

# Solutions

March 2003 ♦ Volume V ♦ Issue 2

Alan G. Hevesi  
State Comptroller

Office of the State Comptroller  
Division of State Services

## Alan Hevesi Sworn-In as New York State Comptroller

**A**lan G. Hevesi became State Comptroller on January 1, 2003 replacing H. Carl McCall, who served as State Comptroller since May, 1993. Comptroller Hevesi comes to the Office with many years of governmental fiscal experience.



As chief financial officer of the State, he is responsible for governmental and financial oversight and pension fund management. The Comptroller audits the spending practices of the State and public authorities and 1,600 cities, counties, towns and villages across New York State. As sole trustee of the State

*Continued on page 3*

## Electronic Payment Process Improvements Underway

**D**uring the past several years, New York State has experienced a significant and sustained rise in the number of electronic payments. Since 1999, e-Payments have grown from \$15.7 billion a year to over \$35.5 billion a year! This 126 percent increase in electronic payments to local governments, vendors, not-for-profits, and State agency cash advance accounts is, by all accounts, one of the most successful initiatives undertaken by the Comptroller's Office in recent years.

To complement the direct deposit of payments into payees' bank accounts, OSC also developed a process to electronically provide remittance advices to payees 1-2 days prior to the electronic payment date.

Finally, OSC developed a secure payment information website (<https://www1.osc.state.ny.us/pay>) to enable State agencies and payees to obtain remittance information in the event that the electronic advice was misplaced or lost. For those payees who have not yet enrolled to receive electronic

payments, this website also provides a means to obtain remittance information for check payments.

For all the success that the e-Payments initiative enjoys, we recognize that there remains many opportunities to improve the performance of the existing process and increase the number of payees who elect to receive payments from the State by electronic means.

To improve performance, we reviewed the instances where a check was produced for a payee who had elected to receive electronic payments from the State. Our review indicated that this situation occurred when the payee name and address on a payment voucher or in the Easy Contract Payment or Scheduled Contract Payment master files did not *precisely* match the name and address in OSC's payee name and address file. (For control purposes and to guarantee that payments are sent to the correct bank account of the intended payee, our system is designed to produce a check instead of an electronic payment whenever mismatches occur.)

*Continued on page 8*

### This Issue

Challenges Confronting Auditing Profession \* Annual Audit Report \* New CMIA Regulations  
Pilot Quick Grant \* Legal Issues in Contracts \* Why Good Internal Audit Units Count  
Web-based Sole Custody Reporting \* Recovery of Medicare Payments \* Payroll Upgrade

# Auditors Responding to Challenges

Recently, the auditing profession has been under siege again. The failure of the auditors to hold accountable the corporate executives who have prepared false financial statements is felt far and wide. It affects all of us who own stocks, have money in our deferred compensation plans, or our pension plans.

The auditing profession plays an important role in holding corporate executives accountable. Investors, creditors and others depend on auditors to make informed decisions about the fairness of the information presented in financial statements. Auditors are paid to perform independent and objective assessments on behalf of others.

On September 4, 2002, the President of the AICPA, Barry Melancon, said auditors need to, "...rebuild the faith of investors who depend on us for information... We must restore our most priceless asset - our reputation... Make no mistake about it, our profession was part of the problem."

The AICPA has started on a process to begin to restore the public's faith in the auditing profession. On October 15, 2002, the AICPA announced a new

auditing standard. For the first time, the profession is acknowledging it has a responsibility for detecting material fraud in financial statements.

According to an announcement from the AICPA, "The standard reminds auditors that they must approach every audit with professional skepticism and not assume that management is honest. It puts fraud at the forefront of the auditor's mind." The key provisions from the standard include:

- **Increased Emphasis on Professional Skepticism**-Putting aside any prior beliefs as to management's honesty, members of the audit team must exchange ideas or brainstorm how frauds could occur. These discussions are intended to identify fraud risks and should be conducted while keeping in mind the characteristics that are present when frauds occur: incentives, opportunities, and the ability to rationalize. Throughout the audit, the engagement team should think about and explore the question, "If someone wanted to perpetrate a fraud, how would it be done?" From these discussions, the engagement team should be in a better position to design audit tests responsive

to the risks of fraud.

