2009 CASH MANAGEMENT IMPROVEMENT ACT (CMIA) HANDBOOK

Texas Comptroller of Public Accounts
Fiscal Management

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THE CASH MANAGEMENT IMPROVEMENT ACT

History and Purpose

Federal funding is a major factor in state budgets. The federal government provided over $33 billion in federal assistance to the State of Texas in fiscal year 2007. The 2007 Schedule of Expenditures of Federal Awards served as the basis for the 2009 CMIA Agreement.

One of the most troubling aspects of federalism during the 1970s and 1980s was the financing of the federal assistance programs administered by state governments. The Intergovernmental Cooperation Act, passed in 1968, allowed states to keep the interest earned on federal funds transferred to them until the funds were disbursed for program purposes. However, the federal government viewed this practice suspiciously and complained about the interest earned by the states on federal program dollars. As a result, in 1979 the U.S. Department of Health and Human Services implemented policies that required states to delay drawing federal funds until checks issued by the states were actually presented to the state's bank for payment.

The states objected to this policy on two points. First, many states have constitutional and statutory restrictions requiring them to have funds on hand prior to issuing checks. Second, states were frequently forced to use state funds in advance of receiving federal grants and entitlement program funds. This caused the states to lose investment opportunities on their own funds until the federal government reimbursed them. State protests became so strong that the issue was taken to Capitol Hill.

In 1983, under the general auspices of the National Association of State Auditors, Comptrollers and Treasurers (NASACT), a federal-state task force was appointed to study the problem and work toward some resolution. A compromise was reached between the federal and state governments on cash management practices. Pilot projects were successfully concluded in four states, and in 1985, the task force proposed legislation to resolve the matter.

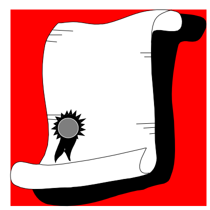
In 1990, after seven years of study, debate, argument and negotiation by the task force, Congress enacted the Cash Management Improvement Act (CMIA) (Public Law No. 101-453).

The CMIA was implemented over a two-year period beginning with each state's 1994 fiscal year. During the first year, the law applied to twenty programs specified in the CMIA regulations. By the second year, the Agreements covered all programs with a Catalog of Federal Domestic Assistance (CFDA) number that met the state's threshold for major federal assistance programs as defined in the CMIA regulations.

On May 10, 2002, the rules and procedures (31 CFR, Part 205) for efficient Federal-State Funds transfers were updated by the Department of the Treasury and published in the Federal Register. The final rules became effective on June 24, 2002.

Requirements and Scope of CMIA

The CMIA requires each state to enter into an agreement with the Secretary of the U.S. Treasury to provide for the equitable exchange of funds between the federal government and the state. The intent is to improve the timing of the flow of federal dollars so that states receive the funds when they need them, but not before. Ideally, the improved timing will help both parties. State governments will draw down federal funds as needed without having to advance state funds for federal programs. The federal government will hold cash as long as possible, thus allowing it to maximize its return on the funds.



The act requires that interest be paid by one party to the other if funds are received late or if funds are withdrawn too early. Although the CMIA's purpose is not to determine who is at fault, keeping score by means of calculating and exchanging interest is a fundamental provision of the act. Keeping score was seen as a necessary evil in order to ensure that both sides worked hard at pursuing the driving principle behind the legislation: *to ensure greater efficiency, effectiveness and equity in the exchange of funds between the federal government and the states.*

Under the provisions of the CMIA, states can opt to use one of several funding mechanisms. The agreement each state signs with the U.S. Treasury establishes methods for calculating and documenting the interest payments and identifies programs covered. It also specifies funding techniques and defines the types of direct costs incurred by states that can be reimbursed under current federal guidelines.

CMIA tracking and interest provisions (Subpart A of the rules) apply to programs listed in the Catalog of Federal Domestic Assistance that meet the state's threshold for major federal assistance programs and are included in a Treasury-State agreement or default procedures. Federal programs that fall below the state threshold are subject to Subpart B, which establishes minimum cash management standards. Failure to comply with subpart B can subject a federal assistance program to Subpart A rules.

State Agreement with U.S. Treasury

Under the CMIA, Texas had to enter into an agreement with the U.S. Treasury Department that outlined the procedures Texas and the federal agencies would follow to carry out the transfer of funds. Texas signed its first agreement on September 2, 1993. The agreement covered five areas:

1. Programs covered by CMIA;
2. How funds would be transferred;
3. Methodology for interest calculation;
4. An outline of how clearance patterns would be developed and maintained; and finally
5. The types of direct costs the state planned to claim for reimbursement.

The rules also required Texas to identify an official designee to coordinate CMIA interaction with the Financial Management Service (FMS), U.S. Department of the Treasury. The Director of Fiscal Management for the Comptroller of Public Accounts serves in this capacity. The FMS is designated as the lead federal agency responsible for ensuring compliance with the provisions of CMIA.

