

Solutions

June 2003 ♦ Volume V ♦ Issue 3

Alan G. Hevesi
State Comptroller

Office of the State Comptroller
Division of State Services

Appointments at the Office of the State Comptroller

State Comptroller Alan G. Hevesi has named Lynn Canton as Deputy Comptroller for State Services. Prior to this appointment, Ms. Canton had been Assistant Comptroller for Management Audit since 2001. Lynn Canton succeeds Mr. Robert Attmore as Deputy Comptroller for State Services.

Before joining the Comptroller's Office,



Lynn Canton

Ms. Canton served as Executive Director of the Federal Emergency Management Agency (FEMA). She was also Executive Director of the New York State Division of Minority and Women's Business Development, a member of the New York State Board of Parole, and Deputy Director for Program Services at the New York State Division for Youth. She also held positions in the State's Executive

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Jerry Barber

2003 CAFR To Conform With GASB 34

The GASB 34 Project, initiated at OSC in the summer of 2000, will result in the issuance of the State's Comprehensive Annual Financial Report (CAFR) for 2003 in conformance with the GASB 34 accounting standard. This new standard, promulgated by the Governmental Accounting Standards Board (GASB), requires governments to prepare financial statements in a manner similar to the private sector. In addition, capital assets will be reported on the face of the financial statements and have a much greater importance in governmental financial statement presentations than in the past. Also,



infrastructure assets (roads, bridges, etc.) will be reported for the first time in

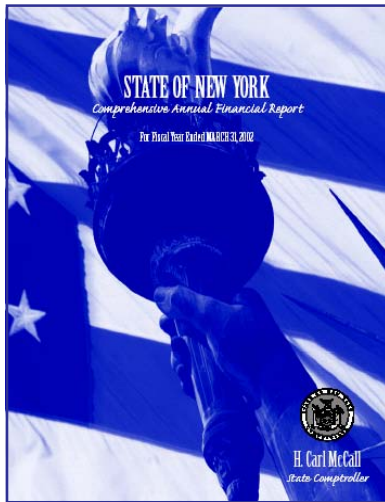
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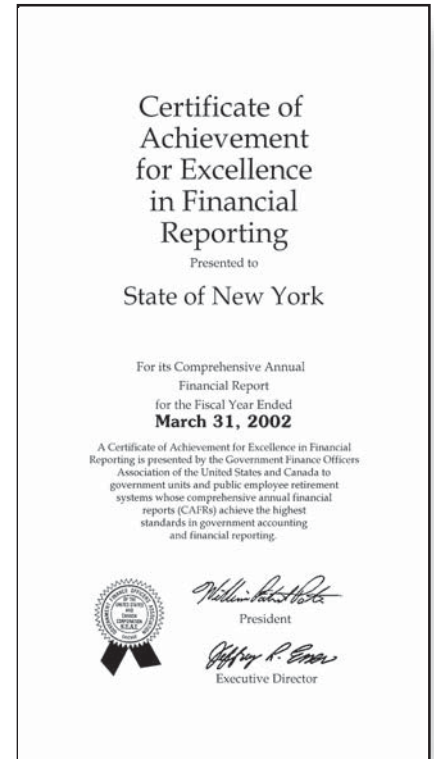
Comptroller Receives Awards * Telecommunication Costs * Distributing Bulletins
GASB 34 Project Updates * GASB Issues Statement 40 * GASB Issues Technical Bulletin on Derivatives
Form, Function & Utility * Unilateral Termination by Vendor * Payroll Upgrade Readiness

Office of the State Comptroller Receives Certificate of Achievement Awards for 2002 Financial Reports

