



Winter 2015

The Connection

A QUARTERLY NEWSLETTER REPORTING NEWS & INFORMATION FROM STATEWIDE ACCOUNTING



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Another Successful CAFR Season!

The Office of Financial Management is pleased to present the 2014 Comprehensive Annual Financial Report (CAFR). We invite you to view the CAFR online at: <http://www.ofm.wa.gov/cafr/2014/default.asp>.

Because of your diligence in meeting the CAFR calendar deadlines, we received our audit opinion on October 31st - the earliest opinion date ever! We appreciate all the time and effort that the fiscal staff at each state agency devoted to closing the fiscal year and providing quality financial data for the CAFR.

Thank you all!

Resolve to Reconcile IRS Forms

Reconciliations are a key element of good internal control and critical for a successful calendar year-end. Payroll offices should begin reconciliation and balancing activities with the first payroll of each new year. Now that all of the payrolls have processed for calendar year 2014, it's time to ensure that all of the forms that are sent to the IRS are in balance.

The Internal Revenue Service and Social Security Administration perform reconciliations of amounts sent on IRS Forms 941 (Employer's Quarterly Federal Tax Return) and W-2 (Wage and Tax Statement). The reconciliations also include amounts sent on correcting forms 941-X and W-2c. An out of balance may result in an IRS penalty.

Year-end balancing activities were covered at the [Personnel/Payroll Association](#) meeting on November 20, 2014. Several resources are available:

- [Payroll reconciliations, including:](#)
 - o Year-end information – ending 2014 and beginning 2015
 - o 941 to W-2 reconciliation template (Excel)
 - o Tax deposit reconciliation template (Excel)
- [HRMS year-end page](#)
- [Collecting prior year overpayments](#)

If you have any questions regarding reconciliations, contact Steve Nielson (steve.nielson@ofm.wa.gov or 360-725-0226).

2015 CAFR Due Dates

We have set the Phase 1, 1B and 2 cut off dates and the due dates for disclosure forms for fiscal year 2015 close. The key change for fiscal year 2015 is the addition of two items to the Phase 1B early due date: the reconciliation of interagency receivables/payables balances and the pollution remediation site status report. Many agencies have an early internal closing cutoff, so requiring all agencies to complete their interagency balancing earlier should provide better results for all agencies.

The 2015 AFRS/CAFR Closing Schedule can be found online at:

http://www.ofm.wa.gov/resources/yearend/15_AFRS_Closing_Schedule.pdf.

Interagency billings sent out	July 23, 2015
Phase 1 Accruals	July 31, 2015
Phase 1B Early State Disclosure Forms and cutoff for interagency receivable/payable balancing	August 21, 2015
Phase 2 Agency adjustments completed and State and Federal Disclosure Forms due	September 4, 2015
State Financial Disclosure Certification is due	September 16, 2015
Federal Assistance Certification is due	December 4, 2015

Every agency's adherence to the closing calendar is important. Please look at your year-end processes and identify those where a process can be streamlined. Continue working on your GL reconciliations throughout the year to reduce the year-end workload and ensure quality financial data. As we look for ways to improve the efficiency of the CAFR production, we welcome any and all of your ideas.

A preview of disclosure form changes for FY15:

- A new form for Restricted Cash and Investments to facilitate preparation of financial statements.
- COPs (Certificates of Participation) are moved to their own form to facilitate Phase 1B reporting.
- A revised Receivables form to facilitate note disclosure preparation.
- A new question about financial guarantees to address the requirements of GASB Statement 70.

If you have any questions or comments, please contact Cheryl Hainje (cheryl.hainje@ofm.wa.gov or 360-725-0193) or Suzanne Coit (suzanne.coit@ofm.wa.gov or 360-725-0187).

CMIA Update

The Office of Financial Management recently filed the 2014 Annual Cash Management Improvement Act (CMIA) report with the U.S. Treasury Department. The CMIA reports on federal and state compliance with the Treasury-State Agreement (TSA) which establishes requirements for transfer of funds associated with federal assistance programs between the federal government and state agencies. As submitted, the federal government owes the state \$27,000 including about \$3,300 in preparation costs. The report will be reviewed by the federal government, and payment should be received in March.

