

**Small & Medium Agency
Chief Financial Officers Meeting Minutes
May 19, 2009**

PARTICIPANTS:

Megan Darian, ADA
Michelle Brooks, ADA
Biju Kamaleswaran, AGA
Julie McKnight, AUA
Diana Marczak, HUA
Scott Greenberg, IDA
Joan Thompson, LAA
Brett Larsen, LAA
Sharon Gulden, LDA
Esther Olivas, MIA
Tyler Palmer, RGA
Mark Carroll, SDA
Marcia West, TOA
David Medina, TXA
Cheryl Fraulob, UOA
Angelica Romero, WFA
Clark Partridge, ADA/GAO
Mike Smarik, ADA/GAO
Angela Dillard, ADA/GAO
Amy Newby, ADA/GAO
Joanna Greenaway, ADA/GAO
Anita Kleinman, ADA/GAO
Tami Eckloff, ADA/GAO
Shannon Landis, ADA/GAO
Stu Wilbur, ADA/GAO
Jennifer Verhelst, ADA/GAO
Jaimie Soulvie, ADA/GAO
Amy Aeppli, ADA/GAO

ITEMS COVERED

Clark Partridge – Welcome & Introductions

Travel Claim Processing – New Edit in AFIS – Clark

There is a new edit in AFIS so that travel reimbursements will not be processed in AFIS. We have been processing travel in HRIS but now we have added the edit to ensure nothing will slip through AFIS.

AFIS and Travel Training Needs - Clark

AzGu is in a state of flux and change. Their funding has gone away so a lot of their training has gone away, at least they are not providing it. We recognize agencies still need on going AFIS and travel training. We are looking at options. We are trying to take some of that training back into GAO. We are looking to make improvements taking into consideration the limited resources we have in GAO. We are 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. Be thinking of what your AFIS and travel training needs are. With fiscal year end coming up, we will be busy with that. We are going to try to do some things fairly quickly, trying to continue what is already there at least. If you have specific needs, things that have not worked well for you in the past, things you wished we had, we won't make any promises, but we are interested in what you need.

Internal Controls – Clark

Most people have completed the survey. 120+ agencies have completed the survey. We want to get those in and start evaluating them. But more than us evaluating, we want you to be evaluating yours. Was it beneficial to you? Did you learn things about your agency while completing the survey? Did it give you the opportunity to have discussions with management that you otherwise wouldn't have been made? As cuts are being made, cuts to administrative staff are being made. This survey should show some of these positions are important for internal controls. How do you mitigate and control risk? There are a lot of good reasons and rationale for internal controls. How do make sure the controls are effective and efficient as they can be? Sometimes when you evaluate, you realize you have twenty things controlling this type of risk over here, and nothing controlling the risk over there.

Q: I still need to get it done. It's not done.

A: That's okay. Remember we were debating between an April 30 or a May 31 deadline? April 30 we can always give extensions, May 31 we are already knocking on fiscal year end. What would we extend it to? Clark is not worried if you haven't completed it yet. Clark would be more concerned if someone said flat out that they weren't going to do it at all. It gives you an opportunity to have discussions. First go round, Clark doesn't know if there is a perfect answer. As we review we may discover that we could have worded that question better. Why did we ask it that way? We didn't get where we wanted to be with that question, or we were duplicative. There is opportunity to improve the whole process.

Q: I took it as a good starting point to know what I wasn't doing & what I was supposed to. I may not have been completely truthful with all the answers but I have a plan to correct things.

A: We had this conversation with another agency that asked, “What if we just fixed it and we just changed what is wrong?” Clark doesn’t care if it’s on a prospective basis. The key is where are we? Where do we need to go and if we have the opportunity to address and fix things...? Clark would like who have the certification signed truthfully but certainly if you made the change, even a minute before you signed the certification, that’ fine. Just make sure you don’t fall off the wagon.

Q: One of the challenges on the survey is for the most part we may be doing what it is asking us correctly but there may be an area of the department that is deficient that we need to correct. It’s hard to know how to answer the question, yes or no.

