

**FINANCIAL MANAGEMENT ADVISORY COMMITTEE MINUTES**  
**March 3, 2010**

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The Financial Management Advisory Committee met on Wednesday, March 3, 2010.  
The following were in attendance:

<u>NAME</u>	<u>DEPARTMENT/DIVISION</u>
Doug Porting	SAO
Michael Longanecker	OA – FMDC
Robin Burkhart	DESE
Tracy Farris	SEMA
Kim Sandbothe	DIFP – Finance
Shirley Gerling	DIFP – Insurance
Carol Newgaard	SAO
Jane Masek	DOC
Theresa McDonald	DSS
Mark Kaiser	OA – Accounting
Valerie Heet	SOS
Renee Godsey	DHSS
Brent Miller	MSHP
Chris Laughlin	MSHP
Cindy Luebbering	DNR
Mike Clark	DMH
Mike Hancock	OSCA
Brian Dowden	OSCA
Rebecca Imhoff	DOR
Tom Veasman	MoDot
Audrey Cunningham	DOLIR
Carol Willhite	DPS
Julie Miller	MVE
Connie Qutam	OA/ITSD
Nicole Hackmann	STO
Stacy Jacobs	STC
Jim Miluski	OA – PMM
Sarah Clardy	DESE – VR
Debbie Davis	DIFP – Credit Unions
Sherry Reeves	DHE
Sherry Hess	DIFP – PR
Diane Riddle	MGC

**Presentations:**

Doug Porting, State Auditor's Office:

Doug Porting, State Auditor's Office, provided the following update on ARRA as it impacts the Single Audit:

**Define a SINGLE AUDIT:**

- ◆ Process established by the federal Single Audit Act and OMB Circular A133,
- ◆ Done in conjunction with the annual audit of the CAFR, and
- ◆ Has 3 main objectives:

Determine that the Schedule of Expenditures of Federal Awards is materially accurate,

Determine that the state has adequate Internal Controls to ensure compliance with the compliance requirements that are direct and material to the major federal programs,

Determine that the state has actually complied with those compliance requirements.

The Single Audit is driven by the determination of Major Programs. Those programs are audited in detail.

**Determining Major Programs:**

The SEFA schedule is the primary building block for determining the programs that are audited each year.

Group all the programs into Type A or Type B based on expenditures reported.

In Missouri, all programs spending more than \$30 million are defined as Type A, less than \$30 million are Type B.

Risk assessments required on all Type A's and on larger Type B's, which for FY09 was all Type B's with more than \$3.4 million in expenditures. Programs below that amount fall under the radar and are not normally considered for audit.

Basic requirement is to audit all high risk Type A's and half of the high risk Type B's. Beyond operational risk characteristics, Type A's have to be considered high-risk if they had significant internal control deficiencies in the prior audit or if they have not been audited as major in the previous two years.

**Summary of impact on the current FY09 single audit and expected impact for FY10.**

- 1) The FY09 Single Audit is completed and will be released shortly.

The Schedule of Expenditures of Federal Awards (SEFA) for FY09 include 311 programs and federal program expenditures of \$11.4 billion. Of those amounts, the SEFA includes 14 programs (either new or existing) that spent ARRA funding of approximately \$770 million (or about 7% of total federal expenditures for the year). Of the \$770 million in ARRA expenditures, approximately 98% ran through four programs: Food Stamps, Unemployment Insurance, Medicaid, and Highway Construction.

As of March 1, 2010, the Mo. Accountability Portal was reporting over \$2.3 billion in cumulative ARRA program expenditures, not including Food Stamp ARRA benefits, so approximately two thirds of the way through FY10, there is already almost \$2 billion in additional ARRA expenditures to be covered in the FY 10 Single Audit.

2) Of the 311 programs on the FY09 SEFA, we determined 22 of them to be major programs, which required audit work. This determination was due to large programs being considered high risk. For a few programs that would normally not have been cycled for audit until FY10, we cycled them early to make room for more ARRA programs to be audited in FY10 to spread the impact. The 22 major programs accounted for 79% of FY09 federal expenditures.

