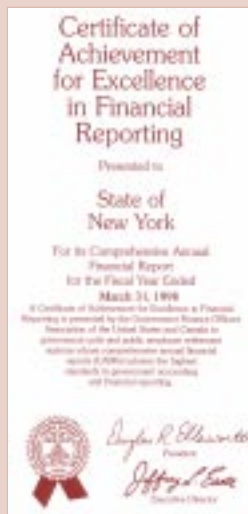


## This Issue

- **OSC/CTG Partnership**
- **Internal Control Standards**
- **Ritter Interview**
- **PaySR Innovation**
- **Payroll Customer Needs**
- **GASB Update**
- **PBCs' Websites**
- **Banking Services**
- **Frequently Asked Questions**

The Office of the State Comptroller was recently honored for the tenth consecutive year by receiving the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the State's 1998 Comprehensive Annual Financial Report. This prestigious award represents the highest form of recognition in the area of governmental financial reporting.



## OSC Enters into Partnership with Center for Technology in Government



The Office of the State Comptroller (OSC) has entered into a partnership with the Center for Technology in Government (CTG) to establish and conduct a stakeholder analysis which will be used in evaluating the next generation Central Accounting System (CAS). The CTG will provide a great deal of expertise and objectivity to this process and OSC welcomes the opportunity to work with such a prestigious organization.

The CTG was established in 1993 at the University of Albany with the primary goal of improving the way government serves the public. Each year the Center solicits applications from governments for a

variety of projects which generally result in the establishment of more effective and efficient governmental operations. From these numerous applications, one or two projects are selected and staff from the Center work interactively with the participating governments to bring the projects to successful completion.

A team representing the Division of

Management Audit and State Financial Services and the Strategic Planning Office, led by Ruth Walters (Assistant Deputy for the Division) submitted a proposal to the CTG in March to initiate this process for the Central Accounting System project. Eleven other government entities also submitted applications to the CTG to attempt to secure the Center's assistance in conducting a variety of projects. OSC was fortunate in having our project selected and we believe that our partnership with CTG will be extremely valuable and productive throughout the nine to ten month duration of the stakeholder analysis effort.

The CAS stakeholder analysis project will attempt to identify all stakeholders who may be involved with or interested in the Central Accounting System and then assess their concerns and needs as they relate to the next generation CAS. The primary overall goal of this project will be to make more CAS information available to greater numbers of stakeholders in a more usable format. The project will probably involve a preliminary in-house stakeholder analysis which will involve OSC staff before the analysis is attempted in a broader forum.

We look forward to this new partnership with the Center for Technology in Government as a critical first step in evaluating the next generation CAS.

# Updated Internal Control Standards

It is difficult to interest people in the topic of internal control - it just doesn't have an exciting ring to it - until something goes wrong. But when internal control systems fail and an organization is unable to meet its goals and objectives, when inefficiencies cause the organization to waste money, or when fraud occurs, people finally listen. They want to know what caused the problem and inevitably, the cause can be traced to some internal control weakness.

Internal control systems are fundamental to managing an organization. Successful, well-managed organizations are focused on five interrelated components that help ensure:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Our definition of internal control is:

the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.

The five components that help achieve this definition are:

## **Control Environment**

- is the attitude toward internal control and control consciousness established and maintained by the management and the employees of an organization. It is a product of management's philosophy, style and supportive attitude, as well as the competence, ethical values, integrity, and morale of the organization's people.

## **Communication**

- is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. Within an organization, information should be communicated to management and other employees who need it in a form and within a time frame that helps them to carry out their responsibilities.

## **Assessing and Managing Risk**

- risks are events that threaten the accomplishment of objectives. They ultimately impact an organization's ability to accomplish its mission. Risk assessment is the process of identifying, evaluating and determining how to manage these events. However, sometimes management cannot prevent the risk from occurring. Management should decide whether to accept the risk, reduce the risk to acceptable levels, or avoid the risk. To help achieve its objectives, management should ensure each risk is assessed and handled properly.

## **Control Activities**

- are tools - both manual and automated - that help prevent or reduce the risks that can impede accomplishment of the organization's objectives and mission.

