

## **GASB Issues New Financial Reporting Rules**

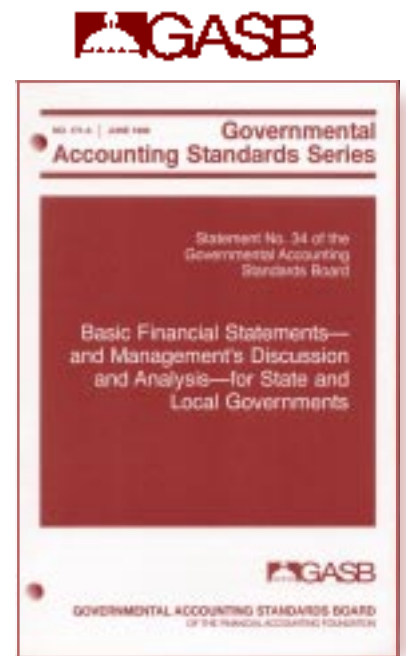
The Governmental Accounting Standards Board (GASB) recently issued its most comprehensive governmental accounting rule: GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The new rules will significantly change the way state and local governments report their finances to the public. Under the new rule, citizens, the media, bond raters, legislative oversight bodies, and any other entity with an interest in how a government is doing financially will have easier-to-understand information.

For the first time, financial reports must show comprehensive information about the cost of providing government services as well as data about the government's infrastructure



assets (such as bridges, roads or water lines). An additional feature of financial reports is a Management's Discussion and Analysis section which will include a narrative analysis of the government's financial condition.

Currently, government annual financial reports focus on the individual "funds" of government. Because the number of funds can be numerous, it can be difficult for financial statement readers to understand their meaning, how they interact with one another and how they relate to the government's overall financial well being.



***"This is its most significant change to occur in the history of governmental financial reporting."***

Tom Allen, GASB Chairman

The new rules will add important insight to the current fund accounting approach by requiring financial information from a total government perspective without regard to the unique fund structure of each government. The rules will offer the opportunity to provide a more useful and understandable financial report to those

*Continued on page 7*

### **This Issue**

**E-Grants Project  
Payments/Remittance  
DOT Single Audit Bill**

**Yellow Book Changes  
OSC Web Site  
Internal Control Legislation**

**Federal M-Year Awards  
Revising Object Codes  
Assessing Risk**

**Travel News  
QRA Update  
AGA Conference**

## OSC and OFT Launch E-Grants Project

The Office of the State Comptroller, in collaboration with the Office for Technology, has convened representatives of State agencies and not-for-profit organizations to explore and recommend policies, procedures and methods, including the use of new information technologies, to improve the process of publicizing, awarding, and administering State grant contracts with not-for-profits.

The mission of the E-Grants Project is to increase opportunity, accountability, and efficiency in New York State's process of grant making to not-for-profit organizations. According to participants, the current State process used to award and administer grants to not-for-profit organizations is slow and mostly paper-based; confusing due to complex and often conflicting agency forms, approaches, requirements and user interfaces; and inconsistent due to lack of data and process standards.

Three project subcommittees are working to develop recommendations for a common grant application, to propose methods to improve access to grant information for not-for-profits, and to explore the creation of a forum for agency grant makers to share information and "best practices."

"It makes sense for OSC and OFT to work together to explore how the growth of the Internet and electronic commerce can be applied to promote equitable access to State grant opportunities and maximize efficiencies in the grants process," said Ruth Walters, Assistant Deputy Comptroller and a project sponsor. "This effort to reduce identified barriers and to promote best practices will benefit the State, the not-for-profit sector and the recipients of these contracted services."

For additional information on this effort, contact:  
Audrey Seidman at (518)474-1246 or e-mail at [aseidman@osc.state.ny.us](mailto:aseidman@osc.state.ny.us).

## Payments/ Remittance Web Site

OSC has developed a database of payment and remittance information that can be accessed over the Internet. The database contains information on all central accounting system "A" warrant payments made since February, 1999.

You can access the database at <https://www2.osc.state.ny.us/ach/achinput.htm> by entering the payee's FEIN, SSN or Municipality Code and Check Number (or Trace Number for ACH direct deposits).

The database should provide the fastest means for obtaining remittance data for checks with missing stubs or missing VOU460's (remittances printed separately from checks).

Please encourage our payees, especially vendors, to use this site. And try it yourself!

