

**Large Agency
Chief Financial Officers Meeting Minutes
February 22, 2011**

PARTICIPANTS:

Joe Whitmer, ADA
Cheryl Toone, ADA/Risk
Cheryl Bodmer, DCA
Tim Newton, DEA
Todd Bright, DEA
Li Li, DJA
Diane Wascher, DTA
Ross Begnoche, EDA
Mike Clark, EVA
John Lake, HSA
Clark Partridge, ADA/GAO
Tami Eckloff ADA/GAO
Angela Dillard, ADA/GAO
Anita Kleinman, ADA/GAO
Joanna Greenaway, ADA/GAO

ITEMS COVERED

Clark Partridge – Welcome

Microsoft Settlement – Anita Kleinman

A web story was issued on January 28th regarding the Microsoft settlement. The State of Arizona was the recipient of funds from the settlement. There was an allocation document that was approved by the courts, which reflects an amount for each State agency. This dollar amount can be used to reimburse your agency for qualified expenditures of hardware and software in FY11.

We haven't heard much from agencies. We want to make sure you are aware of the settlement and check the website. If you have qualifying expenditures in FY11, submit your claim to GAO and you will be reimbursed for those expenditures. If you don't believe you will have qualified expenditures in FY11 but you will in FY12, let us know so we can coordinate with the Attorney General's Office and go back to the courts if necessary. Some of the dollar amounts are small. If you look at it and decide it is not worth your agency's time, please let us know.

Q: I went through our agency's expenditures and didn't see any qualifying expenditures this year to date. Can we make the expenditure now before June 30th?

A: Yes. As long as it meets the qualifications of the expenditures and you have a business need. We are hoping to have this all done in FY11. If you have a substantial

amount and you will not be able to complete the qualified expenditures in FY11 and need to go into FY12, let us know.

Q: What are qualified expenditures? Is that in the web story?

A: Yes. There are a couple of attachments that go with the web story including a letter from the Attorney General's Office. These funds are subject to audit. Microsoft can come in and audit. There is also a spreadsheet with the agency allocation amounts.

Q: Are all of our qualified expenditures listed on the spreadsheet?

A: No. It is how much your agency is able to receive. The qualified items are pretty broad. They do not get into servers, mainly desktop items.

If you are not going to use your allocation, please let us know. We may be able to reallocate and use for possibly reductions at the Data Centers that are providing services to customers.

Q: So then we would get a credit on our Data Center charge?

A: We really can't say since we do not run the Data Center. It could be discussed, depending on the dollar amount involved, it may not be cost beneficial to have those conversations. Some of the amounts allocated are pretty small.

Fund Sweeps – Anita Kleinman

At the beginning of FY11 when the fund sweeps were received, agencies did their best to guess when the cash would be available for the fund sweeps. We are now over half way through the fiscal year. We are asking agencies to look at their cash. If it looks like the cash is available and the fund sweep can be made earlier than the end of the FY, we would like to take care of it now.

If it looks like the cash will not be there due to reduced revenues, etc., we need to look at the special transfers process where we notify OSPB and JLBC that there isn't enough cash in the designated fund but there is enough cash in a different fund, can we make a transfer from a different fund in order to meet the sweep requirement? We need to know now if there are any issues so we can get that dialogue going. Last year we waited too long and it became difficult to get on the JLBC agenda.

We will not wait as long as we did last year. If you have issues let us know. If not and if the cash is available, we will begin doing the sweeps to get them completed. We do not have time to wait to do them all at the end of the fiscal year. In April, if we haven't heard anything, the sweep will be done. The issue needs to be a legitimate cash flow issue, not a matter of your agency doesn't want to pay the money any sooner than it has to.

Agency Budgets – Clark Partridge

A reminder as the Legislature is meeting to resolve the budget shortfall for FY11 and pass the budget for FY12, if you have any type of budget issues; you need to be discussing it with your OSPB analyst.

There is nothing currently in the budget to deal with the federal offsets. If you got hit with an offset, you probably need to plan on absorbing that hit.

