

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**

FOR THE QUARTER ENDED MARCH 31, 2006



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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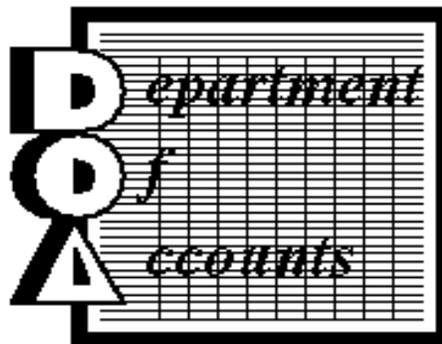
STATEMENT OF PURPOSE

The *Code of Virginia* requires that the Department of Accounts (DOA) monitor and account for all transactions involving public funds. In order to carry out this mandate, the Department uses a variety of measures, including automated controls, statistical analyses, pre-audits and post-audits, staff studies and reviews of reports issued by the Auditor of Public Accounts. When taken as a whole, these measures provide an important source of information on the degree of agency compliance with Commonwealth accounting and financial management policies, internal controls, procedures, regulations, and best practices.

The Comptroller's *Report on Statewide Financial Management and Compliance* (the *Quarterly Report*) is a summary of measures used by DOA to monitor transactions involving public funds and report findings to the Governor, his Cabinet, and other senior State officials. The *Quarterly Report* uses exception reporting and summary statistics to highlight key findings and trends. The Department also provides additional detailed financial management statistics for agencies and institutions of higher education.

This *Quarterly Report* includes information for the quarter ended March 31, 2006 and comparative FY 2005 data. Some information in the report is for the quarter ended December 31, 2005, which is the most current data available.

David A. Von Moll, CPA, CGFM
Comptroller



SPECIAL REPORT

2005 Information Returns Reporting

The federal government requires State and local governments and their subdivisions to report certain payments to the Internal Revenue Service (IRS) at calendar year-end. Generally, payments made for \$600 or more during a calendar year to individuals, sole proprietors, medical and legal corporations, partnerships, trusts, and estates are considered reportable.

Studies show that information returns increase tax collections by increasing the likelihood that taxable income will be properly reported.

States have special information returns reporting requirements unique to their

governmental functions. These include reporting payments for state unemployment compensation, taxable grants, reforestation payments, state tax refunds, and lottery winnings.

In February 2006, a Statewide Information Returns compliance survey was conducted for the 2005 tax year. Based on the survey, 127 tax reporting entities (representing 239 agencies and institutions) filed 3.3 million information returns totaling \$5.9 billion. Two reporting entities did not file information returns for 2005. The Commonwealth filed 99.9 percent of the information returns with the IRS using electronic or magnetic media.

Information Returns

Filed for Calendar Year 2005

Number of Information Returns Filed	Number of Tax Reporting Entities
No Returns	2
1 to 50 Returns	64
51 to 250 Returns	28
Over 250 Returns	33
Total Reporting Entities	127

The agencies and institutions of the Commonwealth filed the following types of information returns for the tax year ended December 31, 2005. When the number of information returns filed for 2005 is compared with 2004, percent changes by category range from plus 1,853% to minus 25%.

The number of Forms 1099-DIV issued by the Division of Unclaimed Property in the Department of Treasury (Treasury) increased by 1,853%. This increase was due to Treasury assuming responsibility for its Form 1099-DIV services. In previous years, this service was provided by an outside contractor.

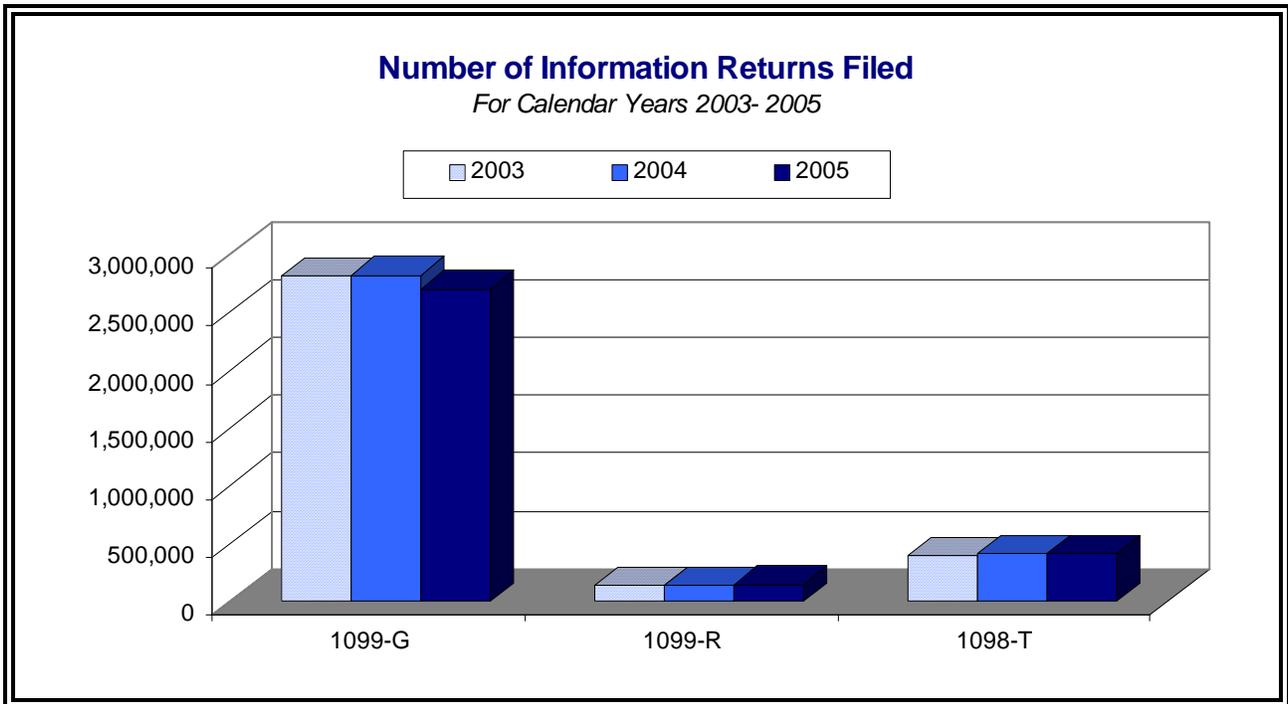
The 25% reduction in the number of Forms 1099-INT issued by the Department of Taxation is related to the implementation of a new taxpayer accounting system. The number of 1099-Q's issued by the Virginia College Savings Plan (VCSP) increased by 25% in proportion to the increased number of college students who drew on their savings accounts. The number of Forms 1099-S, Real Estate Transactions, issued by the Department of Transportation, decreased by 17% in proportion to the reduction in the number of highway construction projects.

2005 Information Returns Reporting Results
By Major Filing Category

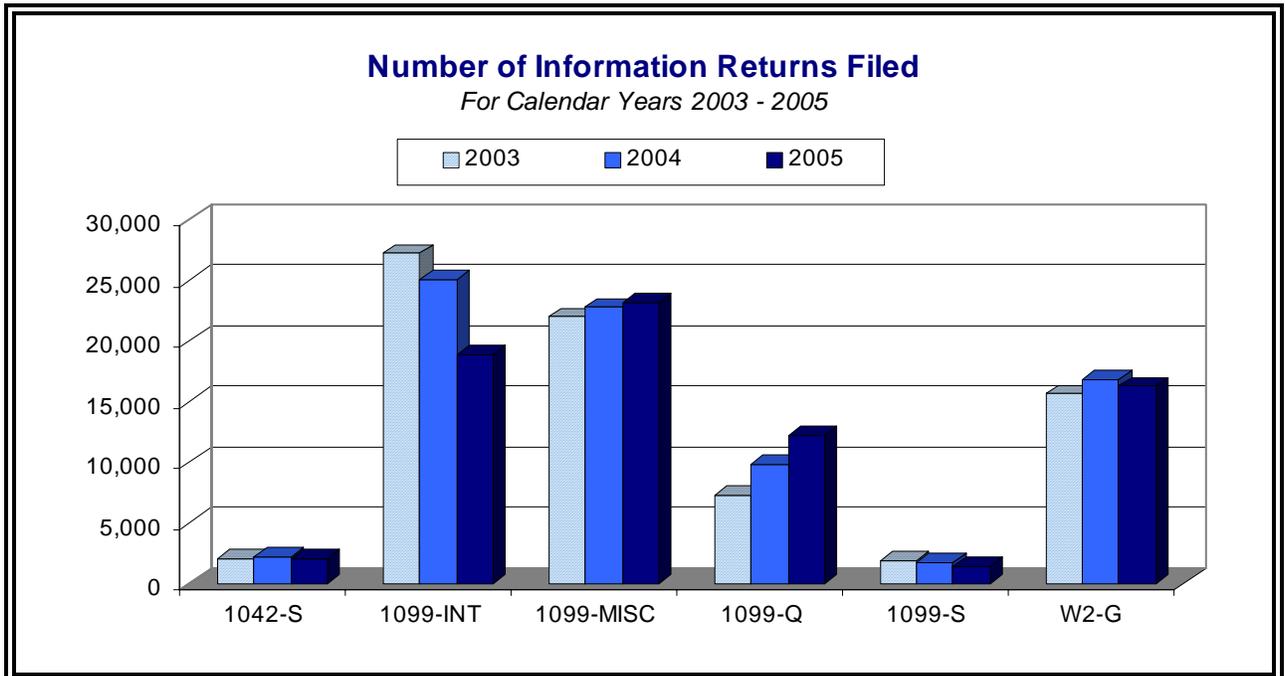
<u>Form Type (1)</u>	<u>Dollars Reported in 2005</u>	<u>Number of Payees in 2005</u>	<u>Paper Media</u>	<u>Magnetic Media</u>	<u>Electronic Media</u>	<u>% Change in Number of Filings from 2004</u>
1042-S, Foreign Persons	\$ 13,530,986	2,099	122	151	1,826	-3%
1098-T, Tuition Payments	1,608,008,537	405,763	0	8,374	397,389	<1%
1099-DIV, Dividends (2)	132,615	1,738	0	0	1,738	1,853%
1099-G, Govt. Payments	1,616,439,306	2,703,601	154	2,544,648	158,799	-4%
1099-INT, Interest	1,291,131	18,828	181	17,992	655	-25%
1099-MISC, Misc. Income (3)	408,940,949	23,121	3,192	5,219	14,710	1%
1099-Q, Qualified Tuition Program	65,593,472	12,227	0	0	12,227	25%
1099-R, Retirement	2,012,173,959	143,744	133	0	143,611	4%
1099-S, Real Estate Trans.	46,272,717	1,400	0	0	1,400	-17%
W2-G, Lottery Winnings	156,979,526	16,266	0	16,266	0	-3%
Total	\$ 5,929,363,198	3,328,787	3,782	2,592,650	732,355	-3%

- (1) Does not include payments reported on the Form 1098-E, Student Loan Interest, because the processing of these returns is contracted out by most higher education institutions.
- (2) Treasury unclaimed property assumed 1099 responsibility from contractor.
- (3) Does not include Medicaid payments to third party providers made by the DMAS fiscal agent.

Following is a comparison of the number of returns filed in the past three years in various categories.



Note: This chart does not include comparison information for forms 1042-S, 1099-Q, 1099-INT, 1099-MISC, 1099-S, W2-G, and 1098-E. Most of those are shown on the chart below.



Note: This chart does not include comparison information for forms 1099-G, 1099-R and 1098-T.

Discrepancy Notices

During 2005, four reporting entities received IRS CP-2100 notices, or other correspondence, related to information returns filed for the previous tax years. The majority of these notices stated that the agencies had filed information returns using an incorrect taxpayer identification number or a taxpayer identification number that did not match a taxpayer record in either the IRS or Social Security Administration's databases. To avoid penalties for erroneous filings, agencies were required to research these discrepancies and respond to the IRS within 30 days from the date that the CP-2100 notice was received. All agencies that received CP-2100 notices complied and responded accordingly.

Forty-eight agencies and institutions requested training on compliance issues, and thirty-five agencies and institutions requested training on the use of the DOA 1099 Adjustment and Reporting System (ARS) and on the downloading of 1099 data from the Financial Information Downloading System (FINDS).

In 2005, 11 state agencies and institutions reported participating in the Combined Federal/State Filing Program. This program saves magnetic and electronic filers time and postage, because the IRS forwards state tax copies to participating states.

The chart below lists the reporting entities that filed more than 500 information returns for calendar year 2005.

**Reporting Entities Filing More Than
500 Information Returns for 2005**

Reporting Entity	Number of Agencies	Number of Returns	Dollars Reported	Automated System(s)
Department of Taxation	1	2,561,561	\$ 1,243,088,553	Agency owned software
Virginia Community College System (VCCS) (1)	24	174,511	160,660,100	In-House Accounting System
Virginia Employment Commission	1	157,536	374,553,980	AMS
Virginia Retirement System	1	143,363	2,037,881,373	Adams Tax Forms 2005
George Mason University	1	36,818	199,473,874	SCT Banner and Windstar
University of Virginia	3	36,576	357,219,736	In House System
Virginia Commonwealth University	1	33,902	195,524,797	SCT
Virginia Polytechnic Institute and State University	2	30,474	244,314,792	SCT Banner Finance
Old Dominion University	1	24,509	84,433,339	SCT Banner
James Madison University	1	19,900	134,119,059	Winfiler
State Lottery Department	1	17,415	176,652,086	J D Edwards
Radford University	1	12,851	53,078,568	IFAS/AMS
Virginia College Savings Plan	1	12,234	65,677,544	AMS
The College of William and Mary in Virginia	2	10,324	100,002,287	Sungard SCT Banner
Norfolk State University	1	8,506	42,122,851	IFAS
Virginia State University	2	6,913	37,461,561	Adams Tax Forms 2005
University of Mary Washington	1	6,601	36,536,987	Banner
Christopher Newport University	1	6,409	29,672,902	Evisions
Longwood University	1	5,171	29,747,156	FRS
Department of Transportation	1	2,869	61,823,410	VDOT FMS
Department of the Treasury, Division of Unclaimed Property	1	2,603	972,317	In-House software
Supreme Court	9	2,574	73,644,926	Internal (oracle) system
Richard Bland College	1	2,349	4,211,153	AMS/BANNER
Virginia Military Institute	1	1,889	19,440,542	Datatel Colleague ERP
Department of Forestry	1	1,391	1,804,035	AMS
Department of Rehabilitative Services	6	1,344	15,328,830	Powerhouse
Department of Education	1	1,034	4,004,418	AMS
Department of Health	2	952	15,831,287	VDH FMS
Central Virginia Training Center	1	514	447,480	FMS
Total	71	3,323,093	\$ 5,799,729,943	

(1) The number of returns filed by VCCS includes 174,443 1098-T's filed on behalf of the 23 community colleges.

SPECIAL REPORT

2005 Year-End Payroll Processing

At the end of calendar year 2005 DOA, working with 213 state agencies and institutions, verified and printed 121,192 W-2s. This was a slight increase from the number of W-2s printed in 2004.

