

**Large Agency
Chief Financial Officers Meeting Minutes**
September 28, 2010

PARTICIPANTS:

Joe Whitmer, ADA
Cheryl Toone, ADA/Risk
Mike Kearns, DCA
Shana Schaller, DEA
Jim Benson, DEA
David Plummer, DJA
Craig Rudolph, DTA
Mike Clark, EVA
John Moorman, HCA
Jim Humble, HSA
Sharon Gulden, LDA
Chuck LeBlanc, PSA
Reed Spangler, RVA
Syndia Reeder, WCA
Chris Kennedy, Periscope Holdings
Clark Partridge, ADA/GAO
Mike Smarik, ADA/GAO
Angela Dillard, ADA/GAO
Anita Kleinman, ADA/GAO
Jaimie Soulvie, ADA/GAO
Joanna Greenaway, ADA/GAO
Stu Wilbur, ADA/GAO
Greg Vokoun, ADA/GAO
Amy Aeppli, ADA/GAO
Megan Duty, ADA/GAO
Yesenia Mejia, ADA/GAO
Jennifer Verhelst, ADA/GAO

ITEMS COVERED

Clark Partridge – Welcome & Introductions

ProcureAZ to AFIS Interface – Chris Kennedy of Periscope Holdings

ProcureAZ will be the system used for procurement for the State of Arizona. All statewide contracts have been loaded into the system and agency specific contracts are in the process of being loaded. Selected agencies are using the system for solicitation management and receiving online responses. Starting October 1st the first group of agencies are going live to be able to process requisitions and issue purchase orders as well as do online receiving within the system. The next group of primarily larger agencies will be rolled out in January.

Periscope and SPO have worked with the GAO AFIS staff and the ISD AFIS staff to build a real time interface between ProcureAZ and AFIS using a technology called Host Bridge. Transactions, requisitions, pre-encumbrances, encumbrances, change orders, account code validation, budget validation and vendor synchronization will all be interfaced between the systems. Vendors will be able to update in ProcureAZ instead of filling out a W9 form. Information will be input into ProcureAZ by the vendor and then interfaced to AFIS. Vendors will no longer have to submit the paper W9 for someone in GAO to manually input.

The goal is for staff in the business units at the agencies to be putting their requisition information in online. Some agencies are starting out that way. Others are starting with a more centralized approach and pushing it out after they become familiar with the system.

Agencies will submit a requisition online. Once the requisition is approved, it will produce a pre-encumbrance in AFIS. When purchasing takes the requisition and turns it into a purchase order, the pre-encumbrance will be liquidated and an encumbrance will be created. Once information has been transmitted into AFIS, there will be a shared ID between the systems. This ID is the AFIS document number. ProcureAZ will store the document number as an alternate ID. You can search information in ProcureAZ by purchase order number, vendor number or the alternate ID which would be the encumbrance number.

When the purchase order is ready to be sent to the vendor, a couple of things will happen. ProcureAZ will check to see if the vendor is in AFIS. If not it will create a vendor record. If the vendor is already in AFIS, the system will validate that the address is the same and synchronize. If there is any type of issue with the vendor information, an error message will be displayed. Once the vendor information has been verified, the encumbrance information will be posted into a batch. The system will validate the account code and budget. If everything is successful, it will return an encumbrance number. If not, the system will display an error message. The information is in a batch that will be posted that night. The process in ProcureAZ ends with the receipt of goods. Invoices will still be entered into AFIS. All the information related to the requisition, PO and receipt will be maintained in ProcureAZ.

Q: Is the encumbrance link to AFIS automatic and mandatory if encumbrances are handled differently in our area?

A: There are certain types of purchases that may not be done this way. Periscope can talk offline with you.

Eventually all purchases of goods and services will be going through this system for most things, for most agencies. Agencies with their own purchasing systems will be handled a little differently but they are still interfacing with their accounting

systems. If you are buying office supplies, they would probably go through this system. If you are paying a person for Worker's Compensation, you would probably not use this system. You would be making the payment directly into AFIS and working your system interface the way it is currently set up.

There is no way to shut off the interface between ProcureAZ and AFIS for a particular transaction or a particular agency. If you issue a PO in ProcureAZ, it will set up an encumbrance in AFIS.