A: As long as you are assessing it correctly. As long as you know where your risk is you should be fine. There is the comment section on the bottom where you can say, for most of the agency the answer is yes but there is this one area we have identified and we are addressing. We are concerned if you are not doing anything and the risk is out there unmitigated tax dollars are at risk. What is the risk and the exposure especially with the recovery dollars coming in? How are we going to mitigate the risk? What is cost effective? Are you taking the right steps? There is bound to be some problem, issue or struggle in implementing these programs. The key is are we doing the right things, are we working at it and are we getting better at it over time? It may not be perfect but given the resources we have, this is where we are but we are not satisfied. We have an action plan and we are going to get better. Things may have been okay but with the budget cuts now we are struggling. The recognition of where we are at and the recognition of the problems are half the battle. Hopefully it’s been beneficial to assess your complete organization. Any feedback that you have on the survey is appreciated.

Policies - Clark

Several policies will be coming out, some of them hopefully this week. Intangible Assets will hopefully be coming out in the next few weeks. GASB has come out with their new standard on Intangible Assets effective for the fiscal year starting July 1. Hopefully we will be getting some guidance out to you soon so as you start to account for those activities, your accounting and treatment of intangible assets will be appropriate. A lot of the guidance on intangible assets is for systems that are developed internally or on research and development, patents or something that have some type of value that maybe you have to recognize those types of assets. Most agencies may not be impacted at all. Some of the things may necessitate changes on how we treat assets period, or what we call things, terminology and such so that may have an impact on you.

Some policies that are more readily upon us, those of you that are anticipating receiving recovery dollars and came to the presentation two weeks ago saw the

risk assessment monitoring tool and a financial monitoring tool. They were developed by the Association of Governmental Accountants. They involved people from federal, state and local levels. 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 things that are in these tools. If you don't have a tool, you can pick these up and apply them. Some people are going to be doing subrecipient monitoring for the first time. They have never had to do it before. Here are some tools that have been reviewed by people for use. The federal Department of Education and the Inspector General's Office have been promoting these tools for use if you don't have something better. These tools are not program specific. You can adapt as you need to. You can use these tools for State dollars. If you are passing money through and need to have accountability, these are great tools to use.

Q: Where are these tools located?

A: They are going to be cited specifically in the policy. The full blown verbiage will be in there on the GAO website. Right now they are on the AGA website under the Intergovernmental Partnership area, www.agacgfm.org and then under the partnership. If you go to the presentation that is on the website, the link is there for the documents and that is the link that is going to be in the policy.

Other policies that should be coming out hopefully this week are, Fraud, Theft, Waste and Abuse and Related Party Transactions. These are in response to audit findings we have had on a statewide basis. Not only are we issuing the policies, we will be coming around and looking at things to see how you are doing in applying them. One caution, when we talk about Fraud, Theft, Waste and Abuse, these policies are a good start, they are not all inclusive for every situation. Related Party Transactions is certainly not the catch all. Rely on your legal counsel, rely on other people in your agency in the things they are doing to address these areas.

Accounting Treatment of P-Card and Travel Card incentives policy, 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.

American Recovery and Reinvestment Act – Clark

Recognize a few things. The dollars are subject to CMIA, there are a few exceptions and neat things we need to be talking about. If you have cash flow problems, and need to draw down monies, make sure it is consistent with your grant request and spending accordingly. Clark can guarantee you if you just draw down the dollars and sit on it, not only are you in violation of CMIA, you are in direct violation of the law because it is supposed to be stimulus money. You

are specifically prohibited from drawing down the dollars and sitting on them. You can come up with a reasonable draw pattern.

We are still working out on some of the issues on statewide cost. Make sure your costs are in accordance with your grant requirements. We have received clarification that ½ to 1% is able to be used for recovery efforts. We are working on this piece. The normal grant rules still apply. For some grants you cannot charge administrative costs, or limited administrative costs. Make sure you are keenly aware of your grant requirements and what monies are recovery dollars. If you are receiving any monies, even from another State agency or private sector, make sure you know specifically if they are at all tied to the recovery act.