ARRA Impact on Major Program determination:

A wrinkle with ARRA is that OMB issued guidance which requires all programs with ARRA funding to be considered "of higher risk".

The result was an increase in major programs to be audited for FY09.

- FY 08 - 15 major programs
- FY 09 - 22 major programs
- FY 10 - expecting 30 or more major programs

In addition, in the past when determining which Type B programs to include as major, when all things were equal, we gravitated to auditing the biggest Type B's to get more dollar coverage. With the OMB risk guidance for ARRA programs, we will likely be auditing programs with smaller dollars than in the past, so some programs that may never have been audited before may need to be in FY10.

3) Complications that we see coming for performing the FY10 Single Audit:

Single Audit Deadline - state is required to have the audit and the corrective action plan turned in to the Federal Single Audit Clearinghouse within nine months of fiscal year end.

The OMB has not yet shortened the deadline to six months as they had previously discussed, but given the significant number of additional programs, we will still likely need to start in some agencies before the end of the fiscal year. This would be for programs we already know we will need to be doing next year.

SEFA helps determine which programs are audited, and also the expenditures for those programs are used to identify which of the compliance requirements that may be applicable actually have to be audited. They also help determine the selection of test items during sampling.

We will need to make these determinations much earlier this year and thus will need to have some SEFA information much earlier. We are considering asking for draft estimated SEFAs before fiscal year end, and updated ones shortly thereafter or possibly trying to identify borderline programs from the prior year SEFA and map information through an interim date and contacting agencies for estimates on those specific programs.

4) ARRA and implementing guidance has established some additional requirements that will affect state agencies' management of programs and our audit work.

The annual A133 Compliance Supplement summarizes for many programs the applicable compliance requirements for each of the programs. There are 14 main types of compliance requirements addressing Allowable Costs, Cash Management, Matching, Suspension and Debarment, Reporting, Special Tests and Provisions, etc. An addendum was released for FY09 due to the timing of when ARRA was passed. The FY10 Supplement will likely have even more programs in it with ARRA requirements specific to the programs.

**Crosscutting issues:**

Recipients are required to separately account for ARRA Funding. Agency records must be able to track the ARRA activity separately from the regular program activity.

ARRA funding must be separately identified on the SEFA schedule and the Data Collection Form and the reported amounts must be supported by the accounting records. All ARRA programs, whether new CFDA numbers or existing program numbers, must break out the ARRA activity and use the acronym "ARRA" in the title.

State agencies must 1) separately identify to each subrecipient the Federal award number, CFDA number and amount of ARRA funds, and 2) require each subrecipient to separately account for and identify ARRA funds on their SEFA and Data Collection Form.

We will be looking at those issues for all major programs.

**Other Significant ARRA compliance issues that affect numerous programs:**

Activities Allowed or Unallowed - No ARRA funds can be used for any casino or gambling establishment, aquarium, zoo, golf course, or swimming pool.

Davis-Bacon Act (Prevailing Wages) - this provision was extended to some programs receiving ARRA money that did not have to comply before. One that comes to mind was the Weatherization Assistance for Low Income Persons Program.

Procurement & Suspension & Debarment - Buy American Rule - prohibited from using ARRA funds for construction, alteration, maintenance or repair of public buildings or works unless all iron, steel, and manufactured goods used are produced in the U.S. There is a provision for a waiver from these requirements.

Subrecipient monitoring - pass through state agencies must ensure that subrecipients have Current Central Contractor (CCR) registrations prior to making subawards to them.

We will be determining if these particular compliance requirements are applicable for each major program. If they are applicable, direct and material, we will be testing them for the program.

Besides the above crosscutting issues, some federal agencies may have established other additional applicable compliance requirements. Such significant requirements will likely be identified in the upcoming FY10 Compliance Supplement or in the related grant agreement.

The one significant additional requirement established by ARRA that is impacting most agencies is the ARRA Section 1512 reporting.

