with ethics-related problems. The message this sends to government employees and the public is powerful—and wrong. When our leaders do not present an unblemished environment of ethics and integrity, it becomes difficult to build an organizational culture that includes ethics and integrity at its foundation.

Managers of organizations must be aware they send powerful messages throughout an organization. Even the U.S. Congress has experienced ethical violations. Those ethical problems carried over to the staff of the House who illegally duplicated software to be used in managing various financial activities of the House. To overcome the natural cynicism of employees overwhelmed by the reports of illegal activities by the rich, powerful, and famous, it is important to build within an organization an environment of trust that balances loyalty with the duty to report wrongdoing.

The private sector is also beset by ethical problems. The Equity Funding insurance scandal is another example of employees who lost their moral compass and reacted to management requests to prepare false accounting entries, create phony insurance policies and to deliberately deceive auditors. As an example, during the course of the audit, the auditors wanted to confirm with policyholders information regarding their accounts. Because the confirmation was a labor intensive process (and because many of the policies were phony), management offered to help the auditors. Staff was assigned to stuff and address envelopes with the confirmation letters. But staff craftily packaged the mailings to go to regional offices of Equity Funding, where other employees responded to the confirmation requests and “confirmed” all of the information requested by the auditors.

And if you do not think that many people are willing to cheat, consider for a moment a survey of 100,000 American workers by the Ethics Resource Center in Washington D.C. They found that one in three employees witnessed behavior on the job that either violated their company’s code of conduct or broke the law. An amazing 56 percent saw employees lying to supervisors, 41 percent viewed records being falsified, and 35 percent observed stealing.

The fact that so many employees could be corrupted to participate in unethical acts ought to give us pause as we think about our own agencies. There’s a high probability someone could be doing something unethical and it is management’s responsibility to do all it can to be sure the right message is sent throughout its organization—ethics and integrity are important to the individual and the organization.

FOCAS Project Update

Continued from page 1



Shareholder Workgroup participants roll up their sleeves and tackle the issues.

month for the FOCAS Project, especially since the draft Software RFP was released. It can be viewed on the FOCAS Internet site at <http://www.osc.state.ny.us/agencies/cas/index.htm>. Following the release of the draft RFP, a Contractors' Roundtable was held with several potential software contractors to field questions, comments, and suggestions concerning the draft RFP.

FOCAS also welcomed two of our colleagues from Pennsylvania during July as Don Edmiston (Project Director) and Terry Hack (Deputy Project Director), from the *Imagine PA Project*, offered information about their experiences with a statewide Enterprise Resource Planning (ERP) project. Don and Terry shared best practices, lessons learned, and offered advice to State agency staff, OSC staff, and the FOCAS

Project Team about implementing a large-scale ERP project. Their presentation can be viewed at <http://www.osc.state.ny.us/agencies/cas/newyorkbriefing.ppt>.

This fall will bring more excitement and energy to the Project. FOCAS will be presenting current project information at OSC's Fall Conference in Kerhonkson, NY on October 7 and 8, 2004. Participants in the FOCAS sessions will learn



A Contractors' Roundtable was held with several potential software contractors to obtain feedback concerning the draft RFP.

about the strategic guidelines used by OSC to develop new CAS business practices, and discuss the impact that these new practices will have on their agencies' operations. Participants will also review, in depth, both the benefits and changes of the new CAS, and examine proposed plans for ensuring that agency FMS interfaces align with the new CAS.

Looking Ahead: FOCAS Project Timeline

What

CAS Stakeholder Workgroup

Discusses immediate issues facing CAS

Software RFP

Draft Release

Release

Selection

ID RFP

Release

Selection

Design Meetings

Interface Specifications

System Development

Test Interfaces

GO LIVE!

When

Happening Now

Officially Released July 12, 2004

Fall 2004

Spring 2005

Summer 2005

Fall 2005

September 2005 - February 2006

February 2006 - August 2006

August 2006 - March 2007

April 2007

Procurement and Contracting

In previous issues, we have presented articles that have identified the internal control problems that small agencies and public authorities have encountered with their payroll, cash handling, revenue billing and collection, and equipment and asset management processes. In this issue, we will discuss common problems identified in the procurement and contracting activities of these entities. The primary objectives of the internal controls for the procurement and contracting process are: 1) to ensure that all purchases are properly authorized, received, and recorded on the accounting records; and 2) to ensure that all purchases are reasonable and necessary and made in an economical and efficient manner.

