



OSCAR

The OSC Activity Report

Office of the State Controller

Robert L. Powell, State Controller

Spring Quarter 2007

BEACON developing shared services for HR/payroll

Following up on a promise to keep agency HR Directors and Payroll Officers updated on project developments, the BEACON HR/Payroll Project Team invited these key groups to meetings in April to introduce them to BEACON Enterprise Support Team (BEST) shared services.

State Controller Robert L. Powell began each session by thanking participants for their work in the State's efforts to improve its business infrastructure. He then introduced the project's shared services vendor, Deloitte Consulting. Deloitte and the project team will be working directly with HR and payroll officers to identify impacts that the shared services approach will have on each agency.

The idea behind BEST is to bring together a team of support specialists in one location, consolidating expertise that otherwise would be scattered across the State. Other states that have moved to an HR/Payroll shared services model, an industry best practice, have gained efficiencies, moved from a focus on transactional activities to more strategic planning, and ultimately provided consistent answers to state employees regarding their benefits and payroll issues.

After a brief shared services overview, the project team outlined the human resource and payroll activities that will most likely be integrated into BEST. The team then discussed the upcoming impact assessment exercise that HR Directors have been asked to complete. The impact assessment is an important tool that will be used to identify changes to human resource and payroll processes, policies, work loads and organizational structure at each agency.

In May agency human resource and payroll leaders will review the impacts identified by the project team and ask them to expand on any agency-specific impacts. Impacts are divided into policy, organization, workload, communications and training areas.

By the end of May the project team will begin a role-mapping exercise, which will identify who will perform specific human resource and payroll oriented tasks within each agency. The Office of State Budget and Management (OSBM) will participate in the role-mapping exercise and assist agencies in identifying budget and position impacts.

The next HR Directors and Payroll Officers meetings will be scheduled for later this summer.

Annual Accounts Receivable report released

The State Controller has released its annual report on the state's accounts receivable activities. The report shows the types of accounts receivable owed to state agencies, the amounts owed, an aging of amounts owed, allowances for doubtful collections, and amounts written off. The report also shows the cost of agency collection efforts.

The information for the report, released in April, was provided by the state agencies for the fiscal year ended 2006. The report indicates that total receivables grew by \$2.7 billion, or 33 percent, over the last two years. Most of the increase was due to a \$1 billion increase in notes receivable and a \$1.2 billion increase in taxes receivable. The increase in notes receivable was predominantly due to the State Education Assistance Authority, where loans increased by \$791 million. Growth in taxes receivable was attributable mainly to an accounting change made by the Department of Revenue

impacting individual income taxes for fiscal 2006 and 2005.

This report reflects the continuing effort of the State Controller to improve accountability by enhancing the accounts receivable report. This latest report includes data now compared with prior year data, new graphs and charts, new data such as agency collection costs, detail accounts receivable data on each agency, and a new section regarding agency compliance with state accounts receivable law and requirements.

Readers of the report should note two additional initiatives undertaken by the State Controller to improve the collectability of the state's accounts receivable. A vendor setoff debt collection program is now being developed and is planned for implementation by the end of fiscal 2008. This program will operate similarly to the setoff program now operated by the Department of Revenue. The vendor program will set off, against payments to a vendor, written - off debt owed by the same vendor to the State.

The other significant initiative noted in the report is an internal study of the statewide accounts receivable program administered by the Office of the State Controller. This study included a survey of state agencies and a survey of other states. This self-assessment yielded valuable insights and opportunities to enhance the program.

This report indicates that improvements to the accounts receivable program will be a requirement of the future Beacon Financials Project.

The state accounts receivable report can be found on the OSC website at: <http://www.ncosc.net/pdfs/ARReport2006.pdf>.

Controller's Message: Word starting to spread about BEACON

Word is starting to get around about the BEACON HR/payroll project and the changes it will bring to state government. The project is being featured in the monthly newsletter of the State Employees Credit Union, and we are responding to lots of inquiries about the system as it moves toward its go-live date.

After three years of often difficult work, it seems hard to believe that we will begin switching to the new centralized system by mid-December of this year. As agencies are moved to the new system, employees will be getting new services that should greatly improve their control of their benefits and payroll information.

BEACON is the acronym for Building Enterprise Access for North Carolina 's Core Operational Needs; and it truly is intended to provide improved HR/Payroll services for state employees for the next 25 years.

The Governor and the General Assembly have endorsed and funded this program and the team has been diligently working on the development and installation. When put into service, the new system will allow state employees to directly make or change their benefit choices, as well as update their personnel information through a secure Employee Self Service (ESS) center on the Web, a concept that has been utilized by private industry for some time. The days of filling out form after form and submitting them to the HR office to be keyed into a computer somewhere will be over.

The Department of Transportation will be the first to make the transition, starting about December 15. That will be followed by a first wave of agencies on January 1, 2008, and a final wave of agencies on April 1, 2008. A list of agencies included in each wave, along with other information, is available on the BEACON website, <http://www.beacon.nc.gov/>.