## **Monitoring**

- is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Management should focus monitoring efforts on internal control and the achievement of the organization's objectives.



*“Internal Controls is a dynamic concept that affects virtually every aspect of an organization’s operations.”*

You can get a copy of the updated Internal Control Standards at our Internet site: <http://www.osc.state.ny.us/> - click on Information for State Agencies.

# Audit Insights From Diana Jones Ritter



Diana Jones Ritter  
Assistant Deputy Comptroller

**M**et Diana Jones Ritter. As the Assistant Deputy Comptroller for the Office of the State Comptroller's (OSC) Management Audit Group, Diana oversees audits of State and City government operations on behalf of Comptroller H. Carl McCall. If you work for a New York State agency, a New York City agency or a public authority, you may already have met the auditors. More than 150 of these audit reports are issued every year, so even if you haven't met the auditors, you may have read about one of their reports in your local newspaper.

Diana has been an executive at OSC since 1995. Before that, she was an executive at two other New York State agencies (the Department of Health and the Office of Mental Retardation and Developmental Disabilities), so she knows what it is like to be audited by OSC. She, too, has opened the newspaper and seen the headlines about the improvement opportunities at her agency. Because she has been on the receiving end of these audits, she is particularly committed to ensuring that the audit process is as fair and as helpful as possible to the audited agencies.

Diana is a native New Yorker, as she was born and raised in Peekskill. She graduated *summa cum laude* from Morgan State University in Maryland, and entered public service in 1984 through a fellowship program within the New York State Division of the Budget. Before entering public service, she worked for five years in the private sector as a hotel manager for the Marriott Corporation. Diana is active in community organizations, professional organizations and at home, which she shares with her husband, Larry Sr. and two sons, Kameron, age 7, and Larry Jr., age 11.

*Solutions* recently had the chance to ask Diana a few questions about the audits she oversees.

*"We want to make sure that our audits add as much value as possible."*

## Q: How do you decide what to audit?

**DJR:** Deciding what to audit is one of the most crucial decisions we make in the Management Audit Group, so we devote a good deal of attention to this decision. We don't have, and could never have, enough auditors to audit everything we are authorized to audit (there's so much!) on a three or even a five-year cycle. So, every year we must pick and choose from our vast universe of possible audits. To guide us in this process of picking and choosing, we use a formal risk assessment process to identify the areas of State and City government operations that are most in need of audit at that particular time. These risk assessments are performed by some of our most senior audit staff, and must be approved by me before an audit can be included on our annual audit plan. To ensure that this plan is kept current, it is thoroughly assessed and updated every six months.

## Q: Why do audits only look for problems?

**DJR:** I know it can be discouraging for an agency when an audit report focuses on a few of the agency's problems and seems to ignore the agency's many successes. However, as auditors, we are required by our professional standards to base our conclusions on documented evidence. The process of accumulating and documenting such evidence is very time-consuming. To make the best use of our auditors' time, we focus our limited resources on areas where improvements are likely to be needed, because once these improvements are made, State and City taxpayers will benefit.

## Q: If the purpose of an audit is to improve government operations, why are press releases issued for audit reports?

**DJR:** Improving government operations is just one of the two main purposes of our audits. The other is to promote public accountability. One of the best ways we have of making our reports available to most of the public is through the media. To be fair to the audited agency, our Press Office alerts them when we are about to issue a press release so that they can be prepared to respond to inquiries from the media. Press releases and our audit reports are also made available on our OSC Home Page on the Web at: [www.osc.state.ny.us](http://www.osc.state.ny.us).

## Q: What do you see as the future direction of the Comptroller's Management Audit Group?

**DJR:** Comptroller McCall continues to challenge us to be more responsive to the needs of our customers, and that includes the agencies we audit. We are doing a number of things to respond to this challenge. For example, we are promoting collaboration with these agencies through our Quick Response Audits, and we plan to provide agency staff with further opportunities to participate in OSC training programs. Our customers include not-for-profit organizations that work closely with State agencies, and in conjunction with the Albany Chapter of the Association of Government Accountants, we have begun a pilot program of

*(continued on page 6)*

### Management Audit Group

### Mission Statement

Our mission is to provide the citizens of New York State and New York City, their elected representatives and State and City managers with an independent view of State and City government operations through objective and professional audits, reviews and evaluations of the economy, efficiency or effectiveness of taxpayer-financed programs.

