



Winter 2014

The Connection

A QUARTERLY NEWSLETTER REPORTING NEWS & INFORMATION FROM STATEWIDE ACCOUNTING

in this issue

Looking ahead to the new year...– 1
Time, Leave, and Attendance – 2
SAAM Update – 3
Small and Attractive Assets – 3
Pseudo Vendors – 4
Another Successful CAFR! – 4
FY 2014 CAFR Due Dates – 4
GASB Standards Implementation – 5
Training – 6
GL Reconciliation – 7
Payroll Processing Controls – 8
2013 Audit Resolution Report – 9
Vendor Types – 10
e-Commerce – 11
Update on the State's Core Financial Systems – 12

Looking ahead to the new year...

The new year brings new opportunities. As you will read in this edition, we, the OFM Accounting Division, are looking at improved ways to collect, reconcile, and report accounting data. While sometimes a system modification is needed to solve a problem, often a low-tech fix such as a process improvement or timely reconciliation is the answer.

We are currently looking at the disclosure form application for opportunities to clarify the instructions and the forms so that they are easier for agencies to complete correctly and efficiently. We are also considering a year end training session focused on disclosure forms.

Another area of focus for us is strengthening GL reconciliations at agencies where the process is not currently institutionalized. Reconciliations are a key component of a system of internal controls and reconciled GLs are the foundation of quality financial reporting. (More about reconciliations on page 7.)

From a statewide systems perspective, we are working with DES Enterprise Technology Solutions (ETS) staff on AFRS, CAMS, and TEMS maintenance items. We are teaming with our counterparts at OFM State HR and DES ETS on HRMS maintenance. We are also participating in the implementation of the Time, Leave, and Attendance (TLA) solution as well as a new project that is looking at data security. (More about the TLA project on page 2.)

Because resources available to us on statewide systems are fairly limited, we want to make sure that the projects we move forward with provide maximum statewide benefit. And, we also want to work toward process improvements that improve quality and efficiency.

As we move forward into the new year, we welcome your comments and input. We would also like to hear about your agency's best practices and process improvement efforts. Your participation is key as we move toward an Enterprise Resource Plan. (More about the ERP on page 12.)

If you have questions or comments on any information contained in The Connection, please contact Anwar Wilson at anwar.wilson@ofm.wa.gov.



Time, Leave, and Attendance (TLA) Project Update

In October, [WorkForce Software](#), was selected to provide implementation and configuration of its EmpCenter software for the new Time, Leave, and Attendance application for the state of Washington.

Since coming on board, WorkForce consultants have provided presentations and product demonstrations to educate both agency leaders and business staff on the software's capabilities. Questions from these presentations will be included on the [TLA Project site FAQ](#). If you missed these presentations, a video of the presentation will be available on the project website (<http://des.wa.gov/about/pi/TLA/>) in January.

As we have previously mentioned, the Departments of Transportation and Ecology are the pilot agencies for the TLA project. In early November, OFM formed a team composed of staff from a cross-section of state agencies. Named the Agency Advisory Group, this team will represent all agencies during the implementation of the TLA. Agencies not directly represented on the Advisory Group have been assigned a representative agency from this group. You can expect to receive information from them as well as be able to share ideas and suggestions with them for inclusion in the requirements discussions. Your agency's Advisory Group representative is listed in the [Agency Point of Contact list](#).

Working initially with the Departments of Transportation and Ecology, the Workforce consultants have been gathering information and conducting a series of workshops to begin to identify candidates for the "core" configuration. As we noted in the Fall issue of the Connection, core represents the set of configuration items that apply to every user of the application. In January 2014, the Advisory Group will review the proposed core requirements, solicit information from the agencies they represent, and provide feedback to ensure these requirements can be implemented in a way that is acceptable to the state enterprise.

The TLA Project has received considerable interest from agencies asking when they can begin implementation. For the time being, the focus is on successfully implementing Transportation and Ecology and developing a sound core that will enable smooth implementation in other agencies.

