

Solutions

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H. Carl McCall
State Comptroller

Office of the State Comptroller
Division of Management Audit & State Financial Services

Comptroller McCall Urges New Audit Reforms

On January 31, 2002, Comptroller McCall issued letters to Securities Exchange Commission (SEC) Chairman Harvey Pitt, Governor Pataki, and the Chief Executive Officers of the “Big 5” auditing firms



calling for increased controls over auditing and consulting procedures for both businesses and governments. As the sole trustee for the \$112 billion New York State Common Retirement Fund, the Comptroller has been especially

concerned regarding the recent collapse of Enron. “Enron’s collapse was a failure of the process that is supposed to protect all investors and assure them they will receive accurate and reliable information,” said the Comptroller. OSC is adopting several reforms regarding its association with independent auditors and consultants

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and in his letter, the Comptroller recommended to the Governor that these practices be instituted by the State as a whole, and he is proposing legislation to require these reforms. In addition, he suggested that the “Big 5” auditing firms and the SEC also adopt

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Updated Approach to Auditing Payments in State Expenditures

With the technology that exists today, any enterprising person can produce high quality, but bogus, invoices, receipts, and other supporting expenditure documentation with a color printer, color copier, software and access to corporate logos on the Internet. In light of this, it is necessary to reassess the control systems that exist over the State’s payment process. The idea that business office staff will spend time accumulating and then relying on various paper documents to support payment transactions has diminishing value. For the last several years, the OSC Bureau of State Expenditures has been revamping its auditing operations to meet the new challenges that technology places before us.

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GASB News * E-Grants Project Update * Data Warehouse Enhancements
Executive Order * New OSC/Treasury Addresses

OSC and DCS Seek Data Coordination

The vision of a seamless process for New York State payroll and personnel transactions is spurring efforts to eliminate duplicate entry of data into the systems run by the Office of the State Comptroller (OSC) and the Department of Civil Service (DCS). “We now have a window of opportunity for positioning OSC and DCS to offer improved services to agencies and employees,” observed Daniel Berry, Director of OSC’s Payroll System Upgrade Project.

An OSC-DCS workgroup has recently reviewed the existing situation, outlined options and recommended steps that would eliminate duplicate entry. Further effort to reach agreement with DCS on a common set of shared data structures is envisioned.

These efforts build upon feedback from members of the State Payroll Users Group and discussions with other agency users, as well as information provided in a KPMG Consulting study commissioned by OSC and the Division of the Budget prior to initiating the payroll upgrade. “Our customers have

complained about the burden of double data entry,” said Robin Rabii, Director of State Payroll Services. “Developing a more seamless payroll and personnel transaction process is an important objective of the Upgrade Project.”

The challenges are significant, as the systems have evolved independently over time, resulting in incompatible file structures, inconsistent processing rules, diversified core data values, and limited sharing of employee level data. As the KPMG report explains, “the final products are the result of independent modification and customization efforts designed and deployed by each system developer to meet the unique information and business processing requirements of their system.”

However, the report points out, “The coincidental timing of OSC’s version 8 upgrade with DCS version 8 upgrade creates a rare opportunity for ... [the] State to significantly reengineer the ... workforce management system in a coordinated initiative.”

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Need Professional Auditing Services?

Check Out the New OGS Contract

Most agencies need an auditing service at one time or another. The New York State Office of General Services (OGS) has made available a new contract for Auditing Services (Group 79037) that will make the job of selecting an auditor much easier. The contract can be used by State and other authorized users, and is structured to provide several different types of audits, including financial and financial related audits, performance audits, and operational and claims audits. The latter audits focus on specialized areas including, but not limited to, architectural and engineering design, construction management, and information technology (IT) operations and controls.

The contract uses the mini-bid process and allows continuous recruitment of contractors. The mini-bid process puts the competitive selection of the auditor in the hands of the contract user. The contract lists qualified vendors with maximum hourly rates for each geographic region. Contract users can select regional vendors, use the easy-to-use project definition template provided in the contract, tailor it to their needs, and send it to the eligible contractors. Businesses listed on the contract include large national firms as well as New York State small businesses. Be sure to note that the rates listed in the contract are not-to-exceed rates – the final competitive

bid rates will be established through the mini-bid process.

The Audit Services Contract established by OGS, Procurement Services Group (PSG) is intended to provide contract users with auditing services only. It is not intended to provide a contract vehicle to access non-auditing consultant services.