Q: We have had similar discussions regarding some of our medical contracts. They are not being paid by our agency, they are being paid by AHCCCS as the third party payor. Although we may want to issue the PO, we are not paying the vendor.

A: AHCCCS would be paid by a transfer. You could do a PO to pay AHCCCS, but that is not the focus of this system. The focus is to contract with and pay outside entities. We can talk later about these types of issues.

Q: The comment was made that when the purchase order is entered into ProcureAZ, the vendor information in AFIS is checked. It was also implied that possibly there won't be a vendor in AFIS. If not, and all the vendors are supposed to be updating in ProcureAZ, how does the vendor get in to AFIS?

A: For agencies that have their own purchasing systems, if a new vendor is created that you need to do business with, they would not be going into ProcureAZ. They would continue the process of creating a paper W9. For agencies that are using ProcureAZ, ProcureAZ would create the vendor record in AFIS.

Q: How would you create the vendor without the tax ID number?

A: The vendor would be providing the tax ID number. When they register in ProcureAZ, they have to provide the tax ID, PO address, remittance address and other information required on the W9.

Q: For an entity to bid on any solicitations, they would have to already be a vendor or process this information in ProcureAZ?

A: Yes.

Q: What if we have a contract that spans the entire year and if we tried to do it all at once, it would eat up all our appropriation. Does it allow for quarterly? Do I have to do the requisition four times?

A: Almost every agency has contracts that are set up for a year, sometimes two years. In ProcureAZ they will be set up as a blanket. At the beginning of the

year or the beginning of each quarter you can go in and say this is how much I want to encumber for this quarter. In ProcureAZ it is called a release. It is a release against your obligation. You can do it based on a number, I want 1,000 of these things or based on a dollar amount, I want \$10,000 of this service and create the encumbrance based on the amount and pay the claims as they come in.

In that case you will need to open up your appropriation and change the indicator on the 20 profile if it is a type 1 appropriation to be able to encumber for a year or a quarter.

Employee Reimbursements out of AFIS – Move to HRIS – Stu Wilbur

GAO is gathering and analyzing information regarding employee reimbursements made straight out of AFIS. There are certain items that are taxable and should be included on the employee's W2. For example education tuition assistance over \$5,250 per calendar year is taxable. These payments are very hard to track when paid out of AFIS. We are also finding payments made to employees for work performed for a second agency. These are wages and should be paid out of HRIS.

We will continue to analyze and will probably set up new pay codes in HRIS to cover the different types of reimbursements.

Q: Do you have a time frame?

A: We want to roll out a complete solution so we need to do a complete analysis on why some of these reimbursements are being made, if there are other challenges to explain why they cannot be made out of HRIS and to make sure they are set up properly in HRIS to be taxed correctly. Ideally we will be ready to implement by January 1, 2011.

Payroll Calendar – Calendar Year 2011 & FY12: 27 Pays – Stu Wilbur

A web story has been sent out. The payroll calendar for 2011 has been published. Please note there is a pay day on July 1, 2011 that will fall into FY2012. We will need to delay the actual pay day for employees to Friday the 1st for just that pay day. Communications will be sent out prior. FY2012 will have 27 pay days instead of the normal 26.

Q: Clark you are all over that for a budget issue correct?

A: GAO has submitted a budget issue to OSPB.

Clark has been warning the budget offices for the past five years of the 27 pay day issue coming up in FY2012.

Q: Is this similar to the calendar year end issue last year?

A: Yes but instead of being January to December, it is July 1 to June 30. We have the same things for this December also. December 31st will be the holiday so we need to make sure people are paid on the 30th. If we are handing out pay warrants on the 30th and someone isn't there to receive their warrant, they don't have constructive receipt by the 31st and it is an income tax issue. All of the payroll warrants will be mailed out on December 30th from GAO.

Q: They will be mailed on Thursday December 30th?

A: Yes. We will communicate especially to those that are still getting warrants, four pay days before then. There will be a memo on the warrant stub informing employees the warrants will be mailed and to double check their addresses. Employees can go straight to YES to update their address. This is another opportunity for employees to consider the benefits of direct deposit or the cash pay card. If an employee shows up at GAO requesting their warrant, it will not be given to them. They will all go in the mail.

Q: Do you know how many people are using the cash pay card?