## Innovation Recognized

Future generations will be able to learn about the challenges of converting from an outdated mainframe system to a Year 2000-compliant client/server payroll system. Materials describing the accomplishments of OSC's Payroll System Replacement (PaySR) Project have been accepted into the Smithsonian Institution's Permanent Research Collection of Information Technology, the world's premier historical record of computing applications and innovations. These materials were prepared as part of OSC's nomination by PeopleSoft and Andersen Consulting for the Computerworld Smithsonian Awards.

To see a description of the project on the Internet, start at: <http://innovate.si.edu>, following the links to Innovators, Government and Non-Profit Organizations, and New York Office of the State Comptroller.



The National Association of State Comptrollers (NASC) has also recognized OSC by including a description of the PaySR Project in its Clearinghouse of Innovations and Best Practices, also on the Internet at <http://www.sso.org/nasact/innovations.htm>.

### ***DID YOU KNOW...***

The value of the cash and investments held by the New York State and Local Retirement Systems has doubled in 5 years, growing to \$108 billion at March 31, 1999.

## Payroll Focuses on Customer Needs

A recent reorganization and three new appointments at the Office of the State Comptroller will serve to focus more senior management attention on improving the State's new payroll system and meeting the needs of payroll customers.

Peggy Sherman, formerly Assistant Deputy Comptroller with the Division of Management Audit and State Financial Services, has been named acting Deputy Comptroller for the new Division of Payroll and Revenue Services. The new division includes the Bureau of State Payroll Services and the PaySR Project, the Office of Unclaimed Funds, and the Justice Court Fund.



Peggy Sherman

Joining the new Division are Robin Rabii, Director of Payroll Services, and Ray Casey, Director of the PaySR Project, both former payroll customers. Robin Rabii is responsible for payroll policy, oversight and production. Previously, he was Director of Human Resource Services at the State University of New York at Stony Brook, where he supervised payroll as well as human resources. Ray Casey oversees the day-to-day management of the operation and ongoing redesign of the payroll system. A 30-year State veteran, he most recently served as Deputy Commissioner for Administration at the Office of General Services.



Robin Rabii

"Robin and Ray both bring excellent skills and experience, with an openness to fresh ideas that will invigorate our ability to envision new ways to do our work," said Peggy Sherman. "Through a series of meetings with all State agencies, we have heard about the need for payroll system enhancements, with improved reporting emerging as a clear priority. Agency representatives will be involved in our effort to provide reports that meet agencies' human resource and financial management needs."



Ray Casey



## GASB Revisits Year 2000 Disclosures

On March 29, 1999, the Governmental Accounting Standards Board agreed to the issuance of a Technical Bulletin (TB) that addresses Year 2000 disclosures made by state and local governments. This TB represents an amendment of TB 98-1 which was issued in October, 1998. Shortly after the issuance of TB 98-1, the AICPA advised its members to be very cautious about being associated with Year 2000 disclosures. The AICPA suggested that the auditors may need to consider issuing qualified opinions (scope limitations) with respect to such disclosures.

Working closely with the AICPA, the GASB has

resolved the audit concerns. The actual disclosures remain basically the same as in the prior TB, but the revised TB makes clear that the disclosures were not meant to ensure that governments would be Year 2000 compliant; they were meant only to provide information about what governments were doing to address the Year 2000 issue. The revised TB also allows governments to put the disclosures either in required supplementary information or in the notes to the financial statements. Previously, the disclosures were required to be in the notes. The TB is effective immediately and allows retroactive application.



