

**Small & Medium Agency
Chief Financial Officers Meeting Minutes**
October 21, 2008

PARTICIPANTS:

Megan Darian, ADA
Biju Kamaleswaran, AGA
Julie Vargas, AGA
Debb Pearson, APA
Julie McKnight, AUA
Joe Tuiteleleapagpa, GHA
Tracy Schmidt, HDA
Glenn Hurd, ICA
Scott Greenberg, IDA
Ken Bell, JCA
Sharon Gulden, LDA
Evangeline Webster, MEA
Esther Olivas, MIA
Tyler Palmer, RGA
Trudy Kranendor, RGA
Charmayne Skow, SBA
Shari Courtney, TEA
Marcia West, TOA
Cheryl Fraulob, UOA
Renee Dudden, VSA
Angelica Romero, WFA
Clark Partridge, DOA/GAO
Michael Smarik, DOA/GAO
Angela Dillard, DOA/GAO
Joanna Greenaway, DOA/GAO
Shannon Landis, DOA/GAO
Stu Wilbur, DOA/GAO
Anita Kleinman, DOA/GAO
Tami Eckloff, DOA/GAO
Amy Newby, DOA/GAO
Jaimie Soulvie, DOA/GAO

ITEMS COVERED

Clark Partridge – Welcome & Introductions

Payroll Card

Stu Wilbur updated the group on the status of the payroll card. A pilot is under way. GAO continues to meet with the Bank of America. Details to follow regarding signing up for the payroll card, distribution, etc.

The payroll card is consistent with the Governor's message to continue to find ways to cut costs. It takes some time and effort to sort and distribute payroll warrants. This is another option for people that do not have bank accounts.

Internal Controls

The Internal Control survey is currently going through a GAO review. This survey was created to identify areas of responsibility, internal controls, how things are being done and how they could be done better. Answers are in a Yes, NO or N/A format. This survey is thorough although not overly time consuming. Other states are doing things far more extensive. This survey does not take the place of every assessment regarding internal controls. Reminder that there is a greater potential for fraud with the down turn in the economy. We'll have a few agencies take a look at it and give us feedback. This survey is also in response to an audit finding from the Auditor General's Office regarding internal controls. We need to have reporting and documentation from the agencies regarding their internal controls. The survey is in Survey Monkey.

NSF and Favorable/Unfavorable Deposits Cleanup Project

Reminder that this is an ongoing, monthly process. It was left on the agenda as a reminder. This should be ongoing as you reconcile monthly and clean up the NSF, favorable/unfavorable deposits.

Upcoming Audio Conferences

The GAO has scheduled the following audio conferences with CPE available: Wednesday November 12, 2008 at 12:00 p.m. – Internal Controls. Please note the time change due to the rest of the country ending daylight savings time.

Internal Audit Meeting with all Agencies

Jaimie will be setting up a second meeting, possibly in November or early December. Jaimie is working on agenda items. If anyone would like to attend the Internal Audit Meetings they can contact Jaimie Soulvie (602) 542-6223.

Process for Single Audit Findings

A web story was done because it appears the Feds are contacting some State agencies directly as a result of information in the Single Audit. All issues regarding the Single Audit are to be coordinated through the GAO. You can contact Celine Baker at 602-542-6249. We are aware of two instances already where the Feds contacted the State agency directly. There are things that GAO has negotiated with the U.S. Department of Health and Human Services (HHS) as the State's cognizant agency. HHS reviews findings and then assigns them to the individual Federal agencies to be reviewed from their perspective. Even though your cognizant agency may be different from HHS, all issues regarding the Single Audit need to be coordinated with GAO.

Budget

GAO has started contacting the agencies regarding reductions, fund sweeps, federal funds, vacancy savings, etc. On some of the fund sweeps, we understand there may be allotment issues. Whatever the situation is, make sure you raise the issues and we'll coordinate. Last fiscal year the vacancy savings sweeps were done during the last part of the fiscal year. This year we are able to break the sweeps into quarterly amounts if there is a cash flow issue. Please remember this will then mean four transfers throughout the year.