## DOT Single Audit Bill



Governor Pataki signed A.8051/S.4201, the Department of Transportation's (DOT's) bill to extend the effective date of its Single Audit Program, into law on June 22, 1999, making it Chapter 100 of the Laws of 1999. This law extends the implementation dates for the program by two years. Thus, municipalities and authorities meeting criteria for the program would provide audit reports for their fiscal years that begin after December 31, 2000. Municipalities and authorities meet the program criteria if they are subject to Federal single audits and annually expend more than \$100,000 from funds provided through State transportation programs.

The DOT established its single audit pilot program in 1998. It originally required municipalities and authorities to provide audit reports for each fiscal year beginning after December 31, 1998. You can obtain additional information by calling Tom Goodfellow of DOT at (518) 457-3180.

# News Flash - The Yellow Book Is Amended

In May 1999, the Comptroller General of the United States issued an amendment to the 1994 Government Auditing Standards (the Yellow Book). This amendment makes news for two reasons: first, it changes the Field Work Standards for Financial Audits, and second, the change occurred in the form of an amendment signaling the new way in which the Yellow Book will be revised in the future.

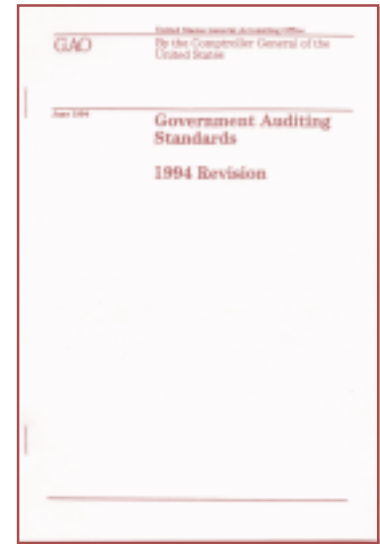
First, we will discuss the change in auditing standards. The 1994 Yellow Book and current AICPA Statements on Auditing Standards require auditors to consider and document their understanding of internal controls when planning a financial statement audit in order to determine the nature, timing and extent of audit testing. This includes a long-standing requirement that auditors document their understanding of any computerized information systems that impact the accounting applications. If the auditors, after gaining that understanding, assess control risk at the maximum level, they do not have to document the basis for their conclusion. Documentation is required only if the auditors assess control risk at less than the maximum level.

Amendment No. 1 changes the Yellow Book by adding several new paragraphs and by eliminating certain other paragraphs. This new standard requires government auditors to document the basis for their assessment of control risk at a maximum level for significant computerized information systems. Auditors are also required to document how the planned audit procedures are designed to achieve the audit objectives and reduce audit risk to an acceptable level. In other words, while this change has not increased auditors' responsibility for testing controls, it has increased the responsibility

***“Auditors are also required to document how the planned audit procedures are designed to achieve the audit objectives and reduce audit risk to an acceptable level.”***

