

**Large Agency
Chief Financial Officers Meeting Minutes
May 26, 2009**

PARTICIPANTS:

Joe Whitmer, ADA
Tim Newton, DEA
Li Li, DJA
Craig Rudolph, DTA
Mike Clark, EVA
John Moorman, HCA
John Lake, HSA
Jim Humble, HSA
Joan Jones, RVA
Lihua Li, WCA
Clark Partridge, ADA/GAO
Mike Smarik, ADA/GAO
Anita Kleinman, ADA/GAO
Shannon Landis, ADA/GAO
Jennifer Verhelst, ADA/GAO
Jaimie Soulvie, ADA/GAO
Amy Newby, ADA/GAO
Stu Wilbur, ADA/GAO
Amy Aeppli, ADA/GAO

ITEMS COVERED

Clark Partridge – Welcome & Introductions

Announcement

Announcement was made regarding the passing of Kerry Martin, Treasurer Dean Martin's wife, on Monday.

Travel Claim Processing – Clark

There is a new edit in AFIS, which will disallow processing of travel reimbursements in AFIS. We have been processing travel in HRIS since 2008 but now we have added the edit to ensure nothing will slip through AFIS.

Should there be any problems with this, contact us and we can talk through and treat as appropriate.

AFIS and Travel Training Needs – Clark

AzGu has been significantly diminished due to the budget as many of you as large agencies know of the inability to continue to support AzGu. We recognize agencies still need on going AFIS and travel training. We are looking at viable options. We are trying to take some of that training back into GAO. We are

planning to make improvements to the content of AFIS training, but we also need to take into consideration the limited resources we have in GAO. Currently we are evaluating current material and looking at alternatives and suggestions, probably putting an emphasis on online training. Possibly having some labs where someone can come in and get some additional help after taking the online training for clarifications. Due to the limited resources we have, we are going to have to optimize solutions that minimize the strain on the resources we have left. We really want to try to meet your needs and try to understand them as we make some difficult choices and decisions on what we can do and what we can't do. Please let us know what your critical AFIS and travel training needs are. What are the things that would help you as agencies? Again we are planning on doing as much online training as we can and things we can easily support. Just let us know

Internal Controls – Clark

Just a reminder to review your internal controls and to complete the survey if you haven't done so already. 150 agencies have started the survey, 70 have completed it. There are more people taking the survey than there are agencies because some of the large agencies have more than one person completing the survey.

Policies – Clark

Several policies will be coming out this week. The Intangible Assets will go out for review, as a draft. We will be asking for some information from the agencies so watch for that. Also on the recovery act, monitoring tools, those of you who were at our presentation a couple weeks ago we talked about those in one of the slides that the AGA partnership had developed. One is a financial monitoring tool and the other is a risk assessment tool. Those are being incorporated into policy. The intent of the policy that is being put out is that these tools are not required if you have a tool that is the same or better. You do need to review your tool to make sure it is up to date and covers all the aspects, including monitoring subrecipients. There are some that are particular to a certain industry or function of government. Everyone needs to go through these new tools and incorporate them into your existing tools as appropriate. The tools are very good. They were cited by the U.S. Department of Education and the Inspector General's Office as being the types of tools they are looking for to be used in connection with the Recovery Act dollars but also you can use them on any of your dollars. As your program people are spending dollars you can utilize these tools to touch base and help you look through the different things that are expected of you receiving federal dollars let alone if you are monitoring subrecipients or not. It can also be used if you are passing money to other State agencies. If you are not using these, you should be using something of equal or greater benefit.

Policies on Fraud, Waste and Abuse and Related Party Transactions will be coming out pending final review and approval. Another policy we are also looking at is Accounting Treatment of P-Card and Travel Card incentives. We do have

incentives or rebates coming from US Bank coming on both cards. One of the federal requirements is we apply the rebates back to the federal programs that generated them. That is where those dollars need to go. That is the catalyst behind this policy.

We will probably send out in draft for comment, particularly for large agencies to review and then we can follow that up after a short comment period.