As you send information to set up a new federal grant, the federal group will be asking you again to make sure we know what the monies to be received are. We would rather error on the side of asking the question again instead of not asking it at all.

Budget – Clark

Hopefully by the time we meet again in September we will have one. Keep your eyes and ears open. Be frugal about your spending. Ask yourself, is that the best use of your money? There may be some things that are allowable, just because they are allowable, permissible and legal does not necessarily mean we do them. For example, there is a federal program they conduct the program and one of the things the program paid for was a white water rafting trip for the people that administered the program and their families. We're not sure if that is legal or not but we don't have the money to be doing those types of things. The fact that some things can be done, doesn't mean that they should be done.

Another example of this is with lodging exceptions. If the State rate is \$65 and the federal rate is \$85 and you can't find a room for the \$65. You could have had a room for \$80 but decided with the \$85 hotel because that is the maximum. It's an exception to policy. We may approve the \$80, but not the \$85. If you want to stay at the \$85 hotel, you will need to pick up the \$5 difference. The \$80 hotel was a decent hotel, not dirty and infested with cockroaches.

Another situation was a traveler stayed at a hotel for \$118 but checked other hotels. What was the cost of the other hotels? It was lower. The exception request was after the fact. We know what the rates are for those hotels. We may approve up to the federal rate, the rest the traveler is responsible for. Just because it was after the fact doesn't mean it is going to get approved. We'll try to work with you on these types of things. If there are things you feel we aren't seeing or understanding, let us know. We are using travel as an example because it is something we have dealt with for years. There are other things. Just because you can stay someplace for \$120 a night, if there is somewhere to stay for \$99, take it! It will make your agency's dollars go farther. If you can get some of your program people to make reasonable efforts to do due diligence to

pick up the phone and call that will help your agency. Just because something is authorized if it is federal dollars, it doesn't mean you can't hold yourself to a higher standard and say how can we do things better? How can we do more?

AFIS Fiscal Year End – Clark

Any challenges or concerns you have? A couple of agencies have indicated they will be tight making it to fiscal year end.

Q: Is there going to be any notification before money is taken out of accounts?

A: It depends. When payroll is on error, the answer is maybe, maybe not. Payroll will be cleared. It is not a question of whether management approved the expense or not. If they hired the person, the expense was approved. We will clear payroll. We are working with agencies to make sure payroll is cleared each and every pay period. Come the last pay period that is charged to this year, if there is payroll on error and it is not being paid, we will find someplace in your agency, any place in your agency, even if it is restricted dollars, if necessary we will try to pick the best place, and try to work with you but bottom line is either you clear it or we clear it. It doesn't matter if it illegally spent. If the agency doesn't have the money to cover payroll, they have already over obligated their appropriation. They obligated more than they had the authority to. It's just a question of which pot of money am I going to illegally spend it from now?

We don't think any one agency is in that bad of a situation. We have tried to take several different examples and wrap them into one. Comments from, "We are trying to find a legal way to cover our payroll." or "We don't know where we are going to get the money to cover our payroll." "We traditionally have the money but we don't know if we will have the money because if the Legislature takes our money, we won't have the money." "We have federal grants that are reimbursement based and the feds have been slow in paying this year." If you are experiencing these types of issues, make sure you are communicating them. We can contact the feds and see what is going on. We have solved issues in the past regarding slow paying grants.

