



The Connection

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

Accounting News

As you may know, Sadie Rodriguez-Hawkins, Senior Assistant Director for the OFM Accounting Division, retired the end of October 2010 after 23 years of state service. The initial plan was to fill the vacancy, but the budget shortfall forced us to delay this action.

Until a new budget for the 2011-13 Biennium is approved by the Legislature, the position will remain vacant. Please continue to route accounting policy approval and waiver requests as usual.

For Statewide Accounting questions, please contact Wendy Jarrett at 360-725-0185 / wendy.jarrett@ofm.wa.gov, and for Small Agency Client Services questions, please contact Yolanda Wilson at 360-725-0188 / yolanda.wilson@ofm.wa.gov.



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Another Successful CAFR Season!

The Office of Financial Management (OFM) is pleased to present the 2010 Comprehensive Annual Financial Report (CAFR). We invite you to view it online at <http://www.ofm.wa.gov/cafr/2010/default.asp>.

For the first time ever, we set a goal to publish the CAFR by November 30. By law the CAFR is required to be published by December 31, but stakeholders including investors, bond holders, and regulatory agencies want more timely financial information from governmental entities. Because of your diligence in meeting the CAFR calendar deadlines, we were able to publish the CAFR on November 30. We appreciate all the time and effort that the fiscal staff at each state agency devote to closing the fiscal year and providing financial data for the CAFR. Our combined efforts were successful!

In this year's CAFR, we implemented two new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 51, Accounting and Financial Reporting for Intangible Assets and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments.

While we are justifiably proud of producing our CAFR in 150 days for the November 30 publication, there is a definite push on the part of the financial community for even earlier financial information. The Municipal Securities Rulemaking Board (MSRB) has issued pending voluntary guidelines that call for the filing of financial information within 120 days by 2014. While this might seem an unattainable goal, the state of New York has produced their CAFR in less than 117 days in each of the last five years.

Statewide Accounting continues to look for ways to improve the efficiency of the CAFR production. We are currently participating on the Faster Financial Reporting Work Group sponsored by the National Association of State Auditors, Comptrollers and Treasurers. Work group members are sharing best practices and exploring ways to facilitate faster financial reporting. We also welcome your ideas to streamline the process.

If you have any questions or comments, please contact Wendy Jarrett at 360-725-0185 or wendy.jarrett@ofm.wa.gov.

As reported in the summer and fall 2010 editions of The Connection, due to pending IRS requirements that will impact state agencies, OFM launched the Enterprise Payment Services (EPS) project to manage the administrative burden caused by the changes to year-end reporting. The following information provides the current status of the federal requirements and the EPS project.

IRS Update

3% Withholding

- We are still awaiting final regulations from the IRS. Once final regulations are issued, the project will analyze and adjust as appropriate.
- A significant new development is the December 3, 2010, issuance of IRS Notice 2010-91, which addresses the use of payments made by credit, debit, stored value, and other payment cards as they relate to 3 percent withholding. The notice provides that withholding requirements will not apply to payments made by payment card until further guidance is issued. In fact, withholding requirements will not apply for any calendar year beginning earlier than at least 18 months from the date such guidance is finalized.

Expanded 1099 Reporting

- Beginning January 1, 2012, IRS reporting requirements will extend beyond the reporting of payments for contractor services to include payments for goods and include payments made to corporations. Payments made using credit/debit cards are not included in the reporting requirements. There is considerable controversy over the proposed expanded 1099 reporting and final regulations are still pending.

Payment card reporting

- In the summer of 2010, the IRS issued final regulations regarding reporting of payment card transactions. Beginning January 1, 2011, the payment settlement entity will be responsible for information reporting of payment card transactions under Code Section 6050W.

The following links provide more details:

3 percent withholding: <http://www.irs.gov/govt/fslg/article/0,,id=204409,00.html>

Interim guidance on 3 percent withholding for payment cards: http://www.irs.gov/irb/2010-52_IRB/ar15.html

Expanded 1099 reporting: <http://www.irs.gov/newsroom/article/0,,id=225029,00.html>

Payment card reporting: <http://www.irs.gov/govt/fslg/article/0,,id=226894,00.html>

If you have questions, please contact Denise Tabler at 360-664-7788 / denise.tabler@ofm.wa.gov or Steve Nielson at 360-725-0226 / steve.nielson@ofm.wa.gov.