Under CMIA, Texas is responsible for:

- Accounting for federal funds made available to and deposited in state accounts;
- Developing, maintaining and updating clearance patterns for federal funds by program;
- Calculating interest payable to and due from the federal government;
- Accounting for all interest that accrues as a result of refunds of $50,000 and over.

The term of the initial agreement between Texas and the Secretary of the Treasury was for five years and it listed the federal programs and state entities to be covered, the funding techniques to be used for each federal program, and the method to be used for calculating and documenting the interest owed. Under the current regulations, the agreement is amended annually to reflect changes to programs covered, draw down techniques, and state agency participation in programs.

Annual Report

Texas must submit an Annual Report by December 31st to FMS detailing, for each program, the gross and net interest owed to and due from the federal government for the fiscal year just ended. The Annual Report must be certified for accuracy by an authorized state official.

Interest Payment

Texas must remit any CMIA interest liability owed to the federal government by March 31st of the following year. FMS provides information on how the transfer of funds should take place.

FUNDING TECHNIQUES (FUND TRANSFER PROCEDURES)

The core of the CMIA Agreement (including subsequent amendments) identifies the funding techniques that will be used by each state agency for each major federal assistance program. A state may adopt more than one funding technique for a program with multiple cash flows. A program can be divided into components based on the uses of the funds or the way the funds are defined in the agreements between the state and federal agencies. For example, a state agency may choose one drawdown technique for program costs and another for administrative expenses. In instances where there is more than one state agency involved in a federal program, each agency can select its own funding technique. The CMIA Agreement for 2009 defines six standard funding techniques for the State of Texas. They are:

Average Clearance

Average Clearance is a funding technique of transferring funds to the state based on the dollar weighted average number of days required for funds to be paid out by the state after a disbursement. The amount of the request shall be for the exact amount of that disbursement. This funding technique is interest neutral.

Actual Clearance, ZBA - ACH

The Actual Clearance, ZBA – ACH funding technique provides that federal funds be drawn down for program disbursement based on the settlement date of the payment issued by the state. The amount of the request shall be for the amount of funds that clear the State’s account on the settlement date. This funding technique is interest neutral since the receipt of federal funds at the state level coincides exactly with the time that the issued checks are presented to the bank for payment. This method assumes that the states’ accounting systems have the ability to track each federal receipt, both when it is received at the State Treasury, and when the related state check or warrant is issued and redeemed at the state’s bank.

Actual Clearance, ZBA – Same Day Payment

The Actual Clearance, ZBA – Same Day Payment funding technique provides that federal funds be drawn down for program disbursement on the same day the state pays out funds. The amount of the request shall be for the amount of funds that clear the State’s account that day. This funding technique is interest neutral since the receipt of federal funds at the state level coincides exactly with the time that the funds are paid out.

Pre-Issuance

The Pre-Issuance funding technique provides that federal funds be drawn down and deposited not more than three days prior to the day the state makes a disbursement. This method is mostly used by states like Texas that have statutory or constitutional provisions requiring that federal funds, or any funds, be received and accounted for before state payments can be made. Clearly, adoption of this method means that interest will be calculated from the date the federal funds are received to the date the checks or warrants are redeemed at the state's bank or electronic funds transfers are made. This funding technique is not interest neutral.

Indirect Cost Rates – Proportionate Shares

The Indirect Cost Rates – Proportionate Shares funding technique provides that federal funds drawn include a proportionate share of the indirect cost allowance in each request for funds by applying the indirect cost rate to the appropriate cost base of each drawdown. This funding technique is interest neutral.

Monthly Draws

The Monthly Draws funding technique provides that federal funds be drawn once a month, approximately mid-month, by applying the indirect cost rate to the appropriate direct costs of the prior month. The amount of the request should cover indirect costs incurred during the prior month. This funding technique is interest neutral.

Unique Funding Techniques

There are also five unique funding techniques discussed in the agreement that are applicable to specific agencies. The specific agencies should be aware of the requirements for their applicable unique funding technique. These funding techniques can be interest neutral or not interest neutral.

CLEARANCE PATTERNS

Clearance patterns are used to support interest calculations and to schedule the drawdown of federal funds for various funding techniques. Methods the state uses to develop and maintain clearance patterns and estimates must include, at a minimum, a clear indication of:

- the data used,
- the sources of the data, and
- the development process.

Clearance patterns should:

- be auditable,
- be certified,
- accurately reflect the flow of federal funds,
- be based on at least three consecutive months of disbursement data, unless additional data is required to accurately represent the flow of Federal funds,
- have a sample size sufficient to ensure a 96 percent confidence interval if statistical sampling is used, and
- extend, at a minimum, until 99 percent of the dollars in a disbursement have been paid out for Federal assistance program purposes.

Clearance patterns should also reflect seasonal or other periodic variations in clearance activity. At a minimum, clearance patterns must be re-certified every five years, however, if a clearance pattern no longer reflects a Federal assistance program's actual clearance activity, or if a Federal assistance program undergoes operational changes that may affect clearance, FMS must be notified within 30 days, in writing, so the Treasury-State agreement can be amended. A new clearance pattern can be used once it has been certified by the Comptroller's office.