We do have agencies that have not paid their fund sweeps to the General Fund. Per the bill, they are due by June 30th. We will be increasingly asking what the hold up or what the situation is. If there is a cash flow issue or some legitimate thing, make sure you are submitting your cash flow statements to help us understand what the issues are. We are willing to work with you but with the shrinking resources that we have and we have a lot of things going around on June 30th. At some point it could be that if we don't know of a valid reason not to take the money, we just can't afford to wait anymore otherwise it may not happen by June 30th. There are limits as to what we can do within certain timeframes by June 30th. If it has to be done by June 30th, we can't wait and do them all at 5:00 on June 30th. There has to be some that come first. Some may have to be taken on the 20th or the 15th because there are other things that we need to be doing. If

you have issues that we cannot take it until 5:00 on June 30th, because you don't get money in until 4:00 on June 30th, we understand.

GAO will be changing the labor distribution for all positions in HRIS on the weekend of June 20th and 21st. This will be discussed more in the payroll fiscal year end meeting which will be on June 8th, a 9:30 a.m. and 1:30 p.m. session. Make sure you send a representative.

Payroll has to be covered. Ultimately whoever incurred the obligation will pay. The Payroll Clearing Fund is just the intermediary. We will be clearing payroll issues. We will try to give notification. There are some times however where there will be no notification.

Q: We will be paying for the last pay period of this fiscal year out of next year's money, theoretically speaking?

A: Actually we will be paying for about 1 ½ pay periods or so with next year's money. The pay period starting June 13th through June 26 will be paid on the 2nd of July due to the holiday. Then the 27th through the 30th will be also be paid out of next year. However, if you have a termination during this time period, their payroll and their leave payoff will be paid out of FY09.

Q: Realistically, do you think it's going to be another 11th hour for the budget?

A: We don't know. We are hoping for something by the end of May.

Q: If the worse case scenario happens, and we don't have a budget before the end of June?

A: Further information will be disseminated to agencies at that time. That is the best we can tell you at this time. At some point and time the wheels will come to a screeching halt because they have to.

Q: I can use my federal grant to pay payroll since it was legally incurred prior to June 30.

A: Just be careful that whatever you are charging to that program, can be legally charged to that program. If you are robbing Peter to pay Paul, you may not have anything coming in to make it whole.

Q: Theoretically speaking because I have until the 30th to incur the expense I can pay my people for the two days of the week where we don't have any money.

A: Not necessarily, it could happen as early as the 13th, because that payroll is being charged to next year. We have been working with the attorneys to come

up with the legal argument, how can we still have people being working on the 13th which is paid in July when we do not have a budget in place to pay them? There is a reasonable expectation that you can have because it is not your job to pass an appropriations bill and come up with the budget. You can have a reasonable expectation up until the 30th because it has happened before that the Legislature has passed the budget before at the last minute and it's been just fine. You have a reasonable expectation that the Legislature will pass the bill. Let's say you come to work on the 1st and there is no budget. What happens? What is different? The 30th is still the end of the previous year. On the 1st we are now in the next year. Do you have the same reasonable expectation that you can continue to operate? You will need to be aware of what is going on. As of July 1st you no longer have a budget and if you are subject to Legislative appropriation, there may be different signals that are coming out.. There are signals that you will now have to watch for. We can't tell you at this point what those signals are.

Q: So do we still have the same reasonable expectation on July 1st as June 30th?

A: No you do not. You do not have an approved appropriation as of July 1. Some of you have monies that are not subject to Legislative appropriation. These programs may be unimpaired. However, if the people that pay the bills and the people that process payroll are paid by appropriated funds can't be there, you might have a problem. We don't know what all the ramifications are. Every year as we get closer we start dusting off the what do we do if scenarios and we may not know until we get there. We know there is a problem we know there has to be some action taken but until we know the circumstances, we don't know what problems we are trying to solve.

Q: In years past you have done the loading of the prior year's appropriation but this year some of us are looking at not having that appropriation any more so it's a little different scenario.

A: Some of it will also depend on if you were a biennial budget agency and you have money left from last year. But this is the start of the 2010-2011 biennial cycle so we won't have that luxury and flexibility this year.

Q: I have staff that is asking if we don't have a budget July 1st do we come to work.

