

**Small & Medium Agency
Chief Financial Officers Meeting Minutes
February 15, 2011**

PARTICIPANTS:

Megan Darian, ADA/State Boards Office
Pam Rezek, AGA
Daniel Pietropaulo, APA
Julie McKnight, AUA
Randi Orchard, BNA via GoTo Meeting
George Shook, EQA
Emma Caufield, FOA
Lizette Morgan, GFA via GoTo Meeting
Bob Savage, GFA via GoTo Meeting
Debbie Rittenback, GFA via GoTo Meeting
Tracy Schmidt, HDA
Ken Bell, JCA
Sharon Gulden, LDA
Dianna Claassen, MAA via GoTo Meeting
Vangie Webster, MEA via GoTo Meeting
Esther Olivas, MIA
Carol Graves, PIA via GoTo Meeting
Kim Stromberg, PIA via GoTo Meeting
Trudy Kranendonk, RGA
Nancy Bennett, RTA
Don Bentley, SPA
Brett Larson, STA
Patricia Sandino, TEA
Cheryl Fraulob, UOA
Renee Dudden, VSA via GoTo Meeting
Cindy Petrovich, VSA via GoTo Meeting
Mike Smarik, ADA/GAO
Angela Dillard, ADA/GAO
Joanna Greenaway, ADA/GAO
Anita Kleinman, ADA/GAO
Tami Eckloff, ADA/GAO
Amy Aeppli, ADA/GAO via GoTo Meeting
Jennifer Verhelst, ADA/GAO
Yesenia Mejia, ADA/GAO
Megan Duty, ADA/GAO

ITEMS COVERED

Mike Smarik – Welcome & Introductions

Clark is not here today. He is in Washington, D.C.

Microsoft Settlement – Anita Kleinman

A web story was sent out. There was a settlement with Microsoft for about \$430,000. The court has approved the allocation of the monies to specific State agencies. There is a list of qualified expenditures you can be reimbursed for, mainly desktop computers, accessories and some software. We haven't heard from any agencies yet. If you have a qualified expenditure you would like to be reimbursed for, you will need to submit your claim to your GAO AFIS liaison along with a list of those qualified expenditures and we will transfer the funds from the settlement account to your agency to reimburse you.

We are hoping to get this resolved in this fiscal year. If it is looking like you will not have any qualified expenditures in this fiscal year, we will need to know so we can go back to the court and reallocate whatever monies are left.

Q: You said you sent out a web notice?

A: All notifications from the GAO are done via the web e-mail notification (web story). If you are registered for GAO updates, you will receive notices when web stories are published. The Microsoft Settlement story was sent about two weeks ago. You can go to the GAO website to see the web story under News & Updates section. The story does have the definition from the Microsoft settlement as to what are qualified expenditures as well as an Excel spreadsheet of those agencies that monies have been allocated to and how much they have been allocated.

Q: I looked at the allocation amount but I was not able to discern what my expenditures would have been where I would be a member of the lawsuit. Is this for current fiscal year, past fiscal year?

A: It has been going on for quite awhile. It was just now settled. The dollar amount was distributed amongst multiple states. We do not know what the allocation was to decide the total amount the State of Arizona received. That amount was then allocated to the agencies based on FTEs for each agency.

Q: It doesn't have anything to do with our purchases?

A: No. We don't know how far back the purchases go. We just know the lawsuit has been ongoing.

We want to make sure agencies have received the notification. Some agencies were allocated a very small dollar amount. It is for a reimbursement of any hardware and software expenditures in this fiscal year. We are looking to see which agencies are going to be able to use the allocation. If you are not going to be able to use it against expenditures for this fiscal year but possibly for next

fiscal year and would like to push it out until FY12, let us know and we can take that into consideration while we are working with the Attorney General's Office.

Q: For verification, the amount that is allocated, we need to spend it in this fiscal year?