A: It is about 150 – 200. The initial marketing was to those that were still getting a payroll warrant which at that time was about 2,500 to 3,000 individuals. We haven't done a statewide campaign to announce the cash pay card because we were really using it as an alternative to the payroll warrant.

Another topic to mention, we are going to start encouraging people again to sign up for an electronic W2. Arrangements have been made so when employees complete their open enrollment for benefits, there will be a sign up for the electronic W2 at the end of the open enrollment process.

Q: When can we start signing up for that?

A: You can sign up for an electronic W2 any time. It is on YES. The information will be available online before the W2s are actually mailed because we want to encourage people to sign up and authorize that they do not want a copy mailed to them. We are going to do the mailing more towards the end of January.

Chart of Accounts – Greg Vokoun

In regards to the changes in the Chart of Accounts, we offer our apologies. We would have liked to have communicated the changes to you sooner so they were ready for the beginning of this fiscal year. The changes need to be made prospectively due the issues with confidentiality in the transparency website. There was an issue with an interface with a comptroller object we had shut off. We have turned that comp object back on. If you have those types of issues we will fix them. We wish we could have done a better job with this. We made two

changes about half an hour after sending out the news article announcing the new Chart of Accounts.

The big motivator for the changes in the Chart of Accounts is the transparency website. The law says the site must be up by January 1st. We are going to start bringing things up in October. We needed to update some of the descriptions, such as EDP which really isn't used anymore. Acronyms that we are all familiar with won't mean much to outside viewers, they all had to be spelled out.

Some agencies have confidential investigations. If the detailed information were published on the transparency website, it could compromise the investigation or jeopardize the health and well being of the investigators. Some of the comptroller objects have been set up with notes such as "For Attorney General Use Only". If your agency would like to use the comp object, you will need to write Clark a letter explaining why and how much will be charged to it. Keep in mind, if you were served with a public information request, would you be compelled to disclose the information? Confidential information using the correct comptroller objects will be masked from the public view.

We also needed to reduce the amount of expenditures flowing through miscellaneous. We looked at the types of things that were going through there and if they were significant enough, we needed to start recording them as something other than miscellaneous. We added some new accounts and expanded the definition of other accounts to move things out of miscellaneous. We also added some accounts for control purposes, such as late fees.

The changes to the Chart of Accounts are effective October 1, 2010. Retroactive adjustments are encouraged but are not mandatory. If you go back and correct the original transactions, that would be great but the original transaction to the vendor will show as the payment to the vendor. If you are doing a correction, you can enter the vendor number so that the corrected payment reflects the payment to the vendor and it will now display correctly on the transparency site.

State Transparency Project – Joanna Greenaway

In April we asked for agency responses identifying confidential information in AFIS. The team worked with your agency staff to identify any potential issues. Many agencies originally indicated they had confidential information in AFIS. In the current model, many of these fields will not be reported on the agency website. Out of 118 agencies, only 5 agencies have specific confidential information that must be masked. We are in the process of sending official agency notification based on our communications with agency staff confirming what we have found during our discussions and what we are using for the Transparency website. If you certified you did not have any confidential information, you will not receive a letter. If you find any discrepancies in the letter, please let us know as soon as possible. We want to make sure our criteria for confidentiality is solid.

We will start with the original transaction, using the correct comptroller object, the information is stored in AFIS. We will apply the current or historic masking process to build our database to generate the file to send to the vendor. The file is applied to the application and the information is displayed on the website. It is critical to make sure the confidential information is properly masked by using the proper coding by the user. If something slips through, you need to communicate with the team immediately so they can mask the information. We are planning to post information to the website 2 weeks after AFIS closes for the month. The turn around time is very short.

The raw data is pulled out of AFIS and into the database. The database will go from the ADOA server to the vendor, NIC. NIC will put the information through the application and display it on the website. Fiscal years 2009, 2010 and 2011 to date will be displayed on the website.

We are hoping for a soft launch of the website in mid October. We hope some of you will be able to help us review the financial information for the soft launch, especially those 5 agencies with confidential information. We would like to go live with the website sometime in November.

We will be using OSPB's Master List for agency descriptions. We will also have links to other websites, FAQ's and a disclaimer.

Q: If counties or cities are doing transparency websites, are those links going to be on there as well?

A: If they have their own transparency website, yes. Per the law, by 2013 that information is to be included on this website.