- **Discussions with Management**-The engagement team is expected to inquire of management and others in the organization as to the risk of fraud and whether they are aware of any frauds. The auditors should make a point of talking to employees in and outside management. Giving employees and others the opportunity to "blow the whistle" may encourage someone to step forward. It might also help deter others from committing fraud if they are concerned that a co-worker will turn them in.

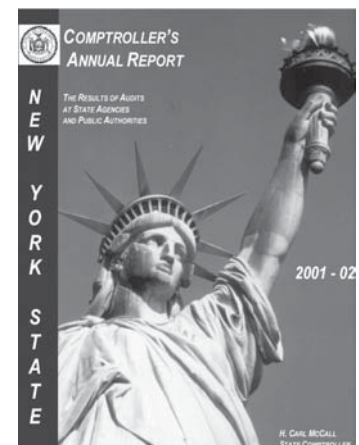
- **Unpredictable Audit Tests**-During an audit, the engagement team should test areas, locations and accounts that otherwise might not be tested. The team should design tests that would be unpredictable and unexpected by the client.

- **Responding to Management Override of Controls**-Because management is often in a position to override controls in order to commit financial statement fraud, the standard includes procedures to test for management override of controls on every audit.

## Annual Report of Audit Results

The Comptroller is required by law to prepare an annual report summarizing the results of all audits made at State agencies and public authorities during the previous year. This annual report is to be accompanied by a listing of all such audits made during the preceding five years. In January 2003, the annual report for the year ended September 30, 2002 and the five-year listing for 1996-2001 will be issued.

If you would like to receive copies of either publication, contact Dana Newhouse at 518-474-3271 or [dnewhouse@osc.state.ny.us](mailto:dnewhouse@osc.state.ny.us). You can also view the annual report and five-year listing at [www.osc.state.ny.us](http://www.osc.state.ny.us).



# New Cash Management Improvement Act Regulations

**M**ore than a decade ago, the Federal Cash Management Improvement Act of 1990 (CMIA) was passed to improve the transfer of Federal funds between the Federal government and the States, Territories and the District of Columbia. The objectives of CMIA are:

- (1) **Efficiency** - To minimize the time between the transfer of funds to the States and the payout for program purposes.
- (2) **Effectiveness** - To ensure that Federal funds are available when requested.
- (3) **Equity** - To assess an interest liability to the Federal government and/or the States to compensate for the lost value of funds.

All Federal fund transfers to the States are covered by CMIA. However, only major assistance programs (large dollar programs) are included in a written Treasury-State Agreement (TSA) that is executed between the Federal Department of the Treasury and each State. The TSA specifies how the Federal funds transfers will take place and is the basis for determining any State

or Federal interest liability resulting from untimely cash transfers. To be considered a major program and therefore subject to CMIA in a given State fiscal year, annual disbursements by the State for a particular Federal program need to exceed the CMIA major program threshold for that State fiscal year. The threshold is recalculated each year. During the current fiscal year, the threshold for New York State is \$43.4 million.

New CMIA regulations were recently promulgated and became effective June 24, 2002. The new regulations allow New York State to significantly increase its major program threshold, thereby possibly excluding some programs from CMIA. An analysis of current Federal program expenditures will be done to determine the optimal threshold for New York. The new regulations also raised the refund transaction exemption threshold from \$10,000 to \$50,000, meaning that refunds less than \$50,000 to a Federal program will not be subject to CMIA interest.

Another significant change resulting from the new regulations is the



requirement that the Federal Treasury must be notified within 30 days of a program meeting the threshold criteria for inclusion in the current year's TSA. The impact of this requirement has been the topic of several recent discussions with the Federal Treasury. When the issues have been resolved, OSC will notify agencies of any procedures.

The Office of the State Comptroller will continue to provide information and guidance on emerging CMIA issues. For those interested, the new CMIA regulations are available on Treasury's website at <http://www.fms.treas.gov/fedreg/31cfr205final.pdf>.

---

## Alan Hevesi Sworn-In as New York State Comptroller

*Continued from page 1*

and Local Retirement Systems, the Comptroller is responsible for investing a pension valued at more than \$97 billion.