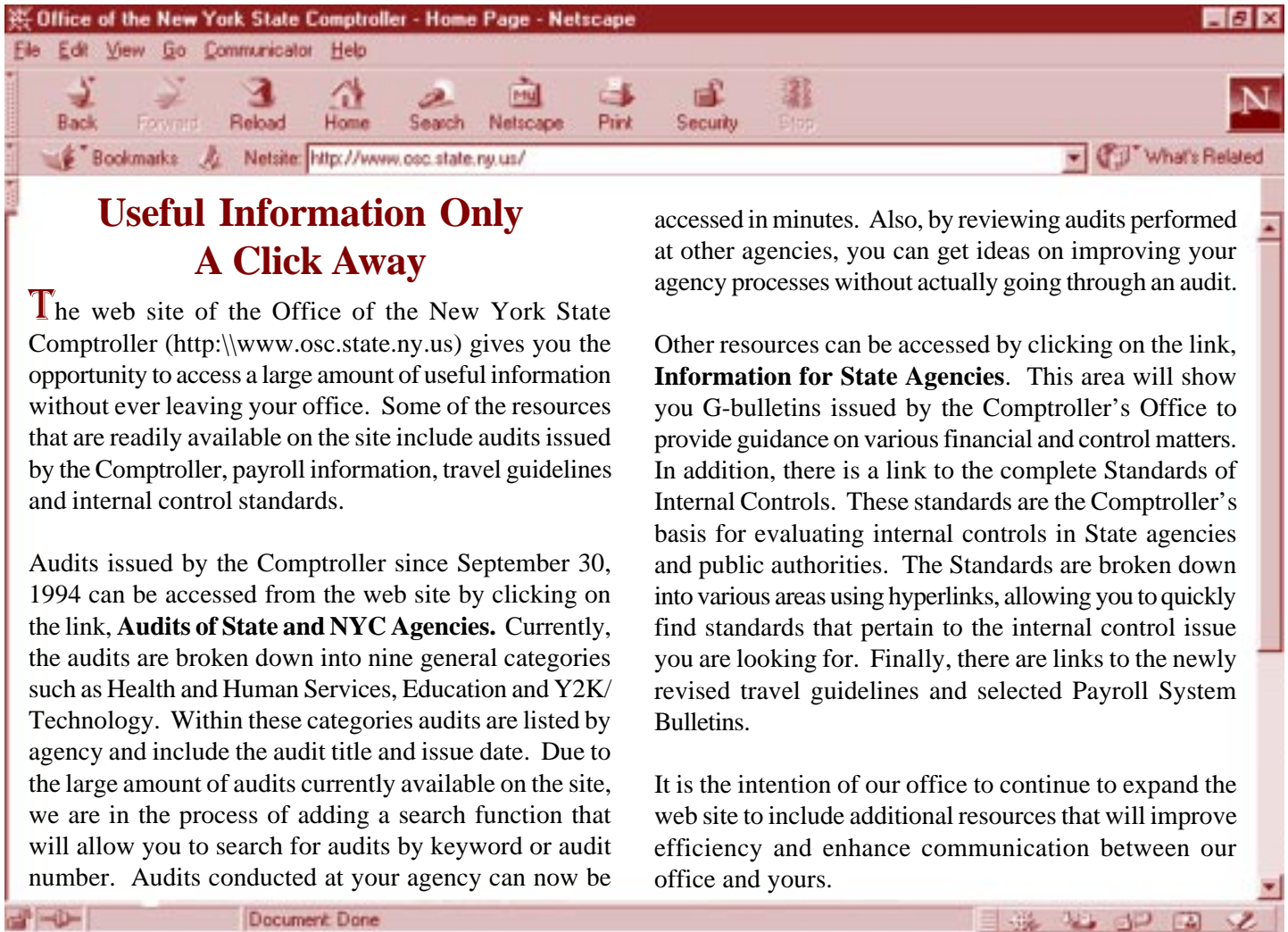
for documenting the decisions. Paragraph 4.21.4 details what should be documented by the auditors when assessing control risk in this manner. Therefore, if you are performing a financial statement audit and are confronted by computerized information systems, you will need to review the new guidance very carefully. The Amendment also eliminated some paragraphs related

to internal controls which duplicated guidance already included in the A I C P A Statements on Auditing Standards on the issue of c o n t r o l environment. The amendment is effective for financial statement audits of periods ending on or after September 30, 1999.



In July 1999, a second amendment, Amendment No. 2, was issued. This amendment adds a field work standard and amends a reporting standard for financial statement audits. This new amendment requires specific communication with the auditee, the individuals contracting for or requesting the audit services, and the audit committee regarding the scope of compliance and internal control work to be performed under *Government Auditing Standards*. Amendment No.2 also requires the auditor to emphasize in the auditor's report on the financial statements the importance of the reports on compliance with laws and regulations and internal control over financial reporting when these reports are issued separately from the report on the financial statements. This amendment is effective for the financial statement audits of periods ending on or after January 1, 2000. Earlier application is permissible.

An electronic version of the amendments can be accessed through GAO's Internet Home page ([www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm)). If you have any questions about the amendments, you may complete a form found in GAO's Internet site at [www.yellowbook.gao.gov](http://www.yellowbook.gao.gov).



## Useful Information Only A Click Away

The web site of the Office of the New York State Comptroller (<http://www.osc.state.ny.us>) gives you the opportunity to access a large amount of useful information without ever leaving your office. Some of the resources that are readily available on the site include audits issued by the Comptroller, payroll information, travel guidelines and internal control standards.

Audits issued by the Comptroller since September 30, 1994 can be accessed from the web site by clicking on the link, **Audits of State and NYC Agencies**. Currently, the audits are broken down into nine general categories such as Health and Human Services, Education and Y2K/Technology. Within these categories audits are listed by agency and include the audit title and issue date. Due to the large amount of audits currently available on the site, we are in the process of adding a search function that will allow you to search for audits by keyword or audit number. Audits conducted at your agency can now be

accessed in minutes. Also, by reviewing audits performed at other agencies, you can get ideas on improving your agency processes without actually going through an audit.