3% Withhold Update – Clark Partridge

Clark participated in a conference call last week regarding the 3% Withhold. There is more discussion on the 3% Withhold than there ever has been. The bad news is we are running out of time. The expanded 1099 requirements have received significant traction and it looks like they will probably be repealed. The White House is not taking a stand right now on 3% Withhold. They know it is an issue and is problematic but they are not coming out saying it needs to be repealed.

Q: Do you have a date in mind when you are going to have to start gearing up your system?

A: We already have started. We have already been meeting to discuss the design of how this program will work in AFIS. The problem is there is only so far we can go without having the final regulations and requirements. We are in a holding pattern right now.

The Treasury has some guidelines out which they received comments on about a year ago. They were supposed to have the final requirements out before the end of June and then by August, and then by the end of the quarter in September and then sometime before the end of the year and then right after the first of the year and then sometime in the first quarter. We haven't seen anything yet. There are states that have been working on this for a year and a half and already have their implementation done and are hoping they will not have to change it now.

Q: As far as our interfaces, I think we need to start talking in the next month or two how those may change. We are concerned with the way the warrant file will come back to us. It will not have the full amount which the way we are set up today, will not match in our system.

A: We have talked about early March getting together. Our idea right now is to add another field at the very end to capture the amount withheld. Initial thought is the vendor payment is split into two pieces, the 97% and the 3%. However, if it is under \$10,000 it would be 100% going to the vendor. Some of these types of issues have been driving the momentum to postpone or repeal. There have also been additional laws and rule changes that have been passed that have helped address, at least partially, with some of the issues that they were trying to tackle with the 3% Withhold.

There are multiple Governors' Offices that are making this a priority. Our Governor's Office is actively working on letters to Arizona's Congressional Delegation and having

the Governor's lobbying representative in Washington DC in making this a strategic priority. These items are still being worked on.

We are being asked questions that we don't have answers to. For example, if we do not do this how much are contracts going to increase? As we have discussed, if you are withholding payment from the vendor what will the result be? Some of these contracts only have a 2% profit margin. If a contract only has a 2% profit margin, and we withhold 3% of the payment what will the result be? Building a segment of freeway is going to result in payments over \$10,000. That vendor will lose money on every single payment until they get their tax return. Other questions that have come up are, can the vendor file quarterly to recoup some of the withholding? Right now the feds are saying no, you have to file the annual information. Some vendors will hear about the 3% Withhold and tack on an additional 3% or some portion thereof to the bid. Some may even increase their bid when their payment is under \$10,000 if they don't fully understand the program.

Before a threshold was added, we did some research and calculated a potential \$600 million dollar liability. We have to make the payments to the feds whether we withhold or not. If we pay 100% to the vendor, that is our choice but we still have to send the feds the 3%.

The impact on small businesses and the fact that they already operate on a fairly low capital, will impact them further in terms of being able to compete. That thought is gaining attention. People don't feel sorry for governments having to do the 3% Withhold but the impact on small business is the angle that is getting the most traction.

NASC Conference March 23 – 25, 2011

CFOs are invited to attend the National Association of State Comptrollers (NASC) Conference. The conference will be held at the Embassy Suites 4415 E. Paradise Valley Parkway South in Phoenix (near Paradise Valley Mall). The 23rd and 24th are full days, the 25th is a half day.

I think it would be worthwhile for you as CFOs of large agencies to attend. People from the U.S. Treasury will be there, there should be staff from OMB that has committed to participate either by phone or in person. The GASB Chair will be there. David Bean the Director of Research will be there. There will be states there discussing their solutions to accounting systems. New York will be talking about their CGI implementation. Kansas will be talking about their recent implementation with Oracle PeopleSoft. SAP will be giving a presentation with California on an ERP value added piece. How do you get the most out of your systems and what types of systems can give you better management information?