**DOUBLE CLICK**

### More Public Authorities are taking up Residence on the Internet

Visit these



Web sites

Earlier this year the New York State Bridge Authority made its debut on the Internet adding to a growing list of Public Authorities which have recognized the value of maintaining a web presence in order to reach their customers. The NYS Bridge Authority can be found at <http://www.nysba.state.ny.us>. Other State Public Authorities can be found at the following addresses:

- Battery Park City Authority (<http://www.batteryparkcity.org/home.htm>)
- Buffalo and Fort Erie Public Bridge Authority (<http://www.peacebridge.com/>)
- Capital District Transportation Authority (<http://www.cdta.org/>)
- Central New York Regional Transportation Authority (<http://www.centro.org/cnyrta.htm>)
- Dormitory Authority of the State of NY (<http://www.dasny.org/>)
- Empire State Development (<http://www.empire.state.ny.us/>)
- Jacob K. Javits Convention Center Operating Corporation (<http://www.javitscenter.com/>)
- Long Island Power Authority (<http://www.lipa.state.ny.us/>)
- Metropolitan Transportation Authority (<http://www.mta.nyc.ny.us/>)
- NYS Energy Research & Development Authority (<http://www.nyserda.org/>)
- NYS Environmental Facilities Corporation (<http://www.nysefc.org/>)
- NYS Housing Finance Agency, State of New York Mortgage Agency, NYS Affordable Housing Corporation (<http://www.nyhomes.org/>)
- NYS Thruway Authority (<http://www.thruway.state.ny.us/>)
- Olympic Regional Development Authority (<http://www.orda.org/>)
- Port Authority of New York & New Jersey (<http://www.panynj.gov/>)
- Power Authority of the State of New York (<http://www.nypa.gov/>)
- Roosevelt Island Operating Corporation (<http://www.roosevelt-island.ny.us/>)
- Roswell Park Cancer Institute Corporation (<http://rpci.med.buffalo.edu/>)



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# Banking Services Contracts and Payments



The Office of the State Comptroller (OSC) recently issued Bulletin No. G-182, Banking Services Contracts and Payments. It reminded State agencies that Chapter 83 of the Laws of 1995 added Article XI to the State Finance Law, requiring competitive bidding for services, including provisions of banking services. The bulletin defined when a contract for a banking service is necessary and set forth the requirements for competitively bidding for banking services. The bulletin only applies to those banking services that require a contract.

All State agencies are required to request in writing to OSC's Division of Investments and Cash Management (ICM) the need to establish a bank

account. ICM approves bank accounts for normal banking services. However, State agencies may use banking institutions to provide services beyond the scope of normal banking services. The cost of these services is paid either by direct fee, or through compensating balances.

## Competitive Bidding Requirements

Banking services are required to be procured in accordance with State Procurement Guidelines. If an agency determines that the cost of banking services exceeds the statutory level of Section 112 of the State Finance Law (currently \$10,000), the agency must establish a formal contract with that bank to pay for these banking service costs. If the total cost of the banking services exceeds \$15,000, the agency must seek competitive bids for such services. For determining the appropriate bidding requirements, the agency

should consider the cost of the banking services provided by a single banking institution at a location level (e.g., mental health facility, regional motor vehicle office, etc.). Prior to issuance of an Invitation for Bid (IFB) or Request for Proposal (RFP) for banking services, the agency should provide ICM with a copy of the documents for review. Certain standardized portions relating to minimum bank requirements and cost proposals must be obtained from ICM.

## Payment for Services

While it is the preference of OSC to pay for banking services by direct fee, all payments either by compensating balance or direct fee are subject to an appropriation by the State Legislature. For existing banking services, pending receipt of an appropriation to pay for this service, OSC will continue to pay for these existing services without an appropriation via compensating balances for up to one year after the agency enters into a formal contract with the bank. For new banking services, the agency must obtain an appropriation for this new service as with any other contractual service. Once an appropriation has been obtained, payments will be made either by direct fee or compensating balances, whichever provides the lowest cost to the State. Direct fee payments will be made by the affected State agency on vouchers approved by OSC. Payments made by compensating balances will be made by ICM following certification from the affected State agency that the fees billed by the banking institution are correct.

The contract between the State agency and the bank must include whether payment will be made by direct fee or compensating balance using a formula prescribed by ICM. For questions regarding compensating balances, establishing bank accounts and drafting banking service IFBs and RFPs, please contact ICM at (518)474-7701.