Other resources can be accessed by clicking on the link, **Information for State Agencies**. This area will show you G-bulletins issued by the Comptroller's Office to provide guidance on various financial and control matters. In addition, there is a link to the complete Standards of Internal Controls. These standards are the Comptroller's basis for evaluating internal controls in State agencies and public authorities. The Standards are broken down into various areas using hyperlinks, allowing you to quickly find standards that pertain to the internal control issue you are looking for. Finally, there are links to the newly revised travel guidelines and selected Payroll System Bulletins.

It is the intention of our office to continue to expand the web site to include additional resources that will improve efficiency and enhance communication between our office and yours.

## Internal Control Legislation Approved

The Legislature has passed a new internal control act which was awaiting the Governor's signature as of August 23. The Legislature previously enacted the New York State Governmental Accountability, Audit and Internal Control Act of 1987. That law sunset on January 1, 1999. However, the Legislature has now found that the existing systems of internal control and internal audit should be reaffirmed and enacted permanently. The Legislature found that the State should have a comprehensive system that will foster the effective and efficient use of government resources and ensure the integrity and reliability of accounting systems.

Some of the highlights of the current legislation, which carries forward many provisions from the prior law, include:

### Internal Controls:

- Formally recognized the State Comptroller's role to issue internal control standards,
- All agencies must establish and maintain a system of internal control.

### Internal Audit:

- The internal audit unit must adhere to professional standards for internal auditing.
- Internal Audit Directors must possess appropriate internal auditing credentials to be appointed.

You can get a copy of the bill on the Internet at: <http://assembly.state.ny.us/cgi-bin/showtext?billnum=S04927>.

# Federal M-Year Awards

Several years ago the U.S. Congress enacted 'M-Year' legislation (§1405(a) of Public Law 101-501 amended 31 U.S.C. (§§ 1551-1557). This law requires all Federal agencies to close fixed year appropriation accounts and repeal any remaining unspent grant balances by September 30th of the 5th fiscal year after the period of availability begins. In simpler terms, all unspent award balances will be canceled and will no longer be available for program expenditures or obligations.

The 'M-Year' awards currently subject to the above noted legislation are for the Federal grant year 1994; therefore, all 1994 (and prior) fixed appropriation awards will be closed and remaining unspent balances will be canceled on September 30, 1999 (the end of the Federal fiscal year). Since life-to-date grant award disbursements are sent to the Federal government's payment management systems (PMS) during the first week following the end of a quarter, final agency disbursements or adjustments were required to be posted



to appropriation/ segregation records in the State's central accounting system by June 30, 1999. Disbursements after this date will not be reported to the Federal government until after October 1, 1999 and will be rejected/ disallowed by the Federal PMS. Agencies should mark their calendars for this annual occurrence and over the next several months begin reviewing the awards scheduled to be affected next (1995 and prior), taking timely action to reconcile awards and ensure monies are not inadvertently lost.

The central accounting system generates a Federal Report of Disbursements by Agency (ASC210) to assist agencies in their review and determination that all award disbursements are properly recorded and that all award disbursements which exceed the Federal authorization are reduced to the level authorized.

Questions related to 'M-Year' awards should be directed to your appropriation section representative or e-mail [bmccormick@osc.state.ny.us](mailto:bmccormick@osc.state.ny.us) or [treilly@osc.state.ny.us](mailto:treilly@osc.state.ny.us).

## Revising Object Codes

OSC has convened a workgroup to revise central accounting system object codes as of April 1, 2000. The workgroup includes representatives from the legislative fiscal committees, DOB and State agencies. The revisions will focus on non-personal service objects including materials and supplies (53\_ \_ \_), travel (54\_ \_ \_), contractual services (55\_ \_ \_/56\_ \_ \_) and equipment (57\_ \_ \_).

The workgroup's objectives include:

- Identifying objects needed to support State-level requirements in the first four positions of the five-position object code, and allowing agencies to define the fifth position to meet agency information needs;
- Eliminating unnecessary and outdated objects, including many relating to printing, travel and contractual services; and
- Publishing improved object descriptions, and making good use of examples and cross references.