A: The answer is, we don't know yet. It could very well be a problem. Get as much as you can done between now and June 30th, even June 12th. If you are facing a budget cut and you wait until July 1st, you are already 1 ½ pay periods into the next year. That is less time you have to make up the gap if you need to make staffing changes, layoffs or furloughs.

Q: We can't do furloughs yet, there is no legislation for next year yet.

A: Correct. You can't do a furlough because you don't know yet that you don't have a budget.

Q: There is no legislation for next year for furloughs. It was only a temporary measure for this year.

A: Correct but it may be a temporary measure for next year too. You have to wait and see what the facts and circumstances are and say what are the appropriate steps.

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

We have a bunch of offsets that are happening. If you are drawing down monies from the federal government, and you don't receive all the monies you had drawn down, pick up the phone and call the federal group immediately. CMS is being very aggressive with offsets right now. It may not be a mistake. You may contact your grantor agency and they will tell you, yes we gave you all your money. But we only received \$10. They have to leave something, even if it is \$1. They can't take 100%. It won't go through the system as zero. It can be very minimal. They look at the State of Arizona as the State. It doesn't matter which agency is drawing vs. which agency has the offset. We have also had offsets that were for the City of Phoenix, other non profits, etc.

Q: I have one more draw down for my grant. Are you saying that I could ask for it and not get it?

A: Yes. If money is owed for almost any reason, the feds can offset it. So whatever paperwork you get, send it over even if it looks like code. Offsets are being made and when they are questioned where did the offset come from? The response has been, we don't know. We have to track the offset down using those codes. There could be anywhere 4, 5, 10 offsets happening in the State of Arizona at the same time. We need to know which offset we are talking about and match them up and contact the federal agency responsible. Sometimes it takes months for the situation to be resolved. Most situations are Medicare and Medicaid related that are flowing through CMS. Most often what happens is Medicare or Medicaid paid for something that the insurance should have paid for so they disallow it. The way they disallow it is to take it out of the State of Arizona's grant. Then the health care provider or insurance company who may not even be a State of Arizona contractor, it could be a health care company that is providing insurance for Motorola employees that qualify for Medicare. The feds paid for it and it's not allowable so State of Arizona it's your problem now. So when the health care provider pays, who do they pay? The feds. So the challenge is how do we get our money back? So now we have to prove that this person paid so we can get our money back. It used to be they waited awhile for timing issues. Now they are moving quickly which has generated a lot more offsets.

Issues, Concerns, Questions?

Agency comment: Not sure if anyone has any applications on the web portal. We recently had a licensing application converted from the IBM administered portal to the new NIC administered portal. The payment processing component is completely different from IBM. We have had some issues. If you are going to be converting, pay attention to the transactions and be able to marry up the transactions and the payments that are processed.

Q: We all have to continue to deliver physical deposit documents to the State Treasurer which causes a delay in the recognition of revenue. We deposit at Bank of America but we have to wait until the deposit form is received at the Treasurer's Office until we can spend the money or have it recognized as revenue. Any thoughts on re-engineering this process?

A: Yes, we have been wanting to re-engineer this process for a long time particularly for the credit card receipts. What percentage of your credit card receipts are no good? Very little. ADOT had about 14,000 transactions and about 17 of those rejected. You treat those like NSF checks. If you get money via credit card, it's probably good money. Instead of validating each one, do it as management by exception and just follow up on reversed ones.

Q: I don't understand why the Treasurer's Office would feel they needed the physical form.

A: Part of it is up until a year ago, the law required the form in triplicate. Last legislative session we changed to where it did not require the form in triplicate. There is still a validation process. The Treasurer's Office is working on revamping the process. It will be an electronic signature process so you won't have to bring things to the Treasurer's Office for credit cards. You will for checks and cash unless you are depositing at the bank. There is a control that they have to have to make sure the deposit on AFIS equals the monies deposited in the bank. Hopefully they will have made system changes in the next 12 months.

Have a good summer!

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 3:14 p.m.

The next meeting is scheduled for Tuesday, September 22, 2009, at 2:00 p.m. in the General Accounting Office.