ARRA Quarterly Update – Clark Partridge

Reminder ARRA quarterly reporting will be taking place next week. A web story was sent out asking you to get your ARRA transactions posted by Thursday of this week. We will not have an extension, the 10th will be the deadline. Since the 10th is a Sunday, we really have until the 8th to get everything wrapped up. There is a conference call later this week. You should have received the information from Ryan Sommers.

Federal Funding Accountability and Transparency Act (FFATA)

We had the original meeting. There was a follow up meeting last week but we were not one of the lucky groups to get onto the site. We still do not have any further information from OMB on exactly what the lay outs are, the records or the specific details. We will be working on getting more information to you via the GAO website.

CAFR – Clark Partridge

It is imperative that we meet our deadlines this year for financial reporting. We have a February 1 deadline for continuing disclosure for bond and COP payments. New Jersey was recently prosecuted and had to settle with the feds on improper disclosures or lack thereof on some of their bond offerings. Word on the street is they prosecuted the state this time, next time they will try to go after specific individuals. The underlying thresholds for financial reporting are timeliness and accuracy. We cannot sacrifice accuracy. The items you have already submitted, thank you. We have agencies that have specifically added staff so they could hit their timeframes for the CAFR.

Going forward, if you are going to be late, a day or two, make sure you are communicating with us up front so we know what is going on. If you have an issue, we need to know as soon as possible so we can deal with it up front. Ultimately our goal is to have the CAFR published by the end of December. We will not be able to make up that much time this year so this year's goal is to have the CAFR published by the end of February.

Single Audit – Clark Partridge

Last year the feds did not approve our request for an extension. They did not approve any requests for extensions last year. The State of Arizona is in noncompliance with all of its federal grants due to the Single Audit being late. One of the options available to the feds is to withhold federal funds. They have not done that. We will have the finding for the State of Arizona for all of our grants. We do plan on being on time this year--if we get the CAFR done by February, we should be able to get the Single Audit done. The CAFR isn't the only thing holding up the Single Audit, but we cannot issue the Single Audit without the CAFR. The number one reporting requirement is having audited financial statements. We are planning on having the Single Audit done by March.

Those agencies that prepare their own SEFA, a web story will be coming out giving more guidance on the preparation of the SEFA. This should save the Auditor General and GAO time in putting the information in the right format. There were a lot of changes by the feds in how information is to be displayed, how the ARRA dollars are to be reported is one example. At least 16 states had their Single Audits rejected by the feds because the SEFA was not in the right format. We were not one of those.

Federal Offsets – Clark Partridge

Some of you have received federal offsets when you have drawn grant money. The State owes the feds about \$9 million dollars. ADOT received about \$4.3 million of the offset. The rest had already been taken against other agencies.

Q: How much more of a liability is out there?

A: We owe the feds for some other things but they haven't been sent to collections yet and have not been negotiated yet so we are a ways off. In a few months more may hit.

With the \$9 million situation, we submitted it to the Legislature but it was too late at the end of the session to be dealt with. It went to collections and the feds got their money. OSPB is aware of this situation. We have submitted a budget issue to pay the feds.

Another issue is we had a State agency write to the feds and say they really weren't a part of the State of Arizona, they were a separate organization and should be paid their money. The feds responded that if they really weren't a part of the State, they shouldn't be using the tax ID number for the State of Arizona and the feds can make arrangements for the agency to get their money. The reality is they are a part of a State agency and they are part of the State of Arizona. The grant was applied for as a State of Arizona grant program. We have a failure to communicate. This is not a good thing. If they had been successful, we would have another \$500,000 plus that would hit another agency because they would get their money and the feds would start calculating interest again. We have figured out a way to cover their operations with OSPB. It would have been a shame for them to get their money and someone else to be hit that we don't have an answer for to provide for a continuity of operations.

As soon as you get an offset, please let us know. The information Anita gets from the feds is very generic and it is difficult to pinpoint which agency is being offset. There are a couple of draws that we still don't know who they affected. If someone is not reconciling, they may not realize the money did not come in.

We could have another \$148,000 that hits due to a difference between the amount of interest calculated by DHHS and the amount that was sent to collections. We are negotiating this with the feds.