This Section requires quarterly reporting of activity for most ARRA programs, with the primary exception of entitlement type programs (Unemployment Insurance, Medicaid, Food Stamps).

Quarterly reporting was first required for the first quarter of State FY10, so this had no impact on the FY09 Single Audit but will have a big impact on FY10 Single Audit.

The 1512 reporting encompasses numerous data elements for expenditures of the prime recipients (state agencies) and subrecipients and certain vendors of both levels.

State agencies are required to have records and systems for accumulating and summarizing the required data, some of which will come from agency records and some of which may need to be gathered from the subrecipients or vendors. The agencies are required to have some systems or procedures in place for ensuring that subrecipients are reporting accurately and completely and to avoid double counting of any activity.

There were some highly publicized problems with the first quarterly reported data, as everyone was working through the system and requirements the first time. Some of it had to do with the definition and method for tracking the job impact. As a result, prior to the second reporting deadline, OMB modified the job impact component and definition. In addition, the Recovery Board, which maintains the central reporting system, instituted

some additional edit checks in the system which was to flag incompatible data, etc. and in some cases not allow the reporter to proceed until corrected.

There is a lot of scrutiny happening of the data reported, errors being made, etc. It is very important that agencies have clear systems and lines of responsibility for the various aspects of the data reporting and data quality validation. While there is not yet a requirement that the data reported be "certified" as accurate, there is certainly an expectation by the public and the federal government that agencies are taking some reasonable steps to ensure it is as accurate and usable as it can be. By this time, we will be expecting to see the various policies and procedures documented in a formal manner as it is too important from a public perception standpoint to just wing it.

We have done some interim work on the 1512 reporting by visiting with several agencies. In September 2009, we met with Social Services, Economic Development, MoDOT, DNR, and DESE to discuss their initial plans for meeting the first quarter reporting requirements and performing any kind of data quality monitoring. The plans were at various stages of development at that point. We again visited these agencies in early December 2009 to discuss how the process worked for the first quarter, planned changes in approach, etc.

For FY 10, we will need to actually test these various reporting systems at the agencies and will expect to see documentation of the methodologies used, data gathered from subrecipients/vendors, work performed to do some data quality analysis, etc. We are thinking about starting some of this work prior to the end of this fiscal year.

In addition, given this higher level of external scrutiny and expectation of transparency and accountability, we will be focusing more on the subrecipient monitoring procedures being used by the agencies to ensure that the uses of the money by subrecipients are allowable/appropriate; the monitoring agencies are doing to ensure that subs are complying with the applicable requirements; and the monitoring being done to ensure that data reported by the subs is reasonable and supported by adequate documentation. Many different sets of eyes will want to know whether funding was properly used or not and the expectations are that state agencies are ensuring their subrecipients are using the money properly.

## **Status Reports:**

### Accounting:

Mark Kaiser reported the following:

- ◆ OA is addressing an envelope issue for W-2's and is working with MVE to resolve it. They will be working on a redesign for W-2's and 1099's.
- ◆ Agencies are able to override the EFT field for payments of \$500,000 to \$1,000,000. Dwayne Rasmussen can override payments over \$1,000,000 if needed.

### Purchasing and Materials Management

Jim Miluski reported the following:

- ◆ OA is currently working through an issue with the Court Reporting Contract. The contract reads that agencies must use the lowest price contractor first unless allowed by the contract. OA will be reviewing contract usage and requesting agencies provide explanation if not in compliance with the contractual requirements.

### State Treasurer's Office

Nicole Hackmann reported

- ◆ The Lockbox Contract was awarded to Commerce Bank. The contract period is May 1, 2010 through April 30, 2014.
- ◆ The final renewal option has been applied on the Check Disbursement contract with UMB Bank, which runs through June 30, 2011.

### **Next Meeting:**

Wednesday, May 5, 2010

8:30 a.m. – 10:00 a.m.

Room 500, Harry S Truman Office Building