

**Large Agency  
Chief Financial Officers Meeting Minutes  
March 29, 2011**

**PARTICIPANTS:**

Joseph Rodosta, ADA/Risk  
Sheryl Bodmer, DCA  
Tim Newton, DEA  
Todd Bright, DEA  
Karen Johnson, DEA  
Li Li, DJA  
Craig Rudolph, DTA  
Angela Garcia, EDA  
Mike Clark, EVA  
John Lake, HSA  
Vangie Webster, MEA via GoTo Meeting  
Joanne Williams, SDA via GoTo Meeting  
Syndia Reeder, WCA  
Clark Partridge, ADA/GAO  
Mike Smarik, ADA/GAO  
Tami Eckloff ADA/GAO  
Angela Dillard, ADA/GAO  
Anita Kleinman, ADA/GAO  
Jaimie Soulvie, ADA/GAO  
Stu Wilbur, ADA/GAO  
Jennifer Verhelst, ADA/GAO  
Megan Duty, ADA/GAO  
Yesenia Mejia, ADA/GAO

***ITEMS COVERED***

*Clark Partridge – Welcome & Introductions*

**Single Audit Findings – Anita Kleinman**

The Single Audit will be submitted on time this year. Almost every finding is related to ARRA dollars. The feds will be turning around quickly and following up with the agencies looking for your corrective action plan, how far along are you? Is the finding going to be corrected?

One of the things we have to respond to the auditors is what are we in GAO doing to monitor these issues for the State? Two or three years ago we started having quarterly reports. We are interested in your input in starting this again. We are very conscious of your time. However somehow we need to develop a mechanism where those findings, whether they are financial or Single Audit findings, are communicated and that we are following up on issues. We need to be making progress. The number of findings is

down. We were down to very few findings at one point and time and then the feds came out with a bunch of new requirements--GASB has changed, etc. now we need to change. Sometimes our own systems change too. We need to continue to have our objectives and time frames and overcome those issues and get them resolved. Education and DES tend to have more findings in the Single Audit because they have so many more programs. We have a lot of ARRA dollar issues across the board. We will be talking to you and getting your input so just be thinking about this topic.

### **Microsoft Settlement – Anita Kleinman**

We have seen transfer documents for some of the agencies come through requesting reimbursement. The AFIS liaisons will be following up with those agencies that did not submit anything to find out if they are planning on submitting anything. If there are no plans to use the remaining monies, we will go back to the court to see if a reallocation can be done. A web story was done, the AFIS liaisons are following up.

### **DUNS Number Cleanup Update – Anita Kleinman**

The DUNS number is being used more and more. It is part of the FFATA reporting, etc. The DUNS tree for the State has grown very large. We were worried that state agencies were requesting multiple numbers. Our policy is one DUNS number per agency unless there is a business reason to have more than one. We have been trying to work with Dun and Bradstreet to whittle our tree down to the DUNS numbers that are actually being used. We have found out Dun and Bradstreet themselves are going out and creating new numbers. They have staff that are actively looking at businesses and locations and setting up new DUNS numbers. It is their information, they have let us know that we can only eliminate the numbers for closed offices. Please look at your number listing to see if there is truly an open business location for each of the numbers. If so, we have to keep the number, if not, we can request Dun and Bradstreet to remove the number.

We expect to see more federal awards being FFATA reportable next fall. The information is pushed down from the federal agencies based upon the DUNS number in the award. If you have a section of your agency that creates an award with another DUNS number and you try to report on that DUNS number, it will make things difficult. There will still be a need for you to try to control things as much as possible.

### **Federal Offsets – Clark Partridge**

We will be trying to meet with OSPB on the federal offset issue but right now they are busy with budget negotiations. We did get some money back from the feds, about \$595,000. We will try to put that towards what was taken. We owed \$6.2 million. They took about \$6.7 million. We do not know at this time how the \$595,000 will be allocated back to the agencies. If you were an agency that was offset, make sure your OSPB analyst understands what your budget needs are.