Calculation of Clearance Patterns for Pre-Issuance Funding

The funding technique used by most Texas state agencies is pre-issuance funding. Use of this funding technique usually results in an interest liability for the State. In order to calculate the amount of the liability, two options are available. An agency may elect to use a specific USAS agency fund, or funds, to isolate the federal program dollars and to track the average balances on hand. The second option is to prepare an estimate of the length of time, on average, that the federal program dollars remain in the State Treasury and to use that estimate as the basis for the State's interest calculation. The following discussion centers on the procedures for the second option.

Estimated Clearance Patterns

The State is liable for interest on federal program dollars from the time they are deposited in the State Treasury until the payments made to disburse the funds are charged against the State Treasury's account. For purposes of developing an estimate of this time, the period can be divided into two distinct parts. The first period starts when the funds are deposited in the State Treasury and ends when warrants, or other payments, are issued. The second period begins when the warrants are issued and ends when they are presented for payment at the State Treasury. The estimates for these two periods are developed separately and added together to determine the total time the federal funds remain in the State Treasury. The responsibility for calculating the first period rests with the state program agency. The responsibility for determining the second period is shared by the state program agency and the Comptroller's office. The procedures are as follows:

1. The program agency selects a period of three consecutive months to be used as the sample period. All of the federal program disbursements and related drawdowns during the period are included in the sample. The agency should select a period that is representative of its experience throughout the entire fiscal year. Also, there is a CMIA requirement that in preparing the estimate at least ninety-nine percent (99%) of the dollars in the sample must have been presented for payment. This requirement may affect the decision on the appropriate sample period and may determine the timing of the actual calculations.

2. The agency furnishes the Comptroller's office with a list of disbursements identified by CFDA number. Ideally, the agency provides criteria so that the population sample can be extracted from the USAS History file. However, it is acceptable to provide either the payment numbers or the USAS document numbers. This data can be

submitted on diskette or on mainframe tape, preferably cartridge. See Appendix A for further details.

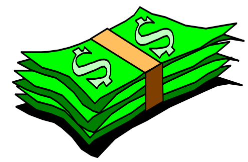
3. To determine the time period for Period One of the interest liability calculation, the agency matches the disbursements with specific drawdowns of federal funds. The agency identifies the date the funds were deposited in the State Treasury and the date payments were issued by the Comptroller. The agency then computes a dollar-weighted average length of this period for the three-month sample period.

4 To calculate the time period for Period Two of the interest liability calculation, the Comptroller identifies (from the sample data provided by the agencies) the payment issue dates and requests payment clearance data for those payments from the Treasury Operations Division of the Comptroller's Office. Based on this information, the Comptroller then computes the dollar-weighted average clearance pattern for these payments.

5. The agency is asked to provide the Period One clearance pattern calculated in Step 3 as part of the annual CMIA reporting process. The Period One clearance pattern is combined with the Period Two clearance pattern calculated in Step 4 and the total clearance pattern is then used in the annual CMIA interest calculations.

INTEREST CALCULATION

Of the six standard funding techniques in the Texas agreement, only the pre-issuance funding results in state interest liabilities. The other funding techniques assume federal funds being redeemed and transferred on the same day or that state funds have already been used for the disbursement. Pre-issuance funding, by definition, requires the transfer of federal funds before a state makes disbursements to the program recipients.



A state calculates federal interest liabilities and state interest liabilities for each program subject to coverage in the Treasury-State Agreement except for reverse flow programs, for which the federal agency calculates both federal and state interest liabilities. Reverse flow programs are those in which the federal government makes payments on behalf of a state (e.g. Supplemental Security Income). No reverse flow programs have been identified in Texas for purposes of CMIA.

The Treasury-State Agreement includes the method a state will use to calculate and document interest liabilities. In discussing interest calculations, it is important to have an understanding of Texas' current process of requesting and expending federal funds. For interest calculation purposes, this is divided into two periods.

Pre-Warrant Issue Period

During the pre-warrant issue period, the program agency requests funds from the federal agency and the federal agency electronically transfers the funds to the agency's account in the State Treasury. The agency sends a payment voucher to the Comptroller resulting in the issuance of a warrant or generation of a direct deposit transaction. The pre-warrant issue period begins when funds are deposited by Treasury Operations to the agency's account and ends when the Comptroller issues the warrant or creates a direct deposit transaction. It should be noted that it is possible for the pre-warrant issue period to be represented by a negative number. Such a result does not signify a problem unless the negative result is greater in absolute terms than the post-issuance period described below.