	CY 2004	CY 2005
W-2s Printed	121,046	121,192
W-2Cs Printed	29	27*
Reissued W-2s	173	N/A**
Agencies Making Adjustments	69	48
Employee Records Requiring Year-End Adjustments	222	115

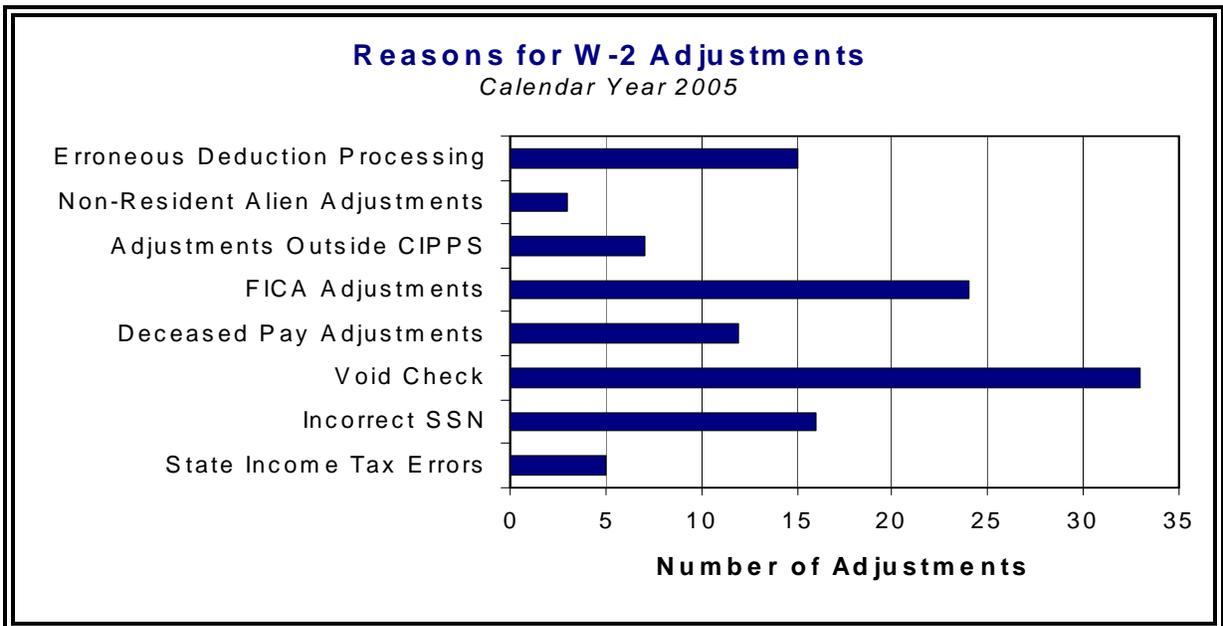
* # of W-2C's printed as of the date of this report.
 ** Effective for Calendar Year 2005, W2s are available to employees on Payline, thus eliminating need for reissues.

The elimination of reconciliation and certification requirements at the end of the fourth quarter freed staff time for earlier attention to W-2 processing. Agencies ensured that their remote report printers were operational over the New Year's holiday. In addition, many agencies improved the

timeliness of payroll updates during the year. As a result, required processing deadlines continue to be met without difficulty. Submissions of certified year-end reports continue to follow the same trend as last year.

Agencies adjusted 115 employee records. Accounting for void checks processed at calendar year end was the most common reason for W-2 adjustments. Adjusting non-resident alien W-2s for specific terms in treaties with their countries of origin also constituted a large portion, as did adjustments for incorrect social security numbers.

W-2s are printed at DOA and subsequently distributed to a third party vendor for folding and envelope stuffing. Upon return from the vendor, agencies are notified that the W-2s are ready for pickup. All CIPPS W-2s were picked up by January 27 for subsequent delivery to employees.



COMPLIANCE

Auditor of Public Accounts Reports - Executive Branch Agencies

Agency audit reports issued by the Auditor of Public Accounts (APA) may contain findings because of noncompliance with state laws and regulations. Agencies may also have internal control findings considered to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of internal control that, in the Auditor's judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions of management.

Each agency must provide a written response that includes a Corrective Action Workplan (CAW) to the Department of Planning and Budget, the Department of Accounts, and the agency's Cabinet Secretary when its audit report contains one or more audit findings. Workplans must be submitted within 30 days of receiving the audit report. Commonwealth Accounting Policies and Procedures (CAPP) manual, Topic 10205, *Agency Response to APA Audit*, contains instructions and guidance on preparing the workplan.

Audit Reports – Quarter Ended March 31, 2006

The APA issued 18 separate reports covering 29 agencies, offices, boards, and commissions for the Executive Branch agencies listed on the following table. The reports were for FY 2005. The last column indicates whether the CAW has been received as of the date of this publication for each agency with audit findings. Note that in some cases, the CAW may not have been received because it is not yet due.

	New Findings	Repeat Findings	Total Findings	CAW Received
Administration				
State Board of Elections	2	0	2	Yes
Agriculture and Forestry				
None				
Commerce and Trade				
Virginia Board of Accountancy	0	0	0	N/A
Virginia Tourism Authority	1	0	1	Yes
Virginia Employment Commission	3	0	3	Yes
Education				
University of Virginia	0	0	0	N/A
University of Virginia Medical Center	0	0	0	N/A
Radford University	4	0	4	Yes
Virginia Commonwealth University	1	1	2	Yes
Virginia Polytechnic Institute & State University	2	0	2	Yes
Department of Education, including the (1)	0	0	0	N/A
School for the Deaf and Blind in Staunton, and	0	0	0	N/A
School for the Deaf, Blind and Multi-Disabled in Hampton	0	0	0	N/A

	New Findings	Repeat Findings	Total Findings	CAW Received
Elected Officials				
None				
Finance				
Department of Planning and Budget; Budget & Appropriation Processing Control System (2)	2	0	2	Yes
Agencies of the Secretary of Finance (3):				
Department of Accounts				
Department of Planning & Budget (2)				
Department of Taxation				
Department of Treasury				
Secretary of Finance – All Agencies	1	0	1	Yes
Health and Human Resources				
Department of Health	1	1	2	Yes
Department of Social Services	5	2	7	Yes
Department of Mental Health, Mental Retardation, & Substance Abuse Services	5	0	5	Yes
Comprehensive Services for At-Risk Youth And Families	0	0	0	N/A
Agencies Serving Virginians With Disabilities (4):	1	0	1	Yes
Department of Rehabilitative Services	1	0	1	Yes
Woodrow Wilson Rehabilitation Center	0	0	0	N/A
Rehabilitation Center for the Blind	0	0	0	N/A
Board for People With Disabilities	0	0	0	N/A
Department for the Deaf and Hard of Hearing	0	0	0	N/A
Department for the Blind and Vision Impaired	0	0	0	N/A
Natural Resources				
None				
Public Safety				
Department of Emergency Management	0	0	0	N/A
Technology				
None				
Transportation				
None				

- (1) This one report combined the Department of Education together with Direct Aid to Public Education, the Virginia School for the Deaf and Blind in Staunton, and the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton for the year ended June 30, 2005.
- (2) This agency had two reports issued for the year ended June 30, 2005.
- (3) These five agencies were covered in one audit report titled "Agencies of the Secretary of Finance." In addition, one agency had another separate report.
- (4) These six agencies were covered in one audit report titled "Agencies Serving Virginians with Disabilities."

Agency Findings – Quarter Ended March 31, 2006

The following agencies had one or more findings contained in their audit report. Short titles assigned by APA are used to describe the finding, along with a brief summarization of the comments. The audit reports contain the full description of each finding.

Administration

State Board of Elections

1. Update and Fully Implement the Virginia State Plan. Elections should review and update their state plan to reflect current operations, in accordance with Section 254(a) of the Help America Vote Act (HAVA) of 2002.
2. Submit Revised Federal Report. The Election Advisory Committee, the federal entity responsible for overseeing HAVA, requires Elections to submit an annual expenditures report on Title I funds. The auditors could not reconcile and agree the submitted report to the Commonwealth Accounting and Reporting System (CARS).

Commerce and Trade

Virginia Tourism Authority

1. Clarify Responsibilities and Duties of the Board and the Executive Director. The Code of Virginia uses language that does not specifically classify the Authority's Board as either Supervisory or Advisory, but does grant the Board "control and direction" of the Executive Director. The Board should obtain a legal opinion or statutory change to clarify its responsibilities.

Virginia Employment Commission

1. Complete Information Systems Risk Assessment and Business Impact Analysis. VEC should identify, rank, and document its risks and critical business functions to ensure appropriate protection of critical information resources.
2. Obtain Assurance over Security of Information Technology Infrastructure. The VEC cannot solely ensure the protection of its data since the information technology infrastructure was transferred to the Virginia Information Technologies Agency (VITA). VEC must obtain written assurances from VITA as to the safety and security of the infrastructure to protect VEC systems and databases.
3. Hold Local Areas Accountable for Untimely or Unreliable Participant Data Entered into VWNIS. The Commission should require corrective action to ensure compliance and impose sanctions in the event of noncompliance on Local Areas who enter incorrect participant data under the federal Workforce Investment Act.

Education

Radford University

1. Review Policies and Procedures of All Collection Points. University management needs to perform a stringent review of cash collection operations and existing policies and procedures. The University currently has 33 cash collection points.
2. Develop Formal Information Technology Policies, Standards, and Procedures. The University has not developed formally written information technology security policies and procedures. The University should comply with Virginia COV ITRM Standard SEC2001.
3. Create a Business Continuity Plan for the Jefferson Machine Room. The University does not have a business continuity plan that includes contingencies for the Jefferson machine room. In addition, Radford has not addressed contingencies in the event of the destruction of this machine room.
4. Evaluate and Implement Appropriate Environmental Controls in the Jefferson Machine Room. The room is underground and does not have a fire detection/suppression system or a raised floor and water sensors.

Virginia Commonwealth University

1. Improve Cash Reconciliation Process. **As noted in our prior audit,** University management has not implemented procedures for preparing and reviewing cash reconciliations, or for making timely corrections of reconciling differences.
2. Comply with HIPAA Security Requirements. The University has not approved Health Insurance Portability and Accountability Act (HIPAA) compliant policies and procedures and has not completed a review of HIPAA compliance for data in the academic departments. The deadline for compliance was April 20, 2005.

Virginia Polytechnic Institute and State University

1. Revise Student Financial Aid Quality Assurance Procedures. The University's procedures did not fully identify all students' verification criteria as required by federal regulations, 34 CFR sections 668.54-.57.
2. Document Minimum Security Configurations. The University does not have university-wide security configurations for critical database and operating system platforms.

Finance

Budget and Appropriation Processing Control System – Department of Planning and Budget

1. Strengthen FATS access Procedures. A sample of Form 27 Automated Transaction System (FATS) found three instances where employees had two different user IDs for two agencies, and one instance where there were two user IDs for one agency.
2. Follow Procedures for Documentation of Appropriation Adjustments. A sample of appropriation adjustment transactions found that 48 percent (19) lacked revenue source codes and 30 percent (12) lacked sufficient explanations.

Secretariat of Finance – All Finance Agencies

1. Obtain Assurance over Security and Information Technology Infrastructure. State Information Technology Policy makes all agency heads, including all agency heads in the Finance secretariat, responsible for the security and safeguarding of all databases, information, and information technology assets. Over the past two years, the Commonwealth has moved the supporting infrastructure to the Virginia Information Technologies Agency (VITA). The agencies cannot solely ensure that their data has proper security to protect it from harm since the move. The agencies should require at least annually that VITA provide written assurance that the infrastructure provides the level and depth of security needed to meet State policy.

Health and Human Resources

Department of Health

1. Improve Controls for Removing System Access in a Timely Manner and Document Access Authorizations. **As noted in the prior audit,** Health has not removed in a timely manner or properly authorized staff access to critical systems. Health has policies and procedures addressing deletions and authorizations, but failed to follow them.
2. Obtain Assurance over Security and Information Technology Infrastructure. State Information Technology Policy makes all agency heads, including the State Health Commissioner, responsible for the security and safeguarding of all databases, information, and information technology assets of their respective agencies. Over the past two years, the Commonwealth has moved the supporting infrastructure to the Virginia Information Technologies Agency (VITA). Health cannot solely ensure that their data has proper security to protect it from harm since the move. The Commissioner should require at least annually that VITA provide written assurance that the infrastructure provides the level and depth of security needed to meet State policy, HIPAA, and Homeland Security requirements.

Department of Social Services

1. Properly Manage and Maintain Access to Information Systems. **As noted in the prior audit**, the Department (DSS) provides central oversight to 120 locally operated social service departments. DSS has a number of central systems that determine and provide benefits in support of the local departments. DSS has no central system or controls to adequately control employees' access or timely deletions.
2. Maintain Local Employee Tracking System. DSS and local offices have not updated or maintained the listings of local employees in the Local Employee Tracking System (LETS).
3. Establish Control Mechanisms for Foster Care and Adoption Payments. DSS does not currently have a control mechanism to verify that only individuals who are eligible are receiving foster care and adoption payments.
4. Develop Recovery Procedures for Internally-Housed Department Systems. DSS lacks proper procedures and plans to recover from a disaster or service interruption for high priority systems at the central office. This is required by COV ITRM Standard SEC2000-01.1.
5. Update Client Information. Several instances were found where clients' social security numbers were not documented upon recertification as required by Departmental regulations and federal regulations. Multiple benefits were paid for over a year to clients without social security numbers in the system.
6. Improve Documentation of Certain Temporary Assistance to Needy Families. **As noted in the prior audit**, federal requirements make the Department reduce or eliminate a recipient's benefits if the recipient does not cooperate with the Division of Child Support Enforcement (DCSE). Case files selected for review revealed no documentation of benefit reductions when custodial parents refused to cooperate with DCSE. The files also yielded examples of no documentation of systems inquiries to evaluate benefits received from other programs, no evidence of good cause being considered, and overpayments and underpayments of benefits.
7. Properly Report TANF Unliquidated Obligations and Basic Assistance Amounts. DSS did not have a method to determine the amount reported as TANF unliquidated obligations on the TANF financial report. DSS instead reported the unexpended award amount as the obligated amount, which overstated the federal unliquidated obligation by more than \$10 million. Further, DSS could not document how \$815,750 of the reported amount was spent during the following fiscal year. Accordingly, the audit questioned costs totaling \$815,750.

Department of Mental Health, Mental Retardation, and Substance Abuse Services

1. Update and Implement Risk Assessment and Impact Analysis. The Department's latest risk assessment failed to address the safeguards needed to mitigate identified risks and vulnerabilities.

2. Create and Enforce Application Change Management Policies and Procedures. The Department does not have adequate application change management policies and procedures. There is no standardized process to document changes, control different versions of code, or move programming code from development into production.
3. Appoint a Security Office to Establish and Enforce Policies and Procedures. The Department should appoint a dedicated Information Systems Security Officer to be responsible for the development, implementation, oversight and maintenance of the Department's information security program.
4. Follow Best Practices to Ensure Compliance with HIPAA Security Rules. The Department is not in compliance with the security rules set by the Health Insurance Portability and Accountability Act (HIPAA). The rules require entities with protected health information to follow best practices in securing and managing their information systems.
5. Obtain Assurance on DMHMRSAS Security of Information Assets from VITA. State Information Technology Policy makes all agency heads, including the Commissioner for DMHMRSAS, responsible for the security and safeguarding of all databases, information, and information technology assets of their respective agencies. Over the past two years, the Commonwealth has moved the supporting infrastructure to the Virginia Information Technologies Agency (VITA). Mental Health cannot solely ensure that their data has proper security to protect it from harm since the move. The Commissioner should require at least annually that VITA provide written assurance that the infrastructure provides the level and depth of security needed to meet State policy, HIPAA, and Homeland Security requirements.

