



The Connection

A QUARTERLY NEWSLETTER FROM OFM REPORTING NEWS & INFORMATION ON STATEWIDE ACCOUNTING & FINANCIAL SYSTEMS

Fiscal Year-End Draws Near

Now is the time to prepare for closing fiscal year 2010. In addition to the normal year-end closing activity, the state will be implementing two new accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement 51 Accounting and Financial Reporting for Intangible Assets. The July 1, 2009 State Administrative and Accounting Manual (SAAM) update added the state's policy for capitalizing intangible assets and new general ledger codes for recording them. Does your agency have intangible assets such as internally developed software? If so, are you aware of and implementing these new requirements? Refer to SAAM 30.20.10.b.
- Statement 53 Accounting & Financial Reporting for Derivative Instruments. This statement will impact a limited number of agencies, primarily the State Investment Board and Institutions of Higher Education.

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Earlier CAFR Publication

The state of Washington has a long history of transparency and reliability for its financial reports. In response to changing pressures from the municipal bond market, its regulators are stepping up their efforts to set new requirements for states and municipalities so that more information can be provided more quickly to investors. The Municipal Securities Regulatory Board (MSRB) issued guidance that explains their new expectations. More information is available on the MSRB website: <http://www.msrb.org/msrb1/whatsnew/2009-63.asp>.

Up to now, the state has completed its Comprehensive Annual Financial Report (CAFR) within 180 days of the end of the fiscal year. But this year, the Office of the State Treasurer and the Office of Financial Management (OFM) are setting a path to complete the CAFR within 150 days – while maintaining conformity with Generally Accepted Accounting Principles (GAAP). The purpose of accelerated reporting is to ensure that financial information is made available more timely.

Investors are a primary source of capital for state government. When the state sells debt, it enters into a long-term contract to make timely debt service payments to investors. Other stakeholders, such as bond insurers, liquidity providers, rating analysts, trustees, credit enhancers, counterparties, and constituents are interested in obtaining timely financial information. Producing a CAFR within 150 days will provide financial information sooner for this important audience. Doing this can help lower borrowing costs by enhancing Washington's reputation in the capital markets and strengthening investor confidence.

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Spotlight on SAAM

A new feature for The Connection is a spotlight on the State Administrative and Accounting Manual (SAAM). It will focus on a SAAM policy to showcase or clarify policy provisions. This issue's spotlight is on travel advances.

Travel Advances

Subsection 10.80.60 of SAAM authorizes agencies to issue travel advances to employees when certain criteria is met. Travel advances are meant to defray costs an employee may incur while traveling on official state business away from their official station or residence.

The travel advance policy in SAAM incorporates the provisions of state law (RCW 43.03.150 through .210) and IRS regulations. SAAM reflects state law by restricting items an employee may receive an advance for and requiring that the employee account for the travel advance within 10 days of the end of each month that an advance has been issued.

State law and SAAM provide that when an employee defaults in accounting for or repaying a travel advance, the state has a prior lien against any sums that become payable to them.

IRS regulations require a travel advance to be substantiated within a reasonable time period or it is considered income to the employee. In SAAM, the state has designated that a travel advance must be substantiated within 60 days of the end of the travel to meet this "reasonable time period" requirement.

Agencies are required to adopt internal policies describing when and how travel advances will be issued to employees and may be more restrictive than SAAM.

Based on recent inquiries from state agencies on this issue, the July 1 update to SAAM will include accounting procedures and illustrative entries showing the proper way to account for travel advances. Watch for the update to Chapter 85 of SAAM effective July 1.

March Madness in the World of SAAM

On February 15, 2010, the Governor signed ESHB 2921; SAAM was updated to reflect the current provisions of this bill with an effective date of March 17, 2010:

This bill restricts out-of-state travel and training, personal service contracts and equipment acquisitions effective March 17, 2010 through June 30, 2011.

The out-of-state travel and training, personal service contract and equipment acquisition restrictions contained in ESHB 2921 are applicable to all state agencies.

Executive branch agencies can find additional information related to the implementation of ESHB 2921 in OFM Director Victor Moore's memorandum dated February 26, 2010.

- **Chapter 10 Travel** created a new Section 10.00, Out-of-State Travel Restrictions, which reflects the out-of-state travel and training restrictions contained in ESHB 2921. It also added a reference in Subsection 10.10.50 to the new travel restrictions.
- **Chapter 15 Personal Service Contracts** created a new Section 15.00, Personal Service Contract Restrictions, which reflects the contract restrictions contained in ESHB 2921.