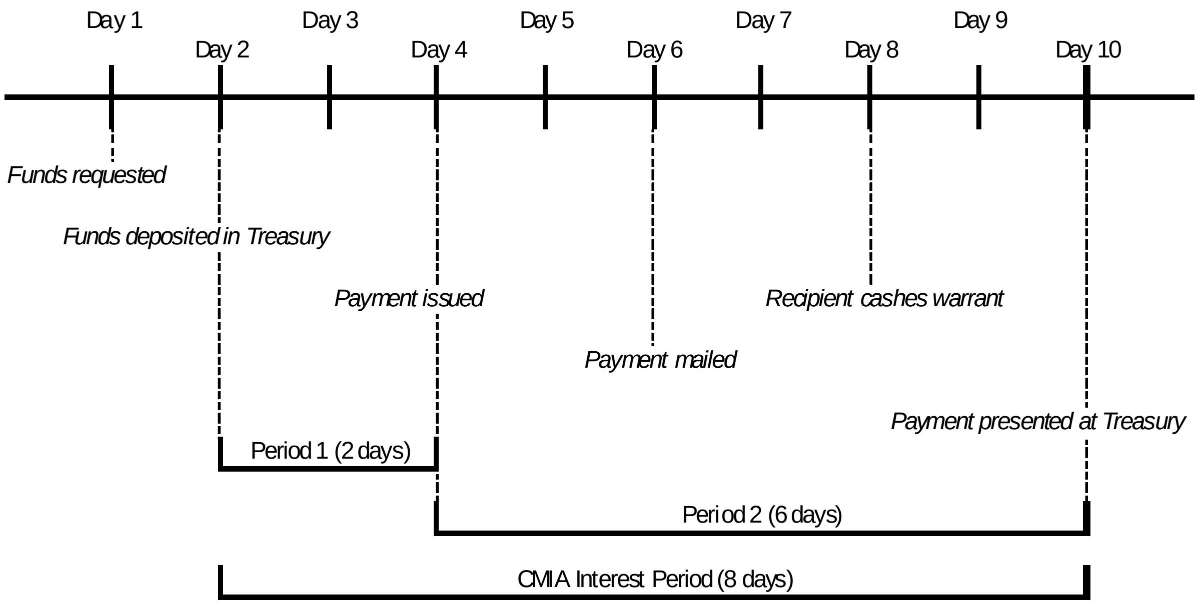
Post-Warrant Issue Period

The second phase depicts the actual expenditure of the funds. After the Comptroller issues the warrant(s), the interest clock continues to run until the warrants have been cashed and presented to Treasury Operations for payment. This period begins when the warrants are issued and ends when the payments have cleared Treasury Operations.

Total Clearance Period

To determine the total time federal funds are held in the Treasury, separate estimates are used to calculate the time elapsed during the two periods. The agencies that administer programs develop the estimate for the pre-warrant issue period and the program agency, along with the Comptroller's office, jointly develops the estimate for the post-warrant issue period. The results of the two time periods are added together to calculate the dollar-weighted-average number of days Federal funds are held in the state account. The table on the next page depicts the total clearance pattern graphically.

CMIA Interest Time Line Example



Step	Day	Event
1	***1***	The agency requests the funds from the federal program agency.
2	***2***	The funds are received and deposited with Treasury Operations.
3	***4***	The agency submits a USAS payment voucher and a payment (warrant) is issued.
4	***6***	The agency mails the warrant to the recipient.
5	***8***	The recipient cashes the warrant.
6	***10***	The warrant is presented to Treasury Operations for payment.

Interest Calculation Formula

The interest liability is calculated for each program or group of programs by applying the following formula:

I = P x R x T/365

Where:

I = Interest liability

P = Total amount of federal dollars received during the fiscal year for programs covered

R = Average of the 13-week Treasury Bill equivalent yield (provided by FMS)

T = The dollar-weighted average number of days federal funds are held by the State, determined by combining the Period One and Period Two calculated clearance days.

The State is required to calculate and report the interest liability for the prior fiscal year to FMS by December 31st. The FMS will notify a State of the final net interest liability, which must be paid by March 31st. The final liability may represent audit adjustments or disallowances by the FMS based on their review of the state report.

REFUNDS

A state may incur an interest liability on refunds of Federal funds equal to or greater than $50,000. Interest begins from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.

Each state program agency is required to maintain a separate ledger for refunds that exceed the threshold and report them as part of the Annual Report filed with the Comptroller. The ledger should include the amount of the refund, the date deposited in the State Treasury and the date it was credited to the federal account or paid out for program purposes.

Interest on each refund is calculated the same way as other program dollars - for the period between the date the refund is deposited in a state account and the date the refund is paid out for program purposes or credited to a federal government account. The interest rate is provided by FMS and the liability is included in the state's total interest liability.

INTEREST CALCULATION COSTS

Definition of Interest Calculation Costs

Interest Calculation Costs are those costs a State incurs in performing the calculation of interest liabilities, including those costs a State incurs in developing and maintaining clearance patterns.

Interest Calculation Costs do not include expenses for normal disbursing services, such as processing checks or maintaining records for accounting and reconciliation of cash accounts, or expenses for upgrading or modernizing of accounting systems.

Interest Calculation Costs must not include costs that have been included in the State's statewide cost allocation plan, as defined and provided for in OMB Circular A-87.