Issues, Concerns, Questions

Q: Can you please provide instructions each time indicating if the monies are to be swept or the agency is to do the transfer?

A: We tried to do that in the web story that went out. We can send it out again or send a reminder but it's still on the website. We did break it down by vacancy savings, fund sweeps, etc.

Q: In the medical recovery suit, will that make a difference if they prevail?

A: Certainly that will make a difference if they prevail. Clark believes there are two separate suits, the medical and the agricultural. It will spark a discussion in the future regarding fees and donations. There are restricted monies, federal monies for a particular purpose cannot be drawn down and transferred to the General Fund for example.

Q: Does your agency's statutes have to specify that you have the authority to collection donations and grants?

A: If you receive any fees, grants or donations, you must have the statutory authority to do so. You can't just start collecting fees and donations. All State agencies have the authority to collect donations for Employee Recognition. That is a statewide broad brush. There are specific things you will want to look back at your statutes and certainly your Attorney General representative should be able to assist you.

Q: In regards to the Internal Control Survey, how do you anticipate GAO using the information received?

A: The software compiles the data and GAO will review it. There could be somewhere where there is a weakness or somewhere where there is an overabundance of control. One example is if there are eighteen people signing off during the signature process, but one person that has control during the

release and distribution process, you might have a problem. Do you really have a check to stop those things that are unauthorized?

Q: Will you be looking at an enterprise wide view or the specific agency responding? Will you be looking at the State as a whole and possibly revising the Accounting Manual based on the findings?

A: Both. We will be looking at both the individual agency and the whole State. We will probably look at the whole first. The Auditor General is looking at Internal Controls from the possibility of a material misstatement on the statewide financial statements. We will probably toss some of this information over to Jaimie. We want to treat this as a consultative engagement, especially initially. If things are improving, it may turn into a full blown audit. We obviously want things to be better, but to get there by initially talking things through. If we see something that is fraud or blatant abuse, we will take action. Sometimes it's just a lack of understanding or an education exercise. Sometimes it is a reallocation of resource issue. Segregation of duties can be very effective. However, if someone is just rubber stamping, there really is no control. You may have segregated duties, but not mitigated risk. One of the best internal controls is reconciliations, monthly, timely. It gives management information timely to see what is going on. Make sure information is reviewed with management and that they know any issues that are going on.

Q: Is the survey meant for the CFO or Director of an agency?

A: Both really. It would be good for the CFO to sit down with the Director so both have a better understanding of the survey and the agency. At a minimum the CFO should sit down with the Director and review the responses. At the end both the CFO and the Agency Head will be responsible for signing off on the internal control certification. In order for both parties to be comfortable signing off the certification, they should both review the answers from the survey. Just do one survey as a coordinated effort. The agency head is responsible for the agency. Responsibility for internal controls cannot be left to someone else. Internal controls didn't all of a sudden become important. Based on audits done, there is no glaring issue in the State of Arizona, just some things here and there. Internal Controls by their nature you are controlling something. The agency should be comfortable and confident in their operations and be able to sleep at night. Controls also need to be reasonable. Weigh the cost benefit. Look at the things that truly control and mitigate risk. If you have any questions, we can certainly talk through them. We may have some open houses where people can come in and ask internal control questions and talk about internal control situations. I'd like to have the ability to do this but our resources are limited. We'll have to see what else is on our plate and how we can work this in.

GAO is down people. We have lost another person. We are down to 54 bodies. At some point for us to be able to do certain things we are going to have to fill some positions.

Q: When the payroll card is available, will employees have to choose one or the other, payroll card or direct deposit? Or will the physical warrant still be available to them?