It is recommended that contract users avoid, to the fullest extent practicable, the potential for conflict that could result from using the same vendor to provide both auditing and non-auditing consultant services. Should that circumstance be unavoidable, we urge caution and diligence to safeguard the objectivity and independence of the auditing process.

If you have any questions or need additional information, call Constance Rissberger of OGS at (518) 402-5909. For a copy of the contract, visit OGS’ Internet web site <http://www.ogs.state.ny.us>. Click on “Contracts & Purchasing,” then “Contracts – Search or Browse,” then “Search Current or Expired Contracts” and type in Group Number 79037, and Award Number 00939. First-time callers to OGS are invited to call toll-free (800) 661-7816, where they will hear a full menu of OGS procurement-related services.

Guiding Principles to Successful Procurement

It is always important to remind procurement staff that successful procurement is based on compliance with the State Finance Law and its guiding principles to procurement. The objective of State procurement is to facilitate each State agency's mission while protecting the interests of the State and its taxpayers and promoting fairness in contracting with the business community. According to the State Finance Law (Article XI, Section 163, Paragraph 2), the State's procurement process shall be guided by the following principles:

- To promote purchasing from responsive and responsible offerers, including small businesses.
- To be based on clearly articulated procedures which require a clear statement of product specifications, requirements or work to be performed; a documentable process for soliciting bids, proposals or other offers; a balanced and fair method, established in advance of the receipt of offers, for evaluating offers and awarding contracts; contract terms and conditions that protect the State's interests and promote fairness in contracting with the business community; and a regular monitoring of vendor performance.
- To encourage the investment of the private and not-for-profit sectors in New York State by making reasonable efforts to ensure that offerers are apprised of procurement opportunities; by specifying the elements of a responsive bid and disclosing the process for awarding contracts including, if applicable, the relative importance and/or weight of cost and the overall technical criterion for evaluating offers; and by ensuring the procurement is conducted accordingly.
- To ensure that contracts are awarded consistent with the best interests of the State.
- To ensure that officers and employees of State entities do not benefit financially or otherwise from the award of State contracts.
- To ensure regular and critical review of the efficiency, integrity and effectiveness of the overall process.

Consider Using the State Procurement Card

The Procurement Card offers State managers a great opportunity to reduce processing costs, and allows State employees an opportunity to expedite the purchase of small dollar items. Using the card significantly reduces unnecessary paperwork and frees staff to focus on other more significant procurement activities or other duties.

Number of Cards in Force			3,300
	2000	2001	Increase
Purchases	\$21,552,032	\$32,342,724	50%
Total Transactions for 2001			122,888
Cost of traditional procurement process ¹			\$67.20
Cost of procurement card process ¹			\$10.53

Estimated savings in processing costs for one year \$6,964,063

We encourage you to consider the Procurement Card for your small dollar purchases. If you are interested on how your agency can participate in the procurement card program, information can be obtained from the OGS web site at <http://www.ogs.state.ny.us/finance/docs/amex/default.asp>, or call Kimberly Miller, Office of General Services, at 518-473-3983.

¹ Source: American Express Consulting Services



Direct Deposit

National Direct Deposit Week is May 14-18, 2002. Encourage your employees to take advantage of this convenient, safe and timesaving option.

GASB 34 Project Team Completes Pro Forma Financial Statements



In August 2000, the Office of the State Comptroller formed a project team under the direction of Project Director, David Hasso and charged this group with responsibility for implementing Governmental Accounting Standards Board (GASB) Statement #34 for New York State. This standard must be implemented by most governments in the United States and significantly changes the way governments report their financial operations. The general theme of the statement is to establish an emphasis on long-term condition rather than short-term position by presenting government-wide financial statements that are prepared under the accrual basis of accounting and employ concepts that are very similar to standards used in the commercial sector. New York State plans on implementing GASB 34 for the fiscal year April 1, 2002 to March 31, 2003.



A major milestone in the project plan was to prepare pro forma financial statements for both the 2000-2001 and 2001-2002 fiscal years. As a result of this commitment, the GASB 34 Project Team has recently completed and issued pro forma financial statements for the fiscal year ended March 31, 2001. These pro forma financial statements present information for the 2000-2001 fiscal year as if GASB Statement 34 had been implemented for that period. GASB 34 requirements, such as the inclusion of infrastructure and other capital assets on the face of the financial statements, the presentation of

Management's Discussion and Analysis (MD&A) and the incorporation of government-wide financial statements are all part of this presentation.

