



# The Connection

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

## Transparency

Public expectations for transparency and open government have grown over recent years. On a national and state level, transparency is viewed as fundamental to accountability. Most states have transparency websites. You may visit Washington's website at [www.fiscal.wa.gov](http://www.fiscal.wa.gov). It provides statewide and agency reports on budgets, state employee salaries, contracts, and more. It is user friendly and provides information in a variety of formats at various levels of detail.

The Office of Financial Management (OFM) is initiating a project to support the addition of "vendor checkbook" information to our transparency website. Most states already have checkbook information available. Some report that a publically available checkbook reduces public disclosure requests and serves as a tool for sharing vendor data among agencies.

For more information, contact Wendy Jarrett at 360-725-0185 or [wendy.jarrett@ofm.wa.gov](mailto:wendy.jarrett@ofm.wa.gov).



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## What's new in SAAM?

In February, the State Administrative and Accounting Manual (SAAM) was updated in a couple of areas:

In Chapter 10, Travel, we eliminated the requirement for prior approval of meetings held in private facilities at no cost. This change became effective February 18, 2011 and complies with Engrossed Substitute House Bill 1086. Refer to Subsection 10.10.55.

In Chapter 30, Capital Assets, we added an Addendum to Schedule A establishing useful lives for energy efficiency equipment and products. This Addendum is based on the American Society of Heating, Refrigeration and Air-Conditioning Engineers (ASHRAE) and Northwest Power and Conservation Council standards. This change became effective February 1, 2011. Refer to Subsection 30.50.10.b.

All SAAM policies, directives, technical corrections, and superseded policies are available online at 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

If you have questions regarding SAAM policy content and interpretation, please contact your assigned OFM accounting consultant.

# Another fiscal year is coming to a close...

*This section is dedicated to providing important information and key timelines to help you prepare for 2011 fiscal year-end.*

## GASB Implementation

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):

### GASB 54 - Fund Balance Reporting and Governmental Fund Type Definitions

The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is distinguishing between amounts that are considered nonspendable and spendable. Nonspendable fund balance includes amounts that cannot be spent either because they are not in a spendable form (such as inventories) or because legally or contractually they cannot be spent (such as the corpus of a permanent fund). The statement provides further classifications as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

### GASB 59 - Financial Instruments Omnibus

This statement updates and improves existing standards regarding the financial reporting of certain financial instruments and external investment pools.

## Important fiscal year-end dates

<b>DUE DATE</b>	<b>REPORTING ITEMS</b>
June 30	Last day of the fiscal year; Cash cutoff (Refer to OST's closing schedule memo)
July 22	Interagency billings must be mailed
July 29	Phase 1 closes - Agency Accruals
August 1	Disclosure Form application opens
September 13	Phase 2 closes - Agency Adjustments completed, State and Federal Disclosure forms are due
September 27	State Financial Certification form is due
December 6	Federal Assistance Certification form is due

It is critical that agencies comply with these cut-off dates. As you might recall, the financial community seeks more timely financial information. In response, we initiated our "faster CAFR" initiative last year.

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. Additionally, as year-end closing information becomes available, we will post updates to the Administrative and Accounting Resources site at <http://www.ofm.wa.gov/resources/yearend.asp>.

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

## A special thanks...

***Thanks to fiscal staff across the state, we were able to meet our goal last year and issued the CAFR on November 30, 2010.  
Our goal this year is November 21.***

## Fiscal year-end training options

Classes on both state and federal year-end closing procedures will be held in June. For the fiscal year closing veterans, we offer short (1.5 hours) update classes that focus on current year changes and other important items we want to emphasize.

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 26, 2011, 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>.

Again this year, we will offer two half-day workshop classes. One class focuses on expenditures and payables; the other class focuses on revenues, reconciliations, and Phase 2 adjustments. These workshop classes are hands-on with exercises and are intended for people who are new to the fiscal year-end process.

Fiscal Year-end Expenditures and Payables Workshop	4.0 hours
Fiscal Year-end Revenues, Reconciliations, & Phase 2 Adjustments Workshop	4.0 hours

Since space is limited in these workshops, 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.

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

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

## FINAL reminder that you need to...

- Receive all goods and services by close of business June 30 to be recorded in the concluding fiscal year as an asset or expenditure/expense.
- Record treasury cash activity at year end following the Office of the State Treasurer (OST) cut-off schedule.
- Separately record additions, deletions and adjustments for capital asset and debt activity. Do not net activity.
- Reconcile and clear up in-process reports and suspense account activity.
- Get started early on interagency and interfund receivables and payables by cleaning up old balances.
- Reconcile your general ledger accounts, and make sure there are no residual questionable balances.
- Make sure you report expenditures in the correct subobject, like ED Rental and Leases – Land and Buildings and EH Rentals and Leases – Furnishings and Equipment.
- Make sure you use the correct appropriation and do not overspend.
- Clean up any exceptions shown on ER reports (Accounting/Exceptions folder).
- Remember to sign up for year-end training and other useful classes such as Administering Agencies, General Ledger (GL) Review, and In-Process Report Training at <http://www.ofm.wa.gov/training/default.asp>.

## Check out the EPS website

The EPS website at [www.ofm.wa.gov/resources/eps.asp](http://www.ofm.wa.gov/resources/eps.asp) contains important information about the project. Items of interest include:

- What is the EPS Project?
- IRS regulations
- EPS priorities
- Process to convert agency vendor files to statewide vendor files

Check it often for updates.