For more information:

- Visit the TLA project website at www.des.wa.gov/about/pi/TLA/
- If you have specific questions, access the project directly at sla@des.wa.gov.

SAAM Update

Effective January 1, 2014, we revised several policies in the State Administrative and Accounting Manual (SAAM). Changes included:

- In Chapter 10, Travel, we decreased the mileage reimbursement rate for privately owned vehicles from \$0.565 to \$0.56. This decrease 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>.
- In Chapter 30, Capital Assets, we updated the listing of assets and associated lives under Major Groups 70 Information Technology Equipment and 77 Musical Instruments, Televisions, and Household Recordings. This update involved two stakeholder surveys and was coordinated with the OCIO. We also revised the listing of small and attractive assets that an agency must inventory absent a risk assessment and development of written policies.
- In Chapter 75, we added General Ledger code 1919 Other Noncurrent Assets and revised the definitions of General Ledger codes 1140, 1150, 1240, and 1415.
- And, in Chapter 85, we added a new section and illustrative entries for interagency/interfund capital asset transfers.

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, such as the January 1, 2014, change to Chapter 10, others like the changes to Chapters 30, 75, and 85 are the result of agency request and/or 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>.

Small and Attractive Assets

The focus of the January 1, 2014 change to the small and attractive asset policy (SAAM 30.40.20) was on updating the nature of assets designated as small and attractive and modifying useful lives to reflect industry practice and state agency experience. During the update process, we heard from many of you that other changes should be considered. Many suggested we revisit the dollar threshold. Others pointed out that while certain small and attractive assets such as smart phones, laptops, and tablets are relatively inexpensive, the security of the data stored on these devices cannot be minimized.

Because of time constraints we decided to defer a more in depth review of the small and attractive asset policy until after the first of the year. Our plan is to do additional research, solicit further input from agency stakeholders, and coordinate with the OCIO office. If you have questions or suggestions, please contact Heidi Algieri at heidi.algieri@ofm.wa.gov or 360-725-0182.

Pseudo Vendors

'So long, it's been good to know ya...'
That's the song we'll be singing soon for pseudo vendors. The use of 'VOD0' and 'VOD1' pseudo vendor numbers is currently scheduled to be disabled in January 2014.

Most of you have already re-trained yourselves to use the Exception Code process in those unusual circumstances when you need to make a payment without the use of a statewide vendor. Since October 2013 we have averaged only 3 pseudo vendor transactions per day and all of them could have utilized one of the existing Exception Codes.

Payments that were made using a pseudo vendor before January 2014 that need to be cancelled after that date will be allowed to process using the 'VOD0' or 'VOD1' that was used on the original transaction.

If you have any questions on how this will work for you, please contact the DES Solutions Center at solutionscenter@des.wa.gov and they will be happy to assist you.

Another Successful CAFR Season!

The Office of Financial Management is pleased to present the 2013 Comprehensive Annual Financial Report (CAFR). We invite you to view the CAFR online at: <http://www.ofm.wa.gov/cafr/2013/default.asp>.

Because of your diligence in meeting the CAFR calendar deadlines, we received our audit opinion on November 8th - 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 financial data for the CAFR.

Thank you all!

Fiscal Year 2014 CAFR Due Dates!

We have set Phase 1, 1B and 2 cut off dates and due dates for disclosure forms and certifications consistent with fiscal year 2013 close. We will continue with the Phase 1B early due date for certain state disclosure forms that was initiated in fiscal year 2013.

The 2014 AFRS/CAFR Closing Schedule can be found online at: http://www.ofm.wa.gov/resources/yearend/14_AFRS_Closing_Schedule.pdf.

Interagency billings sent out	July 23, 2014
Phase 1 Accruals	July 31, 2014
Phase 1B Early State Disclosure Forms	August 22, 2014
Phase 2 Agency adjustments completed and State and Federal Disclosure Forms due	September 5, 2014
State Financial Disclosure Certification is due	September 17, 2014
Federal Assistance Certification is due	December 5, 2014

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. As we look for ways to improve the efficiency of the CAFR production, we welcome any and all of your ideas.