The first pass of that policy is, if there is a receipt and it is under \$500, it will go to the General Fund unless you can show documentation at least 75% of it was paid out of your agency funds, then it can go there. If it is over \$500 it needs documentation to send it back to the fund where it belongs to, especially if there are federal dollars. But we are looking at another option as well. We are trying to lessen the work load to the extent we can. Our argument to the feds is it is going to cost us more to allocate it than the rebate is worth. That is why we are looking for your comments in trying to develop something that is meaningful. The federal threshold for compliance is \$10. We are going to try to push the envelope to \$500. Clark would even like to take it a little higher but we don't think the feds will go for that. We are trying to find something nominal. This issue is becoming an audit issue. You may want to share this with your program people. There are a few things the feds are looking at nationwide this is one of them and the other is on systems. Any new systems that are done, particularly how do you pay for them? How do the feds participate in that payment?

Federal Stimulus American Recovery and Reinvestment Act (ARRA) - Clark

We are continuing to move forward. Hopefully the end of the month, first of June we will have additional guidance from OMB. They have been working feverishly to get out the reporting requirements, at least at the higher level, specifically the recovery.gov website. That is probably a substantial amount of information of what is left for people to know and understand on how some of these things are going to work. There will still be some development on an ongoing basis on various things but the big thing everyone is waiting for is how are we going to report? What are the requirements? What do we have to do? What are the time frames? How are we going to make things work within this 10 day time frame that we have. How are we going to do that when our numbers aren't accurate yet, etc. They are working on those reporting related issues. Clark doesn't know if they will come out with some quicker than others. They are working at it. It's in the final review stage, whether it will be remanded for final review is unknown.

We were following up with an agency as to why they weren't using the new Comptroller Object that was set up for the recovery money. Their response was, "What new Comptroller Object?" It was in the policy that was sent out. "Oh we didn't know you issued a new policy." Just an FYI, make sure that your agency knows about the policies, specifically they need to be contacting the Governor's Office to make sure they are on the list of agencies as to what monies they are applying for and who the contact person is. We are going to be setting up a

meeting in the next week or the week after anticipating the feds will be coming out with additional information. We have been working on additional information that we'll get out to the agencies. On May 11th OMB came out with a solution to the States' problems on having additional statewide reporting and oversight responsibilities with no dollars for that. They specifically came out with an additional up to .5% to be used for statewide administration of costs. It's not just statewide but it's for state agency or local government. It's for ARRA specific requirements. The ARRA is subject to some of the same requirements that normal grants are so you can charge for administrative costs etc. just like you can for normal programs. Some of those programs have admin caps or indirect caps. You can go through the regular processes in addition to the regular processes if its ARRA specific requirements that you are incurring as an agency, you can include those as a separate part of your indirect cost plan so that you can charge those things specifically for ARRA. You can try to negotiate that separately in addition to that we have the statewide items with the caps. There is a lot of coordination that will need to happen including the methodology for the charge. We still have to work some of those things out if there is a real good methodology if not, we may need to find something that is a fair and equitable allocation of the costs. We'll be working that out and then notifying you as soon as we can of what approach the State is planning to make. Of course we need to submit it to the feds and they need to approve it as an amendment to our Statewide Cost Allocation Plan and then we can incorporate that in. Right now tentatively plan on .5% admin charge coming down the pike for your recovery act dollars. It may not be the full .5% but we'll see how that gets coordinated.

Q: Is that going to start in FY10 or immediately?

A: That will start immediately.

Q: Speaking of allocated costs, what did we ever do with the Attorney General fees and that type of thing?

A: They are not fixed yet. The Legislature has not changed the law.

Q: So we just add this to it?

A: Actually 5% admin cost is allowable. The Attorney General Pro-Rata is disallowed. Assuming it gets approved but we have already talked through some of the issues with the feds. The question is what are the facts and what do we need it for. We don't know for sure what we need it for entirely because we don't know what all the requirements are yet so that is part of the challenge at this point.

Q: So when was this published?