### **Fund Sweeps – Clark Partridge**

We are willing to work with the agencies on the fund sweeps if you have a true cash flow problem. Absent a cash flow problem and issue and absent GAO being informed

you have a cash flow issue with the cash flow projections to back it up, we will start moving towards sweeping the money. We need to understand your issues. If you have already communicated your issues, that is fine, you do not need to do so again. Your cash flow projection needs to support your claim. We cannot wait to process all of the sweeps in June. We do not have the staff to wait until June.

We did have one agency that did submit what they could for the sweep until there was no more cash in the fund. We told them about the language that allows them to transfer from one fund to another in order to accommodate the sweep or the budget reduction. The agency is quite insistent they do not have to do anything else, they paid everything that was available in that fund. We will have additional conversations on this once the budget has been completed. Those are policy decisions that will be made by OSPB. We believe the budget is built upon the belief that the money will be coming in so there would have to be a really good reason why not to do the transfer but OSPB will deal with that from the budget perspective.

### **Revolving Funds – Jaimie Soulvie**

The Internal Audit Group sent out the Revolving Fund Surveys 7 or 8 months ago. We received most of the surveys back. The accounting manual states the June 30<sup>th</sup> revolving fund reconciliation is to be submitted to the Appropriations Group by the end of August. Internal Audit will start conducting revolving fund audits. If we come to visit you, we should be in and out in a couple of hours. We will ask for the cash box and the checkbook and make counts and make sure everything balances. We will want to see your latest reconciliation. We will discuss what the issues are before we leave your agency and then you should expect the audit letter quickly after we leave. We are starting with those agencies that either did not submit their survey or did not submit their reconciliation. We feel these are the higher risk agencies. If you fall into one of these two categories, you should be seeing someone in the next couple of weeks.

If your revolving funds are working well, this should not be an issue for you. We are not asking for monthly reconciliations, just the annual one. We have some agencies that have never done the annual. When we followed up with one agency, we had an employee that had worked there for 17 years and did not know they had a revolving fund. AFIS shows that you have a revolving fund. There are multiple issues with this scenario, either they lost the money somewhere along the way or if they closed out the revolving fund, they did not close it out correctly. How are monthly reconciliations being done against AFIS and they are not realizing they have a revolving fund? It shows on the Trial Balance as Cash Not on Deposit with Treasurer. The agency has responsibility for it.

Originally all the revolving funds were closed out to the General Fund at the end of the fiscal year. That is a good practice to make sure you safeguard the money. It is not real efficient. We do not want to invoke any inefficiencies for the State but if money is disappearing in revolving funds, we need to look at possibly reducing the revolving fund amount or closing the revolving fund altogether. We have other tools we did not have historically. We have the PCard, the ability to do same day handwrites in AFIS, and we

run the system daily. There are a lot of things environmentally that have changed over time. We need to make sure the use of the revolving fund is appropriate and reduce the risk. We are trying to review as strategic and stealth like as possible, unobtrusive as possible to where we can come in and assess the situation quickly, see what the issues are. If everything is okay, we will be done. If things are not okay, we will need to have appropriate conversations. If we can close some of the revolving funds out, you will not have to worry about reconciling or reimbursing.

### **Agency Budgets – Clark Partridge**

Reminder if you have issues make sure they are heard early and often. When a bill is dropped, review it and get back to your budget analyst and let them know that you have problems. It is all in the perspective. We have seen over the years agencies get cut, but in the end the cuts could have been a whole lot worse. You need to be thinking that if your budget is going to be cut, what is it you will not be doing any more? There is not enough resource to get it all done.

### **Fiscal Year End – Profile Rolls – Angela Dillard**

The fiscal year end memo is going through the review process. It should be posted to the web site soon. We do not know when the Legislature is going to pass a budget so some of the dates may change.

At this point it looks like the Health Insurance Trust Fund sweep is being eliminated. That will be a tremendous help to you if that does not have to be done. We will not celebrate prematurely but we have been encouraging this for the last 18 years. Clark was told in 1989 that the sweep was a one year event.