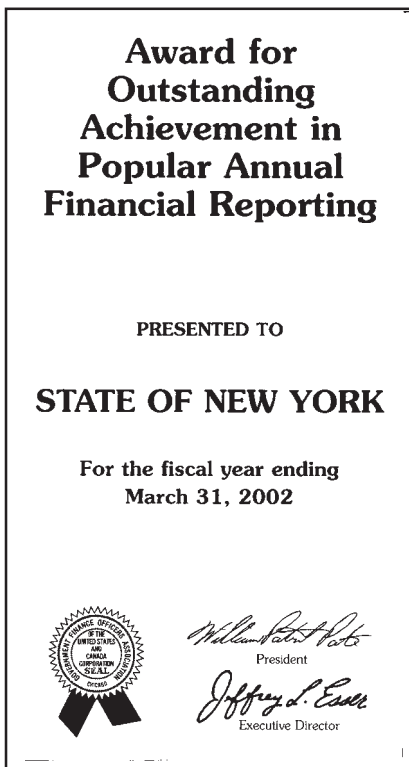
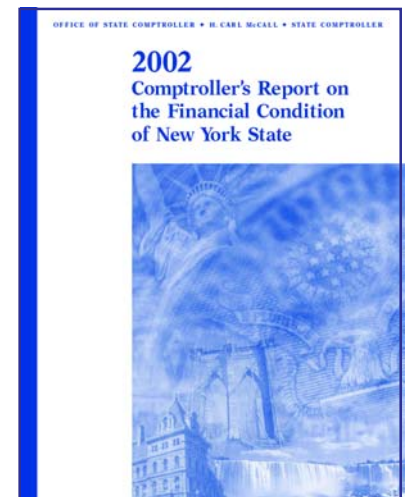
The Office of the State Comptroller has received the Certificate of Achievement for the 2002 Comprehensive Annual Financial Report and the 2002 Comptroller's Report on the Financial Condition of New York State. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by Comptroller Alan G. Hevesi and his staff.



The Comptroller's Office was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) for the 14th consecutive year for the 2002 Comprehensive Annual Financial Report (CAFR). The award is presented to government units whose comprehensive annual financial reports achieve the highest standards in government accounting and financial reporting.



The Comptroller's Office also received the GFOA Certificate of Achievement for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the seventh consecutive year for producing the 2002 Comptroller's Report on the Financial Condition of New York State. The goal of the PAFR Program is to encourage governments to produce reports that make financial data more accessible to those who need less detailed information than what is traditionally found in CAFRs.



Copies of the report can be viewed at the State Comptroller's website at www.osc.state.ny.us.

Streamlining Telecommunication Costs

Why are so many State agencies racking up unnecessary processing costs for their telecommunication expenses when several studies have estimated that it costs anywhere up to \$67 to process a voucher? That was a question the staff of the Bureau of State Expenditures was asked.

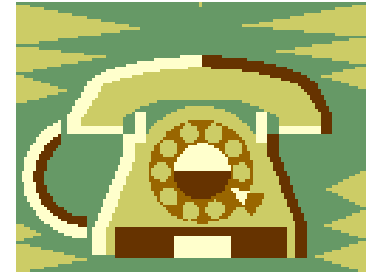
In analyzing the volume of payments made to telecommunication vendors, State Expenditures staff identified 78,000 payments sent to seven phone vendors annually. Some payments were as low as two cents, and 93 percent of all payments were under \$2,500.

State Expenditures staff researched the situation and found the State Division of Parole had arranged to pay through a master bill. They determined all seven vendors could provide

State agencies with a monthly master bill. These master bills will save processing costs, free up State resources for more value-added activities, and decrease paperwork.

We encourage all agency finance offices to review OSC's Procurement and Disbursements Guideline – G-209. This bulletin provides you with contacts and phone numbers for each of the seven vendors. If all agencies switched to a master bill, the State could realize savings of up to \$3.6 million.

Multiple telecommunications invoices? Sorry, wrong number!



The screenshot shows an email client window with a menu bar (File, Edit, View, Create, Actions, Help) and a toolbar with various icons. The email header shows the date and time as 05/14/2003 11:31 AM. The recipient is 'State Agencies' and the subject is 'Distributing Bulletins'. The email body contains the following text:

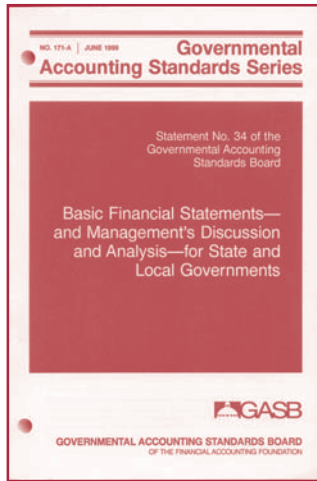
We may be heading toward a new statewide standard for distributing bulletins!

In an effort to eliminate the cumbersome faxing of Accounting (A) and Procurement and Disbursement Guidelines (G) Bulletins, **Bulletin A-523** asked each agency to set up one e-mail address, BULLETIN@(agency domain name), to which we will e-mail links as we add new bulletins to OSC's website.