Documentation

In order to be compensated for interest calculation costs, a state must maintain documentation to substantiate its claim. The FMS may review the claims for reasonableness and if it is determined that a cost claim is unreasonable, the FMS will not reimburse the State.

Reimbursement

The state is reimbursed annually for its interest calculation costs. The claim is included in the Annual Report and is used to reduce the state's interest liability. Claims in excess of $50,000 are not eligible for reimbursement unless a state can justify and support the additional cost.

ANNUAL REPORT

The Annual Report

The state is required to submit a report to the FMS each December 31st to account for the interest liabilities related to the state's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The report includes the following:

- The federal interest liability for each program;
- The state interest liability for each program with the liability on refunds reported separately;
- The total federal interest liability for all programs;
- The total state interest liability for all programs;
- The total Interest Calculation Costs;
- The net total interest liability owed by the state or the federal government.

The Annual Report is filed using procedures prescribed by the FMS. The filings are prepared and submitted electronically by the Comptroller via the Internet. A hardcopy of the electronically submitted report is subsequently mailed to FMS.

CMIA Worksheets

As part of the Annual Report preparation process, special CMIA worksheets are sent to agencies that administer programs subject to Part A of the CMIA. For each program, the state agency is required to confirm the individual funding components of the program and the drawdown technique(s) used for each component. For each program/component the agency is also required to provide:

- Pre-issuance dollar-weighted clearance days for the program, when applicable;
- Total amount of drawdowns for the program during the fiscal year; and
- Refunds equal to or greater than $50,000 along with the receipt date and use date of the refund.

In addition to the CMIA worksheets, agencies are also asked to complete separate worksheets for interest calculation costs, late payments, and prior period adjustments.

The Interest Calculation Costs Report asks each agency to report their costs directly attributable to developing clearance patterns and performing interest calculations. This includes costs incurred in completing the worksheets for the Annual Report.

The Late Payment Report is used to make adjustments to the State's interest liability if the federal program agency was late in disbursing funds to the state agency. This report is not frequently used in Texas because of the funding techniques chosen by the agencies and the method by which clearance patterns are developed.

The Prior Period Adjustments Report is used to report corrections to total drawdowns or period one clearance days for a prior year. Adjustments are limited to the two years prior to the year of the current report.

ROLES AND RESPONSIBILITIES OF PARTICIPANTS IN THE CMIA PROCESS

Meeting the requirements of the CMIA is a cooperative effort involving many agencies, both state and federal. The state agencies involved include the Comptroller of Public Accounts, the State Auditor's Office and the program agencies covered by Subpart A. On the federal side, the principal agency is the Financial Management Service of the U.S. Treasury. Some of the main responsibilities of each organization are listed below.

U.S. Department of the Treasury - Financial Management Service (FMS)

- Represents the federal government's interests in the CMIA process.
- Appoints a liaison to oversee the implementation of CMIA.
- Negotiates with states in developing Treasury/State Agreement and related amendments.
- Promulgates and administers the CMIA rules and regulations.
- Interprets CMIA regulations through written policy statements.

Texas Comptroller of Public Accounts (Comptroller)

- Represents the state's interests in the CMIA process.
- Furnishes a liaison to oversee the implementation of CMIA.
- Drafts the Treasury/State Agreement and related amendments which includes:
  - A list of programs to be covered
  - The funding technique for each program covered, by component of the program
  - The interest calculation methodology
  - The clearance pattern methodology
- Signs the agreement.
- Acts as resource to state agencies that administer programs under CMIA. Keeps State agencies informed of important developments in the CMIA process.
- Prepares the Annual Report as required by CMIA.
- Provides payment clearance information used in calculating interest under CMIA.
- Calculates the interest payments due to the federal government.

Texas State Auditor’s Office (SAO)

- Audits each program under CMIA for compliance as per the Treasury/State Agreement and CMIA regulations.
- Audits the CMIA Annual Report.

Note: These audits are conducted as part of the federal portion of the Statewide Single Audit.

State Agencies Administering Programs Under CMIA (State Program Agencies)

- Review flow of funds for affected programs and determine appropriate funding technique.
- Keep track of their interest calculation costs associated with implementing certain aspects of CMIA.
- Maintain separate records for refunds or rebates related to affected programs.
- Develop sample data and calculate clearance patterns on federal funds from the time of deposit with Treasury Operations until warrants are issued on those funds.
- Provide the Comptroller with appropriate and accurate sample data to aid in developing clearance patterns used in interest calculations.
- Practice good cash management methods so the state can reduce the CMIA interest liability.
- Comply with the Subpart B requirements for programs not covered by Subpart A

THE ANNUAL CMIA PROCESS IN TEXAS

Complying with CMIA requirements is a continuous process. The major activities include:

Identification of Programs

This process begins with the publication of the Schedule of Expenditures of Federal Awards (SEFA) at the end of February. The SEFA contains data used to identify federal programs meeting the state's threshold for major Federal assistance programs. It also indicates the state agencies involved in administering those programs.