*We previously reported on the EPS project launched by OFM to address new federal requirements. The project is progressing through the design phase. Here's the latest from the project:*

## Status of federal regulations

As of this writing, federal regulations for 3% withholding and expanded 1099 reporting are still pending. There is action at the federal level regarding both of these provisions:

- 3% withholding: There are repeal bills pending in both the House and Senate.
- Expanded 1099 reporting: On February 17, the Senate passed the Federal Aviation Administration Reauthorization Bill which includes an amendment to repeal the expanded 1099 reporting requirement. The same day, the House Ways and Means committee approved a bill to also repeal the expanded reporting requirements. The House bill awaits action on the floor.

Since there are no guarantees that either of these provisions will be repealed, the EPS project continues to move forward assuming that the requirements will be effective January 1, 2012.

## Requiring a subobject on payment transactions

One of the tenets used in the EPS project is that we will automate the process of determining 3% withholding and 1099-MISC reporting as much as possible. AFRS descriptor table D78 already populates the 1099-MISC reporting box and the OMWBE flag based on the combination of vendor type and subobject used on payment transactions. We plan to update this table to accommodate the expanded 1099-MISC reporting requirements and to determine eligibility for 3% withholding. To be effective, a subobject must be included on all payment transactions that are potentially subject to withholding and reporting.

That might sound like a radical change, but in reality it requires a change to only a small percentage of payment transactions. Certain payment transactions, such as **revenue refunds**, are not subject to withholding and reporting. Just like today, these types of payments will not require (or allow) a subobject. Conversely, **expenditure transactions** which are potentially subject to withholding and reporting already require a subobject, so there is no change from the perspective of coding your payments.

Transactions that will require a change are those that make a payment to a vendor for property or services without posting an expenditure. Here are two examples:

1. Transaction Code (TC) 557: Agencies that use the perpetual inventory method to track consumable inventory purchase their inventory items from a vendor without recording an expenditure. The payment is made with a General Ledger (GL) 1410 and no subobject. The expenditure is recorded later as the consumable inventory is used.
2. TC 955: Many agencies record estimated accrued expenditures at the end of a fiscal year or biennium. These transactions require a full line of expenditure coding including the subobject. However, when the agency pays the vendor invoice in the ensuing fiscal period, they are liquidating a payable (such as GL 5199) but not recording an expenditure so a subobject is not required. [Note: This is only one example of how TC 955 is used.]

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The potential solution in these particular examples is to require agencies to include a subobject on the payment transactions. This will force the transaction through the automated D78 evaluation process and enable the system to determine the eligibility for 3% withholding and 1099 reporting.

OFM is currently working with the Agency Advisory Group to determine and verify the TCs that will need to change in the future to require a subobject.

## Payee portal

The Payee Portal is a significant part of the EPS project. The Payee Portal is taking a three phased approach in order to ensure that the right level of security is applied to the services being developed, that the functionality is available in a timely fashion, and that Portal services satisfy the needs of the audience for which they are intended. At a high level the phases are as follows:

1. Phase One – Statewide Vendor Unit Administration. This application replaces the mainframe vendor management screens and adds new functionality such as logging activity and viewing payment history in one place. Planned features include: managing accounts, registering new payees, and viewing payment history. Phase One is scheduled for completion in the September/October timeframe.
2. Phase Two – Agency Access. This application replaces the mainframe vendor management screens with read-only access for agencies. Planned features include: Agency Home Access and viewing account information, payment history, and activity logs. Phase Two is scheduled for completion approximately the same time as Phase One.
3. Phase Three – Payee Self Service. This application provides payees the ability to register as statewide vendors, manage their business profile and view their payment history. This replaces the current paper based registration process and provides new functionality such as Vendor Home Access and Managing “My Account.” Phase Three is scheduled for completion by the end of this year or early 2012.

## Disbursement Reporting System (DRS) and 1099-MISC reporting

As of December 31, 2011, the Disbursement Reporting System (DRS) will be decommissioned as a cost-saving measure. Beginning January 1, 2012, payment data will be available through Enterprise Reporting (ER) as well as the Payee Portal. 1099-MISC records will continue to be available within the IRS database. For more information, please refer to the PowerPoint presentation available on the EPS website.

The EPS project team is currently researching how agencies use DRS – both query and reporting – to ensure that consistent functionality will be available within new ER standard reports, templates for payment inquires within the Web Intelligence (Ad Hoc) Tool, and the Payee Portal.

DRS will continue to be available throughout 2011 and for 2011 1099-MISC reporting purposes.

## ***More from Accounting...***

### **Can my agency use PayPal?**

The answer depends on whether the agency is accepting payments or making a purchase.

#### **Accepting payments:**

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

There are other methods of accepting payments compatible with state law and OST's contracts for banking services. Some of these methods, including credit and debit card acceptance, require an Economic Feasibility Study (EFS) to be submitted to OFM for approval prior to implementation (RCW 43.41.180).

The preferred method for agencies to accept payments electronically is automated clearing house (ACH) debits from your customer's bank account. 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. Also, if you process your ACH files through OST, an EFS may not be required. 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 or Lesa Williams at 360-902-8911.

#### **Making a purchase:**

Agencies are allowed to make purchase card payments to merchants using PayPal. In this case, PayPal is simply a processor that makes your payment to the merchant. However, PayPal also provides the option of an ACH debit to a checking account, which is not allowed on the state's concentration account, and OST blocks these types of transactions.

If you have any questions, please contact Pam Valencia at 360-725-0194 or [pam.valencia@ofm.wa.gov](mailto:pam.valencia@ofm.wa.gov).