The subject of the e-mail containing the link will include "OSCABulletin" or "OSCGBulletin". This will enable agencies to establish rules that automatically forward links, containing these character strings in the subject, to staff who should receive "A" and/or "G" Bulletins. This approach enables agencies to get information to those who need it quickly without the maintenance of large statewide directories. We're already e-mailing bulletin links to more than half of all agencies and look forward to discontinuing faxing entirely in the near future.

The feedback received from agencies is very positive. They like having the ability to direct bulletins to everyone that needs them and to do so in a fully automated way. We have already shared our directory with DOB, and they are using it to e-mail budget bulletins. OGS has also expressed interest in distributing their bulletins using this approach, and we plan to share our directory of e-mail addresses with them and other interested agencies.

For more information, see Bulletin A-523 or call our Accounting Information Center at (518) 473-1170.



2003 CAFR To Conform With GASB 34

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the State's financial statements. For example, the Department of Transportation (DOT) has reported several billion dollars in infrastructure assets and these amounts will be included in the CAFR.

The 2003 New York State CAFR prepared in accordance with GASB 34 requirements will be issued in late July 2003.

Phase 2 of GASB 34 Capital Asset Review

In addition to the inclusion of DOT maintained roads and bridges on the face of the State's financial statements, it is also important to evaluate other infrastructure assets for all major agencies. Other types of infrastructure assets include water and sewer systems,

dams, steam tunnels, and others.

Phase 2 of the capital asset review requires that major facility-based State agencies such as OMH, OMRDD, DOCS, ENCON and OPRHP be evaluated by the GASB 34 Project

Team and its consultants to determine the value of all capital assets, including infrastructure assets, in order to measure the importance and materiality of these assets. Reporting mechanisms for capital assets are also being assessed at each agency.

Historic Sites, Libraries and Collections

One aspect of measuring various assets within New York State includes the identification and review of various historic sites, collections, libraries, archives, etc. in order to determine the value and materiality of these items relative to all State assets.

years have very low historic cost values when viewed in the context of today's prices.

GASB 34 also provides an option to not report collections that meet the following criteria:

- a. held for public exhibition, education, or research, in furtherance of public service, rather than financial gain;
- b. protected, kept unencumbered, cared for, and preserved; and
- c. subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State Library, Archives, Museum, Office of General Services and the Office of Parks, Recreation and Historic Preservation are responsible for many historic sites, collections and valuable documents and the GASB 34 Project Team met with representatives of these agencies to determine the breadth and scope of these items.

GASB 34 focuses on historic cost as the measurement of value. However, many historic assets that were acquired by or donated to the State during the past 200

Based on the above criteria, many collections and historic sites in New York State may not have to be reported.

Did you miss an earlier edition?



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

GASB Issues Statement 40, *Deposit and Investment Risk Disclosures*

In an effort to provide the public with better information about the risks that could potentially impact a government's ability to provide services and pay its debts, the Governmental Accounting Standards Board (GASB) has published Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. The Statement amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and addresses additional risks to which governments are exposed.

According to GASB Project Manager Randal J. Finden, "All deposits and investments can be exposed to risk. Under the GASB standard, we looked at the most common risks, that is, the

risks that have been the cause of depository and investment losses in the past. This Statement requires disclosures to communicate those risks in what we believe is an easily understandable manner."

The new accounting guidance requires that State and local governments communicate key information about deposit and investment risks, frequently one of the largest assets on a government's balance sheet. Under Statement 40, State and local governments are required to disclose information covering four principal areas:

- investment credit risk disclosures, including credit quality information issued by rating agencies;
- interest rate disclosures that include investment maturity information, such

as weighted average maturities or specification identification of the securities;

- interest rate sensitivity for investments that are highly sensitive to changes in interest rates (for example, inverse floaters, enhanced variable-rate investments and certain asset-backed securities); and
- foreign exchange exposures that would indicate the foreign investment's denomination.

The provisions of Statement 40 are effective for financial statements for periods beginning after June 15, 2004. Earlier application is encouraged.

Statement 40 (Product Code No. GS40) can be ordered through the GASB's Order Department at (800) 748-0659 or on-line via its website at www.gasb.org.