In early 2015, we will begin preparing for the 2016 TSA. Look for information soon about training on the process.

Winter Quarter Training Offered on a Variety of Subjects

We are pleased to announce that the following training classes will be offered this quarter:

Class Name	Dates	Times	Duration
Health Insurance Reconciliation	January 8 February 26	1:15 – 4:45	3.5 hours
In-Process Report Training	January 13	1:30 – 5:00	3.5 hours
Compliance: Travel Policies	January 20 March 18	8:30 – 4:00	7.5 hours
Payroll Revolving Account Reconciliation	January 20	8:30 – 4:00	7.5 hours
General Ledger Review	January 21 March 17	8:00 – 11:30	3.5 hours
Overview of Federal Cost Allocation & Indirect Cost Rates (2 CFR Part 200) **NEW	January 28	9:00 – 11:00	2.0 hours
Practical Application of Federal Cost Allocation & Indirect Cost Rates (2 CFR Part 200) **NEW	January 28	1:00 – 3:30	2.5 hours
General Ledger 5111 Reconciliation	February 2 March 17	1:00 – 4:30	3.5 hours
In-Process Report Training	February 2 March 4	8:30 – noon	3.5 hours
Accounting for Payroll	February 12	8:30 – 4:00	7.5 hours
Internal Control: Basics	February 18	8:00 – noon	4.0 hours
Introduction to GAAP in Washington State	February 23	8:00 – 3:30	7.5 hours
Internal Control: Payroll	March 17	8:30 – 4:00	7.5 hours
General Ledger Reconciliation: Basics	March 26	1:14 – 4:45	3.5 hours

**** NEW** These two new classes are offered to assist agencies in understanding the provisions of the new Super Circular, issued by the Office of Management and Budget and effective for federal assistance awards issued after December 26, 2014.

- Overview of Federal Cost Allocation and Indirect Cost Rates (2 CFR Part 200) - Presentation of the essential concepts of federal indirect cost recovery under the new 2 CFR Part 200 “super-circular.” This training focuses on the basic process and requirements associated with allocating costs to federal awards and utilizing indirect cost rates, including guidance on the allowability of various cost types, acceptable allocation bases and indirect cost rate options.
- Practical Application of Federal Cost Allocation and Indirect Cost Rates (2 CFR Part 200) - An interactive session beginning with a presentation of detailed indirect cost allocation and indirect cost rate examples, including the calculation formats that federal cognizant agencies prefer. Attendees are invited to bring specific data or questions relating to their agency’s indirect costs to the session to receive assistance from the presenter.

To view class descriptions and register, go to the [Learning Management System](#) website.

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Drum Roll Please... for the AFRS Table Roll

It's hard to believe that we're heading into the homestretch of the 2013-15 biennium, but we are and that means it's time to gear up for rolling AFRS tables into the new 2015-17 biennium. The table roll is the process by which agencies' current AFRS tables are automatically copied and the biennium field is updated to the new biennium. This eliminates the need to rekey the majority of tables and works great for agencies that are not changing their coding structure.

Although the actual table roll will not take place until April, we want to alert you to some proposed changes that will affect the roll process. There are four significant changes you need to know about:

1. We are adding the Program Index (PI) and Appropriation Index (AI) tables to the roll process. In the past these tables were rolled only for select agencies, but now all agencies will have this option.
2. We are adding edits to the PI and AI rolls to ensure only valid records are established in the new biennium. The edits will check against the appropriate descriptor tables including the statewide program (D27) and expenditure authority (D26) tables.
3. To facilitate the editing, rather than all at once, the roll will happen in three separate phases: (a) most of the descriptor tables plus the organization index and organization control tables; (b) the PI with related descriptor tables; and (c) the AI with related descriptor tables.
4. We are working on developing a simulated roll process for the PI and AI that will provide agencies a list of errors prior to the actual roll. Ideally, agencies would have time between the simulated and actual rolls to make table updates as needed; however, since the AI edits are based on a final budget being approved, the timing is out of our control and agencies will need to be flexible. To mitigate the effects of a delayed AI roll process, we will be analyzing existing tables and working with agencies to clean them up as much as possible in advance.