Identification of Funding Techniques and Clearance Patterns

The next stage in the process is to work with program agencies:

- Notify the agencies of the programs covered under CMIA during the coming fiscal year.
- Identify funding techniques to be used in the following year.
- Review the clearance pattern data and perform calculations as necessary.

Amending the CMIA Agreement

Based upon the results of the agency meetings, an amendment to the Treasury/State Agreement is drafted. The amendment includes federal programs to be covered, the State agencies affected and the funding techniques chosen by each agency. The amendment may also address other issues that have surfaced since the signing of the original agreement. It may also include clarifications to issues in the original agreement. The draft amendment is then presented to the FMS, by the end of April, for their review. The FMS and the Comptroller's office work together to finalize the amendment. Frequently, individual agencies are involved in this process to address topics that specifically involve them and their programs. The amendment should be signed by the end of June and no later than the end of the state's fiscal year on August 31st. Each affected state agency is asked to review the portion of the amendment pertaining to its operations prior to the signing of the agreement.

CMIA Annual Report

In the fall, work begins on preparing the State's CMIA Annual Report. The State agencies covered in the fiscal year's agreement, for which the CMIA Annual Report is being prepared, are contacted to obtain information needed for the report. In general, the agencies are asked to report the total dollar value of drawdowns, Period One clearance days, information on refunds, interest calculation costs information, and late payment and prior period adjustment information, if applicable. This data is used to compile the CMIA Annual Report that must be filed with the FMS by December 31st.

CMIA Interest Payment

If a net interest liability is reported in the State's annual report, the payment is made on March 31st. The appropriation to make the CMIA interest payment is with the State Comptroller and the payment is made out of the General Revenue Fund (Fund 0001). The Comptroller is required, however, to reimburse Fund 0001 for CMIA interest paid if the interest was earned and retained in a fund other than Fund 0001. Again, agencies are contacted to identify the flow of funds through various state accounts and then cash transfers are made as appropriate.

CMIA ISSUES

Interest Liability

The interest rate and the dollar amounts involved in the federal program will always be two factors over which the State has little or no control. However, the third element in the interest formula, clearance patterns, is one that we review closely. As noted earlier, the clearance patterns can be divided into two segments, pre- and post-issuance. The pre-issuance period is dependent on the efficiency with which an agency receives and disburses its federal funds. In theory, payments can be issued during the same daily accounting cycle in which the federal deposits are made. In practice this may prove difficult. However, agencies should constantly try to identify ways to make sure that these funds are handled on a timely basis.

The second half of the clearance pattern begins after payments are produced by USAS. Agencies must ensure that these payments are distributed to the recipients as quickly as possible. The use of direct deposit is one area to examine. Many agencies have done an excellent job of pursuing the use of direct deposit for their federal payments. Direct deposit not only eliminates the time spent processing payments in-house, but in most cases it also drastically reduces the payment clearance times. Both time savings directly reduce the State's interest liability.

Another item concerning the interest liability deals with interest owed by the federal government. As the result of refined clearance pattern calculations, several agencies have reported negative pre-issuance periods. In some cases the negative values were greater than the post-issuance period and resulted in a negative total clearance pattern. These negative values resulted in federal liabilities. The Financial Management Service has notified the State that it was reserving the right to question those cases where the amount reported for a specific program resulted in a federal interest liability. Their reasoning was that they did not feel the federal government should accrue a liability because states do not draw funds in a timely manner. The implication is that the Financial Management Service may not allow negative interest liabilities to offset state liabilities.

Changes Impacting Clearance Patterns

An area related to the annual report is the calculation of clearance patterns. The accuracy of clearance patterns must be re-certified by the Comptroller at least every five years. However, if there are significant changes that impact the CMIA interest period, then the Comptroller's office must be notified immediately. Types of changes that may affect clearance patterns include:

- The implementation of a new accounting system
- The frequency in which federal funds are requested
- A change in regulations
- The number of clients being served
- Timing issues (mixture of ACH vs. warrants)
- Change in procedures
- Drawing funds before issuing warrants and visa versa

The above list is for illustrative purposes and is not meant to be all-inclusive.

APPENDICES

APPENDIX A –
POST-ISSUANCE CLEARANCE CALCULATION GUIDELINES

Appendix A - Post-Issuance Clearance Calculation Guidelines

The following information is for agencies that rely on the Comptroller's office to perform the CMIA dollar weighted post-issuance clearance pattern calculation on their major federal programs.

Prior to submitting information to the Comptroller's office, the primary agency CMIA liaison must contact Leo Collas to discuss the sample data to be considered. Leo is the Comptroller analyst assigned to perform this function and can be contacted by phone, (512) 936-6300, or by email at **leo.collas@cpa.state.tx.us**.