If you have any questions or comments, please contact Cheryl Hainje at 360-725-0193 or cheryl.hainje@ofm.wa.gov.

GASB Standards to be Implemented in Fiscal Year 2014

The following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB) become effective for fiscal year 2014 reporting:

GASB Statement 66 Technical Corrections—2012 (an amendment of GASB Statements No. 10 and No. 62)

GASB Statement 67 Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25)

GASB Statement 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees

Statement 66 amends Statements 10 and 62 for four specific topics: risk financing activities in a special revenue fund type, operating lease methods, the purchase of a loan or group of loans, and servicing fees on mortgage loans. At this time, we do not anticipate that Statement 66 will impact state CAFR reporting.

The objective of Statement 67 is to improve the pension-related information in plan financial reports by providing greater transparency and to standardize the valuation practices. While current pension reporting is closely tied to how governments fund pensions, the new guidance reflects GASB's belief that funding is a policy decision made by governmental officials and the accounting for those decisions should be consistent and comparable across governments. The new standards require separate public pension accounting for financial reporting and require employers to recognize a net pension liability on their financial statements. These are new accounting and financial standards for reporting purposes, and will not impact the funding requirements. Because Statement 67 sets standards for plan reporting, it will impact the Department of Retirement Systems' CAFR. Statement 68 which sets standards for employer reporting is effective for fiscal year 2015 reporting and will definitely impact the state's CAFR.

The objective of Statement 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. In the coming months, we plan to reach out to agencies that we think might engage in financial guarantees to discuss the requirements of Statement 70.

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

Winter Quarter Training Offered on a Variety of Subjects

We are pleased to announce the following important training classes will be offered this quarter. All classes will be taught by Statewide Accounting staff.

Class Name	Dates	Times	CPE Hours
Internal Control: Basics	February 5 March 25	8:00 - 12:00	4.0 hours
Accounting for Payroll	January 8	8:30 - 4:00	7.5 hours
In-Process Report Training	January 14 March 4	8:30 - 12:00	3.5 hours
Introduction to GAAP in WA State	January 21 February 18 March 31	8:00 - 3:30	7.5 hours
Payroll Revolving Account Reconciliation	January 21	8:30 - 4:00	7.5 hours
General Ledger Review	January 21 March 11	8:30 - 12:00	3.5 hours
Compliance: Travel Policies	January 22 March 5	8:30 - 3:30	6.0 hours
Accounting for Capital Assets	January 22	8:00 - 12:00	4.0 hours
Health Insurance Reconciliation	February 26	8:30 - 12:00	3.5 hours
Internal Control: Payroll	March 11	8:30 - 3:30	7.0 hours

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

Space is limited in the 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 class. If you register but cannot attend, please cancel to make room for someone on the wait list.

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

Additionally, the Association of Government Accountants (AGA), Financial Management Advisory Council (FMAC), and the State Auditor's Office (SAO) are sponsoring a number of audio conferences. The schedule is posted on the Olympia AGA (<http://aga-olympia.org/CPEEvent.aspx>) and FMAC (<http://www.ofm.wa.gov/accounting/fmac.asp>) websites when finalized.

Have you Reconciled your GLs Lately?

While a faster CAFR continues to be one of our key initiatives, we do not want to sacrifice quality for timeliness. The foundation of quality financial information is in the detail data recorded at the general ledger (GL) level by agencies. We need solid, accurate GL balances upon which to build our timely, award winning CAFR. Routine, efficient, effective GL reconciliations are a fundamental key to our success.

Reconciliations are important throughout the year, not just at fiscal year-end. If you wait until year-end, it's too late. And, if you don't reconcile regularly, errors can accumulate and the cleanup process gets more complicated.