Mr. Hevesi's distinguished career includes two decades as a State legislator, where he was a champion for such causes as affordable health care, education reform, the rights of people with disabilities, and improved health care for all New Yorkers. In 1993, he

was elected New York City Comptroller. As a fiscal watchdog for the City, he helped City operations run more efficiently and fought waste and fraud. Comptroller Hevesi doubled the number of audits conducted by his Office, identifying millions of dollars in savings.

Mr. Hevesi is a graduate of Queens College and has a Ph.D from Columbia University. From 1967 through 1993 he

was a member of Queens College faculty. He also served as an adjunct professor at Fordham Law School and at Columbia University's School of International and Public Affairs.

Mr. Hevesi was raised in Queens, where he still resides with his wife Carol. His three adult children also live in Queens.

# OSC Announces the Introduction of a Pilot Quick Granting Program

**B**ased on the success of Quick Contracting for construction and architect/engineering contracts, OSC has continued to identify additional opportunities to expand quick contracting. In January 2001, quick contracting was expanded to printing and commodities contracts. In June 2002, a nine-month pilot program for Quick Grants was initiated. New York State agencies participating in the pilot are the Office of Children and Family Services, the Office of Mental Health, the Office of Mental Retardation and Developmental Disabilities, the Office of Temporary Disability Assistance and the Council on the Arts.

OSC has found that most grant problems relate to the procurement process, and not to the grant contracts. In the Quick Grants pilot program, agencies send the procurement record/program plan documentation to OSC, then send the contracts to the grantees. While the contracts are being signed, OSC is reviewing the procurement record, working with the agencies to correct any

deficiencies and obtaining any additional documentation necessary. After the agency receives written notification that the procurement record/program plan is approved, the contracts then can go to the OSC Contract Bureau for Quick Contracting approval. Not only is the agencies' timeline preserved, but so is the grantees'. The grantees will know that within weeks of submitting their contract, the contract will be approved and funding can begin to flow.

To participate in the Quick Grants Project, an agency initially needs to submit documentation to the Contract Bureau's Grants Program via e-mail, fax or mail detailing the agency's procurement oversight and controls. This documentation needs to be submitted only once. The oversight and control documentation that OSC is requesting is nothing more than what is already required by the NYS Internal Control Act and should include a description of the separation of responsibilities and how proper procurement practices will be followed (bidding, marketing, clear

specifications, prompt contracting timeframes, etc.)

Once the oversight and control documentation is submitted, then agencies can begin submitting the completed procurement record/program plan documents that detail the selection and award processes used to make funding decisions.

After OSC has finished reviewing the submitted procurement record/program plan and the agency receives written approval, the agency is qualified to submit the corresponding grant contracts along with an agency certification for quick grant. The agency then receives the benefits of the quicker approval process.

Quick Grants is easy to implement and will dramatically reduce the contract approval process to five days or less. If you are interested, Tim Lenahan, 518-408-4389, [tlenahan@osc.state.ny.us](mailto:tlenahan@osc.state.ny.us) will gladly help you get started with the initial approval process.

## Training is Available for Legal Issues in Contracts

**O**SC recently provided a three-hour training program on current legal issues in contracting. These legal issues were compiled from the annual audit of over 43,000 contract transactions performed by the Bureau of Contracts. Over 100 fiscal, program and legal staff from various State agencies attended the session.

The session was held by Joan Sullivan, Director of Contracts, and John Dalton and William Murray from the OSC

Legal Services. Topics covered were: revenue and barter contracts; grant procurements open to for-profit organizations; debriefings; banding/substantially equivalent; authority to reject and rebid, waiver of mandatory requirements, advance publication – substantial compliance; assignment of executory contracts; and lowest price evaluations for service procurements. Participating attorneys earned Continuing Legal Education (CLE) credits for the training program.

Comments from post evaluation forms stated: "This should be offered to all individuals involved in the bidding process". "The presenters were excellent". "This course should be offered every year with updated topics".

To obtain information on the Bureau of Contracts Project Outreach training for your agency staff, please contact Pam Russell at (518) 486-3075 or e-mail her at [prussell@osc.state.ny.us](mailto:prussell@osc.state.ny.us).