The information provided below covers two general areas:

- Clearance Pattern Calculation Process
- Data Submission Alternatives

Clearance Pattern Calculation Process

The clearance pattern calculation process involves the receipt of information from agencies, the extraction of data from USAS, the possible extraction of data from USPS and/or SPRS, and the possible receipt of warrant issue redemption data from Treasury Operations. Once the clearance patterns have been calculated, the agency liaison is sent a summary letter that details the results of the calculations.

The agency liaison will be asked to provide the CFDA number and title for each program involved, the name, title, and mailing address of the agency contact to whom the summary letter will be sent, the target three consecutive month period, indicate whether USPS and/or SPRS payments are included, and the method of data submission according to one of the two alternatives identified below.

An agency must ensure that dates identified for use by the Comptroller's office are consistent with the dates used by the agency in the computation of their pre-issuance period. There are some nuances that agencies need to consider when submitting information for the calculation process. Among the nuances are:

- The number of clearance days for direct deposit of bill payments is dependent upon the day of the week on which a payment was issued. Payments issued on Monday, Tuesday, or Wednesday settle/clear two days earlier than those issued on other weekdays.

- The number of clearance days for direct deposit of payroll payments, journal vouchers, and ITVs is zero. These transactions are included in order to impact the dollar-weighted average calculation.

- Warrants that have been cancelled or that have not cleared Treasury Operations are excluded from the sample.
- Unless otherwise requested, the payment issue date will be used as the start date of the post-issuance calculation.

Data Submission Alternatives

There are two (2) alternatives available to agencies for providing sufficient information to the Comptroller's office for identifying the data population sample. The two alternatives available are:

Alternative 1: The Agency Identifies The Appropriate Selection Criteria

Data is extracted from USAS, USPS, or SPRS and used for the sample calculation. The agency is responsible for identifying some high-level criteria to identify transactions. Examples of the high-level criteria include, but are not limited to, Appropriation Number, Fund, Appropriated Fund, and PCA.

If more than ten occurrences of a coding block are provided, the data should be sent in an Excel file.

Alternative 2: The Agency Provides The Specific Data To Be Used

This is the preferred method. Agencies should provide the necessary data in an Excel file. The spreadsheet should contain column headers and raw data only. Also, zero dollar transactions should be excluded.

At a minimum, the agency should provide the following data per transaction (Excel row):

- Three-character agency number
- Six-character program identifier (CFDA number)
- Nine-character payment number ***OR*** eight-character USAS / USPS / SPRS document number
- Amount of payment associated with the CFDA program

If an agency chooses this alternative, the agency should be aware that **ALL** transactions for a given document or payment will be selected.

Appendix A - Comptroller Post-Issuance Clearance Calculation Guidelines (concluded)

The payment issue field in USAS, USPS, and SPRS is nine (9) characters in length. Warrant issue payments are nine (9) digits in length. Direct deposit sequence numbers are seven (7) digits in length and are represented in the payment issue field as two (2) blanks followed by the seven (7) digit sequence number.

The document number in USAS, USPS, and SPRS is an eight (8)-character field. The first character is commonly referred to as the “Document Type”.

APPENDIX B – RULE CHANGES AND CLARIFICATIONS

Appendix B – Rule Changes and Clarifications

On October 12, 2000, the FMS issued a Notice of Proposed Rulemaking proposing revisions to the regulations implementing the Cash Management Improvement Act of 1990, as amended. The final rule was published in the Federal Register on May 10, 2002.

Below are substantive changes that were made to the rules as well as clarifications made in response to 57 written comments received from State agencies, State Associations, and Federal agencies.

Changes

- The threshold for a major Federal Assistance program was increased.
- The refund threshold was increased from $10,000 to $50,000.
- The term describing the costs a State incurs in calculating interest liabilities was changed from "Direct Cost" to "Interest Calculation Costs."
- Where appropriate, the term "Estimate" was replaced with the term "Project."
- States are allowed to apply a statewide indirect cost rate or a public assistance indirect cost rate, where appropriate. The rate must be consistent with OMB Circular A-87, including attachments.

Clarifications

- Disallowances are not subject to interest liabilities.
- In programs utilizing <u>mandatory</u> matching of funds, the requirement for proportional drawdowns was maintained in the final rule. Concurrent proportional State contributions are not required for programs utilizing voluntary matching contributions or those programs that require Maintenance of Effort on an annual basis.
- Administrative Cost includes indirect costs.

Appendix B – Rule Changes and Clarifications (concluded)

- States must inform FMS of required amendments in a timely manner (within 30 days of the time the State becomes aware of a change) so that they may be included in the Treasury-State agreement.
- Calculation of the threshold for major Federal Assistance programs is an annual requirement.
- The drawing down of funds for the purpose of maintaining a compensating balance (for bank charges, etc.) is prohibited.
- The three-day drawdown window that currently exists was retained.
- FMS may deny interest liability if the liability is the result of the state's failure to timely request a drawdown of the Federal funds.
- No interest liability will accrue on administrative costs provided the agreed upon funding technique is followed.