GASB Proposes a Technical Bulletin on Derivatives Disclosures

In an effort to improve disclosures about the risks associated with derivative contracts, GASB has released for public comment accounting guidance that would provide more consistent reporting by State and local governments. The proposed Technical Bulletin, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*, is designed to increase the public's understanding of the significance of derivatives to a government's net assets and would provide key information about the potential effects on future cash flows.

While State and local governments use a vast array of increasingly complex derivative instruments to manage debt

and investments, they also may be assuming significant risks. Governments must communicate those risks to financial statement users and the proposed Technical Bulletin would help clarify existing accounting guidance so that more consistent disclosures can be made across all governments.

In commenting on why the GASB believes this issue is so important, GASB Project Manager, Randal J. Finden, remarked, "The market for derivative instruments has recently exploded for State and local governments as current financing needs have changed in connection with a more constrained budgetary environment. Some derivative contracts may pose substantial risks, and

we want to help governments better disclose those risks in their financial statements."

Governments would be required to disclose the derivative's objective, its terms, fair value and risks. The proposed accounting guidance would require governments to disclose in their financial statements credit risk, interest rate risk, basis risk, termination risk, rollover risk and market access risk.

This Technical Bulletin would be effective for periods ending after June 15, 2003. The proposed Technical Bulletin is available from the GASB's website.

Form, Function & Utility

It seems Americans, in general, like bigger, better and more. We are a nation of super-sizers. However, while evaluating specifications, the reasoning behind the minimum specifications are important. When evaluating offers received, it's easy to focus on the value or other defining factors and overlook form, function and utility. We can all relate to the following account:

The Office of the State Comptroller received a \$35,000 purchase order for a milk machine with a holding tank utilized in milk production. The agency proposed an award to the responsible vendor offering the lowest cost.

After reviewing the procurement

documents, OSC realized that the product offered by the low bidder was considerably larger than the machine specified in the bid. OSC requested that the agency document how this offer met the minimum requirements. The agency responded that the milk machine offered was larger and held more milk; therefore, it exceeded the minimum requirements of the bid. OSC approved the purchase order.

Several months later, OSC received a change notice for this transaction. The agency wanted to award the contract for the milk machine to the vendor with the second low bid. The agency explained that the first awarded bidder provided the milk machine specified in

the bid; however, there was a problem: the machine was too large to fit through the doorway of the intended facility. OSC suggested that the agency negotiate with the vendor for the sale of the machine to another party and approved an award to the second low bidder.

In evaluating whether an offer meets the minimum specifications required, an agency must look not only at the value offered, but also whether the item meets their form, function and utility. In this case, while the agency focused on the value offered by the larger size, they did not determine whether the use of the item was feasible. As the agency subsequently realized, bigger is not always better.

Unilateral Termination by the Vendor

Previous audits have discovered contracts which include a clause that allows the contractor to unilaterally terminate/cancel their contract with the State upon written notice (30, 60, 90 days). While there is no legal prohibition to this type of clause, it does create problems in determining that all bidders are bidding on the same basis.

For example, a vendor is awarded a five-year service contract for garbage removal. Fuel oil prices rise significantly causing the cost of doing business to rise and lowering profit margins. Instead of honoring the commitment, the vendor elects to terminate the contract. Perhaps this vendor bid fully expecting to opt-

out if circumstances changed and therefore the vendor bid the service with no margins for future cost escalations. Competing vendors bid for the longer term; accordingly, they factored in annual escalations into their bid price. At this point, the vendor backed out of the contract and the agency not only had to pick up the escalated costs of service, but also incur the additional expenses and time for rebidding the service.

As you can see, vendors could be bidding based on very different assumptions and therefore, creating a situation where all vendors are not bidding on a level playing field. Further, such contract language leaves the

agency in a position where they are unable to plan a proper allocation of their resources, since at any time a contractor can choose to end their contractual relationship and leave the agency without services. This also forces the agency into a new solicitation that they had not planned.

Instead of unilateral termination by the vendor, consider a clause in the contract allowing termination by mutual agreement. Under this arrangement, both parties must agree to terminate their relationship, and the agency is thus able to negotiate favorable terms for termination.

OSC and Agencies Partner to Ensure Upgrade Readiness

As OSC's Payroll System Upgrade Project completes final testing and other technical preparations for an August 4 "go-live," the focus will intensify in early July on ensuring that the people who use the payroll system to pay the more than 250,000 employees in New York State are prepared for the changes. "The readiness of both system users and the underlying technology are key to the successful implementation of our upgraded State Payroll System," said Project Director Dan Berry.