# Avoiding Scandal: Why Good Internal Audit Units Count

Over the last several years, corporate scandals have brought down major corporate executives. Some have lost their reputations and others have gone to jail. These scandals aren't new though – they've occurred in every decade of the last century. What's interesting with this round of scandals is the intense interest from Congress on down to putting in place control systems that will help prevent or minimize future wrong-doing.

There are many lessons from these corporate scandals that apply to public sector managers. Spending time to understand these lessons can help assure accountability in government service and help prevent similar scandal from engulfing government agencies. Moreover, for government executives, it can assure their reputations stay in tact.

One lesson learned is: large organizations need an effective internal audit unit. In fact, the New York Stock Exchange now requires listed companies to have an internal audit function. According to the Institute of Internal Auditors – the professional association providing guidance and support to the internal audit profession – internal auditing is defined as: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Section 951 of the New York State Executive Law also calls on the head of each state agency to periodically evaluate the need for an internal audit function. If one is necessary, section 952 of the Executive Law defines the requirement to meet professional internal auditing standards. In the event the head of a state agency does not establish an internal audit function, he or she shall nevertheless establish and maintain a program of internal control review.

So, what can a good internal audit unit do for you?

A truly good internal audit unit adds real value to management. If the leadership of the internal audit unit is aligned with management's vision and mission, they can help:

- Avoid or minimize risks to the organization's goals and objectives
- Identify opportunities to add efficiencies to internal process
- Prevent fraud or detect it if it has occurred
- Develop management talent
- Assess the effectiveness of the internal control system, including the "tone at the top"
- Assess if state assets are safeguarded

There are a number of internal audit units operating in New York State government now – some good and others not so good. Some just operate at the tactical level of performing audits. To be a high performing internal audit unit, internal audit directors must create a dynamic organization continuously

evaluating its environment and realigning its mission with that of agency audit committee. Today's audit staff must be in a continuing state of learning to keep abreast of the latest technology, to fully understand the risks confronting the organization being audited and to understand emerging issues that are important to the organization. They must think and act strategically in order to be successful.

Ideally, the internal audit unit will have a strategy to:

- Articulate a mission and role for the internal audit unit that is aligned with the audit committee's expectations.
- Identify the primary stakeholders of the internal audit function that goes beyond the executive suite.
- Articulate the organizational risks and get management consensus on them.
- Develop an audit plan that addresses the significant risks and adds value to management and other stakeholders.
- Use the most proven and best-in-class audit practices that help management improve the organization's efficiency and effectiveness.

Today's internal auditors must be proactive and dynamic in meeting management's expectations. Not operating this way can ultimately leave an organization vulnerable to significant risks that may negatively effect the reputation of the managers and staff. Avoid scandal – develop a high performing internal audit unit today!



*Direct  
Deposit*

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

## Web-Based Sole Custody Reporting System Improvements Being Developed for 2003

The State's accounting and financial reporting system under the control of OSC provides for the collection, summarization and reporting of unique financial data and information maintained at State agencies. Financial data and related information is required to assure full and proper disclosure in financial statements prepared in accordance with generally accepted accounting principles.

After two years in development, in March 2002, the Bureau of Accounting Operations rolled out a new electronic reporting system for agencies to use in preparing and reporting the activities of sole custody bank accounts. The information provided includes receipts,

disbursements and ending cash balances for each sole custody account under the management of agency personnel.

We are pleased to report that 75 percent of the State agencies were able to access and prepare their annual filings and virtually all of the agencies were able to complete these filings on time. As of March 31, 2002, over \$9.9 billion in cash balances were reported. Information about the composition of these balances is contained in Exhibit C-5 at <http://www.osc.state.ny.us/finance/cashrpt/annual2002.pdf>.

As a result of feedback we received from State agency personnel, the following improvements are being

developed for use in 2003:

- For agencies with multiple accounts, a new feature will be added to advance to the next account. Last year, users had to exit the program and sign back on to provide information on other accounts that needed to be reported on.
- A function will be added that will permit users to save their work in the event that a second level review needs to be undertaken prior to submitting the report(s) to OSC.