In addition to the pro forma financial statements, a Project Status Report was also issued and this report describes the major accomplishments, outstanding items and recommendations of this first part of the Project. A significant amount of work remains to be completed relating to the reporting of infrastructure capital assets. Agencies, such as the Department of Transportation, Correctional Services, Environmental Conservation, Parks and Recreation and other facility-based agencies may be contacted during the coming months. A consultant has been engaged to review capital asset and infrastructure information and processes that were incorporated into the pro forma financial statements and to work with individual agencies to ensure that their capital asset recording methodologies are appropriate. In addition, the Management Audit Group within OSC has recently completed reviews of capital asset recording procedures at several State agencies in order to ensure proper compliance with requirements for capital asset reporting. The Project Team is on schedule with the implementation and plans on having GASB 34 in place for the fiscal year ended March 31, 2003.

For more information about the GASB 34 Project please contact Dave Hasso at (518) 486-1233 or by email at dhasso@osc.state.ny.us.

GASB Appointments

Edward J. Mazur, Vice President for Administration and Finance at Virginia State University and a former State and Federal controller, was reappointed a member of the Governmental Accounting Standards Board (GASB) by the Financial Accounting Foundation. Mr. Mazur, who has been a board member since 1997, will begin his second five-year term on July 1, 2002.

Mr. Mazur, a Certified Public Accountant, holds a bachelors degree from the University of Connecticut and earned an M.B.A. degree from the Wharton Graduate Division of the University of Pennsylvania.

James M. Williams, a Partner with Ernst & Young LLP, has been named to a five-year term as a member of GASB, effective July 1, 2002. Mr. Williams will succeed Edward M. Klasny, a retired Partner of Ernst & Young LLP, whose

second and final term ends on June 30 of this year. The appointment was made by the Financial Accounting Foundation's Board of Trustees, which oversees the activities of the GASB and Financial Accounting Standards Board (FASB).

At Ernst & Young, Mr. Williams is responsible for monitoring and communicating information and guidance on current governmental developments to public-sector specialists throughout the firm, and he participates in public-sector engagements.

Mr. Williams, a Certified Public Accountant, is a graduate of the University of Texas at Austin where he received B.B.A. and M.B.A. degrees in accounting and an M.A. degree in public administration.

Updated Approach to Auditing Payments in State Expenditures

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No longer do we have staff simplify examining individual vouchers and stamping them for approval before making payment. Rather, we are taking a more comprehensive approach that will bring our auditors in contact with agency staff to help ensure the propriety of State expenditures. The role of the auditors in State Expenditures is similar in nature to the auditors in OSC's Bureau of Management Audit. State Expenditures auditors focus on finding fraud, waste and improper payments, while Management Audit auditors also focus on issues of efficiency and effectiveness of operations. However, the two functions can and do result in opportunities for collaborative efforts.

“...we are taking a more comprehensive approach that will bring our auditors in contact with agency staff to help ensure the propriety of State expenditures.”

State Expenditures now has four levels of payment reviews. Level 4 reviews involve daily examinations by the teams reviewing higher-risk payment transactions and include activities such as communicating with agency personnel, vendors, and other OSC and State employees involved in processing the transaction. A report to the agency is not produced, but individual transactions may be identified that are not appropriate. In this level review, OSC staff consider:

- Dollar level of payment transactions,
- Nature of the transaction(s),
- Vendor and/or payee information, and
- Information available from our Knowledge Management Unit, including our risk assessment of the agency.

Level 3 reviews are designed to inform the head of an organizational unit (e.g., Finance Office of an agency) or vendor about certain procurement and purchasing activities that do not comply with the applicable criteria. We will send a letter to the head of the organizational unit that includes our findings, conclusions and recommendations.

Level 2 reviews are designed to inform the head of an agency or heads of multiple agencies about procurement and purchasing activities that do not comply with the applicable criteria. These activities would cross multiple organizational lines in an agency. We will send a letter to the head of the agency that includes our findings, conclusions and recommendations.

Level 1 audits are comprehensive audits that comply with applicable professional auditing standards established by the Comptroller General of the United States. The audits result in a public audit report in compliance with Section 170 of the Executive Law. Level 1 audit reports are the same as the audit reports issued by the Bureau of Management Audit.

State Expenditures Level 2, 3 and 4 reviews may involve an on-site visit by OSC staff. In such cases, agency management will be informed of the purpose of the procurement review.