EPS Update

The EPS project team continues to move forward in several areas:

- The Agency Advisory Group:

The EPS Agency Advisory Group (AAG) represents agencies by consulting and collaborating on business and project issues. At the January 6 meeting, the AAG was briefed on the competing priorities of system development projects – security, ease of use, transparency, compliance, and ease of development and maintenance. The group was provided an overview of the current design of the EPS payment process “preferred path” that provides a balance of these priorities. We anticipate the majority of agency vendor payments would be processed through the “preferred path.” AAG members were strongly encouraged to provide feedback as to how the design would work in their agencies. The AAG also discussed the agency vendor file conversion process and schedule. Another AAG meeting is scheduled later in January to discuss exception (non preferred path) payments.

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- EPS team members are participating in the Federal Tax Reporting Work Group, facilitated by the National Association of State Comptrollers. This multi-state work group meets via teleconference every couple of months and examines issues related to implementing the 3 percent tax withholding requirement along with changes to 1099 reporting.
- Agency Vendor File Conversion:
OFM has been assisting agencies to transition from agency vendor files to the Statewide Vendor (SWV) file. In early December, the Department of Social and Health Services successfully moved its vendors to the SWV file. Four more agencies are scheduled for conversion in January.
In the past year over 27,000 new vendors were added to the SWV file and another 14,000 were updated. OFM has modified its approach for providing assistance to vendors and this has helped to improve the turnaround time for processing vendor input and maintenance.
- Project Schedule:
The project will use a phased approach to implementation.
 - Agency vendor file conversion to the SWV file should be completed by the end of April 2011.
 - Development to support the new withholding requirements should be completed at the end of September 2011.
 - Database conversion should be completed by the end of September 2011.
 - Payee Portal functionality is arranged into phases. The first phase supports withholding and the SWV support team's access to the SWV files. The second phase builds the ability for vendors to have direct access to their files. The third phase enhances the user interface and implements the vendor access features. Phases 1, 2 and most of 3 will be completed by year end 2011.

If you have any questions, please contact Ron Robertson, EPS Project Manager, at 360-664-7758 / ron.robertson@ofm.wa.gov or Ann Bruner, EPS Project Director at 360-664-7711 / ann.bruner@ofm.wa.gov.

The following article was submitted on the Department of Transportation's behalf...

New Agency Payment Option for WSDOT Tolling

Good news! The Washington State Department of Transportation (WSDOT) is implementing a new Statewide Customer Service Center (CSC). The new CSC will allow agencies the opportunity to use the Inter-Agency Payment (IAP) process when opening a new account or replenishing an established account for payment of tolling fees.

The new CSC will support tolling using automated technology throughout the entire collection process. It is being designed to facilitate prompt and efficient collection of funds. By incorporating IAP processing in the new CSC, agencies will be able to use the preferred payment option for paying another state agency.

IAP will be available on both Registered Transponder Accounts and Commercial Transponder Accounts (accounts with at least seven vehicles). IAPs will be processed through an internal WSDOT process in collaboration with the Office of the State Treasurer and the CSC vendor.

The IAP option is expected to be available in late January 2011, and the details of how to initiate an IAP process for tolling will be shared at the January 27 Financial Management Advisory Council (FMAC) meeting. Please join us for an informative update on how your agency can use IAP to pay for your tolling transactions.

Recommended Rate Structure for OFM's Systems

In early 2010, OFM convened a Systems Advisory Forum. The group went through the following steps to develop a proposed new rate structure for the 2011-13 Biennium.

- Identified the principles that should guide OFM in establishing rates
- Reviewed OFM's current costs to support systems
- Compared OFM's current system rates to the rate principles and identified rate structure alternatives more consistent with the principles
- Evaluated alternatives and identified potential impacts to agencies of rate structure changes
- Recommended a rate structure approach

The recommended rate structure has four basic components:

- Transaction & Usage Fee - Variable financial system costs (primarily mainframe usage costs) would be recovered with a per-transaction rate for the combined file usage and transaction counts. The estimated rate would be \$.0055 per unit.
- Financial Systems Charge - The fixed costs related to financial systems would be allocated to agencies based on their transaction volume percentage. (The idea is to use transactions as the rate driver, but to avoid the risk of overcharging agencies by limiting the recovery to the estimated total fixed costs.) The per month portion of the fixed costs would be allocated to agencies based on the transaction percentage for that month.
- Budget/Policy/Reporting Systems Charge - The costs for budget, compliance, and reporting systems are recovered through an allocation based on the percentage of agency budgeted FTEs to the state total.
- Warrant charges – Costs of printing and mailing warrants is passed on through a per warrant charge. (No change from today.)

This proposal has been submitted into the budget development process and will now be considered along with all the other central service rates and other budget recommendations. There may be changes through the legislative budget process. We will continue to look for ways to reduce our costs and pass along savings to agencies.