Financial reconciliations are a key element of a system of internal control. Without reconciliations, systemic problems can go undetected. It's like relying on your smoke detector to alert you to a fire, but never checking to see if the battery is still good.

Reconciling the GL balance of a local account to the bank statement is a prime example of an internal control that supports financial reporting. If you have one or more local accounts, a monthly bank reconciliation that is prepared timely and periodically monitored by someone else gives one of the greatest "bangs for the buck" you can get.

Almost every agency has equipment, and reconciling your equipment GL balance to both your asset management system and actual equipment on hand is another example. Controls need to include a periodic physical inventory done by someone not involved in receiving or recording inventory. If the amount of the physical inventory does not equal the GL balance, the difference should not simply be adjusted in the accounting records. Rather, further investigation is needed to determine why there is a difference and where in the process the GL balance and physical inventory got out of sync. The goal is to correct deficiencies and strengthen controls over safeguarding assets while at the same time facilitating reporting GL balances that are accurate and meaningful.

We know that many of you have institutionalized GL reconciliations in your financial management processes. We also are aware that others have room for improvement. We plan to work with agencies in the coming months to collect and share reconciliation best practices. We also plan to offer a GL Reconciliation class this Spring.

If you don't already have a GL reconciliation process in place, now is a good time to begin devising a plan. Start with the most material GL balances, and continue until you've reconciled each GL. Remember that every year your agency's Director and Chief Finance Officer must certify on the state disclosure certification form that your AFRS data is accurate and complete and that your agency has a system of internal controls in place.

If you have best practices you would like to share or questions related to reconciliations, please contact your assigned OFM Accounting Consultant.

Payroll Processing Controls

The State Administrative and Accounting Manual (SAAM) assigns responsibility to agencies for adequate internal controls, including controls over payroll processing.

To maintain good internal control over payroll processing, agencies should:

- Ensure duties are properly segregated. Some considerations:
 - o Separating payroll and personnel duties is important and should be done whenever possible.
 - o Individuals should not enter changes to their own data files.
 - o Individuals involved in payroll data entry should not have payroll approval authority or security update access.
 - o Individuals with security roles should not be assigned other update roles.
 - o Individuals responsible for reviewing payroll variances should not have the access needed to change employee salary data or security update access.
 - o Individuals responsible for approving the payroll register should not have the access needed to change employee salary data or security update access.
 - o Where segregations cannot be made, compensating controls should be in place.
- Perform adequate monitoring of the above controls, being sure to take action if exceptions are found.
- Restrict security access for employees to the minimum level required to perform assigned duties.

The following HRMS reports can be helpful monitoring tools:

- **Payroll Threshold Report** (HRMS transaction ZHR_RPTYN09) which can be used to look at specific criteria, such as:
 - o Net pay over an agency-specified selected dollar amount.
 - o Specific wage types over an agency-specified dollar amount. Examples include leave payouts (even if no one left your agency during the pay period), leave without pay, retirement arrears, and adjustments to gross pay or overtime.
 - o Zero working hours.
 - o Deductions not taken.
 - o Gross or net pay less than zero.During payroll processing, the report is updated nightly and at noon on Day 3.
- **Logged Changes in Infotype Data** (HRMS transaction S_AHR_61016380) shows data changes made to employee master data records in HRMS by personnel number, date, and time of such changes. One use of this report is to look for employees who change their own records in HRMS. This report can be run at any time.
- **Payroll Simulation** (HRMS transaction PC00_M10_CALC_SIMU) shows gross to net pay by employee. Agencies can use this report to verify one employee or a group of employees. This report can be run at any time.
- **Payroll Posting Report** (HRMS transaction ZHR_RPTY126) shows payroll and FTE calculations by agency, personnel number, AFRS account coding, and wage type. Agencies can run this report at the agency, employee, org unit, or wage type level. It can be used to review retro transactions (activity processed for a prior payroll period). During payroll processing, the report is updated nightly.