We expect these changes to improve the table roll process and its outcome for all agencies.

If you are not all that fond of change, never fear, because there are a number of things that will remain the same. We will still send out a communication in March detailing the table roll process and providing instructions for agencies. Agencies will still be ultimately responsible for their tables, so we would expect you to review the tables after the roll process and make updates as needed. And, agencies will continue to have the choice to opt out of the table roll process with only a slight change - now it will be on a phase by phase basis.

We are currently working with the Department of Enterprise Services (DES) and a small group of agencies to hammer out the details of the new roll process and document it in a way that is user friendly. We will communicate the details to agencies via email as well as via a short presentation at the February Financial Management Advisory Council meeting.

If you have questions, comments, or concerns, please contact Cheryl Hainje (cheryl.haine@ofm.wa.gov or 360-725-0193), Pat Sanborn (pat.sanborn@ofm.wa.gov or 360-725-0178) or your assigned OFM accounting consultant.

Requiring “Vendor Type” on All Payments

In order to demonstrate due diligence for all public disclosure requests, a change is proposed that would **require** “vendor type” on all exception code payments.

Vendor types identify the type of vendor and, if used appropriately, can identify payments that should not be included in transparency or public disclosure data, and can facilitate identification of vendors that should be included in 1099 reporting. Vendor type is required for all statewide and agency vendor records, so all payments made using a vendor number already include the vendor type. However, vendor type is currently optional when using an exception code.

Payments are made using an exception code for legitimate business reasons to payees for which we don’t have a TIN and/or without a payee (vendor) record. For more information on exception codes, refer to OFM Accounting Resources at: http://www.ofm.wa.gov/resources/misc/MCException_Codes_Overview.pdf.

This proposed change would require that all payments made using exception codes, whether online, through batch interfaces or toolbox entry, would need to include this field.

We would like to hear from each agency on **requiring vendor type** on all payments using exception codes. We will be sending out a survey in January to all fiscal officers in order to collect your responses.

For more information, contact Pat Sanborn at patricia.sanborn@ofm.wa.gov or 360-725-0178.

Winter Quarter Training Offered on a Variety of Subjects - *continued from page 3*

Space is limited in all classes, so we ask that you read the detailed class descriptions and coordinate within your office so that you and your staff attend the right classes. If you register but cannot attend, please cancel to make room for someone on the wait list.

With the exception of the January 28 cost allocation and indirect cost rates classes, all classes are held at the DES building at 1500 Jefferson St SE. The January 28 classes will be held in the OB-2 Auditorium. Parking is limited so we recommend taking the DASH bus or walking if possible.

Additionally, the Association of Government Accountants (AGA) and Financial Management Advisory Council (FMAC) are sponsoring a number of audio conferences. The schedule is posted on the [Olympia AGA](#) and [FMAC](#) websites.

For assistance or additional information, please contact the OFM Accounting Consultant assigned to your agency.

Preliminary Views from the GASB

The following Preliminary Views documents have been issued by the Governmental Accounting Standards Board (GASB). A Preliminary Views document generally is issued when the Board anticipates that respondents are likely to be sharply divided on the issues or when the Board itself is.

GASB Project No. 3-24P – *Leases*

GASB Project No. 3-13P – *Financial Reporting for Fiduciary Responsibilities*

The objective of **Project No. 3-24P – *Leases*** is to reexamine issues associated with accounting and financial reporting for leases and consider improvements to existing guidance. Specifically, the project seeks to answer the following questions: 1) are current accounting and financial reporting standards, including the distinction between types of leases, appropriate to meet essential user needs for decision-useful or accountability information regarding governmental leases; and 2) if current standards are not considered adequate, what other requirements should be considered.

Under current authoritative literature, leases are classified as either capital or operating, based on a set of criteria that has been criticized for allowing the opportunity to structure lease agreements so that they are classified as operating leases. Capital leases lead to the reporting of long-term liabilities for lessees. Even though operating leases also represent long-term commitments to make payments when governments are lessees, no liabilities are recognized. The Board believes by issuing this Statement, the accounting and financial reporting guidance on leases would be less complex and would provide greater comparability as a single approach would be applied to accounting for all leases over one year in duration.