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March Madness in the World of SAAM

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- **Chapter 30 Capital Assets** created a new Section 30.00, Equipment and Software Purchase and Lease Restrictions, which reflects the equipment acquisition restrictions contained in ESHB 2921.

Additionally, we deleted the \$10,000 capital lease minimum in Subsections 30.20.20, 30.20.30, and 30.20.40.

An asset is required to be capitalized when its fair value meets the state's capitalization threshold. Other sections in SAAM, including Subsections 80.30.45, 85.72.30, and 85.85.40, were modified to reflect this change.

Effective March 1, 2010, existing policies in Chapters 15 (Personal Service Contracts) and 25 (Payroll) were also updated as follows:

- Chapter 15 Personal Service Contracts key changes include:
 - o In Subsection 15.20.35, increased the World Trade Organization (WTO) threshold for goods and services to \$554,000 from \$528,000. This threshold is applicable to executive cabinet agencies. (Refer also to Subsection 15.20.30.)
 - o In Subsection 15.20.40, revised filing requirements to reflect the transfer of delegation of authority from the Department of Personnel to the Department of General Administration for organizational development master personal services contracts.
- Chapter 25 Payroll key changes include:
 - o Added a new Subsection 25.30.50.b, for calculation of compensatory time payment rates.
 - o In Subsection 25.40.10.c, added language to waive, in certain circumstances, the requirement for a medical statement when requesting shared leave.
 - o In accordance with Engrossed Second Substitute Senate Bill (E2SSB) 5688, revised policies on garnishments and wage assignments (Subsections 25.60.10, 25.60.20, and 25.60.30) and deceased employees (Subsection 25.70.30) to include references to domestic partners registered in the state of Washington.

All SAAM policies, directives, technical corrections and superseded policies are available online at: <http://www.ofm.wa.gov/policy/default.asp>.

Questions regarding content and proper interpretation should be directed to your assigned OFM accounting consultant.

What DOES the State Spend on Information Technology?

Interest continues to mount about capturing better information about Washington state's IT expenditures. In response to this growing interest, OFM will implement new coding requirements for IT costs effective July 1, 2010.

Meeting the objective of obtaining useful cost detail about IT expenditures in the state is both a complex and dynamic process.

Our plan focuses on making foundational changes that can be implemented in the short term while continuing to identify value-added changes that can be implemented in an incremental fashion in the future.

Background

In the 2007-2009 Biennium, OFM worked with several agencies and proposed a new IT coding structure and developed a set of IT coding requirements with the goal of providing a clearer picture of IT costs in the state.

You may recall that the proposed solution employed the use of the Project Type coding structure in AFRS. It set up two project types:

- X for IT Acquisitions/New Development, and
- Y for IT Maintenance & Operations (M&O)

Both require the use of AFRS Project Coding on all IT expenditures.

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Cash Management Focus

To further good cash management over federal grants, the Financial Management Service of the U.S. Department of the Treasury implemented the Cash Management Improvement Act (CMIA) of 1990.

The CMIA governs the transfer of funds between the federal government and states. The goal is to make cash activity related to federal assistance programs interest neutral.

The state of Washington has several federal assistance programs that are governed by the CMIA through inclusion in our Treasury State Agreement (TSA).

The TSA is renewed annually, and for Fiscal Year 2010 will include federal assistance programs that have expenditures over \$30 million.

The TSA specifies the methods used by state agencies to draw grant funds from federal agencies. Many federal grants have been on the TSA for several years, and the methods used to draw federal funds have remained static.

Due to the current economic downturn, it is in the state's best interest to review the methods in the TSA to ensure that they represent good cash management.

As we prepare the Fiscal Year 2011 TSA, OFM will work with agencies and the Office of the State Treasurer to review all methods currently used to draw federal funds and, if applicable, recommend more effective methods.

Agencies with federal grants that are not on the TSA should also review current methods used to draw federal funds and ensure that they incorporate good cash management.

If you have questions, please contact Andrea Brown at 360-725-0183 / andrea.brown@ofm.wa.gov.

Earlier CAFR Publication

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To achieve this goal, we ask you to adhere to the existing year-end closing schedules. The timeline for agency accruals and adjustments is consistent with past years, but *the expectation this year is that all agency entries will be completed by the close of Phase 2, September 10*. Deviations from the closing schedule will need to be approved in advance.

Some agencies are required by law to produce financial statements which are relied upon for the audit opinion in the state's CAFR. In order for them to complete their financial statements, those agencies will need to have final numbers by September 10.