APPENDIX C –
CMIA CONTACT LIST

Appendix C – Comptroller of Public Accounts CMIA Contact List

Peggy Wagman	peggy.wagman@cpa.state.tx.us	305-8636
Leo Collas	leo.collas@cpa.state.tx.us	936-6300
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Tom Mathey	tom.mathey@cpa.state.tx.us	463-3868

APPENDIX D–
PROGRAMS FOR THE 2009 CMIA AGREEMENT

Appendix D – Programs for the 2009 CMIA Agreement

CFDA	CFDA Title	AGY	Agency Name	2007 Expenditures
10.551	Food Stamps	529	Health and Human Services Commission	2,722,006,392
10.553	School Breakfast Program	701	Texas Education Agency	293,885,907
10.555	National School Lunch Program	529	Health and Human Services Commission	8,057,831
10.555	National School Lunch Program	551	Department of Agriculture	
10.555	National School Lunch Program	701	Texas Education Agency	893,531,347
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	537	Department of State Health Services	718,346,616
10.558	Child and Adult Care Food Program	529	Health and Human Services Commission	204,567,361
10.558	Child and Adult Care Food Program	551	Department of Agriculture	
10.561	State Administrative Matching Grants for Food Stamp Program	320	Workforce Commission, Texas	22,923,831
10.561	State Administrative Matching Grants for Food Stamp Program	529	Health and Human Services Commission	143,938,276
17.225	Unemployment Insurance	320	Workforce Commission, Texas	1,278,227,071
17.258	WIA Adult Program	320	Workforce Commission, Texas	99,980,618
17.260	WIA Dislocated Workers	320	Workforce Commission, Texas	111,189,878
20.205	Highway Planning and Construction	601	Transportation, Texas Department of	1,834,684,225
66.458	Capitalization Grants for State Revolving Funds	580	Water Development Board	169,933,720
84.010	Title I Grants to Local Educational Agencies	701	Texas Education Agency	1,218,301,870
84.027	Special Education--Grants to States	538	Department of Assistive and Rehabilitative Services	5,064,692
84.027	Special Education--Grants to States	701	Texas Education Agency	981,845,265
84.126	Rehabilitation Services--Vocational Rehabilitation Grants to States	538	Department of Assistive and Rehabilitative Services	219,559,924
84.357	Reading First State Grants	701	Texas Education Agency	92,090,981
84.367	Improving Teacher Quality State Grants	701	Texas Education Agency	250,538,718
93.283	Centers for Disease Control and Prevention--Investigations and Technical Assistance	537	Department of State Health Services	93,851,382
93.558	Temporary Assistance for Needy Families	320	Workforce Commission, Texas	100,574,794

93.558	Temporary Assistance for Needy Families	529	Health and Human Services Commission	111,831,696
93.558	Temporary Assistance for Needy Families	530	Family and Protective Services, Department of	226,548,625
93.558	Temporary Assistance for Needy Families	537	Department of State Health Services	2,121,867

Appendix D – Proposed Programs for the 2009 CMIA Agreement (concluded)

CFDA	CFDA Title	AGY	Agency Name	2007 Expenditures
93.558	Temporary Assistance for Needy Families	538	Department of Assistive and Rehabilitative Services	15,925,673
93.558	Temporary Assistance for Needy Families	701	Texas Education Agency	9,027,619
93.563	Child Support Enforcement	212	Court Administration, Office of	5,078,941
93.563	Child Support Enforcement	302	Attorney General	180,549,611
93.575	Child Care and Development Block Grant	320	Workforce Commission, Texas	205,682,119
93.575	Child Care and Development Block Grant	530	Family and Protective Services, Department of	31,398,741
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	320	Workforce Commission, Texas	227,643,332
93.658	Foster Care--Title IV-E	530	Family and Protective Services, Department of	144,938,676
93.658	Foster Care--Title IV-E	665	Juvenile Probation Commission, Texas	40,446,500
93.667	Social Services Block Grant	529	Health and Human Services Commission	47,461,745
93.667	Social Services Block Grant	530	Family and Protective Services, Department of	38,288,454
93.667	Social Services Block Grant	537	Department of State Health Services	30,265,483
93.667	Social Services Block Grant	539	Department of Aging and Disability Services	90,021,574
93.767	Children's Health Insurance Program	529	Health and Human Services Commission	360,023,984
93.778	Medical Assistance Program	529	Health and Human Services Commission	8,879,009,133
93.778	Medical Assistance Program	530	Family and Protective Services, Department of	130,429,674
93.778	Medical Assistance Program	537	Department of State Health Services	245,848,872
93.778	Medical Assistance Program	538	Department of Assistive and Rehabilitative Services	27,074,758
93.778	Medical Assistance Program	539	Department of Aging and Disability Services	3,081,932,903
93.778	Medical Assistance Program	601	Transportation, Texas Department of	51,768,901
93.959	Block Grants for Prevention and Treatment of Substance Abuse	537	Department of State Health Services	127,551,001
96.001	Social Security--Disability Insurance	538	Department of Assistive and Rehabilitative Services	117,670,680
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	405	Public Safety, Department of	85,701,488