There will be a round table on federal issues and another one on transparency issues. Some of the leading experts on transparency will be there. One is from the Goldwater Institute. The head of the federation of Public Interest Research Group (PIRG), the grader of the States' transparency websites will also be attending. We will have

dialogue about transparency sites, what works well, and what doesn't. For the \$350 conference cost you have approximately 16 hours of high quality CPE with a technical agenda.

Some of the items we will be discussing; how do we develop a model that will be able to replace some of the systems? Who is going to get money next year to replace their system? What do we need to do and how do we get there? There are all kinds of opportunities that weren't even out there five years ago.

If you have specific questions regarding the conference, talk to Clark. It is very high quality and you will get a lot out of it.

Issues, Concerns, Questions

Q: For those that are already using ETE, how are you handling the amendment process? We understand it is a paper process.

A: The amendment/adjustment process part hasn't changed. Any adjustments that come through are done via the paper process just like they were done before implementation of ETE. The agency payroll office keys the adjustments. Not all of ADOA is on ETE yet. Those that are not still submit paper time sheets and ADOA payroll is keying them in. Anything outside of the employee entry and approval process is the same as before with paper and the agency payroll office will key it in.

Q: Before ETE we would have the original paper time sheet, which was then deemed to be incorrect. We then had the amendment that we physically put with the original time sheet. When the auditors came in, we had the original time sheet and the amendment together. Now with ETE, you have the original time sheet in ETE which will be electronic and a paper amendment, how are you tying the two together?

A: We don't have anything to tie the adjustment to the original other than we keep it in our files. If the auditor comes in and says something isn't right, we have to go back to the file to research changes.

HRIS is "date driven". When you are making changes to a specific date, it will be matched up. However if the auditors come in, you will be pulling a data dump from HRIS. There should be an electronic time sheet in the system for them to look at.

Q: I think the information is there but I think we need to educate the auditors on how to audit the new process. I don't think this is going to be a smooth process if they think ETE is going to have everything the paper copies used to have.

A: It will be an educational process. This issue was raised when we first started talking about ETE. It is not an easy programming process to have electronic amendments for ETE. It would be a lot of work for very little benefit. The decision was made that the amendments are not where the focus needed to be.

Q: Do you think there might be a long term tweak to ETE to bring amendments in to the process?

A: It is possible but GAO does not do the programming. We think as ETE is rolled out, the adjustment issue will come into play. Part of the issue is you have until 5:00 Friday before compute to make any adjustments in ETE. That is a lot easier to manage when you don't have 10,000 employees.

Q: It is a small percentage but this week it was 150 adjustments.

A: We will have to discuss with the auditors. Even though there will be a piece of paper showing an adjustment, that adjustment still needs to be entered into the system. ETE is just an interface with HRIS. It accumulates information that is then processed in HRIS. ETE is a temporary table. Once it loads the information into HRIS, there is no longer any information in ETE. The adjustment will need to be made in HRIS. On Monday of compute week, the records are in HRIS, they are no longer in ETE.

Some of the ADOA divisions currently on ETE have done a very good job of entering any adjustments into ETE by Friday before compute. They really haven't been that many adjustments.

The labor distribution cannot be changed in ETE by the employee. That is why some of the remaining ADOA divisions have not come on board. Those are still done by paper and entered by ADOA payroll. We have heard they are working on the labor distribution piece in ETE. Game and Fish is supposed to be the pilot agency.

Q: We have seen the Game and Fish prototype for the labor distribution. It looks close to what HRIS looks like today. That will work for us since employees are paid out of multiple funding sources at different times, different days.

A: We have also heard they are expanding the comment field with the Game and Fish pilot so additional information, grant information, etc. being worked on can be entered. Additional information can be extracted for federal reporting if needed.

Future Agenda Items

Emphasis on Electronic ACH Payments

NSF & Favorable/ Unfavorable Deposits Cleanup Project

Internal Controls – Effective & Efficient

3% Withhold

If you have any questions or concerns, please contact the GAO.

Meeting adjourned at 2:45 p.m.

The next meeting is scheduled for Tuesday, March 29, 2011, at 2:00 p.m. in the General Accounting Office.