A good system of controls for purchasing requires entities to properly separate the requesting, approval, and recording functions. Thus, all purchases are requested by one person, approved by another person, and entered on the

accounting records by someone independent of the first two individuals. This process ensures that all purchases have supervisory approval and are properly recorded. Our audits have determined that several entities did not have written procedures governing the purchasing and contracting process, leading to a lack of separation of duties, where one person initiated, approved, received, and recorded transactions on the accounting records. In other instances, purchases were made without management review or approval. In these cases, the lack of formal control procedures, coupled with poor communication and monitoring, created an environment where improper or uneconomical purchases could occur without detection.

We also identified areas where agencies could improve upon their contracting processes. Entities use the contracting process to identify the most qualified companies to supply goods and/or

services at the best prices. Contracting in New York State is an open and competitive process to ensure that no one contractor has an undue advantage over the other bidders. In a good purchasing system, all bids are sealed and must be received by a certain time and date. As the bids arrive, they are date-and time-stamped and remain in a secure location until the bid opening. When the bids are opened, they are logged and, once all bids are reviewed, a summary is prepared that identifies each company, its bid, which company was selected, and why it was selected. Our audits have identified entities that did not date-and time-stamp bids received from contractors and did not summarize the bids once they were opened and analyzed. Without the date and time stamps, the entities could not demonstrate that the bid process was conducted fairly; without the bid analysis and summary, the entities could not demonstrate that the lowest qualified bidder was selected.

Continued on page 6

Thank You to the Agencies

The Bureau of Accounting Operations would like to thank State agencies for promptly submitting their electronic sole custody reports. Agency compliance with the instructions contained in the Controls & Special Procedures Manual, as it relates to monthly reconciliation of bank accounts, significantly contributed to the successful completion of timely and accurate sole custody reports. We encourage agencies to continue their efforts that ultimately assist with annual filing efforts. This important information is utilized to complete the Comptroller's Annual Report to the Legislature on State Funds Cash Basis of Accounting, which is currently available on OSC's website (www.osc.state.ny.us/finance/cashrpt/annual2004.pdf) for the fiscal year ended March 31, 2004.

2004 Fiscal Year-End Highlights

Continued from page 2

- All Governmental Funds receipts were \$99 billion, an increase of \$10.9 billion, or 12.3 percent, primarily due to tobacco bond proceeds, higher tax collections, and additional federal funds.
- All Governmental Funds spending totaled \$97.3 billion, \$8.2 billion above 2002-03, or an increase of 9.2 percent, primarily due to deferred spending, disaster assistance payments, and increases in education and social services payments.

Gary Armstrong Appointed Director of the Bureau of Financial Reporting

Continued from page 1

Gary had served as Assistant Director of the Bureau since 1985 and brings many years of knowledge and experience to his new role.

Gary graduated from the State University of New York at Albany and was awarded an MBA in Management from the Lally School at Rensselaer Polytechnic Institute. He is a certified public accountant and certified government financial manager, and is a

member of many professional organizations, such as the American Institute of Certified Public Accountants and the New York State Government Finance Officers Association (GFOA). Gary has been a member of the GFOA Special Review Committee for many years. Committee members review the comprehensive annual financial statements (CAFRs) of other governments to determine if they meet the criteria to be awarded a Certificate

of Achievement for Excellence in Financial Reporting.

Gary has been instrumental in ensuring that the Bureau has issued interim and annual GAAP financial statements on a timely and accurate basis, and his involvement in the GASB 34 implementation was critical to the project's overall success. Gary resides in Clifton Park with his wife, Debbie, and two sons, Greg and Dan.

Procurement and Contracting

Continued from page 5

The cause of these occurrences was a lack of proper control procedures, coupled with a poor control environment.

As we have stated in this and previous

articles, internal controls are a system of five interrelated components—control environment, risk assessment, communication, control activities, and monitoring. When one or more of these components is compromised or lacking,

the entire system of internal controls is weakened and the entity's assets are placed at risk. In the next issue, we will discuss some of the key elements of good controls over accounting and information systems.