A: Yes in this fiscal year but if it looks like you will not and you want it to go into next fiscal year, send us the details of your plan.

Q: Any agencies that supposedly qualify are on that list?

A: Yes.

Q: So we need to go out to the website and see if we are on the list?

A: Yes and how much the allocation is.

Fund Sweeps – Anita Kleinman

As we have mentioned in the past few months we have been working to identify if all the fund sweeps will be able to be made in this fiscal year. If there are any concerns or issues with the availability of cash, we need to know now. Last year we waited too long and it was difficult to get onto the JLBC agenda right at the very end. If the cash is available, we would like the sweep done now so it is processed and complete. If the cash is not available, we need to have your cash flow statement and your best estimate as to when the cash will be available.

Agency Budgets – Mike Smarik

If you have any problems or issues, make sure you are in contact with your OSPB analyst. If there is something we can assist you with, give us a call. Clark wants to make sure with the funds sweeps, etc., if there are any issues; you bring them up and talk about them.

3% Withhold – Angela Dillard

We don't have too much to update. We are still waiting for the final regulations from the IRS. As it stands, starting January 1, 2012 payments \$10,000 or more will be subject the 3% withholding that will be remitted to the IRS. The vendor will then have to file their taxes to get the 3% back at the end of the year. We cannot continue with any more programming until we have the final regulations. We have been working on the design of how the program will work.

There are bills in both in the U.S. House and Senate that have been introduced to repeal the 3% withhold program. We are monitoring those and will continue to monitor those to see how they progress. NASACT has asked states to write to their Congressional Delegations to ask for support on these bills.

Q: Is this regardless of vendor status or anything? It is just if the payment is over \$10,000?

A: There are certain vendors and certain types of payments that are exempt. It is pretty restrictive though, most of your health and welfare payments, most of the payments DES makes to their vendors for social services would be exempt. Other than that there are not many payments that will be exempt. For employees, payroll will not be subject to it, just regular vendor payments.

Q: Is it cumulative or a one time payment?

A: It is by payment, whatever would be on the warrant.

Q: Cumulative for the year?

A: No, by the payment. If you make a payment for \$10,000 or more at one time, you will have the 3% withholding on that payment. If you pay someone \$9,500 every month there would not be a withholding. If it was \$10,000 or more every month, the withholding would be every month.

The way the proposed regulations are written right now is you cannot split a payment to avoid the \$10,000 figure. If the IRS were to audit and see that you were purposely doing that, there will be issues.

Q: Will it be set up in the system to show what was actually paid to the vendor and what was withheld?

A: Yes we plan to show a line on the warrant that shows what the payment was and the 3% that was withheld. On ACH payments we will utilize one of the addendum fields that are sent to the bank to include the information on the withheld amount. Hopefully the vendor will receive it. It will depend on what their bank passes along to them. On our website the withheld amount will also be shown.

Q: When you said cumulative payments are you saying if all your payments are less than \$10,000, once you hit the \$10,000 total payments to the vendor, then monies are withheld?

A: No, it is per payment.

Q: Is that per agency? What if two different agencies are paying the same vendor?

A: It is per payment. If agency A pays vendor XYZ and another agency pays vendor XYZ and separately the payments are both under \$10,000 but added

together they are over \$10,000, it would not be subject to the 3% withholding since each payment was not over \$10,000.

Q: Are transfers to another State agency exempt?

A: Yes they are exempt.

One of the questions we have not received an answer to is utilities. They are not specifically exempt. What will happen when the 3% is withheld and we “short pay” utilities? Will SRP shut the power off because they were short paid? We do not believe the vendor systems are going to be ready for this program. At some point we will need to start a big vendor education program.

Q: Is that where the line item on the payment will make the difference, so they know what they are being paid for?

A: Yes but if the vendor is system generated and someone isn't specifically watching and programming isn't done, the system will say amounts are still owed.