(continued on page 9)

Payroll Processing Controls - continued from page 8

- **Payroll Journal** (HRMS transaction ZHR_RPTPYN33 or S_ALR_87014259) shows gross to net pay by employee. Agencies can use this report to verify one employee or a group of employees. It can be used for preliminary review prior to payroll cutoff. During payroll processing, the report is updated nightly and at noon on Day 3.
- **Wage Type Reporter** (HRMS transaction PC00_M99_CWTR) can be used to evaluate activity by wage type as identified by the agency. During payroll processing, the report is updated nightly and at noon on Day 3.

Other things to keep in mind -

- Allow for time to review.
- Don't wait until the last minute. Process as many transactions as possible prior to Day 3.
- Make sure HRMS input ties to properly authorized source documentation.
- Review HRMS input for reasonableness.
- Review leave without pay as a separate activity to help avoid overpayments.
- Have a process to identify employees who are leaving your agency (and should no longer be paid).
- Actively manage HRMS system security.
- Make sure that all documentation received by HR and payroll is entered into HRMS.

Remember, there is no one-size-fits-all solution. Agencies ultimately need to ensure their controls are designed to meet their operating environment and are functioning properly.

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

2013 Audit Resolution Report

The annual [Audit Resolution Report](#) was issued to the Legislature in December 2013.

This report summarizes the corrective actions taken by 15 state agencies to resolve 72 audit exceptions issued by the State Auditor's Office (SAO), including two related to fraud. OFM is required to ensure that agencies take corrective actions to address exceptions and to annually report on the status of these audit resolutions. This report includes resolution of audit exceptions reported in conjunction with regularly scheduled individual agency post audits and the statewide single audit, as well as other special SAO reports.

The information in this report provides agencies with an opportunity to describe the specific actions they have taken to address the deficiencies noted in audit findings. We encourage agencies to include sufficient detail to be informative, while remaining understandable to a diverse audience. We acknowledge agency efforts in assisting us in preparing this report.

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

Did You Know Vendor Type is a Critical Field in AFRS?

What happened in 2012? Before the state's [Open Checkbook](#) went live in December 2012, we emphasized there would be a greater need for high quality data because the information displayed is the "originally processed" payment information and does not reflect subsequent corrections. At the time, we focused on using objects and subobjects consistently and correctly, and that remains an important focus.

What has happened since 2012? We have noted another area of input that needs careful attention – Vendor Type. There are at least three reasons the correct vendor type is important. The first two listed below are not new but the third one just recently surfaced.

1. Annual IRS Form 1099 reporting depends in part on vendor type.
2. The Open Checkbook uses vendor type, along with object and subobject, to determine whether a payment is exempt from disclosure on the Open Checkbook.
3. **NEW!** When a public disclosure request for payment detail includes payee address fields, we rely solely on vendor type to decide whether the address is exempt from disclosure or not.

What is so special about addresses? While we do not include payee addresses on the Open Checkbook, we recently received a public disclosure request for payment data including addresses, and we anticipate receiving ongoing requests. For vendor types 1 (employees), 5 (volunteers) or 6 (board, council, and commission members), the payment can be disclosed, but not the address. We have no other way to properly exclude addresses other than vendor type. When we have to request verification from agencies, it is very time-consuming for everyone, so it is critical that all vendor types, but especially 1, 5, and 6, are correct.

Are there any exceptions? Vendor type is not required, and in some cases not allowed, on exception code and pseudo vendor payments. When vendor type is entered, whether required or not, please be sure it is correct.

What should you do? When you add a vendor to your agency vendor file, verify it is correct. If you suspect a vendor type in your agency vendor file is incorrect, correct it right away. If you suspect a vendor type in the statewide vendor file is incorrect, contact the [solutions center at DES](#) for instructions.

PayPal, Google Checkout, or Other Like Services:

What are PayPal and Google Checkout?

These are e-commerce businesses allowing payments and money transfers to be made through the Internet.