The objective of **Project No. 3-13P – *Financial Reporting for Fiduciary Responsibilities*** is to enhance the consistency and comparability of reporting fiduciary activities in financial reporting. To meet that objective, the project addresses financial reporting issues associated with the existing standards by (a) describing when a government has a fiduciary responsibility and, therefore, is required to present fiduciary fund financial statements; (b) describing the use of individual fiduciary fund types; (c) clarifying the financial reporting requirements for business-type activities (BTAs) that are engaged in fiduciary activities; and (d) proposing a financial flows statement for all fiduciary fund types. The Board believes that the changes being proposed would provide preparers and auditors with clearer guidance for determining which activities should be reported in fiduciary funds and in which type of fiduciary fund the activities should be reported.

The full text of these Preliminary Views documents is available at <http://gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1175804830991>.

We encourage you to review these documents as it appears the Board is contemplating fairly significant changes to current lease and fiduciary fund accounting practices. The Board encourages written comments to their due process documents. If you would like to do so, you can:

- respond directly to the GASB. We would appreciate if you would forward a copy of your comments to your assigned OFM Accounting Consultant.
- share your comments with your assigned OFM Accounting Consultant by February 1, and we will incorporate them in our written comments to the GASB.

Keeping SAAM Up to Date

Effective January 1, 2015, we revised several policies in the State Administrative and Accounting Manual (SAAM). Key changes included:

- In Chapter 10, Travel, we increased the mileage reimbursement rate for privately owned vehicles from \$0.56 to \$0.575. This increase reflects the rate set by the United States Treasury Department which, pursuant to RCW 43.03.060, is the maximum rate the state can pay. The state Per Diem Rates map was also updated to reflect this change. The revised map is available on OFM's Travel Resources website at: <http://www.ofm.wa.gov/resources/travel.asp>.
- Chapter 16, Client Service Contracts, was eliminated. Client Services are now subject to chapter 39.26 RCW Procurement of Goods and Services administered by the Department of Enterprise Services. Policies and guidance promulgated by DES can be found at: <http://des.wa.gov/services/ContractingPurchasing/PoliciesTraining/Pages/default.aspx>.
- Chapter 50 Federal Compliance (Sections 50.20 and 50.30), were updated to reflect the Uniform Guidance issued by the Office of Management and Budget (OMB) effective for new federal awards after December 26, 2014.
- Section 70.50 Aircraft policy was eliminated, and certain policies were relocated to Chapter 10 Travel.
- In Section 75.20 Agency Codes, agency 135 Innovate Washington was removed.

Further information on these changes as well as all SAAM policies, directives, technical corrections, and superseded policies are available online on OFM's website at: <http://www.ofm.wa.gov/policy/default.asp>.

While some SAAM changes are mandated by statute or federal requirements, others are the result of agency request and/or developed with the assistance of agency input. We appreciate your involvement in keeping SAAM up to date.

Questions regarding manual content and proper interpretation should be directed to the OFM Accounting Consultant assigned to your agency. You can find your agency's OFM Accounting Consultant at: <http://www.ofm.wa.gov/accounting/swa/swacontactsbyagency.asp>.

2014 Audit Resolution Report

The annual *Audit Resolution Report* was issued to the Legislature in December 2014.

Washington State laws (RCW43.09.310 and RCW 43.09.340) require post audits of every state agency. As part of the audit process exceptions to specific expenditures or financial transactions become a matter of public record. Washington State Law (RCW 43.88.160) requires OFM to ensure agencies take corrective actions to address exceptions and annually report on the status of these audit resolutions.

This report summarizes the status of corrective actions taken by 18 state agencies to resolve exceptions reported in conjunction with regularly scheduled individual agency post audits, the statewide single audit, as well as other special reports from the State Auditor's Office. This year's *Audit Resolution Report* includes 52 exceptions, one of which relates to fraud.

We acknowledge agency efforts in assisting us in the compilation of this report and invite you to view the 2014 Audit Resolution Report at: <http://ofm.wa.gov/auditresolution/2014/default.asp>.