We are excited about this effort and, with the support of the North Carolina State Employees' Credit Union, we will be providing monthly updates and bullets about this program. Please look for the BEACON Update in SECU's monthly Grassroots publication and stay tuned to the opportunities available under BEACON. Together we are working to improve services to our employees.



Glitches in Common Payment System gateway get quick fix

An extensive upgrade to the common payment system (CPS) gateway led to a few glitches when the system went live in

mid-March. By the end of the month, however, all known bugs had been eliminated and transactions were being processed as expected.

The Office of the State Controller and the Office of Information Technology Services decided to upgrade some of the key hardware and software components of the gateway primarily because of discontinued vendor support for the main component of the CPS engine. The gateway handles automated clearing house and credit card transactions for the major state agencies. The lack of vendor support services posed a high risk to the State and to those who used the gateway.

The upgrade included new hardware and more current versions of software that allows more functions and control than the older software that had been used since 2000. After four months of testing, the CPS converted to the new system over the weekend of March 18.

Some of the problems encountered after the conversion were the result of the new software supporting tighter controls of stored data, an indication that the software adheres to new industry standards. Other problems resulted from improper configuration settings related to second level authentication, and to multiple encryption keys used in the conversion process.

Only one agency experienced problems with processing its merchant card transactions. Once the problem was identified and edits put in place, the agency's transactions began to process properly. With March being a high volume month for card transactions, and with card transactions having more "moving parts" than automated clearing house transactions, the new system's card component has demonstrated itself to be extremely reliable since implementation.

Several agencies experienced problems with duplicate processing of automated clearing house transactions submitted for settlement on March 22. There were a total of 479 transactions affected, some credits and some debits. Troubleshooting of this situation revealed that it was due to an encryption issue, which was subsequently corrected.

The Office of the State Controller recognized that the duplicate transactions may have impacted some recipients' bank accounts. As is customary in such cases, the State's automated clearing house originator bank, Wachovia Bank, wrote letters to the receiving banks requesting that any fees that may have resulted due to the duplicate transactions be waived for the recipients.

This major system upgrade, along with the addition of another frame relay connection last fall, gives users of the gateway more assurance of the system's reliability.

Internal control, foreign nationals training sessions draw crowds

March was a busy training month for the Office of the State Controller, which hosted large conferences on Internal Controls in the COSO Environment, and on immigration and tax compliance issues for foreign nationals.



The Internal Controls conference attracted over 300 participants from various state agencies, universities, community colleges, and other state entities.

Mark Beasley, PhD, CPA, the director of the Enterprise Risk Management Initiative at North Carolina State University, discussed the critical elements needed for effective internal control by building on COSO's Internal Control – Integrated Framework. His presentation also highlighted the importance of effective monitoring of existing internal controls, including the need to monitor the risk of management override. He also discussed the implementation tools useful in

the application of the COSO internal control framework.

Two experts from RSM McGladrey Inc. discussed the importance of the COSO internal control framework in complying with Sarbanes Oxley Act of 2002, and in preventing and detecting fraud.

John Wilks, director of Risk Management Consulting, and Ronnie Lee, Consulting Manager, brought practical applications and real-life examples from past Sarbanes Oxley engagements, and showed how certain elements of Sarbanes Oxley and related techniques can apply to governmental and non-profit organizations. They also indicated how the COSO internal control framework can help establish a strong fraud deterrent within an organization.

The State's new internal control framework was introduced by Ben McLawhorn , CISA, CISM, CFE, the manager of OSC's Risk Mitigation Services and Mark Newsome, CPA, CFE, of the risk mitigation staff.

The statewide framework is based heavily on the COSO internal control model with adaptations for state government. The session also outlined how the framework is used to anchor procedures conducted during the Office of the State Controller's Internal Control Compliance Reviews.

Later in March, about 275 representatives of state agencies, universities, community colleges, and local education agencies attended the symposium on foreign nationals issues.

The session topics included :

- What You Need to Know About Immigration ;
- Employment/Immigration and Basic Pilot Program in North Carolina ;
- Understanding Payments to Foreign Nationals and Identifying the Payee ;
- Income Tax Treaties;
- Scholarships and Fellowships – Employment Income;
- Defining Your Business Processes and Establishing Internal Policies and Procedures Within Your Entity;
- Question and Answer Forum – University and Community College Issues;
- Windstar Software: Tax Navigator/ FNIS.

The speakers included Linda Dodd-Major, an attorney providing strategic consulting for U.S. immigration matters pertaining to business, investment, employment, and taxation; Paula Singer, a tax attorney and partner of the tax law firm, Vacovec , Mayotte & Singer, LLP, in Newton, Mass., as well as co-founder and chairman of the tax and immigration software company, Windstar Technologies, Inc.; Terri Crowl , Assistant Director/International Tax Coordinator in the Office of International Programs and Services at George Mason University in Fairfax, Va.; James Distefano , an Immigration law specialist with the North Carolina Office of State Personnel; Brooks Taylor, tax compliance officer for the University North Carolina at Greensboro; and Terry Senter , manager of support services for the Office of the State Controller.

The Office of the State Controller will be sporting a renovated website in the next few weeks. The redesigned site will continue to offer the forms, manuals, memos and other information needed by state agencies, but in a new format that we hope will make it easier to find what you need. The pages also will include basic information about OSC and the BEACON project, as well as links to other related sites. We hope you find the new site easier on the eye and easier to use.