OSC plans to publish draft revisions for review and comment by all agencies in September, and final revisions in November to provide sufficient lead time for related changes to agency financial management systems. The workgroup is developing strategies for simplifying conversion on April 1, 2000, including avoiding the reuse of deleted object codes for the small number of new objects to be added.

Look for an Accounting Bulletin with draft object revisions toward the end of September!



# Assessing Risk in the State Expenditure Process

The primary goal of the Bureau of State Expenditures is to identify improper, fraudulent and wasteful transactions while at the same time meeting constitutional and statutory responsibilities for making all disbursements in a timely manner. The Bureau is taking a fresh look at the way it does business and is implementing a plan that takes advantage of current and emerging technology and focuses on high risk areas.

Here are the highlights of our plan:

- Audit State purchasing transactions based on an understanding of the business systems operating at agencies and on an assessment of the risk that something improper, fraudulent or wasteful could be occurring and not be prevented or detected at an agency.
- Direct audit efforts at a “big picture” system level rather than a transaction level.
- Gather knowledge on each agency and institution in State government, and use this knowledge as a basis for assessing risk.
- Use a team approach in assessing each agency’s level of risk.
- Use the risk model proposed by the Treadway Commission to consider the likelihood of some negative event occurring and the impact if it does occur.
- Integrate internal control assessments into the likelihood component of our risk model.
- Make increased use of decentralized data capture methods such as the current Quick Pay process as a means to expedite the payment process and better direct our audit efforts.
- Expand our analysis of data from the central accounting system to identify trends and outliers that may be indicative of improper, fraudulent or wasteful transactions.

Over time, staff will be assessing the quality of internal control systems in each agency and institution. This assessment will help direct future audit efforts. In the planning stages is Internet-based submission of voucher data, which will facilitate the audit and payment process.

Focusing our attention on high risk areas will allow us to make better use of our resources and staff. Our goal is to correct problems at the source rather than correcting individual transactions over and over again. Stay tuned! Within the next few months you will be provided more details on how this process will work.



## Travel News

Lodging Requests (Form AC 276) or Transportation Requests (Form AC 281) will no longer be accepted as a valid form of payment as of August 1, 1999 and will not be honored by New York State. Agency Travelers may use alternative forms of payment when securing your services which may include:

- ✓ The New York State American Express Corporate Card for Travel
- ✓ An Agency American Express Business Travel Account (BTA)
- ✓ An Agency-arranged direct billing from the vendor to the agency finance office
- ✓ A New York State Standard Voucher (Form AC 92)
- ✓ New York State Purchase Order (Form AC 130)
- ✓ The traveler’s personal credit card
- ✓ Cash or check

If you have any questions, you may contact the Bureau of State Expenditures, Linda Stewart at (518) 474-6008.

# Quick Response Audits: Well on Their Way!

**B**ack in 1998, we told you about our new customer initiative: Quick Response Audits. We are pleased to announce that we are well on our way to fully implementing the program to serve your auditing needs. We've been working hard to develop the best means of providing our QRA services. Most exciting though, is that we've completed our first official QRA for the NYS Crime Victims Board.

The Crime Victims Board provides funding through grant awards to approximately 170 community-based not-for-profits and municipal agencies that serve the needs of crime victims throughout the State. Over the last few years, the Board has received significant increases in Federal monies. The Board was looking for a needs assessment tool that not only identifies current needs, but can also be applied to the constantly shifting conditions of crime in our society. When the Board became aware of OSC's QRA, they saw a perfect opportunity to identify options to best meet the needs of victims of violent crime.

Early in 1999, we accepted the Board's request for a QRA and worked closely with the Board to plan the best approaches to address the issue. By early February, we had a team at the Board to determine whether the current grant award process could be enhanced to further incorporate statewide needs in the Board's criteria for awards and to determine whether there are alternative

methodologies that can be used to incorporate additional independent crime victim data to assist in allocating funding for crime victim services through the Board's grant award process.

Within a few weeks, our field team gathered and reviewed information on several different



criteria for distributing the grant monies. By the middle of March, we presented our results on several options for enhancing the current grant award process to the very pleased Board. This timely completion can be attributed to the fact that the Board staff were very cooperative and quick to provide information and work with the auditors - the key to a successful QRA. We presented the Board with a final report in May, but they were already well on their way to enhancing their awards system. In response to our work, the Board stated, "The recommendations for enhancing the grant award process provide some new information and observations to assist the Board in ensuring grant awards are

*Continued on page 8*



## GASB Issues New Financial Reporting Rules

*Continued from page 1*

interested in the big picture and those interested in comparing one government to another similar government.