Agencies Serving Virginians with Disabilities

1. Obtain Assurance over Security and Information Technology Infrastructure. State Information Technology Policy makes all agency heads, including the Commissioners of the Departments of Rehabilitative Services, Blind and Vision Impaired Deaf and Hard-of-Hearing, and the Virginia Board of Peoples with Disabilities, responsible for the security and safeguarding of all of their databases, information, and information technology assets. Over the past two years, the Commonwealth has moved the supporting infrastructure to the Virginia Information Technologies Agency (VITA). The Commissioners and their agencies cannot solely ensure that their data has proper security to protect it from harm since the move. The Commissioners and their agencies should require at least annually that VITA provide written assurance that the infrastructure provides the level and depth of security needed to meet State policy.

Department of Rehabilitative Services

1. Improve Access Controls for Timely Removal of Critical Systems Access. DRS failed to remove access to critical systems in a timely manner and/or could not supporting documentation for 46 percent of the terminated employees reviewed.

Status of Prior Audit Findings

The policy governing the Agency Response to APA Audits was recently revised to required follow-up reports on agency work plans every 90 days until control findings are certified by the agency head as corrected. Effective with the quarter ending June 30, 2006, the status of corrective action information reported by agencies under this policy will be included in this report.



Compliance Monitoring

Exception Registers

The Commonwealth Accounting and Reporting System (CARS) contains the Commonwealth's official accounting records. Therefore, State accounting policy requires that each agency reconcile its internal accounting records to CARS at least monthly and submit the results of the reconciliation via an exception register.

DOA closely monitors exception register status, evaluates exceptions, and posts

correcting entries in CARS. Exception registers for December, January and February were due 1/31/06, 2/28/06 and 3/31/06, respectively.

A web site was developed to facilitate the monitoring of exception register status and to make the relevant information available to agency fiscal officers.

Exception Registers Late or Outstanding

As of April 18, 2006

	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>
Thomas Nelson Community College	3/31/06	3/31/06	-

Key: O/S – Exception Register is outstanding
Date – The date received by DOA

Response to Inquiries

DOA regularly communicates with agencies regarding petty cash and invoice analyses, financial reporting information, and the FAACS/LAS systems. In many instances, agencies respond in a timely manner.

However, in other instances, agencies do not respond timely or simply fail to respond. For the quarter ended March 31, 2006, all responses have been received within an acceptable timeframe.

Trial Balance Review

As an integral part of the monthly reconciliation process, each agency should review their monthly trial balance for any unusual balances and investigate and correct unusual balances immediately. If the unusual balances cannot be corrected at the agency level, the problem should be noted on the

exception register. DOA monitors selected key general ledger balances and contacts agencies in writing about certain unusual balances. The following agencies failed to respond timely with corrective action and/or additional information.

Trial Balance Review Outstanding and Unresolved

As of April 18, 2006

	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>
Science Museum of Virginia	X	X	X

Analysis of Appropriation, Allotments and Expenditures, and Cash Balances

The Appropriation Act prohibits agencies from incurring unauthorized deficits. Therefore, credit cash balances and instances in which expenditures exceed appropriation and allotment require prompt investigation and resolution.

DOA contacts agencies in writing about credit cash balances and appropriations vs. expenditure anomalies. The following agencies failed to respond timely with corrective action and/or additional information.

Credit Cash, Excess Expenditures, and Expenditure Credits Outstanding and Unresolved

As of April 18, 2006

	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>
Science Museum of Virginia	X	X	X

Petty Cash Review

Agencies are required to reconcile petty cash as part of the monthly reconciliation process. The following agencies did not properly manage their petty cash account or identify problems during the monthly reconciliation process.

- The Department of Social Services – child support client advances totaling \$15,102 were provided from 1997 through 2003 without appropriate follow-up and collection.

- The Department of Veterans Services – a local bank account was closed due to inactivity and bank fees incurred without the agency’s knowledge.

Disbursement Processing

During the quarter ended March 2006, DOA deleted, at the submitting agency’s request, 54 payments that were awaiting disbursement from the vendor payment file. These included duplicate payments, payments with incorrect vendors or addresses, and payments with incorrect amounts. This type of transaction may point to areas where improved agency internal accounting controls should be evaluated.

Thirty-one agencies requested deletes during the quarter. Agencies that requested more than four vendor payment deletes during the quarter were:

- Department of Transportation

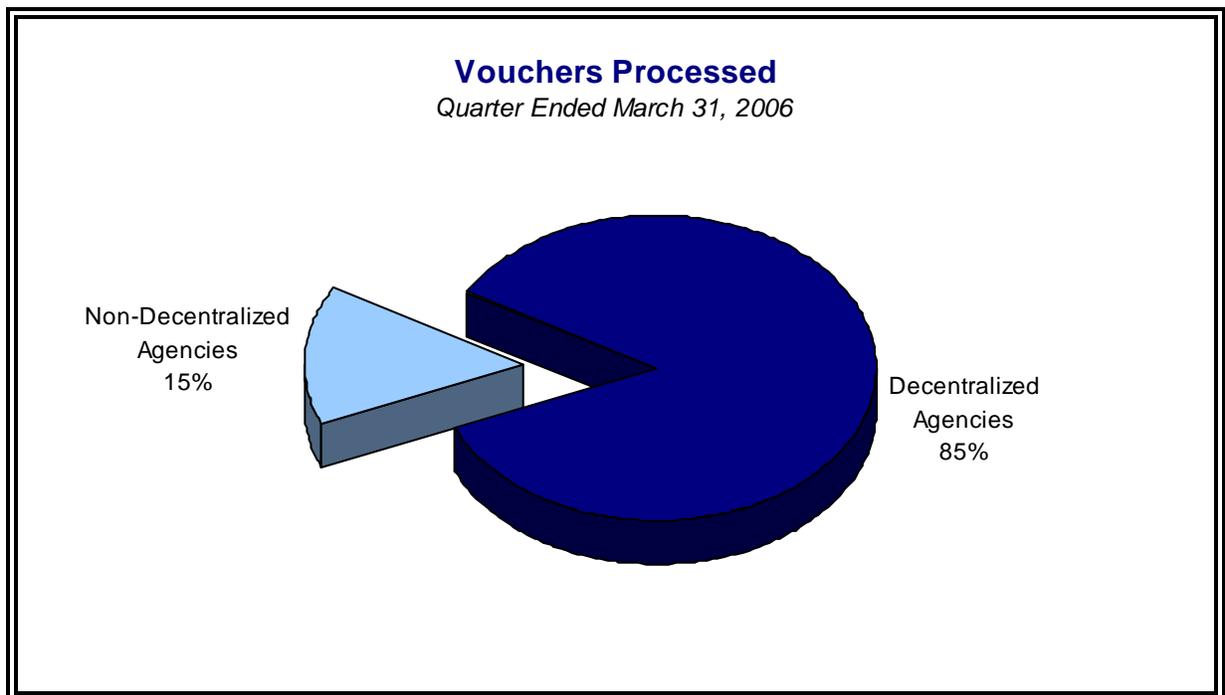


Paperwork Decentralization

The Commonwealth has decentralized the pre-auditing of most disbursements to individual agencies under a grant of delegated authority from the State Comptroller. Prior to the implementation of the program, over two million document sets (batches) were sent to the central repository each year. This program reduces the flow of documents from these agencies to the central repository in Richmond.

The overall quality of the State pre-audit program is monitored through the use of quality control reviews conducted by DOA staff.

Results of these reviews are provided to the agency with corrective action recommendations. The great majority of problems encountered involve documentation inconsistencies, which should be easily corrected. Travel vouchers continue to be the primary source of all problems found.



Note: Totals include vouchers processed by decentralized higher education institutions.

Decentralized Agencies

Compliance reviews were conducted for three decentralized agencies during the quarter. The agencies were evaluated for compliance with State expenditure policies and procedures. Vouchers are selected for review based on a random sample designed to ensure 95 percent confidence in the conclusions.

The Exception Rate is determined by dividing the number of vouchers with compliance findings by the number of vouchers reviewed. The primary reasons for an Exception Rate exceeding 3.9 percent are provided on the next page.

Compliance Rating Legend	
>9.9%	Unacceptable Performance
7.0% to 9.9%	Minimal Performance
4.0% to 6.9%	Satisfactory Performance
1.0% to 3.9%	Good Performance
<1.0%	Exceptional Performance

Decentralized Agency	Vouchers Reviewed	Vouchers with Compliance Findings	Exception Rate	Performance Measurement
<i>Education</i>				
Norfolk State University (1)	270	24	8.9%	Minimal
<i>Health and Human Resources</i>				
Department of Health Professions	240	4	1.7%	Good
<i>Transportation</i>				
Department of Transportation	623	16	2.6%	Good

Note: No reviews were performed during the quarter for agencies that report to the Secretaries of Administration, Agriculture and Forestry, Commerce and Trade, Finance, Natural Resources, Public Safety, and Technology.

Note 1: The Norfolk State University compliance review was a follow-up to the prior review conducted during the third quarter of FY 2005. The University reports the immediate correction of several items and plans to implement corrective action to resolve the additional deficiencies. DOA will perform a second follow-up review during the third quarter of FY 2007. A determination regarding the University's continued decentralized status will be made at the conclusion of the follow-up decentralization review.

Agencies with Performance Ratings Lower than “Good”

Norfolk State University – Minimal Performance – Of the 24 vouchers with findings, 16 were related to Travel Vouchers and 8 were related to Vendor Payment Vouchers. Vouchers frequently have more than one finding and the following represents all compliance findings:

- Business meal over allowable limit (1)
- Batch Header signed with signature stamp (1)
- Travel Expense Reimbursement Voucher turned in late by the traveler and approved late by the supervisor (1)
- Incomplete documentation (1)

Travel Vouchers

- Lodging over the guidelines without proper approval (11)
- Traveler, who is a designee, approved own travel voucher (1)
- Business Class train fare purchased (1)
- Fuel option purchased for rental car (1)

Vendor Payment Vouchers

- Incorrect due date (5)
- Due Date absent (1)
- Paying late fees to vendor (1)
- Business Meal – Reason, List of Attendees, and Designee approval absent (1)

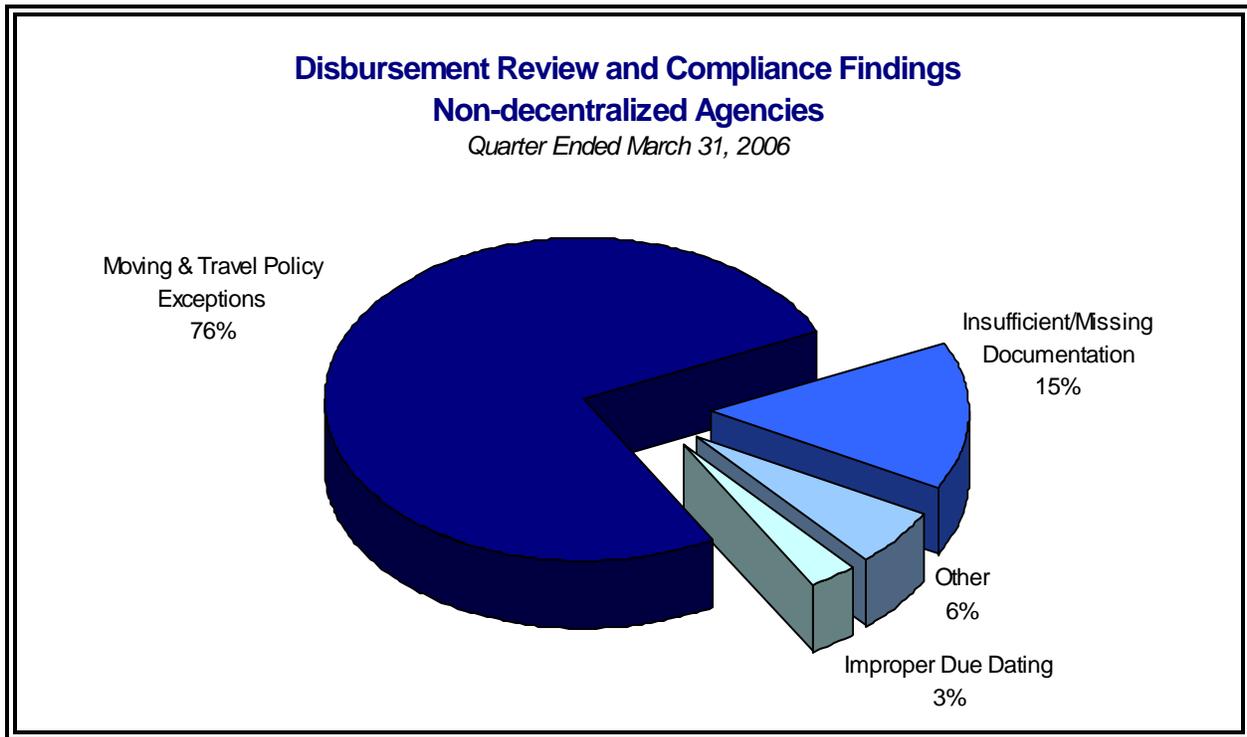


Non-Decentralized Agencies

Pre-audit of disbursements is conducted at the Department of Accounts for certain agencies that have not demonstrated the capability to manage a delegated program (i.e., have not met statewide decentralization management standards), agencies for which the cost of delegation is greater than the efficiency benefits to be gained through decentralization, or those few agencies, primarily those comprised of elected officials and cabinet

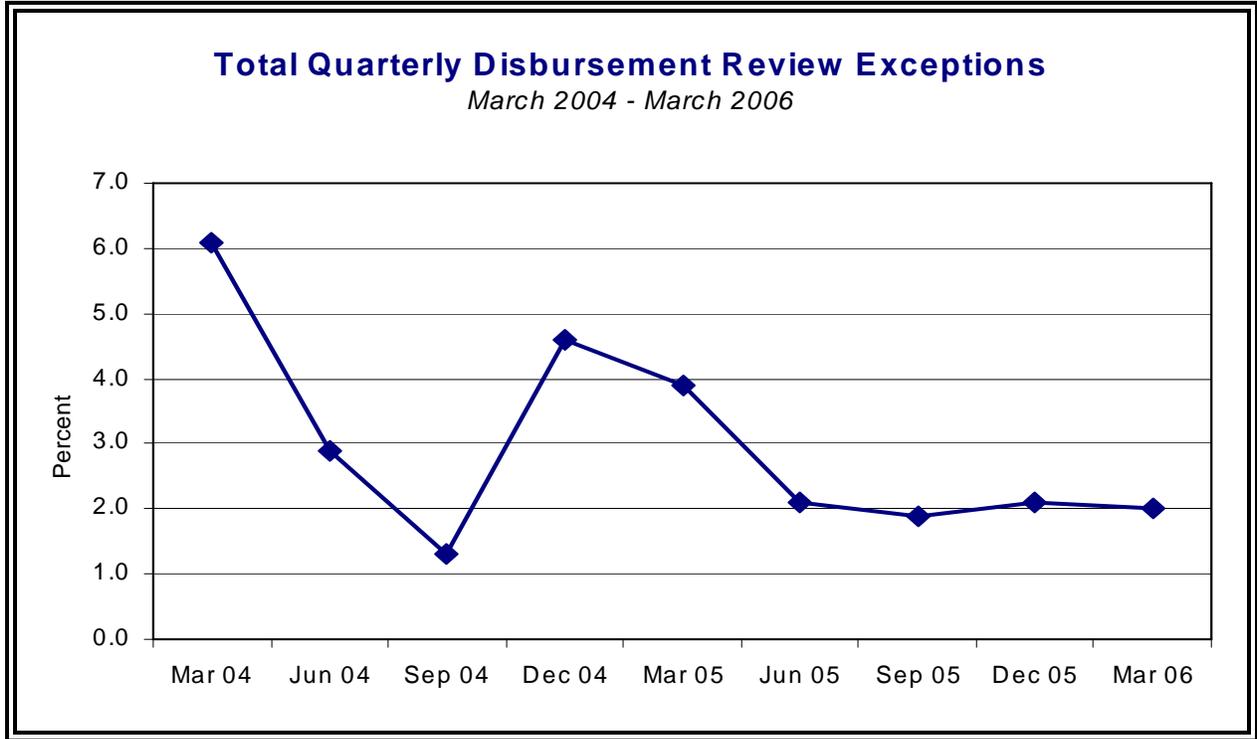
officers, for whom this additional safeguard is warranted.