A: May 11th from OMB. It wasn't in the Federal Register. It was an OMB publication on the OMB site. It was not put out for comment. It was a determination that was made.

Q: So they are saying you can use .5% of your total value of recovery dollars you are entitled to?

A: Correct.

Q: And you can forecast your cost I think?

A: Correct. You estimate your costs what you think they are going to be and then adjust to actuals and whatever we don't spend we have to give back to the feds.

Q: If your ARRA award is strictly program, there is no admin to it?

A: This is on top of that. In addition to anything else, this is specifically authorized.

Q: Are you talking about the statewide piece?

A: The statewide piece. The .5% is on all ARRA dollars.

Q: There is an agency piece?

A: This is it. This includes the agency piece. The agencies would have the same as normal what they can charge. Some don't allow at all. Some are very liberal, some are capped at different things.

Q: But you guys are going to market it into the Statewide Cost Allocation Plan and then it gets passed on to us, our portion?

A: At least the portion that is statewide and then you can maybe charge so if there are some things, again we've got to look statewide at some of the things. If you have got some ARRA specific costs for ARRA specific reporting, Clark would like you to start gathering those up. Also start thinking of the local governments if they have anything this covers all levels. For example, we don't have the budgets put together so we don't know what is going to be allowed. There is a possibility, Clark doesn't think it will come down this way, that all .5% is needed for statewide things. That would be about \$30 million. Clark doesn't think we would need \$30 million but again we haven't gone through the exercise yet so we don't know. Let's say its 3% is what is used so it's \$18 million used for statewide. That might reserve 1% for agencies for ARRA specific and another 1% for locals. Prior to any of that being expended, it would have to be reviewed in advance. The big concern is if it's spent on something that is not authorized or appropriate,

it's going to be a disallowed cost and it will have to be repaid. So we have to make sure that whatever is there is appropriate.

Q: But for instance monthly financial reporting specifically for ARRA funding for our projects like I believe we are going to have to do for USDA, if that is prepared by someone in an indirect cost center, it would be eligible for this?

A: It can be but you would probably want to use your normal channels first because that is a lot cleaner and simpler. Every dollar used for this would have to be identified and pursued.

Q: But if we end up with ½ an FTE that has to do nothing but basically ARRA reporting?

A: Even then you would want to probably do a direct charge, not an indirect charge.

Q: Except our ARRA funding is going to be spread into 15 different parts.

A: You can spread a direct charge into 15 different parts. A lot of it will be a direct cost as part of administering the program. Again a lot of this is some of the federal agencies haven't put out their guidelines yet. That will happen when they award the dollars most likely so some of the people have their applications in pending. Some of them say you can use this the same way as your existing awards and the same requirements apply. Well that is not quite true. There are additional requirements that apply because it is Recovery Act dollars. The feds aren't passing along some of those things such as the Davis Bacon wages and Buy American provisions. The one thing just said yes spend it the same way as you do your existing and that is all they said. You need to be very careful sometimes the worst ones following the federal rules are the feds. Any time you apply for federal dollars from the feds or anyone else at this point, make sure you are asking, is this Recovery Act monies? If you put forth a request asking for new grant profiles to be set up, the federal group is going to be asking as well. Just in case you forgot.

CMIA does apply, the Recovery Act monies are not exempt from CMIA. We have one federal agency that said yes just go ahead and draw it all down and earn interest. The question we are still trying to run down there is, is that program exempt from CMIA? Because if it is, then the Recovery Act dollars may or may not be exempt from CMIA depending on how the law is written. Just because normal monies may be exempt from CMIA does not mean that these dollars are. There could be inherent conflicts at the federal level that the federal agencies are allowing things that are really not permitted under the law.

Budget - Clark

We don't have one yet, hopefully soon, hopefully of a sufficient size and scope.

Q: We are still hearing the deficit word.