A: The current statute allows for them to still have the physical warrant. As we go along trying to find more efficiencies, we will probably recommend to the Legislature at some point that direct deposit is mandated. Just as the Federal government has required a bank account to do business with the Federal government for payments via ACH.

Q: When will the card be available?

A: We will probably do a roll out. We had hoped for this fall but with the budget and everything else going on, we may not be able to hit that mark. We are trying to move this project forward quickly but we need an ADOA review and a Governor's Office review so that they are comfortable with it. Direct deposit or the payroll card is a good thing. It helps alleviate some of the issues if there is an emergency.

Q: We had talked last year about receipts for meal reimbursements. We are requiring receipts for meal reimbursements in our agency. Is the travel policy going to be changed to reflect the receipts being required?

A: The policy does not require receipts. The policy requires a certification that you know they spent the money so however you get the certification and know for a fact they spent the money. Of course the easiest way to do that is to have receipts. We left that up to the agencies. Some agencies felt they could meet those requirements without requiring receipts. Both the employee and the supervisor need to certify that yes the money was spent. For example, if the supervisor was with the employee at the time the money was spent. By first hand observation the supervisor could attest to the money being spent as they were a witness to it. They wouldn't need to see the receipt.

Q: So the policy isn't going to change?

A: We won't say the policy won't change. Never say never but at this time we do not plan to change the policy to require receipts.

Q: If we are going to require receipts, do we need to do so across the board? Not require it from one employee and not another?

A: Correct. You do not want to be discriminatory. However, on the other hand you could have a situation where you don't require receipts of the general population and all of a sudden a supervisor is reviewing the travel claim and realizes, what a minute, I was there. You bought something off the value menu and there is no way you spent \$10 on that lunch. If you suspect someone is not forthright and telling the truth, you can require receipts from that employee due to their conduct. You had factual reason to question the reimbursement. Another example would be if you had one employee that is constantly requesting the maximum reimbursement, which would be cause for you to require receipts from that employee.

Q: We have had employees traveling on behalf of other agencies. Can we pay them straight out of the other agency's funding instead of seeking a reimbursement?

A: Yes you can. You can actually code it to their funding source. Just like you do labor distribution to another agency.

Q: Is there any news about a possible mileage increase?

A: We were prepared to request to an increase but now gas prices are falling. It's been dropping. Demand is down after the peak driving season and the economy. Gas prices are not the only driver to the mileage reimbursement rate. We are going to wait until next month or December and the Feds will come out with their mileage reimbursement rate. Our guess is we will see the Fed rate drop dramatically.

Q: What about hotel rates?

A: We are looking at the lodging rates. If you look at exception requests, 90% of them are for lodging rates. You do have discretion about where and what to eat, but sometimes you do not have as many choices as where to stay. The Feds increased their rates. It is now hard to find a hotel for the default of under \$60. We have been copied on a series of letters that three hotels have sent to the Legislature telling them they just cannot match the State rate of \$60. When your employees are calling hotels and asking them if they honor the government rate, make sure they specify the State rate of \$X. We have had a few instances where the question was asked and the hotel said yes, but it was really that they honor the Federal government rate, not the State rate.

Q: We are having an issue using the P Card when we make a hotel reservation. They key it into their system and the code errors out.

A: You should not be using the P Card for travel. The agency ghost card can be used for reservations. Hotels usually want the plastic card at the time of checkout. There is a higher discount rate for transactions with card not present.

The traveler needs to get a travel card. That is what is supposed to be used per the change in policy from the March/April timeframe. When using the ghost card for reservations, the lodging facility cannot request for you to send a copy of your card. This is a violation of the merchant agreement with VISA. They can lose their ability to be a VISA merchant. You never know when there is someone on the other end that is trying to commit fraud.

Q: We always write the memo for the travel exceptions. If we have an emergency and the traveler is on the road headed for their destination, can we call GAO to request an exception?