During the quarter, DOA reviewed 165 non-decentralized agencies. A total of 1,435 non-travel disbursement batches and 292 travel disbursement batches were reviewed, disclosing 34 exceptions that were resolved prior to releasing the transactions for payment.



The following chart compares compliance findings as a percentage of total batches

reviewed among non-decentralized agencies, by quarter, for the past two years.



Prompt Payment Compliance

The Prompt Payment Act requires that State agencies and institutions pay for goods and services by the required payment due date. The reporting required by the *Code of Virginia* §2.2-4356 is being met by the information presented here. This section details the number and dollar amounts of late payments by secretarial area, institutions and

agencies, and the total amount of interest paid. Agencies and institutions that process 50 or more vendor payments during a quarter are reported as not meeting Prompt Pay requirements if fewer than 95 percent of their payments are processed by the required due date.

Statewide Prompt Payment Performance Statistics

	Quarter Ending March 31, 2006		Fiscal Year 2006 To-Date		Comparative Quarter Ended March 31, 2005	
	Late	Total	Late	Total	Late	Total
Number of Payments	6,393	541,316	20,354	1,757,093	8,557	627,565
Dollars (in thousands)	\$ 21,755	\$ 1,221,942	\$ 79,149	\$ 3,830,687	\$ 37,466	\$ 1,298,985
Interest Paid on Late Payments				\$ 14,978		
Current Quarter Percentage of Payments in compliance				98.8%		
Fiscal Year-to-Date Percentage of Payments in Compliance				98.8%		
Comparative Fiscal Year 2005 Percentage of Payments in Compliance				98.8%		



Prompt Payment Performance by Secretarial Area

Quarter Ended March 31, 2006

<u>Secretarial Area</u>	<u>Payments in Compliance</u>	<u>Dollars in Compliance</u>
Administration	99.7%	99.7%
Agriculture and Forestry	99.3%	99.4%
Commerce and Trade	98.9%	99.6%
Education*	98.5%	97.8%
Elected Officials	97.3%	87.2%
Finance	99.6%	97.8%
Health and Human Resources	99.1%	98.5%
Independent Agencies	98.9%	99.6%
Judicial	99.3%	99.8%
Legislative	99.3%	90.3%
Natural Resources	99.5%	99.6%
Public Safety	99.4%	99.5%
Technology	98.1%	98.9%
Transportation*	99.1%	96.6%
Statewide	98.8%	98.2%

Prompt Payment Performance by Secretarial Area

Fiscal Year 2006

<u>Secretarial Area</u>	<u>Payments in Compliance</u>	<u>Dollars in Compliance</u>
Administration	99.5%	98.7%
Agriculture and Forestry	99.3%	99.1%
Commerce and Trade	98.9%	99.4%
Education *	98.6%	97.3%
Elected Officials	98.6%	91.0%
Finance	98.6%	98.3%
Health and Human Resources	98.9%	97.6%
Independent Agencies	99.3%	99.3%
Judicial	99.4%	99.8%
Legislative	99.4%	95.2%
Natural Resources	99.4%	98.7%
Public Safety	99.3%	99.4%
Technology	97.7%	97.9%
Transportation*	99.1%	97.8%
Statewide	98.8%	97.9%

* Statistics include those provided independently by Virginia Port Authority, Virginia Polytechnic Institute and State University, University of Virginia, Radford University, James Madison University, Old Dominion University, Virginia Commonwealth University, George Mason University, the College of William and Mary in Virginia, The Virginia Institute of Marine Science, and the University of Mary Washington and may include local payments. These agencies and institutions are decentralized for vendor payment processing.

For the quarter ended March 31, 2006, the following agencies and institutions that processed more than 50 vendor payments

during the quarter were below the 95 percent prompt payment performance standard.

**Prompt Payment Compliance Rate
Agencies Below 95%**

Quarter Ended March 31, 2006

<u>Agency</u>	<u>Late Payments</u>	<u>Total Payments</u>	<u>Payments in Compliance</u>
Education			
Frontier Culture Museum of Virginia	18	275	93.5%
The College of William and Mary in VA	630	10,408	93.9%

For FY 2006, the following agencies and institutions that processed more than 200 vendor payments during the year were below

the 95 percent prompt payment performance standard.

**Prompt Payment Compliance Rate
Agencies Below 95%**

Fiscal Year 2006

<u>Agency</u>	<u>Late Payments</u>	<u>Total Payments</u>	<u>Payments in Compliance</u>
Education			
The Science Museum of Virginia	203	2,545	92.0%
Health and Human Resources			
Southwestern VA Mental Health Institute	403	4,287	90.6%



Prompt Payment Explanations

Explanations for low prompt payment compliance rates for the third quarter of FY 2006 and year-to-date were provided by the following agencies.

Frontier Culture Museum of Virginia reports personnel problems leading to termination of an employee. Employee was not turning in purchase orders or invoices in a timely manner. Upon termination, many additional unpaid invoices were found.

The College of William and Mary in VA reports one major department had employee turnover and subsequently, invoices were discovered and processed late.

The Science Museum of Virginia reports they did not meet prompt payment for the fiscal year-to-date due to a cash shortfall at the end of fiscal year 2005. Expenditures were deferred from fiscal year 2005 to fiscal year 2006 causing the Museum to process those expenditures past their due dates.

The Southwestern VA Mental Health Institute reports that they did not meet prompt payment due to funding issues and turnover in accounts payable personnel. These issues have now been corrected and the agency will strive to be above the prompt payment standard going forward.



E-Commerce

The primary goal of the Department of Accounts' electronic commerce initiative is to reduce the number of state issued checks by using more efficient electronic payment processes. Tools such as Financial Electronic Data Interchange (EDI), Payroll Direct Deposit, and the Small Purchase Charge Card (SPCC) are more reliable and cost effective than traditional paper checks. Electronic payments are also more secure because of the use of encryption devices and other security measures. In addition to these tools, the use of electronic earnings notices through the Payline Opt Out program further reduces paper processing and related costs.

EDI, Direct Deposit, SPCC and Payline Opt Out are best practices that demonstrate effective financial management, particularly during difficult economic times. They increase efficiency in processing and eliminate wasteful use of time, paper, printing, and postage for both large and small vendor payments, payroll, and employee travel reimbursement. Agencies and institutions are expected to embrace these practices to the fullest extent possible. On the following pages, agencies and institutions are identified if e-commerce statistics indicate that they are not fully utilizing these tools.

Statewide E-Commerce Performance Statistics

	Quarter Ended March 31, 2006			Comparative Quarter Ended March 31, 2005
	E-Commerce	Total	Percent	Percent
Number of Payments	670,561	1,052,749	63.7%	59.9%
Payment Amounts	\$ 6,025,401,013	\$ 6,835,358,563	88.2%	87.3%
	Fiscal Year 2006 To-Date			Comparative Fiscal Year 2005
	E-Commerce	Total	Percent	Percent
Number of Payments	1,960,330	3,101,003	63.2%	59.4%
Payment Amounts	\$ 18,452,272,353	\$ 21,030,728,587	87.7%	87.9%

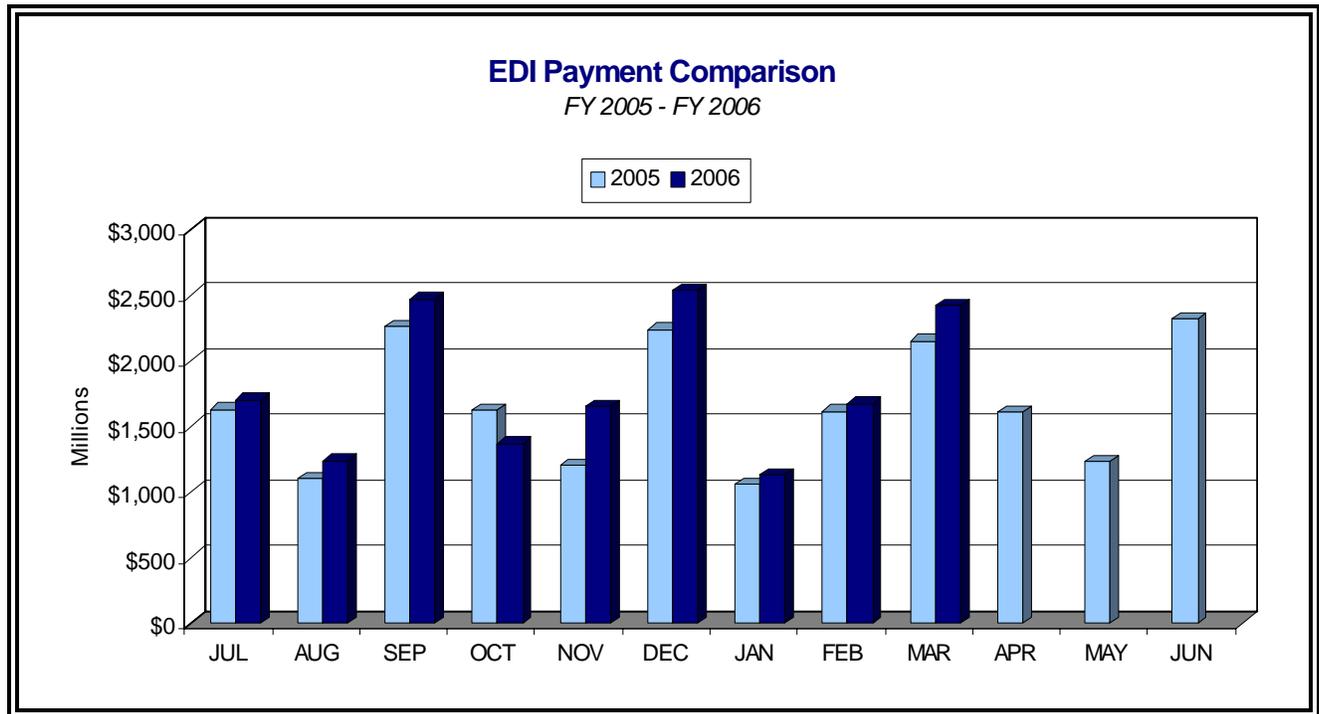
Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the third quarter of FY 2006 was \$404.6 million (8.4 percent) more than the same quarter last year. The number of trading partner accounts increased by 24 percent from

March 2005. The largest portion of this increase is due to efforts to convert state employee travel reimbursements from checks to electronic payments.

Financial EDI Activity

Financial EDI Activity	Quarter Ended March 31, 2006	Fiscal Year 2006 To-Date	Comparative FY 2005 To-Date
Number of Payments	44,184	137,765	125,733
Amount of Payments	\$ 5,228,879,865	\$ 16,201,941,752	\$ 14,884,937,506
Number of Invoices Paid	184,650	563,941	529,798
Estimated Number of Checks Avoided	72,785	226,024	212,669
Number of Trading Partner Accounts as of 3/31/06		34,930	28,128



Travel EDI

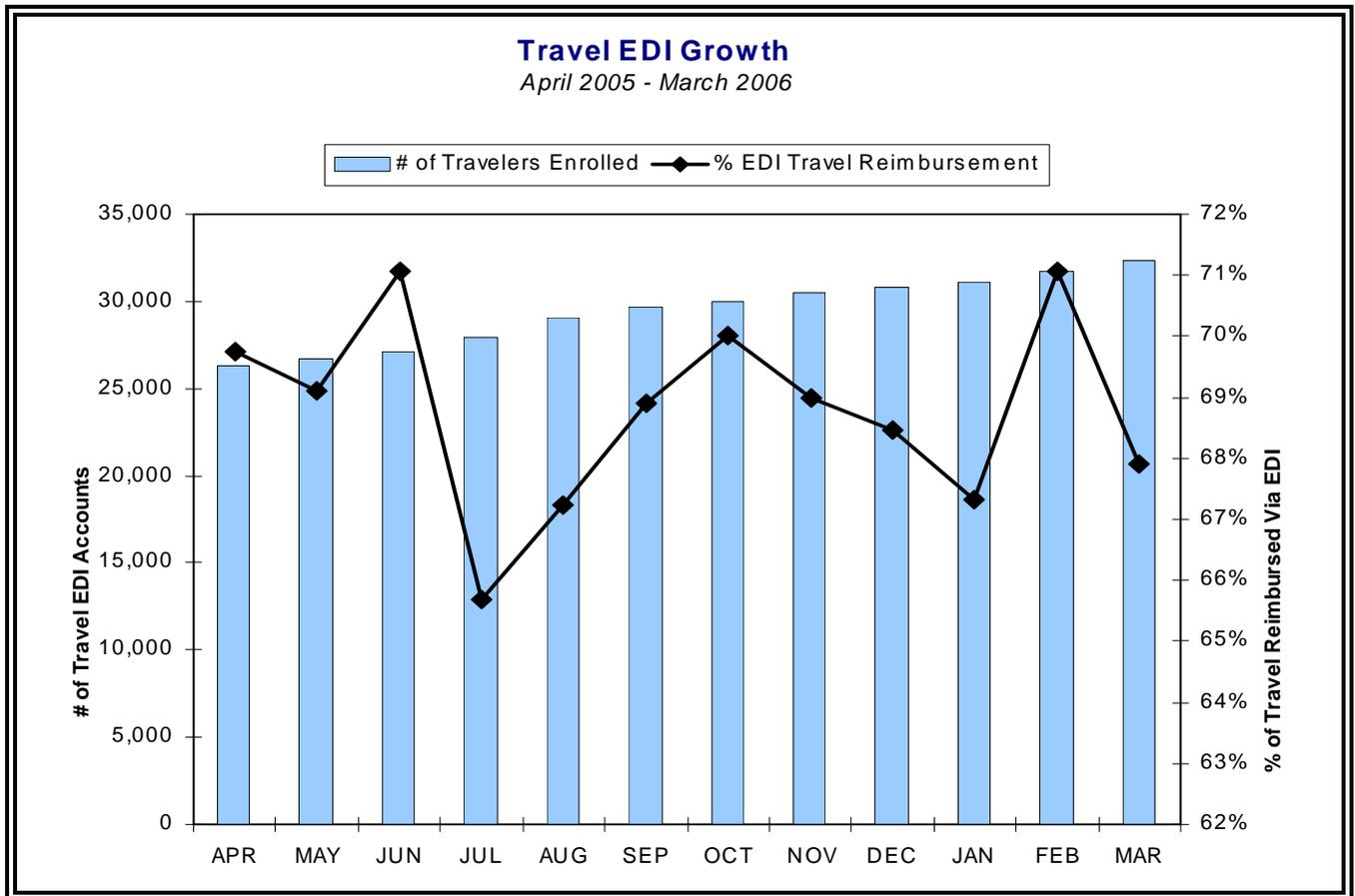
Expansion of the Travel EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI. DOA notified agencies of the requirement through a CARS broadcast screen and calls to the agencies that produce the largest number of travel reimbursement checks. Quarterly utilization statistics are provided to the EDI coordinators of each agency in an effort to increase the number of employees enrolled.