In June, more than 70 agency payroll system users completed a Train-the-Trainer program so that beginning July 7 they may train more than 1,000 other frequent payroll system users across the State. Training for end users will focus on how to navigate in the new PeopleSoft version 8.3 Web-based system and on the changes in payroll processing resulting from the upgrade.

In addition to attending a one-day training program led by agency trainers, system users will have the opportunity to

practice entering transactions or viewing payroll data in a "sandbox" accessible from their own workstations. Based on their authorized access to payroll transactions and data, all State payroll system users – including human resource and finance staff – will have access to the sandbox database to prepare for the upgrade.

Many agency managers have access to the payroll system's query database for financial and other reporting purposes. OSC will complete upgrading the 2,400 queries that agencies identified as high priority by mid-July. Agencies should quickly convert any remaining queries needed in August. The Project has provided a guide, "How to Upgrade Queries," to assist agencies in this task. The current (version 7.0) query database will remain available to agencies for a short time after August 4.

One aspect of the extensive system testing underway includes running actual Administrative and Institutional payrolls for specific check dates in the new system and comparing the

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Appointments at the Office of the State Comptroller

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Chamber and Division of the Budget. Ms. Canton holds BA and MS degrees from the State University of New York at Albany.

State Comptroller Alan G. Hevesi has also named Jerry Barber as Assistant Comptroller for the State Audit Bureau. Prior to this appointment, Mr. Barber had been a Director for the State Audit Bureau since 1995, responsible for overseeing the implementation of performance and financial/compliance

audits in the areas of education, taxation, and construction. In addition, Mr. Barber was in charge of the State Audit Bureau's Technology Services Unit, which performs information technology audits and provides technology support to other audit units. Mr. Barber is a Certified Public Accountant, Certified Information Systems Auditor and Certified Government Financial Manager. He is also a graduate of Siena College.



Lynn Canton is presented the award by Dean Frank Thompson, Rockefeller College of Public Affairs & Policy.

On May 15, 2003, Lynn Canton, Deputy Comptroller for State Services, was honored by the Nelson A. Rockefeller College of Public Affairs and Policy for Distinguished Public Service. Lynn was recognized for her exceptional service in a wide range of public service positions. Before joining OSC, she worked in the Federal Emergency Management Agency (FEMA), initially as Director of Region II and later as Executive Director of the agency. She was appointed to these positions by then President Bill Clinton. Prior to that, she served for 20 years in a variety of positions in New York State government.

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.

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OSC and Agencies Partner to Ensure Upgrade Readiness

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results with the actual results in the current system. “Our goal in parallel testing is to track all differences back to either an already known factor or to an identified problem that we can fix,” said Berry. “The findings of our parallel tests are supporting the Project’s confidence in the new system.”

Robust Security

New user IDs and passwords will be issued to system users as part of the implementation of a more robust security infrastructure. “One benefit of the upgrade is an improved application security structure that allows agencies to target the specific functions users need to do their jobs,” said Deputy Comptroller Margaret M. Sherman. “Implementation of a Web-based payroll system has also demanded attention and improvements to our enterprise security

infrastructure. All user agencies will need to work together to ensure the security and privacy of this data.”

Also in preparation for the upgrade, agencies began in June to follow an accelerated payroll-processing schedule required to allow for a nine-day data conversion (or “blackout”) period. During this time agencies will be able to view payroll data, but will not be able to enter transactions into the system. “The accelerated processing schedule has created challenges for agency payroll offices,” acknowledged Payroll Director Robin Rabii. “We have asked agencies to inform their employees about the payroll system upgrade, and provided direction on actions that agencies may take to address any impacts this schedule may have on hourly employees, or those earning overtime.”

“Since the beginning of this Project, our Office has been committed to working with agencies to achieve a smooth and successful transition to PayServ,” said Rabii. “We appreciate the feedback that agency payroll system users have provided and the extra efforts that they continue to make to ensure our joint readiness for the upgrade.”



Linda Zink, Office of the Attorney General, and Tina Vumbaco, SUNY Central Administration, are among the 70 agency staff who will train other payroll system users on how to navigate the upgraded payroll system.