A: If you have an emergency situation, use your discretion but by all means call. If you have someone en route to their destination and someone is calling trying to make their travel arrangements and they can't find a hotel within the lodging rates, have them call and explain the situation. Some people however have known for the past three weeks they were going to be traveling but never secured a hotel room. All of a sudden it's a crisis. They should have been planning better.

Q: Question regarding the cash flow statements regarding the different web stories that have come out. Initially if your OSPB Analyst approved the agency's format, it was okay. Now the web story came out that you need the cash flow statements in the GAO format. I thought the purpose of this exercise was for our OSPB Analyst to analyze our cash flow?

A: One of the purposes is for your OSPB Analyst to be able to analyze your cash flow statements. We are trying to design this so you don't have to do multiple statements. Your OSPB Analyst can use it when they are trying to solve the budget issue, we're also trying to pull things together for a cash flow assessment for the State. We need to look at the entire State. All the information will be uploaded into a database so we'll know where the projected lows are from a cash standpoint. We are looking at this from a statewide perspective for all funds, not just General Fund. The information needs to be in the GAO format for it to be pulled from the Excel spreadsheets into an Access database. There are specific cell references that need to be consistent in order to pull the information in accurately.

Q: So it is required to do different spreadsheets?

A: There is a spreadsheet for General Fund and a separate one for all other funds.

Q: Aren't projections just based on an agency's annual budget submission to OSPB?

A: Your budget was submitted in September, more than 9 months before the fiscal year started. What your operations are today may be different than what was projected in September. Things are going to evolve and change. Every month you are going to be looking at it to say we didn't spend it in this month, we are going to spend it in the next month. It won't just be 1/9 or 1/12. It should reflect your actual activity month to month. Things are going to evolve and change month to month. This is more detailed than plugging 1/12 of your projected expenditures. You should be updating monthly based on vacant positions, etc. This is not just revenues vs. expenditures. This is cash flow. We are monitoring cash. When is the money going to move and what is it going to move for? This involves planning of your operations and being in control of your operations.

Q: What about funds where I don't have sufficient cash in my grants to cover payroll. Are you going to send out alerts that payroll is on error?

A: We are going to be monitoring payroll and the clearing of payroll earlier and more often and with more vigilance than we have previously.

Q: Will there be penalties assessed for payroll being on error?

A: We do not have the ability to assess penalties. We do however have the ability to stop all payments. What will happen is we'll allow payroll to clear and you won't have any money to pay anything else. Some Federal grants are restricted to reimbursement only. Others may be able to be negotiated as something other than reimbursement if your agency no longer has the funds to front for the program. You will need to have a conversation with your cognizant agency explaining the State no longer has the ability to float the money like we used to. If you are having problems with the Federal government let us know. Clark has no problems bringing those issues up with both nationally with other states and with the Feds. Clark is currently on a committee with individuals from high levels in different areas of the Federal government that he has brought issues to. Clark would like more facts and examples of issues that State agencies are having with the Feds.

We've got some things coming up on the agenda. Not sure how much we'll get to. We've got one more meeting, November and then take a break in December for the holidays. If you have some specific issues we need to address, we'll take some more time in November to discuss cash flows, etc. If you've got some problems or issues, let us know.

Future Agenda Items

Emphasis on Electronic ACH Payments

Payroll Card

Internal Controls

The GAO is working on a project to identify key internal controls that agencies should be working on that are not optional. There are certain core internal controls that agencies should be doing on a regular basis such as reconciliation. Additional tips and tricks to handle internal controls quicker and easier will be included in the project. In the future, internal controls will need to be assessed annually and will require certifications from the CFO and Agency Head. Compliance associated with reporting financial statement information was discussed. More information on internal controls and Sarbanes-Oxley will be provided this fall.

Travel & Expense Management Sub-System
Federal Transparency Act
State Transparency Act

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

Meeting adjourned at 3:18 p.m.

The next meeting is scheduled for Tuesday, November 18, 2008 at 2:00 p.m. in the General Accounting Office.