To ensure consistency and to avoid duplication of effort, the Bureau of State Expenditures and the Bureau of Management Audit are working cooperatively to maximize our limited audit resources. In some cases, we will conduct joint reviews or audits. There may also be instances when Management



Audit will be conducting a performance audit of an agency's program while State Expenditures staff is performing a Level 1 audit of the procurement function in the same agency. Both bureaus will make every effort to minimize any disruption to your agency and will follow the same protocols when conducting an audit.

E-Grants Project Update

The New York State e-Grants project, sponsored jointly by the Office of the State Comptroller and the Office for Technology, has made significant progress during its first year of operation and has benefited tremendously from the active participation of numerous State agencies and grant seeking organizations. June 2001 saw the completion of a user needs analysis, providing excellent insight into grant making and technology-related challenges faced by grant makers (State agencies) and grant seekers. A business process redesign conducted with 20 State agencies and over 20 grant seeking agencies yielded a future vision for electronic grants in New York State. That future vision encompasses automation through development of a centralized web based e-Grants system, and standardization of a broad range of grant making processes. Much of the future vision centers on a searchable, centralized database of grant announcements; a registration process that allows users to be notified automatically of grant opportunities; automated workflow and document development tools; and an on online application and evaluation process.

The Project is now focusing on developing and deploying some initial functionality, while analyzing additional functionality for potential implementation. Initial functionality will include development of the centralized

database of grant announcements, fed directly by grant makers in State agencies and potentially other sources of grants; a registration feature, which allows users to be automatically notified by e-mail, fax or hard copy of grant opportunities; and online availability of electronic solicitation documents (RFPs and RFAs). Spring 2002 will see the deployment of a prototype of the early functionality that will be made available publicly for testing, with pilot implementation shortly thereafter.



There are many to thank for the Project's progress, including the 20 State agencies and 50 grant seekers that have devoted their time to participate in work sessions, executive sponsors from OSC and OFT, our host agency the Office of Mental Health, staff at OSC, a consultant facilitator, and SUNY interns. It has truly been a collaborative effort!

If you are interested in learning more about e-Grants, visit our informational web site, which also has helpful links for grant makers and grant seekers, at <http://egrants.state.ny.us>.

Data Warehouse to Enhance Information Access

Responding to agency needs for improved access to financial data, the Office of the State Comptroller is procuring consulting services for the design and implementation of a data warehouse. The project, a collaboration between OSC's Divisions of Payroll and Revenue Services, Management Audit and State Financial Services, and Administration, is scheduled to begin in March 2002 and targets December 2002 for offering initial access to data.

"The data warehouse ultimately will provide agencies access to data from the Payroll and Central Accounting Systems, both separately for each system and in combination with each other," said Ruth Walters, Assistant Deputy Comptroller for State Financial Services. Expanding the functionality offered through existing tools, such as PS Query, a data warehouse will enable users to analyze data in ways not previously

available and generate reports more quickly and efficiently.

The data warehouse concept was studied as part of the business process improvement portion of the Payroll System Upgrade Project. "Our goal is a statewide financial data warehouse that provides both operational and decision-making support across New York State government," said Margaret M. Sherman, Deputy Comptroller for Payroll and Revenue Services.



Both the Payroll Users Group and the Payroll Upgrade Advisory Council have enthusiastically endorsed this initiative and have asked for regular updates on its progress.

Tom Milner is the project manager for the Data Warehouse Initiative and can be reached at tmilner@osc.state.ny.us for more information.

Comptroller McCall Urges New Audit Reforms

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these reforms and that their adoption would lessen conflicts of interest and allow for a better, more effective audit of an entity's financial statements. The Comptroller's position is the continuation of a long standing approach to independent audit and consulting issues that he discussed in September 2000 with the SEC.

The specific guidelines that the Comptroller suggested include: a ban on the provision of many non-audit services to audit clients; the establishment of a seven-year maximum period for audit relationships with the same CPA firm and the imposition of a two-year employment restriction. Comptroller McCall stated that adoption of these three concepts would greatly strengthen the value of audit independence as well as significantly revitalize the public's confidence in audited financial statements.

The Comptroller went on to note that a ban on the provision of many non-audit services to audit clients would significantly decrease potential conflicts of interest that have been apparent as auditing firms increasingly involve themselves with consulting and other engagements with audit clients. He indicated that some auditing firms appear to be compromising their objectivity and independence and lowering audit standards by engaging in consulting as well as audit engagements with the same client. He is confident that an agreement by these firms to not provide non-audit services to audit clients except under special, predefined circumstances and with appropriate disclosure requirements, would resolve or prevent many potential conflicts of interest.