We are looking at the closing date for the 13<sup>th</sup> month. Tentatively right now it is scheduled to close by the 29<sup>th</sup> of July. 13<sup>th</sup> month transaction entry would be cut off as of July 19<sup>th</sup>. If we move it up a week, it would mean cutting off entry for the 13<sup>th</sup> month on the 12<sup>th</sup> or 13<sup>th</sup>. More vendors are starting to turn around monthly billings quicker. They do not need a weekend to run their monthly billing. If the vendor's system is run as normal, it will be run the first weekend after June 30<sup>th</sup>. With the July 4<sup>th</sup> holiday, you may not see your bill until July 5<sup>th</sup> – 8<sup>th</sup>. To try to turn it around from receipt on the 8<sup>th</sup> to the bill being paid by the 12<sup>th</sup> or 13<sup>th</sup> would be pretty tough to do.

**Q:** We would actually need to cut things off before GAO does due to interface timing.

**A:** Correct.

We need to start thinking about moving dates up. This year we are looking at closing on the 29<sup>th</sup>. We really only have about two more years and it will flip a week. Whether it is this year or in the next few years we anticipate the budget office saying agencies only have so much time to submit their budgets. They need to get their reports earlier. If we do not close until the 29<sup>th</sup> you will not receive your reports until the first week in August. Be thinking about this. This will be coming down the pike. We don't know when the change will happen but probably in the next couple of years.

One of the things we need to be thinking of in conjunction with a new system is, do we even have a 13<sup>th</sup> month? There is the argument that says we do not need one. You just continue to pay the bills and start the administrative adjustment period on July 1<sup>st</sup>. If the budget offices want a report as of August 25<sup>th</sup> or September 1<sup>st</sup> on what bills we paid with previous year's dollars, we give them that report. It will change what we do for fiscal year end. We will have a little bit more for reserve for outstanding bills and payments at fiscal year end. This will help us close our books faster, get reports faster, provide management information better, provide more flexibility with financial information reporting if we can eliminate the 13<sup>th</sup> month. If this is a concern to you, if you have some real reasons why we should not be doing this, be thinking about it. We should be able to close and give updated reports as to where we stand during the administrative adjustment period.

When you start looking at how you do your cost allocations and methodologies, this will completely change the time frames. If we can do the cost allocations almost real time rather than trying to keep the year end open, now we can close years, do our reporting and be more timely. The feds are coming soon to say that they want more timely reports. One time frame that has been suggested and recommended from the federal government has the Single Audit for 2011 still due by March 31<sup>st</sup>. The following year it would be due by February 28<sup>th</sup>. The following year would be January 31<sup>st</sup> and the year after that would be December 31<sup>st</sup>. What that will mean is we have to have the CAFR completed and issued by Thanksgiving. This will mean all of our processes will have to move up and be accelerated. There are some areas of the feds that are asking why shouldn't the Single Audit be due within 60 days of the fiscal year close? That would mean we would be issuing financial statements at the end of July. The expectations are changing. You can go out and see what Elisse Walter is saying with the SEC. They are saying if the private sector can report in 60 days, why can't government? We really have to look at our business processes, what we are doing, what is value added, what is not. We need to focus on the things that are most important and be willing to change, because it is coming. Congress is putting a lot of pressure on reporting starting with ARRA dollars. Too much time has passed by the time the findings are out and agencies are able to start on a Corrective Action Plan. We will need to work together and see what our barriers are but the time frames will probably be changing.

We issued the CAFR in June and May in previous years. This year it was March. We are getting back on track to where most other states are. Utah did early implementation of GASB 54 and still got their financial statements done at the end of November. They have different systems, more centralization, less agencies and less funds. Those are the types of things we need to look at strategically. Where are our opportunities? Give this some thought. We want to keep the things that are truly value added and see if there is a better way to do the value added things that we can adopt.