If you have any comments or suggestions to improve the web-based sole custody report system, please send these to: [mgoetz@osc.state.ny.us](mailto:mgoetz@osc.state.ny.us).

## Treasury Offset Program Expands to Recover Erroneous Medicare Payments

In response to a steady increase in the amount of delinquent non-tax debt owed to the Federal government and concern that appropriate actions were not being taken by Federal agencies to collect unpaid debts, Congress passed the Debt Collection Act in 1996. The Act effectively centralizes the government collection of debts which remain unpaid for 180 days or more. The U.S. Treasury – Financial Management Service (FMS) was designated as the lead agency to implement and maintain a system to recover debts owed to the Federal government since FMS had knowledge of debt collection practices and procedures and it was the disbursing agency for more than 85% of Federal payments – including Federal grant award payments to States. One of the tools used by FMS to collect debts is its Treasury Offset Program (TOP) which compares the name and taxpayer identification number (TIN) of debtors

with the names and TIN of recipients of Federal payments. If there is a match, the Federal payment is reduced, or offset, to satisfy the debt owed.

In November 2001, OSC became aware that a debt owed by a State agency had not been paid. After appropriate notice had been served on the debtor State agency, the FMS offset another (uninvolved) State agency's request for Federal grant funds. Recognizing that these offsets had the potential to disrupt Federal financing of important and critical State-administered programs, OSC issued Accounting Bulletin A-494 on November 27, 2001. The bulletin outlines agency responsibilities whenever a notice of unpaid debt is received by a State agency and requires agencies to immediately make payment to the Federal government in a timely manner or contest the notice. The provisions of Accounting Bulletin A-494 remain in effect.

We recently learned that TOP is being used to recover health care claims paid by Medicare which should have been paid by a State-administered health insurance plan. Although Medicare records indicate the social security number of the claimant, the Social Security Administration has identified the individual(s) as being covered by a State-administered plan and has invoked measures to recover the Medicare debt by offsetting State requests for Federal grant funds. We argued unsuccessfully that the offset should be taken against Federal payments to the primary health insurance carrier and not against Federal grant drawdowns. We will continue to contest this type of offset but in the meantime, if any payment due to a State agency is offset, to recover a Medicare claim, you should immediately contact FMS's Debt Collection Unit at 1-888-826-3127 and notify the Department of Civil Service – Employee Benefits Division.

# Payroll Upgrade Focuses on Testing and Training

The OSC Payroll System Upgrade Project has turned its attention to making sure that all pieces of the new Web-based system work together, and that all payroll staff are trained and ready to use the new system when it goes live. The Testing and Training Phase is the fourth of five project phases involved in the upgrade of the State payroll system, now known as PaySR. The name of the new system will change to PayServ to reflect OSC's continuing emphasis on customer service.

"We are very pleased that all of the individual pieces needed to upgrade the payroll system and implement several significant improvements have been created and are functional," said Project Director Daniel Berry. Testing will assure that the system handles production-level transaction volumes, produces accurate results, and meets other performance requirements. OSC will invite agency payroll system users to participate in system testing during this phase.

The Project Training Plan, developed in consultation with agency representatives through the Advisory

Council and the Payroll Users Group, establishes the Train-the-Trainer approach as the primary method of training delivery for end users. Selected agency payroll staff will be invited to participate in a two-day Train-the-Trainer class that will prepare them to deliver end-user training to other system users.

The foundation of the Project's training effort will be PeopleSoft's End User Training Kit, a collection of training products that will be customized to reflect the State's payroll system. The kit includes instructor and participant guides, additional instructional aids and tools, and an on-line tool called the "Web Learning Assistant" that will assist users who need help while they are in the PayServ application.

Payroll Services Director Robin Rabii believes that the Web Learning Assistant tool will meet users' requests for better and more up-to-date system documentation. "When this on-line tool is complete, users will have comprehensive information about the payroll system at their fingertips," said Rabii.



Also, Control-D, a Web-based reporting software, will replace the Reveal Reports tool currently used to produce standard payroll reports prior to implementation of the upgrade. Selected from among four software packages, Control-D provides end users the ability to download, print, e-mail, search and add notes to reports. Users will be trained to use this new report viewing software, and Reveal will also remain available during a several month transition period.