If you have any questions, please contact the OFM Accounting Consultant assigned to your agency.

Using Service Organizations

Many agencies utilize the service of external entities to perform duties integral to their operations – from hosting an IT application to tax and fee collection to processing payroll. Utilizing service organizations can make good business sense. But because these service organizations have control over state information and/or funds, it also poses some business risks that need to be addressed.

Each agency is responsible to ensure that there are adequate controls in place to protect state information and funds whether held directly by the agency or by service organizations under contract with the agency. When contracting with a service organization, an agency should conduct a risk assessment that considers the type and degree of risk involved such as:

- Does the service organization merely store information or does it process financial transactions?
- Is the information handled by the service organization confidential?
- Is there a need to have immediate access to the information?
- Does the service organization control financial data that is material to the agency? To the state?
- Is the service provided associated with a federal assistance program that has compliance requirements related to the use of service organizations?

Depending on the answers, an agency should take appropriate action that could range from effective agency controls over data transmitted to/from the service organization to requiring the service organization to provide the agency with a Service Organization Control (SOC) report. A SOC report summarizes the results of an audit of the service organization's internal controls. More information about SOC reports is available at <http://www.ofm.wa.gov/resources/internal.asp>.

As part of the fiscal year 2014 financial certification disclosure form, we asked agencies utilizing service organizations to provide a narrative of the service provided and a summary of the SOC report obtained. If an agency utilized a service organization and had not obtained a SOC report, we asked for the reason.

For fiscal year 2015 financial certification disclosure form purposes, we are narrowing our request for information on service organizations to those processing financial transactions that are material to the CAFR and those associated with a federal assistance program that requires a SOC report be obtained.

While we will be narrowing the scope of the service organization disclosure requirement, agencies will continue to be required to certify that they have established and maintained an effective system of internal controls as prescribed by SAAM Chapter 20. And, as noted earlier, this requirement extends to the activities of contracted service organizations.

If you have any questions regarding service organizations or internal controls in general, please contact Kim Thompson at kim.thompson@ofm.wa.gov or 360-725-0224.

What's New with TLA

December marked two important changes for the Time, Leave and Attendance (TLA) project. The first is the transfer of project leadership back to the business owner. The Department of Personnel previously led TLA, but due to turnover and agency consolidation that responsibility was filled by Department of Enterprise Services (DES). The project was shepherded along by DES, but the time is right for it to transfer to the business owner. That role is now filled by the Office of Financial Management and the project leader is Glen Christopherson in his role as State HR policy owner. Another important role is filled by Wendy Jarrett as the financial accounting policy owner. The One Washington office supports Glen and provides day-to-day project management.

The second change is the approach to bringing the pilot agencies, the Department of Ecology and the Department of Transportation (DOT), onto the system. Changing processes and applications affecting staff pay and leave are very complicated and difficult. Both pilot agencies have special challenges: labor distribution in Ecology, collective bargaining agreements in DOT and the mobile nature of DOT's marine division workplace. The project team is working to re-plan the project to initially focus project resources to get Ecology implemented. This will provide the state with the core functions plus configuration of the federation collective bargaining agreement. During the Ecology implementation push, DOT will continue to forge ahead so as to be in a good position to implement TLA once project resources are available. The DOT implementation will add configuration of another ten collective bargaining agreements as well as advanced scheduling. It is challenging to take on a project mid-stream, but the project team is committed to solving important business problems for the state, achieving enterprise system designation, and successfully implementing TLA!

New Year, New Training Opportunities

Are you looking for federal training? We might be able to help!

OFM has recently purchased a grants webinar training library through Thompson Information Services which allows year-round access to past webinars. Upon request we can work with agencies to provide access to recorded webinars and training materials.