Survey on Revolving Funds – Jaimie Soulvie

The survey was sent out in August asking questions on revolving funds, usage, amounts, controls, etc. If you have not sent it back to us, please do so soon. We will start calling next week to follow up.

Q: Who were they sent to? I don't recall seeing it.

A: They were sent to the CFOs. We will follow up on who they were sent to for the Department of Revenue, Department of Health Services and AHCCCS. They may have been sent to the revolving fund custodians.

We are trying to close the loop on some of the revolving fund issues. Do we have the current custodian listed? One agency was using their revolving fund twice a year with several thousand dollars and they had used maybe a couple

hundred throughout the whole year. With the PCard, many of the small agencies no longer need a revolving fund. We will be following up on the agencies we do not receive a response from. Thank you for letting us know you did not receive the survey. Ultimately if we do not receive a response, those agencies will be classified as higher risk.

Years ago all the cash in the revolving fund would be returned to the State at the end of the fiscal year and accounted for and then the fund would be re-established at the beginning of the next fiscal year. We got away from that process by requiring reconciliations to be submitted at the end of the fiscal year. On some of them if we believe the risk is too high, we may call them in and then re-establish them as appropriate.

GAO Business Hours/Coverage – Clark Partridge

Just a reminder the GAO front desk is open from 9:00 to 4:00. GAO is open 8:00 to 5:00 Monday through Friday, excluding holidays, furlough days, etc. We had an agency call up after hours, at about 6:30 p.m. trying to get a budget load in the system. They couldn't get anyone in AFIS so they called the Help Desk. The Help Desk called the AFIS programmers who then called Angela who then realized this was not an emergency situation. When this happens, especially on a furlough week when staff is limited to working only 32 hours, it is a problem. Please remind your staff that if there is a true crisis, that is the process you should go through. However, if it is not a true emergency, it needs to wait until business hours. If it is that big of a crisis, you the CFO, should be informed. AFIS is up until 8:00 p.m. to try to provide flexibility and meet the needs of the agencies. Support, again unless it is an emergency, is available until 5:00 p.m.

Communications to Agencies – Clark Partridge

We communicate information to all agencies via the GAO website. You are required to have at least one person from your agency subscribed to the website.

Issues, Concerns, Questions?

On the future agenda items, we will be looking at additional utilization of electronic systems, with the W2s and ACH payments. We were asked what percentage of our payroll is being paid by direct deposit. We have about 96% of our payroll as direct deposit. That is very good comparably to other states. Where we could improve is in warrants created to pay vendors. We want to open up the dialogue as to what the barriers are that prevent us from using ACH.

Q: With ProcureAZ coming up and having vendors register online, is that going to be the same mechanism to sign up for ACH payments?

A: No. To request ACH, it will be the same manual process that it is now. The paperwork will be sent to GAO. Vendor self service to change bank accounts is not what we want to do since who knows who may be changing it. We will continue as is until we come up with a better process.

Q: We utilize ACH on our outside bank account payments, which are at about 97% dollar figure. Our fee for service warrants doubled from where we used to be but we are only at about 34% ACH. We periodically send out letters to the vendors. While we cannot mandate they be paid by ACH, we require a valid business reason as to why the vendor cannot accept an electronic payment. Our problem is we cannot go to all of our providers because we do not have a one to one relationship between tax ID and the National Provider Identification (NPI) claim system. The ones that are on a one to one relationship we have targeted and we have been pretty successful signing up the vendors. Have you ever considered legislation to mandate electronic payments?

A: We do not need legislation, we have the option to pay by ACH.

Q: Do you have the legal option to pay by ACH?

A: We do not have it with employees but we do have it with vendors.

Q: I have been told it is an impediment to our providers if we mandate ACH.

A: The way we mandate is by putting it in the boiler plate contract language and the language does not get removed.

Q: We are going to be mandating certain payments being made with ARRA dollars will be made electronically.

A: If we want to make this happen, we can make it happen. We have talked about it on and off over the years. We have tried to encourage people.

We are seeing more federal grant requirements for payments to be made by electronic means.

Think about what we need to be doing to help you and we will see what we can do. If something goes out like the Chart of Accounts and it causes a problem, let us know.

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 3:40 p.m.

The next meeting is scheduled for Tuesday, October 26, 2010, at 2:00 p.m. in the General Accounting Office.