Although participation among certain agencies has increased, many agencies have

failed to enroll employees in EDI as required by law.

In accordance with Section 4-5.04g of the Appropriation Act, the Comptroller began charging agencies \$1 for each travel reimbursement check issued in lieu of Travel EDI beginning with the second quarter of FY 2004. Agencies are expected to take action to enroll applicable employees in the EDI program and thus avoid the fees altogether.

Agencies are highly encouraged to sign up board and commission members and other non-employees that receive travel reimbursements on a recurring basis.



The following table lists by secretarial area the percentage of travel reimbursements that were made via EDI versus the number of checks that were written for travel reimbursements during the quarter. *The*

statistics are shown for employees and non-employees. These statistics do not necessarily show non-compliance with the Appropriation Act requirements.

**Travel Reimbursement
Travel EDI Performance by Secretarial Area**
Quarter Ended March 31, 2006

Secretarial Area	Employee Percent	Non-Employee Percent	Reimbursement Checks Issued
Administration	78.9%	4.2%	57
Agriculture and Forestry	96.9%	5.3%	97
Commerce and Trade	95.3%	62.8%	185
Education*	78.9%	4.3%	1,920
Elected Officials	90.7%	0.0%	26
Finance	96.9%	42.9%	27
Health and Human Resources	87.6%	40.4%	1,436
Independent Agencies	91.5%	0.0%	102
Judicial	16.9%	4.5%	2,666
Legislative	76.9%	0.0%	152
Natural Resources	93.4%	0.0%	200
Public Safety	80.8%	4.3%	1,518
Technology	68.9%	0.0%	87
Transportation**	46.8%	36.1%	1,908
Statewide for Quarter	75.7%	17.9%	10,381
<i>Fiscal Year 2006 To-Date</i>			
Statewide	75.7%	17.0%	33,983
<i>Comparative Fiscal Year 2005 To-Date</i>			
Statewide	76.8%	14.1%	31,022

* Statistics do not include agencies and institutions decentralized for vendor payment processing.

** The Department of Transportation began processing Travel Reimbursements through CARS in FY 2006. Previously, the reimbursements were processed through petty cash.

The following table lists agencies with Employee EDI participation rates below 75 percent that issued more than 25 travel reimbursement checks during the quarter.

These statistics are informational only and **do not** necessarily indicate noncompliance with the Appropriation Act.

**Agency Employee EDI Performance
Utilization Below 75 Percent**

<u>Agency</u>	<u>Percent</u>	<u>Reimbursement Checks Issued</u>
Education		
Northern Virginia Community College	74.1%	45
Longwood University	70.5%	123
Danville Community College	69.7%	30
Lord Fairfax Community College	64.3%	30
Southside Virginia Community College	42.5%	65
Norfolk State University	42.0%	173
Health and Human Resources		
Department of Medical Assistance Services	70.0%	33
Department of Social Services	69.0%	230
Independent Agencies		
State Lottery Department	73.9%	40
Judicial		
Combined Courts	4.3%	223
Magistrate System	3.2%	209
Supreme Court	2.8%	278
Circuit Courts	1.4%	507
General District Courts	1.3%	295
Juvenile and Domestic Relations Courts	1.1%	267
Court of Appeals of Virginia	0.0%	36
Legislative		
House of Delegates	51.4%	121
Public Safety		
Department of Military Affairs	55.1%	31
Department of Fire Programs	42.1%	176
Technology		
Virginia Information Technologies Agency	69.2%	72
Transportation		
Department of Transportation*	36.9%	1,754

* The Department of Transportation began processing Travel Reimbursements through CARS on July 1, 2005. Prior to FY 2006, VDOT processed travel reimbursements through petty cash.

The following table lists agencies that issued more than 25 travel reimbursement checks during the quarter and had a Non-employee EDI participation rate below 10 percent.

These statistics are informational only. The expansion of EDI for Non-employees is a cost savings opportunity for the Commonwealth.

**Agency Non-Employee EDI Performance
Utilization Below 10 Percent**

<u>Agency</u>	<u>Percent</u>	<u>Reimbursement Checks Issued</u>
Agriculture and Forestry		
Department of Agriculture and Consumer Services	5.3%	71
Education		
State Council of Higher Education in Virginia	3.7%	26
Department of Education	0.3%	706
Longwood University	0.0%	52
Norfolk State University	0.0%	47
Virginia Military Institute	0.0%	26
Health and Human Resources		
Virginia Board for People with Disabilities	4.3%	45
Department of Rehabilitative Services	4.1%	47
Judicial		
Circuit Courts	6.1%	367
Juvenile and Domestic Relations Courts	4.3%	45
Virginia State Bar	0.0%	233
General District Courts	0.0%	47
Natural Resources		
Department of Conservation and Recreation	0.0%	28
Public Safety		
Department of Emergency Management	2.1%	186
Department of Fire Programs	1.3%	74
Department of Forensic Science	0.0%	175
Department of Criminal Justice Services	0.0%	36

The following table lists agencies that have accumulated more than \$25 in Employee EDI check charges for the Fiscal Year and have a utilization rate below 80 percent. Agencies are charged \$1 for each travel reimbursement check issued to an employee after their

second check of the Fiscal Year. These statistics indicate noncompliance with §4-5.04.f.5 of the Appropriation Act which requires that all employees likely to travel more than twice per year be reimbursed for travel costs using electronic data interchange.

**Agency NonCompliance Travel Check Charges
Utilization Below 80 Percent**

Agency	Percent	Year-to-date Charges
Education		
Norfolk State University	42.0%	\$ 119
Longwood University	70.5%	88
Southside Virginia Community College	42.5%	63
Danville Community College	69.7%	28
Health and Human Resources		
Department of Social Services	69.0%	287
Department of Medical Assistance Services	70.0%	49
Department for the Blind and Vision Impaired	76.4%	49
Judicial		
Circuit Courts	1.4%	1,289
General District Courts	1.3%	550
Juvenile and Domestic Relations Courts	1.1%	499
Combined Courts	4.3%	449
Magistrate System	3.2%	393
Supreme Court	2.8%	318
Court of Appeals of Virginia	0.0%	59
Virginia Criminal Sentencing Commission	0.0%	31
Legislative		
House of Delegates	51.4%	50
Public Safety		
Department of Fire Programs	42.1%	210
Department of Emergency Management	77.9%	46
Virginia Correctional Enterprises	76.7%	34
Department of Military Affairs	55.1%	27
Technology		
Virginia Information Technologies Agency	69.2%	43
Transportation		
Department of Transportation	36.9%	1,032



Direct Deposit

During the third quarter of FY 2006, 364,472 checks were avoided using direct deposit. Agencies are expected to take proactive steps

to improve participation rates, particularly for wage employees.

Direct Deposit Performance by Secretarial Area

Quarter Ended March 31, 2006

<u>Secretarial Area</u>	<u>Direct Deposit % of Salaried Employees</u>	<u>Direct Deposit % of Wage Employees</u>
Administration	92.2%	66.3%
Agriculture and Forestry	93.5%	26.0%
Commerce and Trade	97.1%	92.7%
Education	97.0%	53.5%
Executive Offices	97.0%	53.3%
Finance	95.3%	68.8%
Health and Human Resources	87.7%	78.7%
Independent Agencies	95.9%	87.9%
Judicial	95.5%	55.0%
Legislative	96.4%	75.4%
Natural Resources	96.7%	63.4%
Public Safety	88.5%	76.8%
Technology	96.0%	85.7%
Transportation	90.1%	72.3%
Statewide	91.3%	60.7%
<i>Comparative</i>		
<i>Quarter Ended March 31, 2005</i>		
Statewide	89.1%	55.1%

Statewide Salaried Direct Deposit Performance

Quarter Ended March 31, 2006

Salaried Direct Deposit Participation	91.3%
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Salaried Direct Deposit Below 85 Percent

<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
<i>Health and Human Resources</i>		
Southwestern Virginia Mental Health Institute	84.4%	520
Western State Hospital	83.8%	709
Southern Virginia Mental Health Institute	83.4%	163
Commonwealth Center for Children and Adolescents	82.6%	138
Southside Virginia Training Center	80.7%	1,339
Piedmont Geriatric Hospital	68.5%	330
Central Virginia Training Center	64.6%	1,488
<i>Public Safety</i>		
Virginia Correctional Enterprises	84.4%	173
Eastern Region Correctional Field Units	84.3%	134
Buckingham Correctional Center	83.7%	362
Fluvanna Women's Correctional Center	83.4%	344
Coffeewood Correctional Center	83.3%	263
Augusta Correctional Center	81.7%	398
Lunenburg Correctional Center	81.3%	256
Mecklenburg Correctional Center	80.7%	394
Bland Correctional Center	80.7%	295
Powhatan Correctional Center	79.9%	339
Greensville Correctional Center	79.5%	831
Brunswick Correctional Center	79.5%	385
Nottoway Correctional Center	76.6%	475
Dillwyn Correctional Center	68.1%	260
<i>Transportation</i>		
Department of Transportation - Bristol	84.1%	925
Department of Transportation - Culpeper	82.9%	596

Note: The threshold for salaried direct deposit reporting was raised to 85% effective January 2006.

Statewide Wage Direct Deposit Performance

Quarter Ended March 31, 2006

Wage Direct Deposit Participation	60.7%
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Wage Direct Deposit Below 40 Percent

Agency	Percent	Number of Employees
<i>Agriculture and Forestry</i>		
Department of Forestry	13.7%	204
<i>Education</i>		
Paul D. Camp Community College	38.9%	167
Mountain Empire Community College	38.5%	130
Wytheville Community College	38.4%	138
Gunston Hall	31.3%	16
Lord Fairfax Community College	27.6%	290
Radford University	16.0%	1,756
Rappahannock Community College	15.8%	95
Southside Virginia Community College	14.7%	292
Virginia Highlands Community College	9.9%	232
Longwood University	7.8%	682
<i>Executive</i>		
Selected Agency Support	7.7%	13
<i>Health and Human Resources</i>		
Central Virginia Training Center	29.0%	93

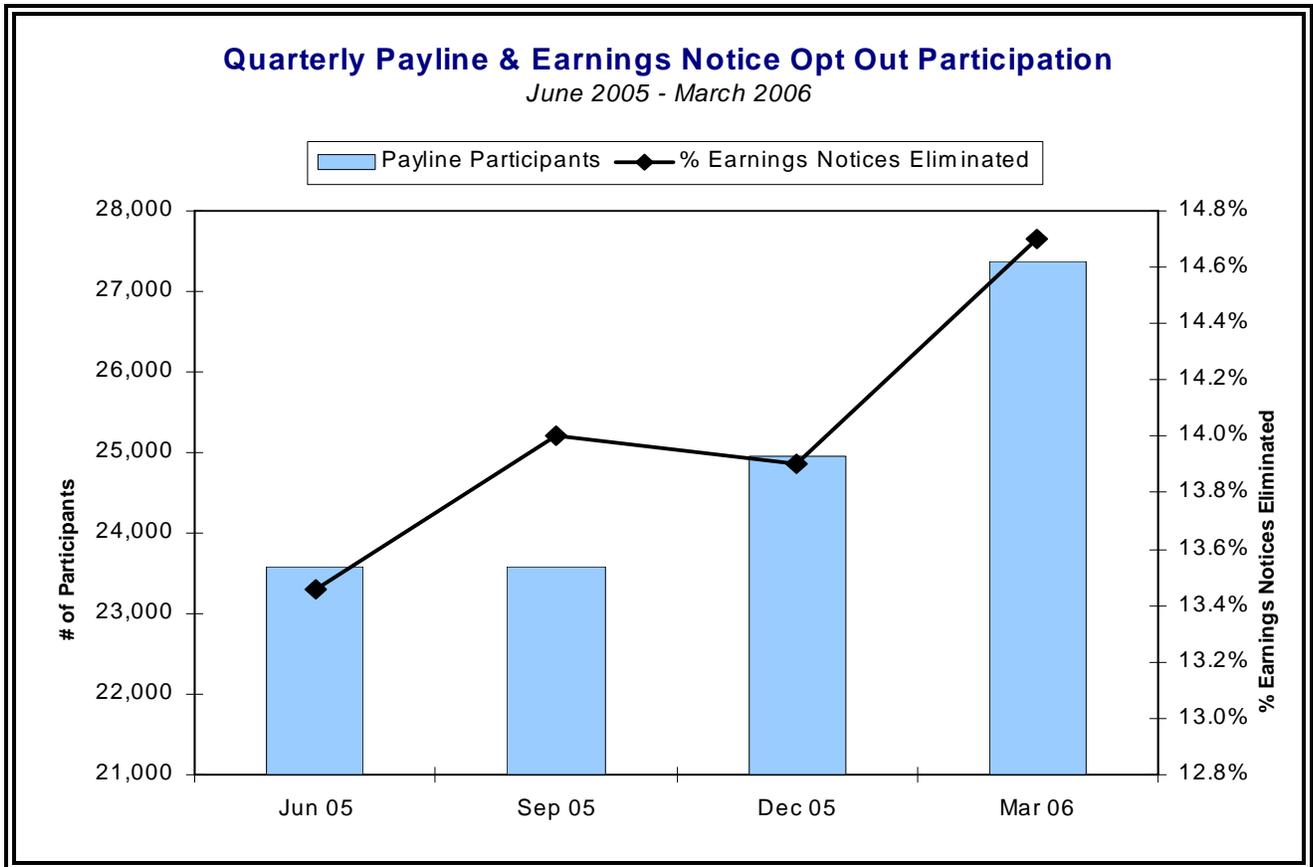


Payroll Earnings Notices

Elimination of earnings notices associated with direct deposit is an additional method for increasing the benefits of electronic payments. Employees are currently able to obtain enhanced information online using the web-based Payline system.

In addition to increasing direct deposit participation, agencies and institutions are

expected to encourage employees to enroll in Payline and discontinue receipt of centrally printed earnings notices. Since inception in November 2002, the Commonwealth has eliminated the printing of approximately 681,290 earnings notices. However, statewide participation rates remain low.



The following table lists participation among all statewide employees in Payline and the Opt-Out initiative by secretarial area.