Fifth Annual New York State Purchasing Forum Held

On June 16 and 17, 2004, the Office of General Services and the Office of the State Comptroller co-sponsored the Fifth Annual New York State Purchasing Forum at the Empire State Plaza in Albany, New York. Over 1,200 purchasing and contracting staff from across the State attended—a record number—to enhance their procurement knowledge. Staff from the OSC Bureau of Contracts actively participated in the Forum, several of whom served as trainers in a variety of topics, including: “Avoiding Procurement Pitfalls and Managing Performance,” “Development of a Request for Proposal,” “Guidance in Developing the Request for Proposal Evaluation Instrument,” “Procurement Options,” “Real Property Leasing,” “The Contract Approval Process” and “Purchasing 101.”



Pictured to the left is Arlene VanPelt and Dan Ryan from the Bureau of Contracts' Request for Proposal Team, both of whom served as trainers at the Forum.

GASB Issues Statement that Addresses Employer Reporting of Postemployment Benefits Other Than Pensions

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how State and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as *other postemployment benefits (OPEB)*.

The statement generally requires that State and local governmental employers

account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of Statement 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability

is required to be amortized over future periods.

Statement 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions and, for certain employers, the extent to which the plan has been funded over time.

The Statement (product code GS45) can be ordered through the GASB's Order Department at (800) 748-0659 or **online** via its website at www.gasb.org.

GASB Issues Proposal on Net Assets Restricted by Enabling Legislation

The Governmental Accounting Standards Board (GASB) has issued an Exposure Draft of proposed standards intended to clarify for the preparers of State and local government financial statements the requirements for reporting net assets contained in GASB Statement No. 34, *Basic Financial Statements—and*

Management's Discussion and Analysis—for State and Local Governments. The proposal, *Net Assets Restricted by Enabling Legislation*, is intended to improve the comparability of net asset information by clarifying the circumstances under which net assets should be restricted because of enabling legislation enacted by a government.

If enacted, the proposed standards would become effective for periods beginning after June 15, 2005.

The Exposure Draft can be ordered through the GASB's order department at 800-748-0659 or **online** at www.gasb.org.

GASB Issues Exposure Draft on Concepts Related to Communication Methods

The Governmental Accounting Standards Board (GASB) has published an Exposure Draft for a proposed Statement of Governmental Accounting Concepts, *Communication Methods*, that would 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 would include recognition in basic financial statements, disclosure in notes to basic financial statements, presentation as required supplementary information, and

presentation as supplementary information. The comment period concludes on September 30, 2004.

The Exposure Draft can be ordered through the GASB's order department at 800-748-0659 or **online** at www.gasb.org.

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
Bureau of Financial Reporting

Assistant Editor
Suzette Baker
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 - 10th Floor, Albany, NY 12236, (518) 486-1235 or e-mail at finrep@osc.state.ny.us

Then and Now

The following table reflects the ten year comparison of important statistics for New York State.

	2004	1994
General Fund Operating Results (Deficit)	\$3.039 billion	\$914 million
General Fund Accumulated Fund Balance (Deficit)	(\$281) million	(\$1.637) billion
General Fund Cash Basis Operating Results	\$859 million	\$801 million
Debt Outstanding	\$46.9 billion	\$26.1 billion
Voter Approved Debt	\$3.8 billion	\$5.4 billion
Non-Voter Approved Debt	\$43.1 billion	\$20.7 billion
Debt Service Expenditures	\$3.9 billion	\$2.7 billion
Debt Per Person	\$2,444	\$1,436
Credit Rating	A2 (Moody's) AA (S & P's)	A (Moody's) A (S & P's)
Consumer Price Index	189.1	148.2
Governmental Funds - Revenues	\$92.1 billion	\$59.7 billion
Governmental Funds - Expenditures	\$96.7 billion	\$58.6 billion
Personal Income Per Person	\$36,574	\$25,785
Employment	8.5 million	8.0 million
Unemployment Rate - Statewide	5.5%	6.9%
State Population	19,190,000	18,156,652
Deficient Bridges	2,155	2,401
Roads - Goods/Excellent	66%	53%



Did you miss an earlier edition?

Visit our web page at:
<http://www.osc.state.ny.us>