PayPal and Google Checkout are just two processors that perform payment processing services. These processors obtain and store financial information, so the user can buy online products without needing to manually enter their credit card information every time. When a payment is generated, the processor will transfer the funds from the payee to the recipient.

Can agencies use PayPal, Google Checkout, or other like services to make payments to others?

Agencies should not use a third party processor to process payments.

Reasons these processors should not be used:

- Using PayPal, Google Checkout, or other like services adds another level of complexity and risk to the payment process as the credit card information would then be held by a third party.
- Since payments can be processed directly to a vendor without using a third party processor this would be seen as an unnecessary risk to the state.
- Safeguarding state funds is essential.

If an agency feels they have a need to use a third party processor such as PayPal, Google Checkout, or other like services, please contact OST's Ryan Pitroff at 360-902-8917, or Lesa Williams at 360-902-8911.

Can agencies accept payments using PayPal, Google Checkout or other like services?

NO, agencies are not allowed to use these services to accept payments.

A few of the reasons are listed below:

- There can be high fees associated with accepting payments through payment services such as PayPal, Google Checkout, or other like services.
 - The use of these payment services violates the Public Deposit Protection Commission (PDPC) law (RCW 39.58.080), because the payments are deposited in out-of-state accounts, and not in in-state PDPC qualified banks.
 - The use of PayPal violates the Office of the State Treasurer's (OST) mandatory use contract for merchant services. OST's current banking contracts must be used when an agency wants to accept all electronic payments including credit and debit card and ACH payments.
-

What options do agencies have for accepting payments electronically?

The preferred method is automated clearing house (ACH) debits. These are also referred to as electronic checks, internet checks, electronic fund transfers (EFTs) and automatic debits. From a fee perspective, this method is the least expensive for accepting funds electronically and works well for both one-time internet payments and recurring payments.

Acceptance of credit and debit cards might require an Economic Feasibility Study (EFS) to be approved by OFM prior to implementation (RCW 43.41.180).

For more information about the EFS process, refer to Chapter 40 in the State Administrative and Accounting Manual (SAAM). You can also contact OST's Ryan Pitroff at (360) 902-8917, Lesa Williams at (360) 902-8911, or OFM State Financial Consultant Sandy McGough at (360) 725-0194.

Update on Possible Replacement of the State's Core Financial Systems

As we all know, Washington's Agency Financial Reporting System (AFRS) just isn't getting any younger. Though it reliably provides basic functionality and supports Washington's award-winning financial reporting, AFRS simply can't meet today's business needs. There is a growing need for more timely and detailed information and a desire for core financial systems to more fully integrate with functions like e-procurement, labor distribution, and management analytics.

Most importantly, we must be confident that our core financial systems are kept strong, stable, and secure well into the future – and that means once again taking a careful look at the future of AFRS and what should replace it.

A new project funded by the Legislature in the 2013-15 operating budget is being led by OFM, DES, OCIO and the State Treasurer's Office to create a business case and plan for what sort of modern, up-to-date and efficient Enterprise Resource Planning system (ERP) could replace AFRS.

While this new project builds on and extends the state's 2008 Roadmap process, a fresh look will also be taken because so much has changed in the financial systems and government finance worlds.

Though the final scope of the system replacement is not yet determined, it is expected to include at least:

- General ledger accounting to replace AFRS and TRAINS;
- Procurement;
- Labor distribution;
- Accounts receivable management;
- Capital asset accounting;
- Cost accounting; and
- Financial and management analytics and reporting.

Through an open and competitive process, the state entered into a contract with Point B in December 2013 to provide project management services for the initial phase of the ERP project. Another competitive procurement is currently underway for a contractor to provide planning for the ERP that, at a minimum, will:

- Produce a comprehensive and understandable business case so that State policy makers can properly evaluate the options, risks, level of effort, cost and value expected from replacement of its core financial systems;
- Determine and confirm the state's business process transformation needs and priorities; and
- Recommend a project scope and product strategies based on market research.

We will keep you updated as this planning effort moves forward.