Readers of financial statements will be supplied information on the cost of providing certain services. Additionally, readers will be able to summarize whether current citizens paid for current services or whether costs were shifted to future taxpayers.

Data on the government's infrastructure will include the cost and anticipated life of roads, bridges, sewer and water systems and other capital assets. If governments choose an alternative method of reporting for infrastructure then information about their condition must be provided. Current fund base financial statements omit any information on infrastructure assets and do not allocate capital asset expense over the useful lives of

those assets.

It's hoped that data produced by the new reporting rules will help decision-makers make more informed decisions and allow persons outside government to better understand government finances. The new rules will take effect for larger governments in fiscal years beginning after June 15, 2001. Medium-sized governments have an additional year and smaller governments have an additional two years. An additional four years is being provided to account for all infrastructure assets.

More details about the new financial reporting rules can be found on the GASB web site, [www.rutgers.edu/Accounting/raw/gasb/](http://www.rutgers.edu/Accounting/raw/gasb/). For copies of the new rules, call the GASB Order Department at 1-(800) 748-0659.

## 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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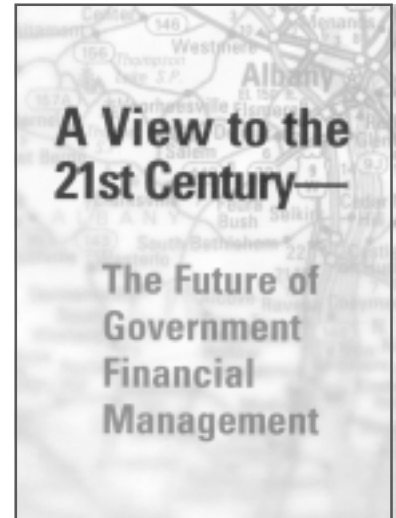
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# New York Hosts AGA Leadership Conference

The New York Capital Chapter of the Association of Government Accountants has been chosen as the host chapter for the AGA's Eighth Annual State and Local Government Leadership Conference to be held in Albany, New York on October 25 and 26, 1999. Billed as the "View to the 21st Century: The Future of Government Financial Management," the conference promises to be both enlightening and fun. Hear distinguished speakers like Marianne Jennings, noted ethics expert; Tom Allen, Chair of GASB; Bill Kilmartin, former Comptroller of the Commonwealth of Massachusetts; Harvey Eckert, Comptroller, Commonwealth of Pennsylvania; Jack Hartwig, US Health and Human Services; Sam McCall, Deputy Auditor General of Florida; Bob Attmore, New York State Deputy Comptroller; and many more who will cover emerging technologies, ethics and fraud, and financial management topics and issues.



In addition, the New York Capital Chapter is teaming up with the Albany Chapter of the Institute of Internal Auditors to present a third day, October 27, devoted strictly to Communication Skills for Financial Management. A total of 24 CPEs will be offered.

For more information and to register, please call 1-800-242-7211 or register on-line at: <http://www.agacgm.org>.

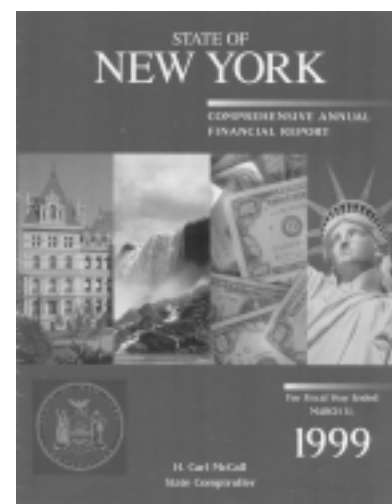
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*Continued from page 7*

appropriately distributed to under and unserved areas of the State."

You too can participate in a QRA and benefit from the timely, relevant and accurate information provided by the additional resources of a professional audit staff from the Comptroller's Office. Why not be our next success story?

If you or anyone you know would like to know more about our QRAs or would like to request one of your very own, you can contact the OSC Audit Manager assigned to your agency or you can e-mail us at [QRA@OSC.state.ny.us](mailto:QRA@OSC.state.ny.us).



The 1999 Comprehensive Annual Financial Report is now available. Copies of the Report can be obtained by contacting the Bureau of Financial Reporting at (518) 476-1235 or e-mail at [finrep@osc.state.ny.us](mailto:finrep@osc.state.ny.us).