For more information about the proposed rate structure and the work of the advisory group, please visit the OFM Systems Advisory Forum SharePoint site at: <http://sharepoint.dis.wa.gov/ofm/dut/OFMSAF/Rates/default.aspx>.

2010 Audit Resolution Report Issued

The Audit Resolution Report was issued to the Legislature in December 2010.

This report summarizes the corrective actions taken by state agencies to resolve exceptions to specific expenditures or financial transactions reported in audits performed by the State Auditor's Office (SAO).

The Audit Resolution Report includes resolution of audit exceptions related to regularly scheduled agency financial audits, the statewide single audit, and special audits. This year's report includes 72 exceptions, four of which related to fraud. It also includes SAO recommendations and follow-up activities associated with two special reports.

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ERP Update

OFM has submitted a budget proposal to modernize the state's core financials through the implementation of an enterprise resource planning (ERP) system over the next seven to eight years.

The automation of time and attendance reporting would take place first, a top priority of many agencies, including the Department of Transportation which would serve as a pilot agency.

Activities next biennium would also include work to re-engineer financial business processes, redesign the state's chart of accounts, and develop an implementation plan to replace the state's aging financial systems with an ERP system.

The Governor's 2011-13 budget includes an \$18.6 million request for the 2011-13 phase of this project.

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Often a key element in audit resolution is internal control. With budget cuts forcing many agencies to accomplish the same work with fewer staff, maintaining good internal control becomes more challenging. However, it is more important now than ever. We encourage you to make internal control a priority by:

- Reviewing your current controls – especially in areas where staffing levels have changed – to identify where they might be lacking.
- Checking out the tools on our internal control resources website at <http://www.ofm.wa.gov/resources/internal.asp>.
- Involving staff in developing new or updated controls. This is a great way of increasing awareness while also obtaining staff buy-in.

We acknowledge agency efforts in assisting us to compile this report and invite you to view the 2010 Audit Resolution Report at <http://www.ofm.wa.gov/auditresolution/2010/default.asp>. If you have any questions, please contact the OFM State Financial Consultant assigned to your agency.

SAAM Updates

The State Administrative and Accounting Manual (SAAM) was updated effective January 1, 2011. Key changes included:

Chapter 10: Travel (<http://www.ofm.wa.gov/policy/10.htm>)

- Revised travel policy to reflect an increase to the mileage reimbursement rate for privately owned vehicles from \$0.50 to \$0.51. This increase mirrors the rate set by the United States Treasury Department which, per RCW 43.03.060, is the maximum rate the state can pay (Subsection 10.90.20).
- In addition, we updated the state Per Diem Rates map 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 25: Payroll (<http://www.ofm.wa.gov/policy/25.htm>)

- Under mandatory deductions, changed the administrator for the state's Section 218 agreement with the Social Security Administration to the Department of Retirement Systems (Subsection 25.50.20).
- Revised the description for US Savings Bonds deductions (Subsection 25.50.30).

Chapter 85: Accounting Procedures (<http://www.ofm.wa.gov/policy/85.htm>)

- Added language on how to account for bond refunding transactions and Certificates of Participation (COP) refunding transactions (Subsections 85.72.20 and 85.72.40).
- Modified the illustrative entries for equipment COPs to reflect a change to the program by the Office of the State Treasurer (Section 85.85).
- Added new subsection to include illustrative entries for a real estate COP refunding transaction (Subsection 85.85.52).

All SAAM policies, directives, technical corrections, and superseded policies are available online at: <http://www.ofm.wa.gov/policy/default.asp>. If you have any questions related to these SAAM changes, please contact the OFM State Financial Consultant assigned to your agency.

Enterprise Reporting Web Intelligence Tool Upgrade

The Enterprise Reporting Services Team will upgrade the Enterprise Reporting Web Intelligence Tool to the current release of SAP/Business Objects™ XI software in spring 2011. This upgrade will enable continued support from SAP/Business Objects™ and will provide additional features and functionality requested by our customers.

New features include:

- The ability to save documents locally as Character Separated Value (CSV) files.
- An Auto Save feature that automatically saves documents before a server timeout and at defined intervals to protect your work.
- Multiple Undos and Redos during design and while modifying reports.
- The ability to export larger datasets to Excel (greater than 65,000 rows) so the exported data will split across multiple worksheets instead of being truncated.
- The ability to track changes in the data after a refresh. Changes in the report (increases, decreases, addition, and deletion of data) are highlighted with different colors.

To keep you informed, the Enterprise Reporting Services Team will be sending emails with additional information regarding the upgrade to our Web Intelligence Customers during the month prior to implementation.

If you have questions, please contact the Enterprise Reporting Services Team at 360-664-2980 or ERServices@ofm.wa.gov.