**Payline and Earnings Notice Opt-Out Participation
by Secretarial Area**

Quarter Ended March 31, 2006

Secretarial Area	Percent Payline Participation	Percent Earnings Notices Eliminated*
Administration	52.0%	31.0%
Agriculture and Forestry	19.6%	10.0%
Commerce and Trade	73.4%	52.1%
Education	25.4%	11.3%
Executive Offices	64.0%	58.3%
Finance	72.8%	49.8%
Health and Human Resources	31.4%	13.8%
Independent Agencies	43.9%	30.7%
Judicial	7.2%	2.2%
Legislative	36.5%	30.5%
Natural Resources	49.6%	35.9%
Public Safety	23.8%	9.5%
Technology	80.1%	48.2%
Transportation	30.9%	11.9%
Statewide	30.2%	14.7%
<i>Comparative</i>		
<i>Quarter Ended March 31, 2005</i>		
Statewide	26.1%	12.8%

* Employees must participate in Direct Deposit and Payline in order to opt out of receiving centrally printed earnings notices.

Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Listed below are agencies where less than four percent of earnings notices have been eliminated by employees on direct deposit.

Only agencies and institutions with more than 25 employees are included in this report.

**Payline Earnings Notice Elimination
Under 4 Percent**

Quarter Ended March 31, 2006

<u>Agency</u>	<u>Percent Earnings Notices Eliminated</u>	<u>Earnings Notices Printed for 03/31/06 Payday</u>
<i>Agriculture and Forestry</i>		
Department of Forestry	3.1%	286
<i>Education</i>		
Piedmont Virginia Community College	3.6%	232
Virginia Highlands Community College	3.3%	120
Central Virginia Community College	3.3%	171
Thomas Nelson Community College	3.2%	525
Rappahannock Community College	2.9%	103
Norfolk State University	2.6%	1,836
Virginia School for the Deaf, Blind and Multi-Disabled at Hampton	1.6%	141
Northern Virginia Community College	1.5%	1,981
Radford University	1.4%	1,311
Christopher Newport University	1.2%	1,955
<i>Health and Human Resources</i>		
Northern Virginia Training Center	3.1%	491
Piedmont Geriatric Hospital	2.9%	247
Central Virginia Training Center	2.0%	952
<i>Judicial</i>		
Virginia State Bar	2.2%	87
Indigent Defense Commission	2.0%	450
Combined District Courts	1.8%	192
Court of Appeals of Virginia	1.3%	69
Magistrate System	1.2%	390
Juvenile and Domestic Relations District Courts	1.0%	587
General District Courts	1.0%	933
Circuit Courts	0.0%	176
<i>Legislative</i>		
Division of Capital Police	1.1%	89

**Payline Earnings Notice Elimination
Under 4 Percent**

(continued)

Quarter Ended March 31, 2006

<u>Agency</u>	<u>Percent Earnings Notices Eliminated</u>	<u>Earnings Notices Printed for 03/31/06 Payday</u>
<i>Public Safety</i>		
Fluvanna Women's Correctional Center		
Department of Juvenile Justice	3.7%	1,995
Dillwyn Correctional Center		
Wallens Ridge State Prison		
Lunenburg Correctional Center	3.1%	203
Haynesville Correctional Center	3.0%	305
Southampton Correctional Center	3.2%	275
Keen Mountain Correctional Center	2.7%	270
Division of Community Corrections	3.0%	1,228
Department of Fire Programs	3.0%	67
Virginia Correctional Enterprises		
Bland Correctional Center	3.0%	227
Western Region Correctional Field Units	0.0%	10
Powhatan Correctional Center		
Brunswick Correctional Center	1.0%	302
Greensville Correctional Center	1.2%	651
Nottoway Correctional Center	0.8%	359
Powhatan Reception and Classification Center	1.6%	105
Deerfield Correctional Center	0.5%	174
<i>Transportation</i>		
Department of Transportation - Hourly	1.9%	607



Small Purchase Charge Card (SPCC) and Increased Limit (Gold) Card

Two purchasing charge card programs offer State agencies and institutions alternative payment methods that improve administrative efficiency by consolidating invoice and payment processing for purchases of less than \$50,000. Use of the purchasing charge cards decreases the number of checks issued and the associated administrative costs of processing invoices. Suppliers benefit from expedited receipt of payments and reduced billing costs.

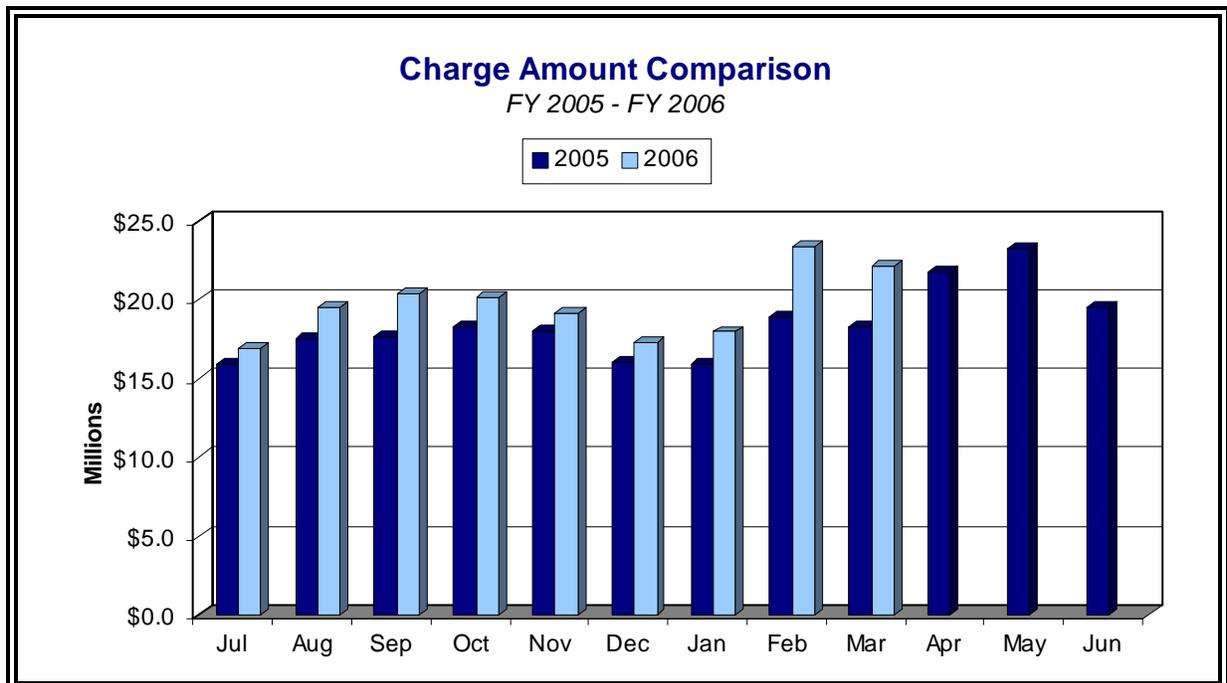
The Small Purchase Charge Card continues to be used for purchases under \$5,000. Agencies are strongly encouraged to obtain a Gold Card for use by a procurement professional for purchases in the \$5,000 to \$50,000 range.

The total amount charged on SPCC and Gold cards during the third quarter of FY 2006 increased by \$10.5 million or 19.8 percent from the same quarter last year.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended March 31, 2006	Fiscal Year 2006 To-Date	Comparative Fiscal Year 2005 To-Date
Amount of Charges	\$ 63,550,455	\$ 177,210,916	\$ 156,479,596
Estimated Number of Checks Avoided	158,615	416,972	373,967
Total Number of Participating Agencies		203	198
Total Number of Cards Outstanding		13,931	9,893

The following chart compares charge activity for FY 2006 to activity for FY 2005:



SPCC Utilization Compliance

Maximum use of the SPCC program, in conjunction with other e-commerce initiatives, is essential to the statewide effort to reduce the costs associated with paying for goods and services for the Commonwealth. Agencies that have a Gold card and are not utilizing the Gold card to the fullest extent will also be identified in future issues of this *Quarterly Report*.

Charge card utilization by secretarial area and agency underutilization for this quarter will not be reported as additional analysis has been deemed necessary regarding payments made through CARS instead of placed on the

purchase card. Agencies whose utilization is found to fall significantly under the Statewide average will be contacted individually to discuss compliance issues. Utilization statistics will be reflected in the FY06 4th quarter report. All payments processed through CARS and not placed on the purchase card will be matched against GE MasterCard's vendor base in excess of 25 million merchants.

Each agency can request a report identifying payments to participating suppliers which should have been paid by the SPCC, by emailing cca@doa.virginia.gov.



SPCC Payment Compliance

Agencies and institutions participating in the SPCC program were required to submit American Express payments via EDI by the 14th of each month. The criteria for Payment compliance was changed effective October 1, 2005. Agencies are now required to submit GE MasterCard payments via EDI by the 8th of each month. Failure to pay the correct amount when due jeopardizes the Commonwealth's contractual relationship with the purchasing card vendor and may result in suspension of an agency's charge card program. Any agency that pays their bill late by more than two (2) days is reported.

Agencies are credited under prompt payment reporting for timely payment of each purchasing charge card transaction. Effective July 1, 2006, if an agency is late paying their purchasing card bill, agency prompt payment statistics will be adjusted downward to reflect each charge card transaction paid in the consolidated monthly bill as a late payment.

The following chart lists agencies more than two days late in submitting their payments.

Agency Name	Jan	Feb	Mar
Administration			
Human Rights Council		X	
Commerce and Trade			
Dept. of Professional & Occupational Reg.		X	
Education			
Central Virginia Community College			X
Eastern Shore Community College	X		
Frontier Culture Museum of Virginia	X		
George Mason University	X	X	X
Gunston Hall	X		
James Madison University		X	
Longwood University	X		X
Norfolk State University	X	X	
Old Dominion University	X	X	
Piedmont Virginia Community College	X		
Science Museum of Virginia		X	X
Southwest Virginia Community College	X		
Thomas Nelson Community College	X		
Tidewater Community College	X		
University of Virginia	X		
Virginia Community College System	X		
Virginia Military Institute	X		
Virginia State University		X	

(continued)

Agency Name	Jan	Feb	Mar
Executive			
Selected Agency Support	X	X	
Health and Human Resources			
Central Virginia Training Center	X	X	
Department of Rehabilitative Services - FRS	X	X	X
Department of Social Services	X		
Piedmont Geriatric Hospital		X	
Southwestern Virginia Mental Health Institute	X		
Virginia Board for People With Disabilities		X	X
Independent			
State Lottery Department			X
Legislative			
Division of Legislative Automated Systems	X		
Joint Legislative Audit & Review Comm.	X		
Virginia House of Delegates	X		
Public Safety			
Commonwealth's Attorneys' Services Council	X		
Department of Criminal Justice Services	X		
Department of Military Affairs	X	X	X
Greenville Correctional Center	X		
Lunenburg Correctional Center	X	X	
Sussex I State Prison	X		
Technology			
Virginia Information Technologies Agency	X	X	X
Transportation			
Virginia Dept. of Transportation - Suffolk	X		



Travel Charge Card

The Commonwealth of Virginia has contracted with GE to provide employees with a means of charging reimbursable travel and related expenses while conducting official state business. Unlike the SPCC program, in which the agency directly receives and pays a summarized bill for all cardholders, each cardholder is personally responsible for all charges placed on the travel card and for paying the bill on time.

- 31 - 60 days past due – charging privileges are temporarily suspended until balance is paid.
- 61 - 90 days past due – the account is permanently closed. Cardholder is no longer eligible to participate in the program.

One of the major concerns under this program is the timely payment of card statements. Delinquent accounts result in higher costs to the contractor and ultimately threaten the viability of the Commonwealth’s travel charge card program. The contract provides for the following actions on delinquent accounts:

- 30 days past due – noted on statement, letter sent to the cardholder.

The following table identifies the number of delinquent card accounts with GE MasterCard by agency during the quarter ended March 31, 2006, and the total amounts past due. Delinquencies are not being reported for the American Express cards since all cards are cancelled. Agencies with delinquent American Express cards have been notified and should communicate to the delinquent cardholder the expectation for immediate payment. Should the cardholder remain delinquent the following month and is a GE mastercard cardholder, the GE card should be cancelled without alternate travel advance privileges.

Travel Charge Card Program

As of March 31, 2006

<u>Agency</u>	<u>Total Delinquent Accounts</u>	<u>Amounts 60 Days Past Due</u>	<u>Amounts 90-120 Days Past Due</u>	<u>Amounts >150 Days Past Due</u>
Education				
University of Virginia	1	\$ 0	\$ 209	\$ 0
Norfolk State University	1	0	41	0
Longwood University	1	3,849	0	0
Mary Washington College	1	0	1,230	0

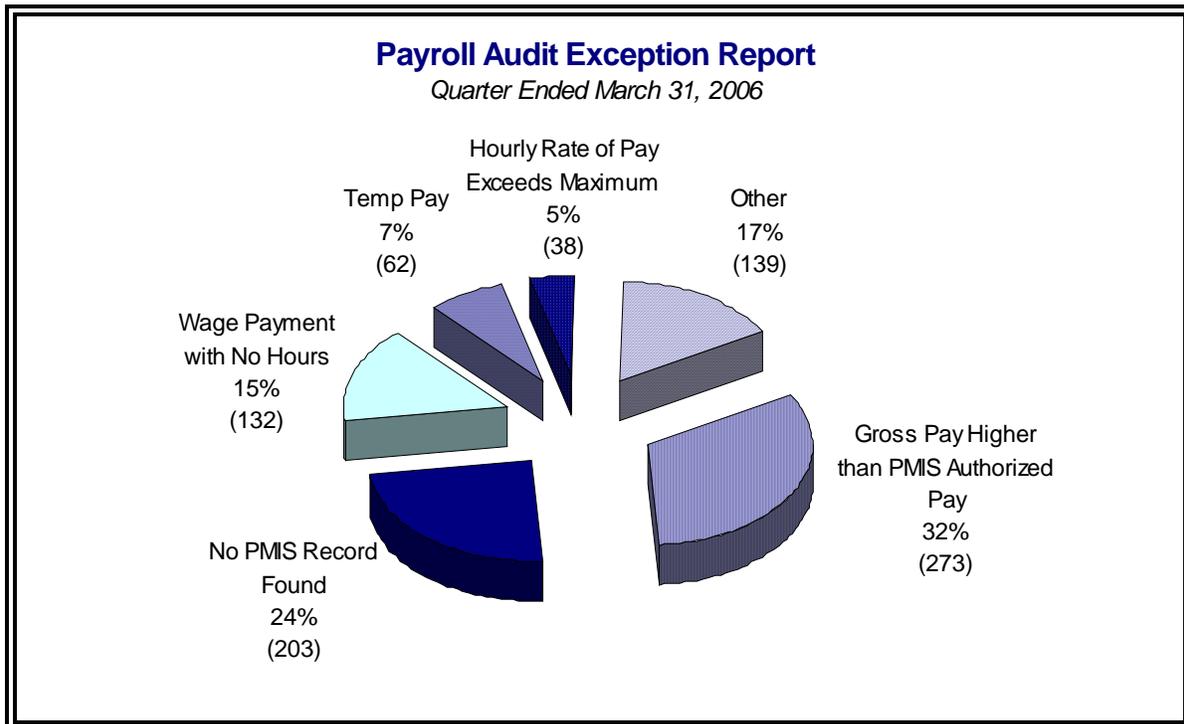
Payroll Controls

PMIS/CIPPS Payroll Audit

During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 428,184 salaried pay transactions and 214,338 wage pay transactions. The comparison is performed following each payday and is designed to identify discrepancies between authorized salary/wage amounts in PMIS and amounts paid in CIPPS. There were 2,774 new exceptions noted statewide during the quarter, with an overall exception rate of 0.46 percent.