Everyone will be okay for this year liquidating encumbrances on July 22<sup>nd</sup> and closing the 29<sup>th</sup>? Get ready for the profile rolls. They are scheduled for April 15<sup>th</sup>. Hopefully the memo will be out next week with all the year end dates. We will have an

informational session in May. We are only going to do one session this year instead of two as in previous years. Most staff at agencies hasn't changed during the last year. The date and time of the informational session will be put out as a web story. If you have mass changes to your profile, contact your AFIS Liaison and we can use the HostBridge software to upload your spreadsheet.

### **Cost Recovery Audit – Angela Dillard**

The auditor is onsite in GAO right now. They have done the first round of identifying potential duplicate and overpayments. Paul Ruwald of GAO sent out an email to you if you were part of the first list. So far everyone has been very cooperative working with the auditor. We appreciate your cooperation. As we do further rounds please take the time to pull the documents and work with the auditor. We want to make sure this audit is as unobtrusive as possible.

**Q:** How far back are they going to go?

**A:** They are going back to 2008. The RFP was done last year. We wanted to make it fairly current so you didn't have to go back to Library and Archives to pull information. It is 2008, 2009 and 2010 they are looking at. We want to give you time in 2011 to catch issues yourself rather than giving them a cut for something you haven't had a chance to look at yet.

If you have issues, let us know. The expectation from the Governor and Legislature is that you will cooperate with the audit. The Governor vetoed the Legislation so we have more flexibility so we do not want to burn that chip by not moving this forward. The Governor intends for this to happen but through the Executive Order instead of Legislation. As we move forward we have the opportunity to demonstrate the accountability and police things ourselves so that people can see we are being diligent. If they don't find a lot, that will be the second time that has been validated. So far, that is what we are seeing. If they don't find much, this probably won't last long but if they do find things, we will welcome that too because it will give us an opportunity to change our business processes and fix the problem. Either way it is a win win. We recognize this will take some resources on your end.

### **PCard/Travel Card Q & A Session – Angela Dillard**

The Q & A informational session on the PCard and Travel Card is scheduled April 27th from 10:00 to 11:30. We will have someone from US Bank attend to partner in the session. We have a meeting with US Bank at the end of this week to decide what some of the important topics to be covered. There should be a web story going out next week and then you can go into YES to register. We want to do a Q & A if there are issues you are having and then touch on some of the important points of the policy. You can ask questions of US Bank.

### **3% Withhold Update – Clark Partridge**

We are still hoping it will be repealed. We need to get moving on this if we don't hear something soon. Last week some of you were at the NASC Conference, the IRS was

on a phone call and they really weren't able to answer much when it came to the 3% Withhold because the regs aren't out yet and it is premature. There is also an amendment that was going to be offered up in Congress on the House side today for repeal. Hopefully that amendment will be offered and get some traction. There is some sympathy on the impact to small businesses, not much sympathy for the impact on government. We will be increasingly trying to help educate people on the negative impact to the State of Arizona.

We are looking at increasing the PCard amounts. That will be more of a rebate we are able to collect but it will also mean more money for the PCard vendor. Some of the markups on some large payments are only 2% to begin with. ADOT is an example with their large freeway project vendors. If the markup is only 2%, you can see the impact on a PCard transaction. If paying with the PCard is already built in to their pricing models, then it is a non issue.

With the 3% Withhold, if you are withholding 3% and their markup is 2%, they will be going in the hole for every dollar they spend until they can get that money back from the feds. The feds will not allow businesses to get any of the money back until they file their annual tax return. What do you think will happen the next time a project is bid out? Our costs will probably be 3% higher. Vendors cannot afford to take that kind of a hit to their cash flow. We are working on this issue. We want to make sure you are well informed. This will impact your business if it does not get repealed. 3% Withhold was first talked about in 2004. It was put into law in 2006. It has been out there for a long time but we are now getting down to crunch time since it goes into effect in January.