## Audit Insights

*(continued from page 3)*

providing consultation to not-for-profit organizations in the Capital Region. All of our customers benefitted when Comptroller McCall recently issued the revised *Standards for Internal Control in New York State Government*, and we intend to use our audits to reinforce the messages included in this publication. We also intend to use our audits to promote the use of technology in government operations. We are training our own auditors to be more skilled in using technology and to be more effective in auditing the use of technology. Finally, we will continue to focus on results and outcomes in our audits with the goal that our audits will add considerable value to improving government efficiency and accountability. The new millennium presents us with new opportunities, and we expect to take advantage of them all!

## COURTS RULE IN FAVOR OF THE COMPTROLLER

On April 1, 1999, the New York State Court of Appeals affirmed the authority of the State Comptroller to conduct performance audits of New York City. This decision comes almost two years to the day from when our auditors were asked to leave several City agencies at which they were conducting audits.

Plans are well underway to begin reengaging audits of City agencies. We have identified several audits that will begin as soon as possible, some of which are audits that are currently in progress at the State level and have a significant City component.

# ***FREQUENTLY ASKED QUESTIONS***

**QUESTION:** *How Long is a State Check Negotiable ?*

**ANSWER:** State checks are negotiable for three years from the date of issuance. After three years, State checks are required to be written off and the monies deposited into the State's general fund (State Finance Law, Section 102). Checks may be replaced after three years subject to appropriation. Requests to replace checks that have been written off must be forwarded to the Revenue Tax Accounting Section within the Office of the State Comptroller. For more information please call (518) 474-4006.

**QUESTION:** *When I Send an Accounting Document to OSC, How Can I Verify that it was Processed Correctly?*

**ANSWER:** When an accounting document is processed through the Central Accounting System, a daily report is generated and made available to the charge agency. Below are the Daily Reports which are produced for an agency if there is activity:

Journal 10 - Revenue Journal	Journal 20 - Appropriation Journal	Journal 30 - Segregation Journal
Journal 40 - Refund Appropriation Journal	Journal 50 - Encumbrance Journal	Journal 60 - Expenditure Journal
Journal 70 - Expenditure Adjustment	Journal 80 - Disbursement Journal	

There are also monthly reports that are available for agencies to utilize in reconciling cash balances in their own accounts (i.e., special revenue funds) such as the LED040.

**QUESTION:** *Can New Year Appropriations Be Used for the Payment of Prior Years' Liabilities?*

**ANSWER.** The State Finance Law, Section 40, provides that current years' appropriations are available for payment of prior years' liabilities for fringe benefits, indirect costs, and telecommunications expenses and expenses for other centralized services fund programs without limit. Appropriations are also available for payment of prior years' liabilities other than those indicated, but only to the extent of one-half of one percent of the total amount appropriated to a department or agency in such fund or account.

<b>THEN AND NOW</b>			
	<b>1999</b>	<b>1994</b>	<b>1989</b>
<b>State Spending</b>	<b>\$70.6 billion</b>	<b>\$57.9 billion</b>	<b>\$43.4 billion</b>
<b>Personal Income-per person</b>	<b>\$33,171</b>	<b>\$25,756</b>	<b>\$20,881</b>
<b>Dow Jones - March 31</b>	<b>9,786</b>	<b>3,636</b>	<b>2,294</b>
<b>Pension Investments</b>	<b>\$108 billion</b>	<b>\$58 billion</b>	<b>\$40 billion</b>
<b>General Fund Cash Balance - March 31</b>	<b>\$3.2 billion</b>	<b>\$1.5 billion</b>	<b>\$0</b>
<b>Unemployment Rate</b>	<b>5.3%</b>	<b>7.5%</b>	<b>4.6%</b>
<b>Thruway Toll - Albany to Buffalo</b>	<b>\$8.34</b>	<b>\$8.34</b>	<b>\$8.34</b>

## Financial & Audit Solutions

*Solutions* is published as a customer service by the Office of the State Comptroller, Division of Management Audit & State Financial Services, A. E. Smith State Office Building, Albany, NY 12236.

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## Attention all State agency fiscal officers and staff



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We want to hear from

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