Training topics include:

- Indirect Costs and the OMB Uniform Grants Reform Guidance: What to Expect
- The Procurement and Management of Property Under the Uniform Grant Guidance
- Uniform Grant Guidance: Are Your Policies Ready?
- Subrecipient Monitoring Under The New Grants Reform Guidance: New Scrutiny for Pass-Through Agencies
- When the Auditor Comes Knocking: Grant Audits Under the Uniform Grant Guidance
- Time & Effort Documentation: Don't Get Caught off Guard by Grant Reform
- Financial Management Under the Uniform Grant Guidance
- Uniform Grant Guidance: Best Practices for Avoiding Improper Payments
- 2014 A-133 Compliance Supplement: A Guide for Single Audits
- Internal Controls: "Heartbeat of the Uniform Guidance"

For more information, contact Sara Rupe at 360-725-0189 or sara.rupe@ofm.wa.gov.

One Washington Reports

One Washington has buttoned up its business case and has developed a proposed plan for moving forward on the project. The executive sponsors reviewed the three scenarios evaluated by Accenture:

1. One ERP project with procurement and finance functionality and the ERP would be owned by the state.
2. Two projects with a best of breed procurement product implemented first, followed by an ERP for finance functionality. The ERP would be owned by the state.
3. Two projects with a best of breed procurement product implemented first, followed by an ERP for finance functionality. The ERP would be a software-as-a-service product where the application is leased, hosted in the cloud and accessed by the Internet.

Each scenario has a positive total cost of ownership over the same 12-year timeframe which includes planning and procurement, design, implementation and at least five years of routine operations. The sponsors concluded that an incremental approach, either scenario 2 or 3, is best for Washington. These key factors were considered in making this recommendation:

- **Producing business value sooner.** The opportunities to develop business value, including hard-dollar benefits from the procurement processes, are significant. Other business value is created through the establishment of standard processes that make it easier to train staff and eliminate manual work.
- **Providing tools where they are needed the most.** The most challenging business process is procurement due to the lack of an end-to-end enterprise system. The result is inconsistency, manual work and workarounds.
- **Sizing the project for enterprise capacity.** Post-recession administrative staffing for agencies is limited, making large projects especially challenging. Implementing the project incrementally is more likely to produce success.
- **Minimizing the initial investment.** The economic realities of slow revenue growth and significant demands on available resources make an incremental approach more viable.
- **Building repeatable processes and tools.** Implementing functionality incrementally provides the opportunity to apply Lean and project management methodologies and then improve those skills before the next implementation phase.
- **Providing critically needed enterprise data.** Information is a vital tool for managing the business of state government. Enterprise data provides the basis for hard-dollar benefits by enabling additional opportunities for master contracts and producing benefits from cost savings.
- **Recognizing the impact of other major projects.** Other major projects underway, such as the Department of Revenue replacement of the tax and licensing system, will be a significant drain on IT staff during the same time frame. Implementing procurement first minimizes the impact.

Scenario 1 was rejected because the scope and size of the project exceeds the organizational capacity to be successful and it requires a significant investment which is not feasible either now or in the foreseeable future.

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One Washington Reports - *continued from page 10*

The go-forward plan for the state is built off of the business case; but the amount of funds requested has been reduced to reflect current fiscal reality. The decision package includes \$3.2 million to support key activities that will provide a good foundation for the project including:

- Establishing an enterprise business projects office in OFM.
- Creating a governance structure for enterprise systems, data and projects.
- Developing data standards for all state payees.
- Applying Lean techniques to document and improve current procurement processes.
- Preparing documents necessary for the requests for proposal related to procurement.

Each activity provides business value to the state. By completing some preliminary activities first, project activities begin later and more slowly than in the business case. The project would then ramp up in the following biennium with work on procurement, including the requests for proposals for software and services, process and system design and the first rollout. The processes developed in the procurement business process transformation and system implementation would then be repeated when the initial ERP activities begin in the 2017-19 biennium. Throughout the project, the focus is on developing incremental business value and repeatable processes.

A couple important milestones occurred in December. The first is completion and posting of the report to the legislature on the business case for transforming processes and replacing core financial systems. The report can be found at http://cfs.descms.net/documents/20141215_Report_to_Legislature.pdf. The second is transfer of the Time, Leave and Attendance (TLA) project to OFM with One Washington handling day-to-day project management. Focus for the next six months will be on funding for One Washington, including TLA and on-going implementation efforts for the two TLA pilot agencies.