A critical component of the process is reconciling interagency receivables and payables. It is very important that interagency billings be sent out timely. Therefore, unless approved by OFM prior to May 15, interagency billings sent out after July 23 will be considered new fiscal year activity.

A good way to prepare for year-end is to start analyzing activity and reconciling balances now. We developed a new 3-hour class, "General Ledger Review," that is offered throughout the year.

If you need training on General Ledger Review, it is not too late to sign up. Go to <http://www.ofm.wa.gov/training/default.asp> to register. Additional classes will be added as necessary.

Meeting closing deadlines may appear daunting, but consider that federal government agencies are required to produce financial statements within 75 days of year-end, and large multi-national corporations must file annual reports with the Securities and Exchange Commission within 90 days of year-end.

For additional information, please contact your assigned OFM accounting consultant. Thank you in advance for your cooperation.

Advisory Forum for OFM Systems

As OFM begins its technology business planning for the 2011-13 biennium, we want to better understand the strategic business problems that agencies want addressed through these enterprise system solutions. While we learn a great deal from our system user groups and project advisory teams, we may be missing the broader, more strategic perspective of agency financial management leaders.

To remedy this gap, we have established an Advisory Forum, inviting agency fiscal and budget managers and IT executives to advise the OFM Management Team.

The forum will focus on two topics critical to 2011-13 biennium planning.

1. What are the financial system change priorities OFM should pursue in 2011-13?
 - Provide an overview of OFM systems and recent development efforts
 - Understand the most pressing business problems agencies face that could be solved by changes to OFM financial systems
 - Prioritize these strategic system change ideas
2. What kind of rate structure should OFM use to pay for the financial systems we provide?
 - Identify the principles that should guide OFM in establishing rates
 - Review OFM's current costs to support systems
 - Compare OFM's current system rates to the rate principles and identify alternatives that are more consistent with the principles
 - Evaluate alternatives and identify potential impacts to agencies of rate structure changes
 - Recommend rate structure approach
 - Develop service level agreements for OFM system services

This Advisory Forum is meeting as a "virtual" group. We have set up a SharePoint site <http://sharepoint.dis.wa.gov/ofm/dut/OFMSAF/default.aspx> for documents and discussions, and will supplement with web-based meetings as needed.

If you would like to participate in the Advisory Forum, please check in with your agency's budget or fiscal officer, or contact Muoi Nguy at muoi.nguy@ofm.wa.gov for more information about this forum.

IRS / SSA Training for Spring 2010!

OFM is happy to announce that the following training classes will be offered this spring:

April 23	Compliance: Taxable Fringe Benefits	9:00am to 3:00pm
	<i>Location: Attorney General's Office (Tumwater)</i>	
May 14	Federal / State Employer Tax Procedures	8:30am to 4:00pm
	<i>Location: DSHS Lookout Room (Olympia)</i>	
June 11	Compliance: Independent Contractor or Employee?	9:00am to 3:00pm
	<i>Location: GA Auditorium (Olympia)</i>	

We are very fortunate to have instructors from both the Internal Revenue Service and Social Security Administration available for these sessions.

To register, please go to the OFM Training Website at:
<http://www.ofm.wa.gov/training/default.asp>.

If you have questions about these classes, please contact Steve Nielson at 360-725-0226 / steve.nielson@ofm.wa.gov or Steve Ketelsen at 360-725-0222 / steven.ketelsen@ofm.wa.gov.

Enterprise Payment Services Project

OFM launched the Enterprise Payment Services project to modify the statewide Agency Financial Reporting System (AFRS) and related vendor payment applications to comply with Section 511 of the Tax Increase Prevention and Reconciliation Act, and implement a self-service vendor portal solution to streamline back office business processes.

Project Goals and Objectives

This project will help Washington state agencies who use OFM central applications to meet these goals:

- Ensure compliance with federal withholding rules and requirements (please see Connection Newsletter Winter 2010: New IRS 3 percent Withholding Requirement)
- Maintain federal and state certifications (reciprocal and exclusions)
- Meet IRS Reporting needs efficiently and accurately
- Improve reporting and information capabilities around vendor and payment information
- Increase the availability of Minority and Women Owned Business participation information that may increase the participation levels of those businesses
- Streamline the back end of our business processes to:
 - o Substantially reduce the state resources required to support vendor registration and vendor table maintenance
 - o Reduce the time and resources vendors must spend to register with the state
 - o Remove barriers that will lead to a significant increase in the percentage of the state's payments made by electronic funds transfer (EFT)

Project Milestones by February 2011:

- Business Analysis: We will invite agencies to participate in discussions to improve the business processes. Please watch for invitations to meetings.
- Requirement Identification
- Design & Development of the Vendor Portal
- Design & Development of IRS withholding enhancements in AFRS
- Implementation

For further information about this project please contact:

Vendor Portal: Marilei Amurao-Tabile at 360-664-7761 / marilei.amurao-tabile@ofm.wa.gov, or Cheryl Hainje 360-725-0193 / cheryl.hainje@ofm.wa.gov.