The statewide salaried payroll exception rate was 0.63 percent and the wage payroll exception rate was 0.12 percent. During this quarter, 56 employee paychecks were reduced to recover \$17,323.84 in overpayments.

While the largest cause of exceptions is the result of agency failure to complete the salary increase authorization process by updating PMIS salary amounts *prior* to paying the increased salary amount in CIPPS, the second largest cause of exceptions is related to timing differences in payroll and PMIS processing due to transfers. The PMIS authorization is an important internal control over payroll processing. Such exceptions can largely be avoided through timely PMIS data entry by agency Human Resource staff. Although segregation of these Human Resource and Payroll functions is an effective internal control, coordination and communication between agency Human Resource and Payroll staffs is essential.



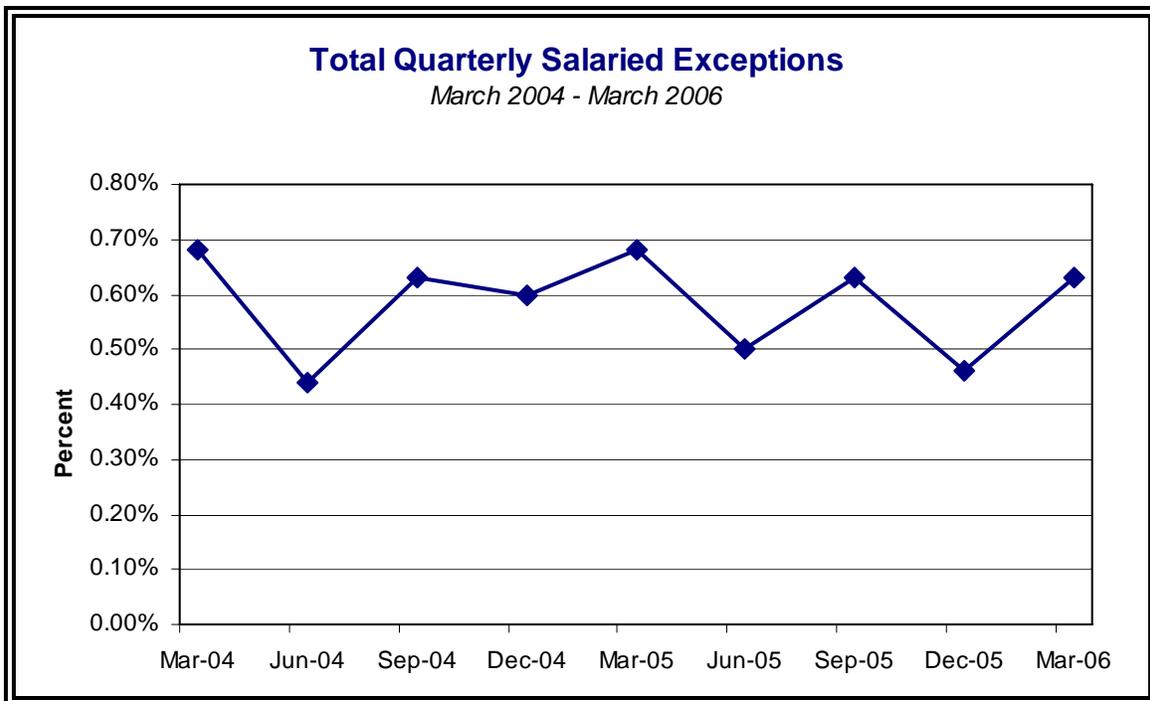
Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Agencies are reported below if the percentage

of payroll exceptions to salaried or wage payments exceeds three times the statewide average for the quarter.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Salaried Payments
Quarter Ended March 31, 2006

Agency	Exceptions as a % of Salaried Payments
Selected Agency Support	6.57%
Total Salaried Payroll Exceptions for the Quarter	0.63%

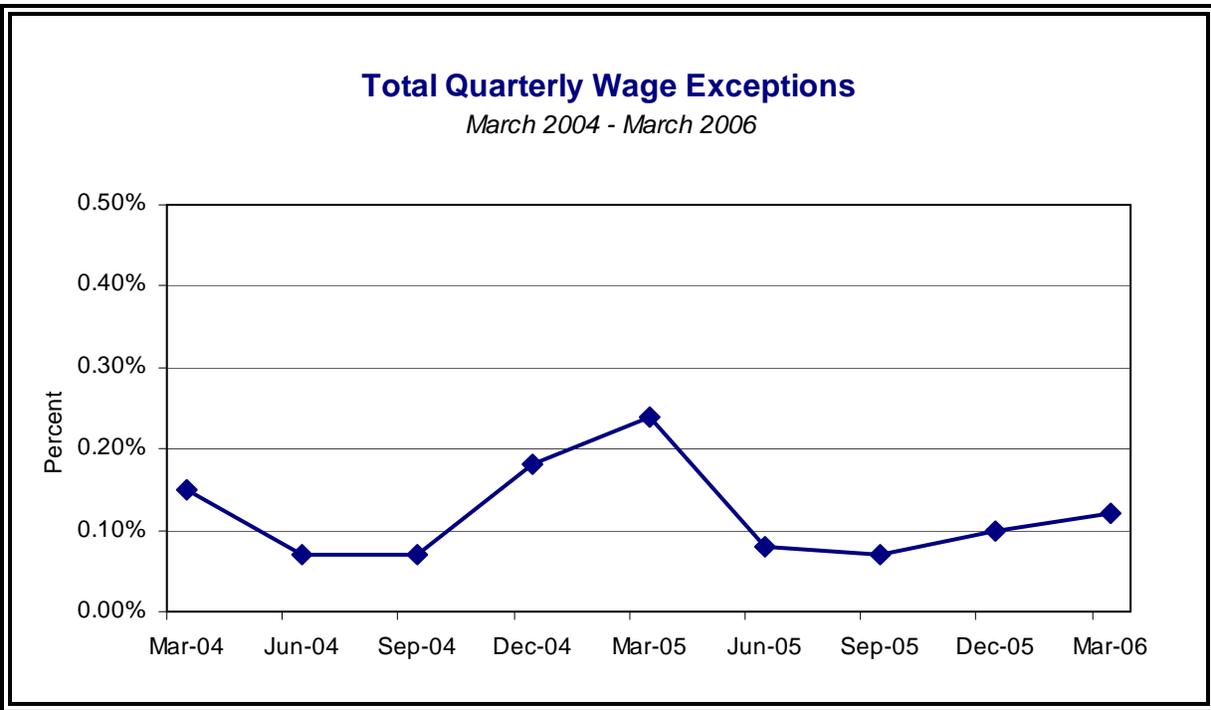
The following chart compares payroll exceptions as a percentage of salaried payments by quarter for the past two years.



Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended March 31, 2006

Agency	Exceptions as a % of Salaried Payments
Department of Motor Vehicles	2.84%
Department of Social Services	5.24%
Department of Veterans Services	10.00%
Wage Payroll Exceptions for the Quarter	0.12%

The following chart compares payroll exceptions as a percentage of wage payments by quarter for the past two years.



Note: Increase in second and third quarters of FY 2005 resulted from change in class codes in PMIS, but not in CIPPS.



PMIS/CIPPS Exceptions

Agencies are required to submit explanations and/or reconciliations for the differences identified on the CIPPS/PMIS Unresolved Exceptions Report, within six weeks of

notification. The following table lists those agencies having exceptions that remain unresolved six weeks after receipt of the report.

<u>Agency</u>	<u>Unresolved Exceptions</u>
No unresolved exceptions	



Payroll Certification

Agencies are required to calculate, verify, and authorize the amount to be disbursed for each payroll. This responsibility can be met through the timely preparation of agency payrolls, request and review of automated edit reports, and correction of errors prior to requesting actual payroll runs which result in payroll disbursements. This process is referred to as "payroll certification." Payroll certification serves as a critical internal control to ensure payroll disbursements are accurate and authorized. Agency payroll certifications are monitored centrally to ensure that agencies conduct this important function.

Differences between the amount calculated by the payroll system based on agency input and the amount certified by the agency to be disbursed based on edit reports are identified in automated reports provided to agencies. Agencies are required to submit explanations and/or reconciliations of the differences identified on this report by the end of the day following receipt of the report. Differences result from agency payroll errors, miscalculations, online certification data entry errors, and inappropriately high volumes of changes following certification. Although differences do not result in undetected

incorrect payments, such errors are avoidable and are not consistent with sound internal control over payroll.

Since timely certification is also essential, authorized and trained staff, as well as telecommunications access and computer terminals, must be available at all times. Reliable back-up plans are necessary should any of these resources be unavailable on a critical payroll processing date due to emergency or other circumstances.

Agencies are required to enter applicable payroll certification requests into the payroll system by 3:30 p.m. daily to ensure sufficient time is available for central review by DOA staff to validate certification entries, a critical compensating control. Late entries, either initial or correcting, make certification review more difficult or impossible. When a data entry error is detected during the review process, DOA must make corrections to avoid inaccurate payroll disbursements and/or voluminous and costly corrective action.

The table on the following page lists agencies and institutions that have failed to comply with one or more of the requirements for accurate and timely payroll certification.

Payroll Certification Compliance

<u>Agency</u>	<u>Variance Amount (a)</u>	<u>Performed by DOA (b)</u>	<u>Submitted Late (c)</u>	<u>Corrected by DOA (d)</u>
Administration				
Department of Veterans Services		1		
Agriculture and Forestry				
Department of Forestry	\$ 35,893			
Executive				
Selected Agency Support			3	
Education				
Blue Ridge Community College		1		
Christopher Newport University		1		
Norfolk State University			2	
Patrick Henry Community College	52,296			
Piedmont Virginia Community College		1		
Radford University	2,149,085			
Southern Virginia Center for Higher Education		1		
Independent Agencies				
Virginia College Savings Plan			2	
Public Safety				
Division of Community Corrections	737,653			
Transportation				
Department of Motor Vehicles	39,902			
Department of Transportation - Hourly		1		

Columns show the following:

- (a) Variance in dollars for agencies whose certified amounts varied from actual computed amounts by more than \$20,000 for any payrolls processed during the quarter.
- (b) The number of times DOA had to perform the certification function for the agency due to inadequate agency back-up.
- (c) The number of certifications that were submitted or altered later than the daily deadline.
- (d) The number of times DOA made corrections to agency certifications during the quarter.

Health Care Reconciliations

Employee health care fringe benefits costs are covered by a combination of agency paid and employee-paid premiums. Agencies are required to return a *Certification of Automated Health Care Reconciliations* form to DOA by the close of the month following the month of coverage. This reconciliation annotates differences between health care eligibility records (BES) and health care premium payments collected through payroll deduction.

The following table lists those agencies that were late in submitting their certification or had problems requiring additional adjustments. Such problems may include incomplete or incorrect documents or required IAT's not submitted to DOA. Health care reconciliations for the months of December, January and February were due 01/31/06, 02/28/06 and 03/31/06 respectively.

Schedule of Health Care Reconciliations Received Late

	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>
Southside Virginia Community College	X		
St. Brides Correctional Center		X	



FINANCIAL MANAGEMENT ACTIVITY

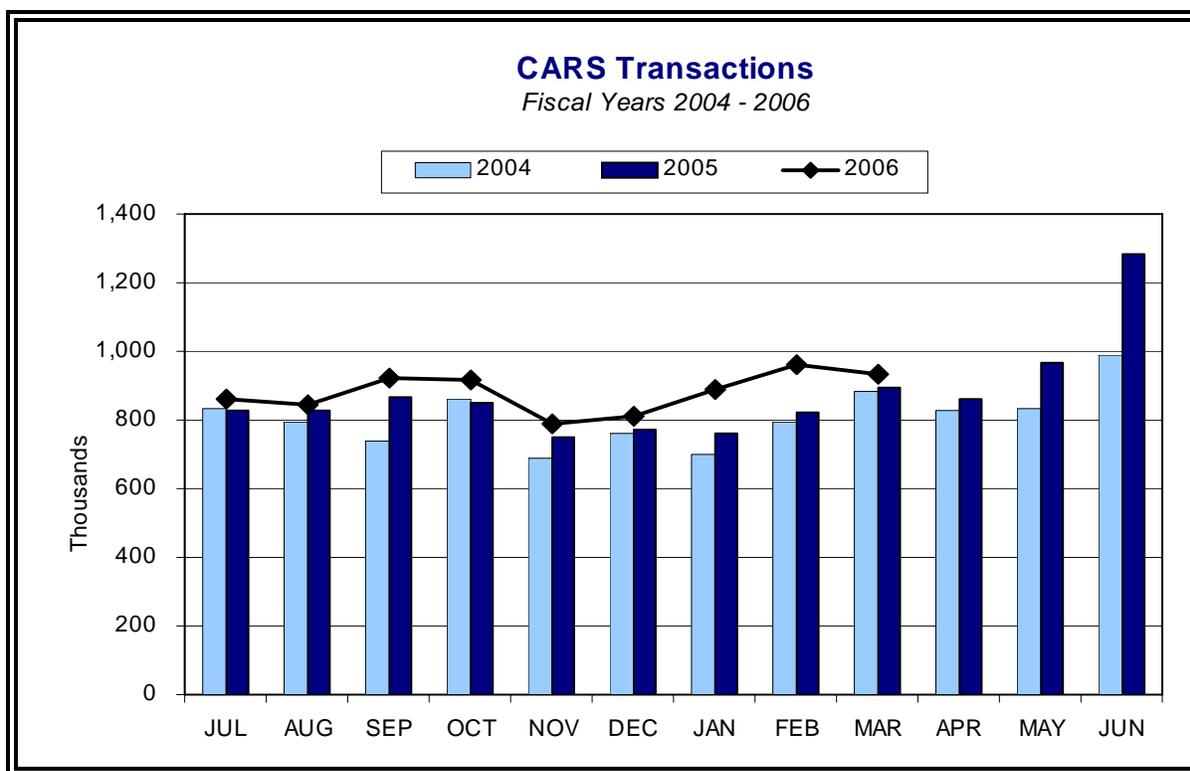
DOA monitors several types of financial activity. Various measures are used to track activities for CARS, payroll, accounts

receivable, indirect cost recoveries, treasury loans, and Fixed Asset Accounting and Control System (FAACS).

Commonwealth Accounting and Reporting System (CARS)

CARS activity trends provide important information about statewide accounting. Currently, measures are used to track CARS transactions and error counts. A marked

increase or decrease in the number of CARS transactions may indicate that an agency has changed the way it accounts for an activity. Such change may require DOA review.