Overpayments audit will focus on telecommunications

An audit of inadvertent overpayments made by state agencies will focus solely on telecommunications charges. The overpayment audits, first authorized in 1999, are conducted by private contractors with oversight from the Office of the State Controller.

Inadvertent overpayments made by state agencies to telecommunication providers may result from incorrect rates based upon established tariffs, and errors such as duplicate payments, pricing errors, erroneous payments (invoices paid to the wrong vendor), neglected rebates and discounts, unclaimed refunds, erroneously paid excise taxes, rate structure improvements, or bill inaccuracies.

“We have not done a directed audit into a single area before,” said Jim Macaulay, NCAS Model Manager for OSC. “While we have done overpayment audits in the past, we have only done limited work on telecommunications since 2000.”

Contractors who conduct the audits are paid a percentage of the overpayments they recover for the State. Previous audits, which covered wide-ranging types of payments and services, covered July 1, 1995, to June 30, 2004. Those audits recovered \$4.5 million in overpayments for the State, with about \$1.4 million of that total going to the auditors.

The last audit produced relatively small findings, said Assistant State Controller Julie Batchelor, indicating improvements both to the payment processes used by state agencies and to information technology.

“We saw an opportunity in the telecommunications area for the next audit,” Batchelor said. “ITS (Information Technology Services) was interested in partnering with us, so the audit will look at charges managed by ITS and private vendors.”

The audit will include long distance, credit card, cell phone and data line charges, Macaulay said. A request for proposals to conduct the audit is nearing completion.

Training Opportunities

Accounts Payable Overview	May 14-16
Budget Management	May 17
Accounts Payable Basic	May 22
Agency Systems Mgmt.	May 23-24

For full details, scheduling and registration, see the CPE Seminars section of the OSC web page: www.ncosc.net

Conference focuses on electronic commerce

More than 200 representatives of state agencies, universities and other organizations registered for a statewide conference on electronic commerce

sponsored by the Office of the State Controller.

The conference on May 7 focused on the services offered through the Statewide Electronic Commerce Program administered by OSC. The sessions were designed to help agencies identify how they can more fully participate in e-commerce for both disbursement and collection of funds.

Breakout sessions in the afternoon provided separate tracks for merchant cards and electronic fund transfer/automated clearing house issues. Presentations came from OSC staff involved in e-commerce operations as well as vendors who provide services through the electronic commerce program.

New CAFR packages out; few changes from last year

New reporting packages for the Comprehensive Annual Financial Report are now available on the Office of the State Controller website, and those packages come with fewer changes than last year.

The packages, which must be submitted to OSC by August 31, include some tweaking in specific areas, but not widespread changes, said Accounting and Financial Reporting Manager Anne Godwin.

“The package has built-in error messages, so agencies need to make sure that their information is clear of those messages before submitting it,” she said. “Agencies will get an email confirmation that the package has been received by OSC and is ready for review. Agencies need to be make sure they have gotten that email confirmation.”

OSC will continue to accept the packages via email. They can be emailed to CAFR@ncosc.net once they are completed.

“It’s really important that we get these packages on time,” Godwin said. “We do an extensive review and only have a short

time to complete it – two weeks. We deliver the information to the State auditors on September 14."

OSC hosts GASB and internal control update seminar

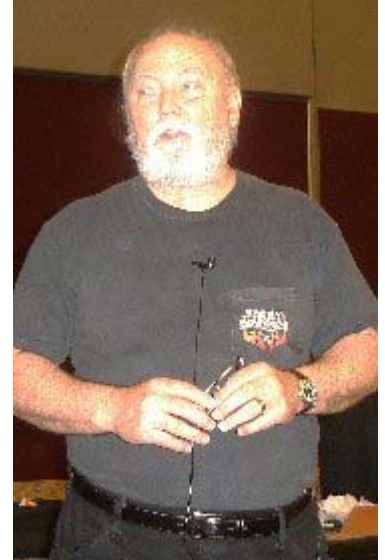


David R. Bean

The Office of the State Controller held a GASB and Internal Control Update Seminar on April 26 at the McKimmon Center in Raleigh . Over 260 representatives of state agencies, universities, community colleges, and other organizations attended the eight-hour seminar.

The instructors were David R. Bean, Director of Research and Technical Activities of the GASB (GASB Update) and Arthur A. Hayes, Jr., Director of the Tennessee Division of State Audit (Internal Control Update).

The GASB Update provided an overview of recent GASB pronouncements including Statements 43 and 45 on OPEB, Statement 48 on sales and pledges of receivables and future revenues, Statement 49 on accounting for pollution, and exposure drafts on intangible assets, pension disclosures, fund balance and governmental fund type reporting, and derivatives.



Arthur A. Hayes Jr.

The Internal Control Update included a discussion of Hayes' experiences in Tennessee relating to the COSO internal control framework and Tennessee audit committee legislation. An optional breakout session on Professional Ethics and Conduct was also offered in the afternoon to help agency CPAs complete their required ethics training.

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