Information on these and other changes resulting from the upgrade were presented to State agency payroll, technical and fiscal staff at a series of meetings in Albany, Syracuse and New York City in November 2002. Copies of the presentations can be found on the Upgrade Project's Web site at [www.osc.state.ny.us/payroll](http://www.osc.state.ny.us/payroll), which is accessible to authorized agency payroll-related staff and managers.

---

## Audit Alert

**Have you VOU 065'd today?**  
One of the risks in the accounts payable process is that payments can be changed or inappropriately redirected for fraudulent purposes. Some staff in the procurement process have the ability to change the payee name, address, vendor ID, and amount for a payment. They could also add payments that are not authorized. It is very easy to redirect a vendor payment or create a duplicate of a vendor payment. An individual can cash a check to any vendor just by

changing the vendor address to his/her home address. Is your agency protecting itself from these risks?

### What is the VOU 065 report?

The VOU 065 report, is a check register generated daily by OSC and distributed to each agency. The report lists the voucher and batch numbers, payee names, IDs and addresses, check numbers/ACH routes, check dates and amounts for all payments processed on a particular date.

### Is it critical?

Yes! Think of the report as a bank statement from OSC. Consider your personal bank accounts. If your bank made an error, you would detect it when you reconcile your personal account with your bank statement. Well, it is just as important to reconcile the VOU 065 report to payments you authorized. Remember, these are your payments. The VOU 065 is your best check to confirm that your payments were sent to the right payee at the right address

*Continued on page 8*

## 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

**Ruth S. Walters**  
Assistant Comptroller

**Editor**  
Paul Wilkes  
Director, 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

## Electronic Payment Process Improvements Underway

*Continued from page 1*

Our analysis also indicated that some vendors would receive both a check and electronic payment due to the disparity in payment information on two or more vouchers sent from different agencies. To assist agencies in identifying addresses that resulted in a check payment rather than an electronic payment, OSC has developed and put into production a new report – Check Payments to ACH Enrollees (VOU081). Accounting Bulletin A-519 was issued on October 23, 2002 to introduce the new report and to provide helpful information to State agencies that make payments to payees who have elected to receive electronic payments from the State through the Automated Clearing House (ACH) system. This bulletin is available on the OSC website under *Comptroller's News for State Agencies* (<http://www.osc.state.ny.us>).

Increasing participation in the Comptroller's electronic payment program will be done through communication that encourages vendors to visit the Comptroller's website to obtain information and enrollment forms. OSC periodically sends information to vendors about the ACH e-Payment program. In the long run, we need all State agencies to help us promote the e-Payments program. Additional information about the electronic payment program is available at <http://www.osc.state.ny.us/epay>.

Questions or comments about the e-Payment program are welcomed and appreciated. Please send these to [epunit@osc.state.ny.us](mailto:epunit@osc.state.ny.us) or call (518) 474-6019.

## Audit Alert

*Continued from page 7*

for the right dollar amount!

### What should you do with it?

The report should be reconciled to your paper or electronic records of vouchers sent to OSC for payment. We recommend a daily dose of VOU 065 reconciliation or at least as often as your finance office processes your payments. OSC can only stop the payment up to the time the check is cashed, so it is important to reconcile your VOU 065 on a timely basis.

### How do you reconcile it?

Some agencies have a "pending file" of electronic or paper vouchers sent to OSC. The vouchers are not moved out of the pending file until they are reconciled to the VOU 065. Agencies follow up with OSC regarding vouchers that remain in the pending file for an extended period of time. Some agencies also document the payment date and check number or ACH route on the electronic or paper voucher. The employee reconciling the report should not be the same employee who keys the voucher. This situation could tempt even the most loyal and honest employees.

### Are you high tech?

Some agencies reconcile the VOU 065 by electronically matching OSC data to agency data. If you do an electronic match, be sure to match **every field** supplied by OSC, including payee address. If the payment is sent to an address not specified by the agency, the agency needs to follow up with OSC regarding the discrepancy.

### What happens if the VOU 065 doesn't reconcile?

You should have written procedures to document your reconciliation process and actions to take if you identify a discrepancy. If you identify a discrepancy, contact the OSC help desk @ 474-4868.