IRS Withholding: Denise Tabler at 360-664-7788 / denise.tabler@ofm.wa.gov or Steve Nielson at 360-725-0226 / steve.nielson@ofm.wa.gov.

Fiscal Year-End Training (the long and short of it)

Classes on both state and federal year-end closing procedures will be held in June. For the veterans of fiscal year closings, we offer short (1.5 hours) update classes to explain current year changes and important items we want you to give extra attention to this year.

Fiscal Year-end Closing (CAFR) – Update 1.5 hours

Fiscal Year-end Closing (Federal) – Update 1.5 hours

The state and federal fiscal year-end closing updates will also be presented at the Financial Management Advisory Council (FMAC) meeting on May 27, along with cut-off information from the Office of the State Treasurer. FMAC meetings and technical sessions are listed at:
<http://www.ofm.wa.gov/accounting/fmac.asp>.

In years past, we have offered an all-day CAFR workshop for those who want more detailed training. We made some changes to this format.

1. We determined some topics in the workshop were areas that agencies should be working on throughout the year, not just at fiscal year-end. So, we developed a new 3-hour class titled “General Ledger Review” that is offered throughout the year. The information covered in this class is no longer covered in detail in the workshop. If you need training on General Ledger Review, it is not too late. Please go to OFM’s training website to register. Additional classes will be added if necessary.
2. We understand that depending on the agency, different staff handle various aspects of year-end and most do not need training on all items covered in the workshop. Plus, an all-day workshop contains more information than can be easily absorbed at one time. Our solution was to break the workshop into two parts – one focusing on expenditures and payables; the other focusing on revenues, reconciliations and Phase 2 adjustments.

Fiscal Year-End Expenditures and Payables Workshop 3.5 hours

Fiscal Year-end Revenues, Reconciliations, & 3.5 hours
Phase 2 Adjustments Workshop

Since workshop space is limited, we ask that you read the detailed class descriptions and coordinate within your office so that each agency sends the appropriate staff to each class.

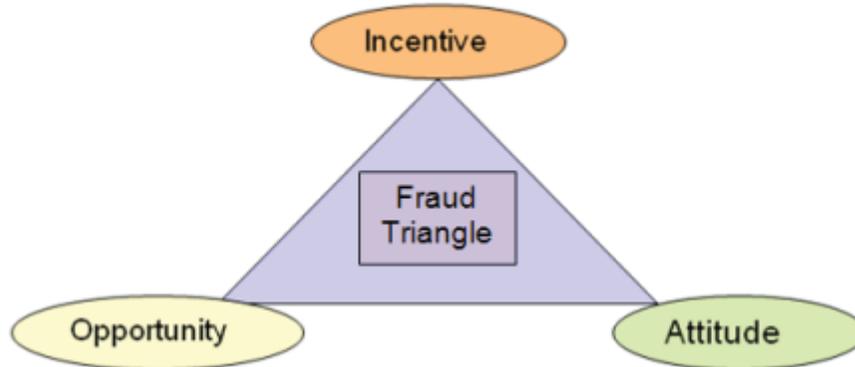
For assistance or additional information, please contact your assigned OFM accounting consultant.

Read the class descriptions and register for these and other classes at OFM’s training website at:
<http://www.ofm.wa.gov/training/default.asp>.

FRAUD FACTS: The Fraud Triangle

In most fraud cases, the perpetrator exhibits warning signs that could lead to the discovery of the fraud scheme. This article covers potential warning signs of fraud and basic controls that you should be aware of.

THE FRAUD TRIANGLE IN AN ECONOMIC DOWNTURN



The Fraud Triangle refers to three factors that contribute to committing fraud. These three factors are opportunity, incentive and attitude. In the current economic climate, the following additional factors could impact fraud within your organization.

- **Opportunity:** With an increased focus on revenues, efficiencies and effectiveness, there is a potential to decrease the focus on internal controls, which increases the opportunity for fraud.
- **Incentive:** The financial uncertainty that comes from facing a potential layoff or cutback while the cost of living stays flat or increases could cause an increased incentive to commit fraud. In addition, the increased pressure to perform and show value within your organization can also increase the incentive to commit fraud.
- **Attitude:** As workforces and salaries are cut back, many employees are forced to do more work for less money. This can lead to a feeling of entitlement, such as, "I deserve it" or "they owe it to me."