This will cut into the cash flow of vendors quite a bit. The next time a contract renewal is done, they may increase the cost of doing business with the State.

Q: That is why I asked about the vendor relationship because if some of these are pass through entities that are receiving federal awards already and are federal funds exempt? If you have a contract in place to reimburse these people a certain amount and you are going to withhold 3% of that amount each time you pay them, that is not written in the contract agreements. Or, if this is going to happen, you will need to start putting it in new contract agreements. Then what do you do with that extra 3% that you have left over from the award that you had to withhold this whole time?

A: The 3% is going to the feds, the IRS. The state is not holding on to the monies withheld.

Q: Will the check look like a payroll stub so they know what they are being paid for? Is that what is being planned?

A: Yes it will show the amount received and the amount withheld and sent to the IRS.

We understand your frustration. We have had the same conversations. We have talked to other states. Comments have been forwarded to the IRS. As we said before, we do not have the final regulations but the ones that are currently out are pretty restrictive as to what the 3% must be withheld on. This program

came out in about 2006 and the implementation date has been pushed back several times.

There is a bill that has been introduced to repeal this program and another one to push the implementation date out again. It makes it difficult with a January 1, 2012 implementation date looming. We need to start programming the system. We can't wait until the end. We will pass information along as we get it.

NASC Conference – Mike Smarik

The National Association of State Comptrollers (NASC) is having their annual conference in Phoenix this year, March 23 -25. It will be at the Embassy Suites near the Paradise Valley mall. CFOs are invited to attend. You can log onto the NASACT website for more information, the agenda, etc.

http://nasact.org/conferences_training/nasc/conferences/AnnualConferences/2011AnnualConference/2011AnnualConference.cfm

There will be many of us from GAO attending, managers, Clark and Mike. It is a good way to get relevant CPE.

Any other Questions or Concerns?

Q: Are there other budget unit heads attending the meeting today?

A: It depends on how you want to define a budget unit.

Q: In reference to HB2259 which says the pay of all Budget Unit Heads will be reduced by 10% for the remainder of 2011 and 2012.

A: Typically when they are making reference to the Budget Unit Head in that context, they are talking about the Director of an agency.

Q: Is anyone in here using ProcureAZ yet? If I understand correctly it is not mandatory, correct?

A: We are using it. We have small delegated authority to use statewide contracts for searching but we are not yet on board for full usage.

Q: We are being audited and we were told we had to use ProcureAZ. That is a question that we need to follow up on.

A: We are not sure about the mandatory usage but they would like all agencies to participate.

Q: We are having issues with change orders and the way they are entered and what happens between AFIS and ProcureAZ with encumbrances as a result of our entry of the change orders. This is a big problem right now.

A: How do your procurement people like the system with their side of the process?

Q: We have been unable to roll the program out to the individual work units. Our central procurement has to enter all of the purchase orders and requisitions for the entire agency. There are too many problems with it. The roll out has to go really slow. We are just in the process of some work units starting to look up vendors and that type of information. With the problems we are having with change orders, it is pretty significant right now.

The W9 process is being handled through ProcureAZ, they are not being submitted to GAO. That part of the process is working okay as long as when the vendor is registering they know the exact way the business name is recorded with the IRS. If there is a discrepancy, it comes back and the vendor number is inactivated.

A: That is a result of the 1099 TIN and name matching for the B Notices.

Q: AFIS Training is a future agenda item but who is handling the training right now?

A: The training is online.

Q: I tried to register in the YES program and it didn't work.

A: You register in YES and you should get an email with the online training link and the work book. We can discuss further after the meeting.

Future Agenda Items

Emphasis on Electronic ACH Payments

NSF & Favorable/ Unfavorable Deposits Cleanup Project

3% Withhold

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

Meeting adjourned at 2:33 p.m.

The next meeting is scheduled for Tuesday, March 22, 2011, at 2:00 p.m. in the General Accounting Office.