**Q:** What about the 1099 reporting?

**A:** 1099 reporting looks like it is going to be repealed. We tried to get the 3% Withhold attached to the 1099 repeal. The 1099 reporting is Tinker toys compared to the 3% withhold as far as severity of impact. 1099 reporting affects all business and small businesses got the sympathy vote. 3% Withhold only affects those businesses that are doing business with government as opposed to everybody.

They are talking about increasing the threshold for the 3% Withhold higher than the \$10,000 but we will still need to make programming changes and you still cannot split a payment to avoid the withholding. The temporary regs also state purchases using the PCard will not be covered by the 3% Withhold for 18 months. We anticipate PCard usage to increase dramatically.

### **July 1, 2011 payday – Stu Wilbur**

July 1, 2011 is the first day of the new fiscal year. It is also the Friday of pay week. Pay day for this week will be on Friday, July 1st, not on Thursday June 30<sup>th</sup>. This payday is budgeted in fiscal year 2012. We sent out a web story. There is also a posting out on YES with the information. We want to make sure employees are aware. If they have automatic deductions from their checking account on Thursday for the normal payday, their bank will not see their pay check deposited until Friday. All of the warrants will be

dated July 1. All warrants will be mailed from GAO on Friday, July 1. It is similar to the calendar year end cut off we had when we mailed all the warrants from GAO at the end of December. We want to make sure employees get paid timely but we also need to make sure they do not get paid before July 1<sup>st</sup>.

We also want to give employees the opportunity before the fiscal year end to sign up for direct deposit. Depending on what happens with a bill in the Legislature, there could be the opportunity to mandate direct deposit. We are moving in the direction of ultimately putting the pay on the pay card if they do not sign up for direct deposit. We want to help employees, we want to get them their money and eliminate fees in the process. Agencies that have one pay warrant still have to come and pick them up. We want to eliminate the agency pick up. We will also start looking at vendors and breaking down the barriers so we can pay more vendors through ACH. This will reduce your costs of handling and pushing pieces of paper through.

### **Out of State Employees – Stu Wilbur**

We are currently doing a review of any State of Arizona employees who are performing their work outside of the state--they are working from a home office in another state. There could be some different tax obligations when you are performing services out of state, especially if the employee is not an Arizona resident. We ran a query of employees that have a home address outside of the state. There are about 200 or so employees statewide. We will be breaking this list up by agency and sending out a survey asking you to identify where the work is actually being performed by these people. If the work is not in Arizona, are they a resident of the other state? We will then be able to do follow up and gain a better understanding of our reporting obligation.

The list we are sending out is pulled from everyone with an out of state address. There could be other individuals with an in state address that really are working out of state. If you know of other situations, please let us know. The employees may have an old address that was never updated in HRIS. This would be a good opportunity to remind employees to keep their address current.

**Q:** What are the implications for those employees that are residents of another state working out of state?

**A:** If they are working out of state and they are not an Arizona resident, they would not be taxed Arizona state income tax. So we should not be reporting their wages to the Department of Revenue. If they are in another state, some states do not have a state income tax, but other states may have a state income tax, local income tax, county taxes, etc. Depending on where the work is actually being performed, we need to do some research to find out what our reporting implications would be. Another point of this is to remind HR folks and others that if they do know of work being performed outside the state, we really need to be integrated in some of those conversations to make sure we are set up to report correctly.

As an employer, if you hire someone and they are going to do the work out of state you have the responsibility to pay them appropriately. There are additional issues with Risk Management and Worker's Compensation. They are trying to find the same types of people. In some cases if you hire a contractor to work out of state, you still have some issues because the State of Arizona is doing business out of state. Different statutes apply, different requirements, you need to make sure you understand where you are doing business and why you are doing that business where you are doing it. Arizona law does not apply in Mexico. Mexican law applies in Mexico, that is where the work is being performed.

### **Issues, Concerns, Questions**

#### **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 3:08 p.m.

The next meeting is scheduled for Tuesday, April 26, 2011, at 2:00 p.m. in the General Accounting Office.