A: Well, get used to it. Just be prepared. Be prepared for fiscal year end. We do have some agencies that will be struggling to make ends meet. Make sure you get things cleared timely off the IT so you have accurate information for people when they are making decisions. They should not be over obligating things, especially for appropriated dollars. That is why you should have an encumbrance in the system before you order goods and services so you know that you have dollars. It should be encumbered in the State's accounting system before you place the order for the goods or services.

On payroll there are some agencies that will be scraping just to cover payroll, they are thinking they may not make it. We are going to be clearing payroll first. As soon as payroll posts we will be working on clearing it. If we can't get it cleared where it has been charged, then we will probably be moving it and clearing it someplace else. Stay on top of your payroll, coordinate with your liaison. This is going to be a priority. We've got a little over a week and a half before the next payroll is going to hit. Be aware if there are any decisions your agency is making for budgetary reasons, if people are going to be losing their jobs, if it happens by June 30 and it is an involuntary separation it will be charged out of your current year budget as well. It could be those things need to happen in July rather than June depending upon your budget needs. We don't think you can conduct any budgetary RIF's at this point because you don't have a budget yet for fiscal year 10. Unless it is a current year budgetary issue, it should fall to next year. Once you have a known budget, you can start on that at any time. It could be by the time you get through doing what you need to do to get ready for it, it's already next year anyway.

Payroll Issues – Clark

GAO will be changing the labor distribution for all positions in HRIS on the weekend of June 20th and 21st. HRIS will be down that weekend. If you are doing manual payments (handwrites) the week of the 22nd through June 30th, you need to make sure it is charged to FY09, not FY10. We do verifications so we will stop it but it is nicer if you do it on your end. This will be discussed more in the payroll fiscal year end meeting which will be on Monday June 8th at 9:30 to 11:00 and 1:30 to 3:00. It's the same meeting held twice for convenience. We'll be posting a web story with the details. Make sure you send a representative.

Fiscal Year End - Clark

FYI if you have any questions or issues, contact us. The appropriation load did not happen this weekend. It will be rescheduled as appropriate. It probably will not be the same weekend as when we close the month of May.

Centers for Medicare and Medicaid Services (CMS) Federal Offsets – Clark

CMS is stepping up its offsets. There are more grants that are getting hit. If you draw down money from the feds and you didn't get all your money and you call

them up and they said yes you did because there was an offset against your grant in the queue. CMS is not being as patient in waiting. When they go through and make payments on services and find out the person had other insurance and the other insurance needed to pay, so they are disallowing it against State dollars which makes it very difficult because when the insurance does pay eventually, they pay the feds and then we have to work real hard to get our money back because there is not an easy process to do that. After we get the money back then we have to get the money to the right agency. It used to be that those things happened occasionally, now they are happening almost daily.

Q: It used to be it was State employees covered under the State's insurance.

A: That is primarily what they hit so when the State pays, the State pays the feds.

Q: That is primarily the Medicare side, not the Medicaid.

A: We understand. But we have had offsets for the City of Phoenix Police Department or other entities. So if that happens, whatever information that you can gather, sometimes all you will have is codes, send it over to the federal group so they can start contacting and finding out what it is and what it is for. Let us know so we can start following up, the sooner the better since sometimes it takes awhile.

Has anyone ever had this happen?

Agency response: Yes, Celine is still researching ours. The only description on there didn't have anything to do with us, it was another agency. It seems like they just picked the payment.

That is exactly what they do. If you are the next one in the queue, your payment will get zapped. We are going to be stepping it up on a national perspective. We're sure it has to be happening to other states too since CMS stepped it up.

Issues, Concerns, Questions?

None.

We'll take a recess until September. I'm sure we'll be seeing some of you for Recovery Act meetings and other things.

Future Agenda Items

Emphasis on Electronic ACH Payments

Travel & Expense Management Sub-System

Payroll Card

NSF & Favorable/ Unfavorable Deposits Cleanup Project

Federal Funding Accountability and Transparency Act (FFATA)

State Transparency Project

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

Meeting adjourned at 2:40 p.m.

The next meeting is scheduled for Tuesday, September 29, 2009, at 2:00 p.m. in the General Accounting Office.