The establishment of a seven-year maximum period of audit relationships would eliminate inappropriate familiarity between auditing firms and clients and help to ensure that proper objectivity and scrutiny remain as hallmarks of the audit process.

The imposition of a two-year employment restriction would also help to maintain standards by preventing partners and professionals employed by auditing firms from accepting policy-making level employment from audit clients for at least two years following work on an audit with that client. This recommendation would help reduce the chance of "client friendly" audits.

Comptroller McCall emphasized that implementation of the above three recommendations would go a long way to strengthening audit independence and adherence to standards by all auditing firms and significantly reducing the recurrence of a situation similar to the Enron collapse.

EXECUTIVE ORDER

INDEPENDENCE OF AUDITORS PERFORMING SERVICES FOR THE OFFICE OF THE STATE COMPTROLLER AND THE COMMON RETIREMENT FUND

WHEREAS, the recent collapse of Enron has heightened concern over the ability of auditing firms to maintain audit independence when they are permitted to provide consulting services to the same client; and

WHEREAS, Enron ultimately filed for bankruptcy on December 2, 2001, the biggest corporate bankruptcy in United States history; and

WHEREAS, the collapse of Enron has cost thousands of workers their jobs, as well as their retirement savings, and investors (both individuals and institutions) have lost billions of dollars; and

WHEREAS, auditor-client relationships of many years' duration and situations where auditors are permitted to accept employment with audit clients have also been identified as creating the risk of diminished audit independence;

NOW, THEREFORE, I, H. CARL MCCALL, as the administrative head of the Office of the State Comptroller ("OSC") and Sole Trustee of the New York State Common Retirement Fund ("CRF"), in order to prevent the potential conflict of interest presented when a firm providing audit services is in a position to gain financially from providing consulting or other services to the same client; in order to avoid the risk of a conflict of interest or the appearance of diminished audit independence where auditor-client relationships are long-standing or where auditors are permitted to accept employment with audit clients, and in order to preserve the independence necessary for sound and reliable financial review, do hereby order and direct the following policy for OSC and CRF in connection with new procurements:

First, except under special, predefined circumstances as determined by OSC, any firm performing auditing services for OSC or CRF will be prohibited from participating in any procurement conducted by this Office for consulting services during the term of the contract for such auditing services, and any firm providing consulting services for OSC or CRF will be prohibited from participating in any procurement conducted by this Office for auditing services during the term of the contract for such consulting services.

Second, no firm shall be permitted to provide audit services to OSC or CRF for a continuous period of more than seven (7) years.

Third, no appointment to exempt, policy-making positions in OSC shall be approved for any partner or other professional employed by a firm that provided auditing services to OSC or CRF during the two-year period preceding the date of the appointment.

H. Carl McCall
State Comptroller

Dated: February 14, 2002

Financial & Audit Solutions

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The Office of the State Comptroller and the Division of the Treasury Relocates

The Office of the State Comptroller and the Division of the Treasury have relocated to a new facility at 110 State Street in Albany. Agencies will need to begin using the new address in correspondence. Telephone numbers and e-mail addresses will remain the same. The following is a list of new mailing addresses to be used for delivery of mail to OSC's Division of Management Audit and State Financial Services and the Department of Taxation:

Accounting Operations

110 State Street - 9th Floor
Albany, NY 12236

State Expenditures

110 State Street - 10th Floor
Albany, NY 12236

Contracts

110 State Street - 11th Floor
Albany, NY 12236

Department of Taxation and Finance - Division of the Treasury:

Overnight Delivery

NYS Division of the Treasury
110 State Street - 2nd Floor
Albany, NY 12227

US Postal Service

NYS Division of the Treasury
P.O. Box 22119
Albany, NY 12201-2119

Accounting Systems

110 State Street - 9th Floor
Albany, NY 12236

Financial Reporting

110 State Street - 10th Floor
Albany, NY 12236

Management Audit

110 State Street - 11th Floor
Albany, NY 12236

Access to the new building is restricted. Visitors to our offices must sign in at the security desk in the lobby and OSC or Treasury personnel will escort them to our offices.

For more information, please reference Accounting Bulletin No. A-503 at the Comptroller's website at <http://www.osc.state.ny.us>.



For more information, please visit us at www.osc.state.ny.us.