Behavioral red flags and warning signs

In most fraud cases, the perpetrator exhibits warning signs that could lead to the discovery of the fraud scheme. A very common warning sign is the perpetrator living beyond his or her financial means. Another common warning is the perpetrator experiencing financial difficulties.

The warning sign attributable to the highest median loss is an unusually close relationship or association between the perpetrator and a vendor or customer. This could be because fraud schemes involving collusion, especially those with an outside party, can be very difficult to detect.

Although these behavioral indicators have the potential to alert you to fraud, waste or abuse within your organization, it's important to note that just because these red flags are present does not necessarily mean fraud has occurred. These signs are merely a POTENTIAL indicator of POTENTIAL fraud.

What can you do?

Good controls to assist in the prevention and detection of fraud are the responsibility of everyone within the organization. All levels of staff should:

- Ensure a basic understanding of red flags and watch for warning signs.
- Understand how your duties play a role in the internal control structure within the organization. Knowing why processes and procedures are in place will help you understand how each step works to mitigate risks and protect against fraud, waste and abuse.
- Learn the policies and procedures within your organization and stay aware of changes or deviations.
- Report suspicions and inconsistencies that could be the result of fraud, waste or abuse.

Based on "First Friday Fraud Facts," September 2009, published by the Oregon State Controller's Division.

What DOES the State Spend on Information Technology?

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Recent Activity

Your help is critical in getting the IT cost definitions right (or right enough) so we can begin to capture this information in the state's accounting system.

Our primary objectives are usefulness, high quality, comparability, simplicity and low cost of data collection.

Draft IT costs questions and definitions were circulated among agency CIOs and fiscal officers for input. Their feedback was addressed and where applicable incorporated into revised documents for their review.

We met with a large group of CIOs, CFOs and other stakeholders on March 29, 2010 to discuss our proposed methodology, potential changes to documents and gain feedback on three key questions related to accounting IT definitions:

- What counts as an IT cost?
- How do you decide if an IT cost fits into the Acquisitions/New Development category or the Maintenance and Operations category?
- Do any of the subobject definitions in SAAM need to be clarified to better support the consistent capture of IT expenditures?

The meeting exchange was beneficial and guided the direction for further changes to the proposed IT costs model.

Time is Short – What's Next?

OFM will meet with key stakeholders in early April to further refine IT cost areas requiring further clarification. Once these meetings are held, the IT cost model for Accounting will be finalized and implemented with an effective date of July 1, 2010.

The IT costs initiative is not limited to OFM Accounting. It is a three-pronged effort driven by the OFM Accounting Division, the OFM Budget Division, and the DIS Portfolio Team.

In the future, the OFM Budget Division will address IT costs as part of the biennial budget instructions, and DIS will address IT costs via the Portfolio process

We will continue to work together as much as possible to limit the impact to state agencies. We want the process to be seamless. In the end, we want the IT coding model to match the budget and portfolio instructions to eliminate duplication of effort and ensure consistency.

We recognize this initial effort is not perfect, and will not meet all our needs. However, it is an excellent beginning and will demonstrate to others that we are committed to clarity and consistency when identifying what the state spends on IT.

If you have any questions, please contact Sadie Rodriguez-Hawkins at 360-725-0179 / sadie.hawkins@ofm.wa.gov, Lee Hall at 360-725-0220 / lee.hall@ofm.wa.gov, or Bruce Gorsky at 360-725-0221 / bruce.gorsky@ofm.wa.gov.

Fiscal Year-End Draws Near

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Important fiscal year-end dates to keep in mind:

DUE DATE	REPORTING ITEMS
June 30	Last day of the fiscal year; Cash cutoff - Refer to OST's closing schedule memo
July 23	Interagency billings must be mailed
July 30	Phase 1 closes - Agency Accruals
August 2	Disclosure Form application opens
September 10	Phase 2 closes - Agency Adjustments
September 17	State and Federal Disclosure Forms due (early completion encouraged) and State Financial Certification due
December 7	Federal Assistance Certification due

It is critical that agencies comply with these cut-off dates for the state to produce a timely CAFR.

SAAM Chapters 90, State Reporting, and 95, Federal Assistance Reporting, are updated every year to reflect changes in reporting requirements. These updates will be available around May 15 and effective June 1.

For additional information, please contact your assigned OFM accounting consultant.