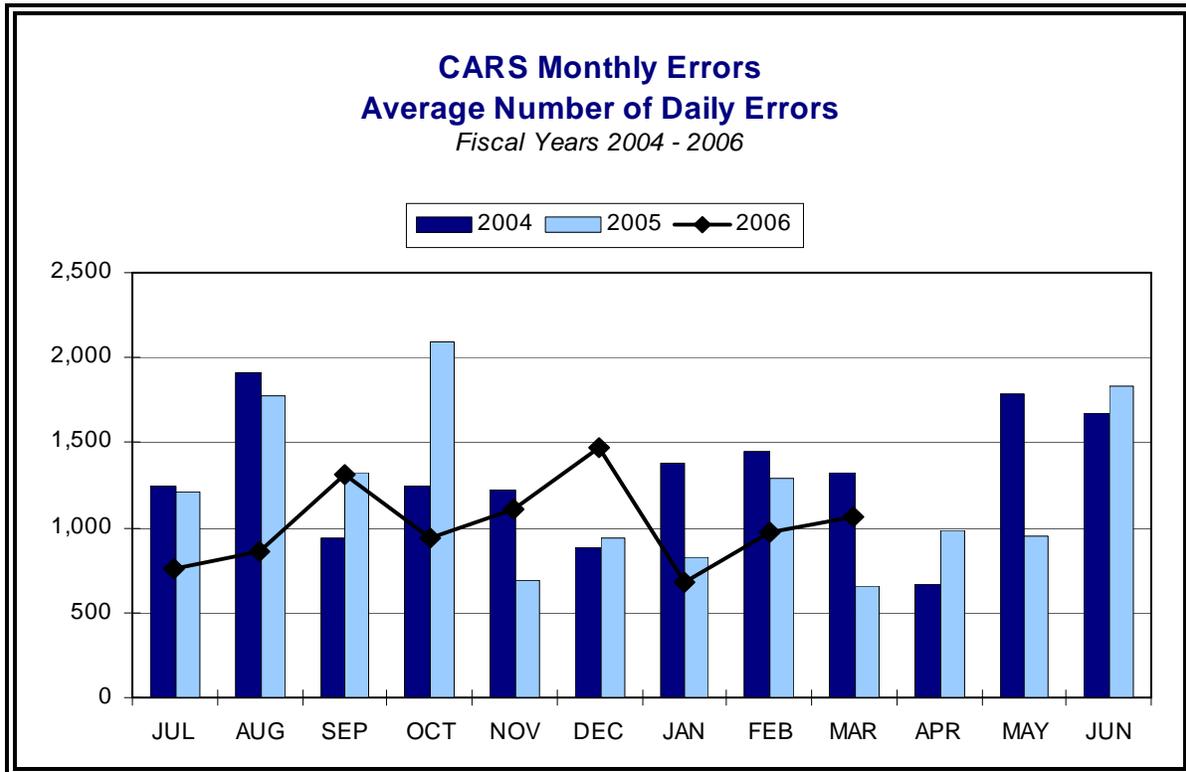


CARS Edits

One of the most important management tools used by DOA is the monitoring of CARS errors generated by standard system edits. Batches remain on the error file until problems are resolved, which, for disbursement transactions, can lead to noncompliance with prompt payment standards and poor vendor relations. During the third quarter of FY 2006, the most frequent reasons cited for transactions processing to the error file were:

Agencies may avoid such errors by more closely monitoring cash and allotment balances. Sound agency cash management practices should be developed to ensure transactions are not submitted to CARS when funding is not available. Agencies should develop procedures to ensure certified amounts are calculated properly.

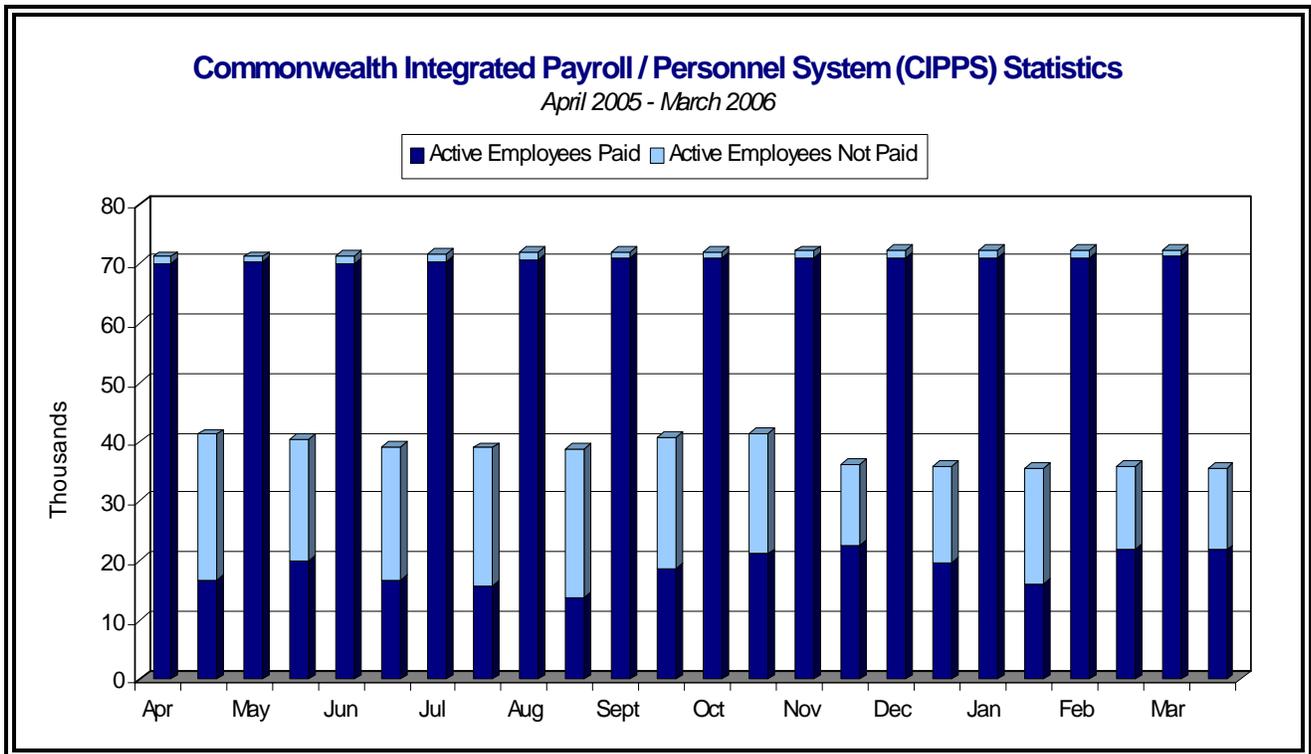
- Available Cash Negative
- Expenditure Exceed Allotment
- Certified Amounts Not Balanced



Payroll

The central payroll system for State government is known as *CIPPS*, the Commonwealth Integrated Payroll Personnel System. CIPPS is one of the largest payroll operations in the Commonwealth, serving 108,044 employees. Payroll services are also provided through eight decentralized higher education institutions.

Total gross payrolls for the Commonwealth were approximately \$424 million each month of the quarter. On average, 91,148 employees were paid each month, of which 71,194 are salary employees.



Note: The first bar for each month represents salaried employees, and the next bar represents wage employees. Not all active employees are paid on a current basis. Examples would include employees on extended leave without pay and adjunct faculty not teaching during the current semester.

Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Benefit Participation by CIPPS Agencies

The Commonwealth offers a variety of benefits to state employees, including health care, optional retirement plans, deferred compensation, and flexible reimbursement

programs. During the quarter, state employees purchased 11,942 savings bonds with a face value of over \$1.55 million.

Benefit Participation Number of Participating Employees

<u>Benefit</u>	<u>As of 3/31/2006</u>	<u>Comparative</u>	
		<u>As of 3/31/2005</u>	<u>As of 3/31/2004</u>
Health Care			
COVA Care	82,055	80,564	79,709
Kaiser	1,936	1,871	1,862
Optional Retirement Plans*			
Fidelity Investments	538	518	271
Great West Life	N/A	N/A	15
TIAA/CREF	1,587	1,514	1,323
T. Rowe Price	N/A	N/A	65
VALIC	N/A	N/A	238
Political Appointee - ORP	57	88	84
Deferred Compensation*			
Great West Life	32,955	30,354	28,092
Flexible Reimbursement*			
Dependent Care	665	699	652
Medical Care	5,046	4,869	4,150

* Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Note: TIAA-CREF and Fidelity are the only ORP's offered to higher education after June 30, 2004.



Accounts Receivable

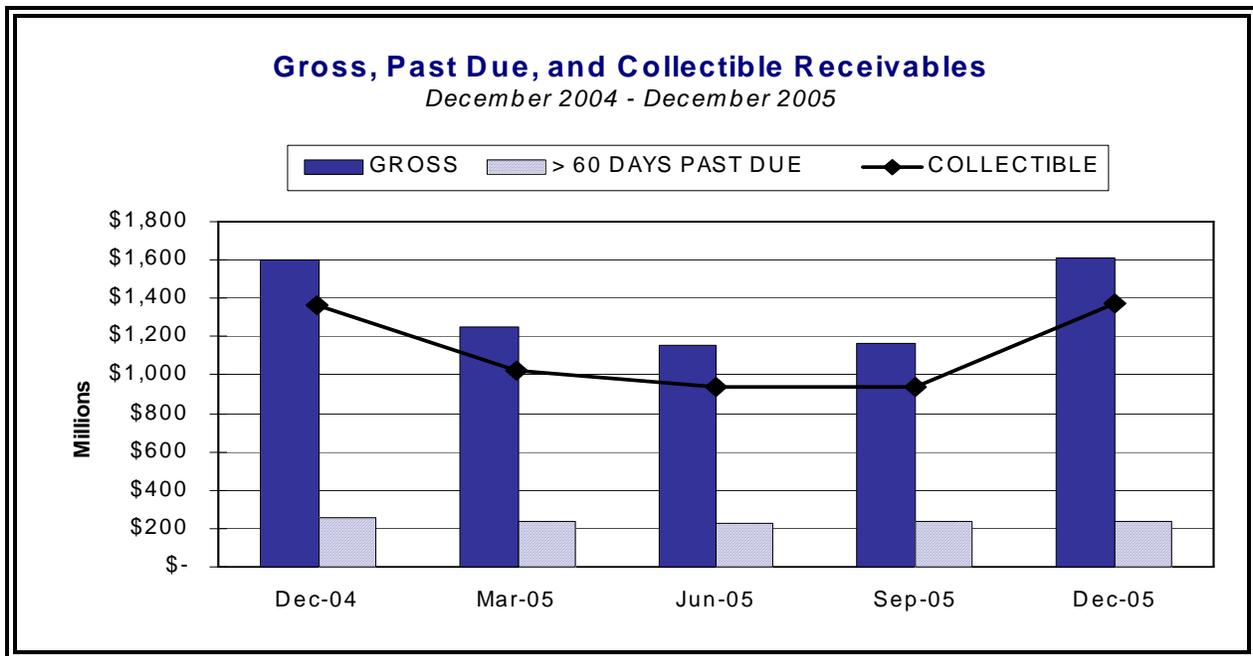
Executive Summary

Chapter 48 of the *Code of Virginia* requires the Department of Accounts, along with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. In order to carry out this responsibility, DOA has issued policies and procedures on accounting, collecting, reporting, and writing off accounts receivable. In addition, DOA provides technical assistance to agencies and institutions and uses statistical analyses and audit reports to monitor the ongoing effectiveness of agencies in managing their accounts receivable.

In an effort to present more meaningful information, DOA continues to exclude data from the tables (except for the final table on past due receivables) from the Department of Taxation, consisting largely of statutory assessments and non-filers assessments, and the circuit and district courts, which report judgments and fines with extremely low collection statistics.

Commonwealth agencies and institutions reported adjusted gross receivables of \$1.61 billion at December 31, 2005, with \$1.38 billion considered collectible. Receivables over 60 days past due as of December 31, 2005 totaled \$235.7 million. Of that amount, \$24.2 million was placed with private collection agencies, \$15.8 million was placed with the Division of Debt Collection and \$195.7 million was retained in-house for additional collection efforts.

It is important to note that the adjusted state receivables largely consist of unemployment taxes, tuition and fees, and billings for several indigent care programs, which present numerous special problems in collection. "Trade receivables" typical of the private sector, which are generated by billings for the provision of goods and/or services, make up only a small portion of the state's receivables.



As of December 31, 2005, agencies expected to collect \$1.38 billion (85 percent) of the \$1.61 billion adjusted gross receivables. About 3 percent are due to the General Fund,

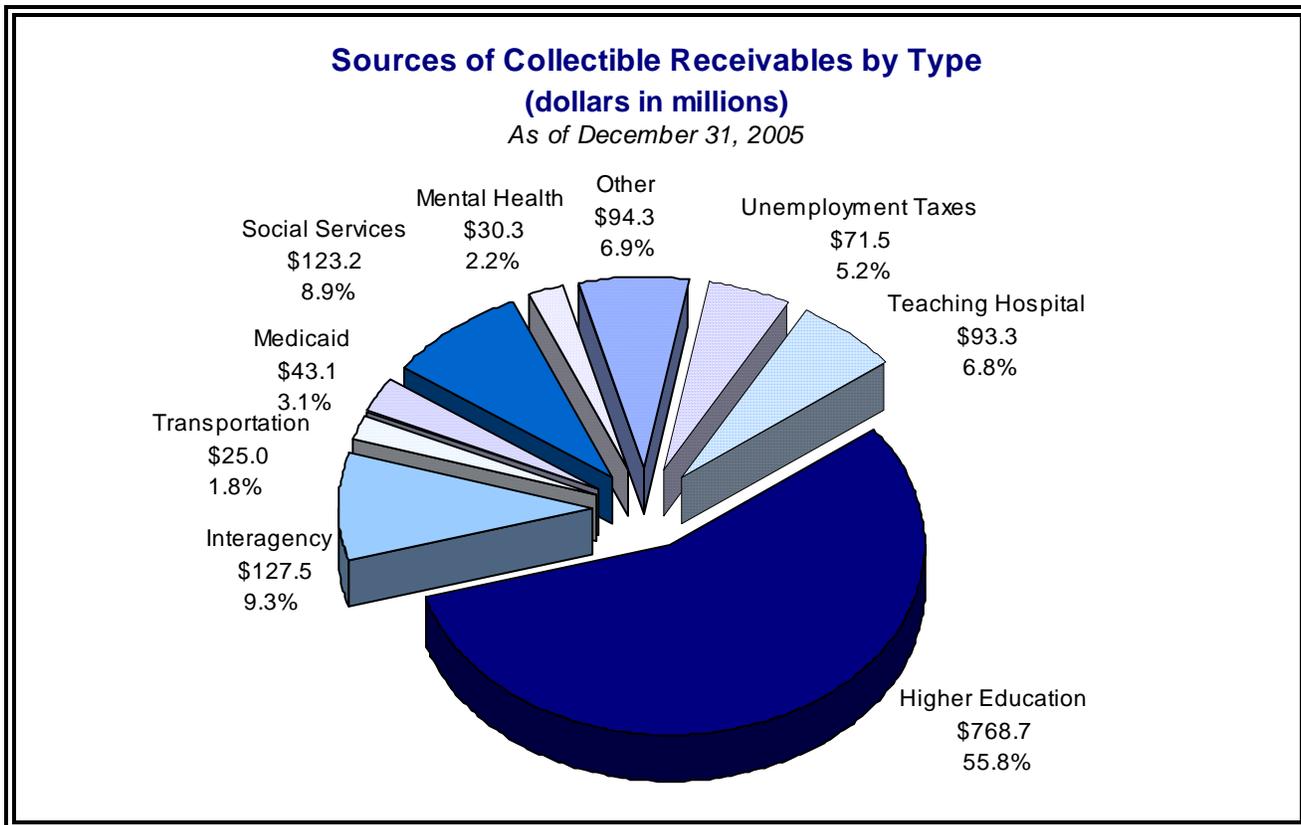
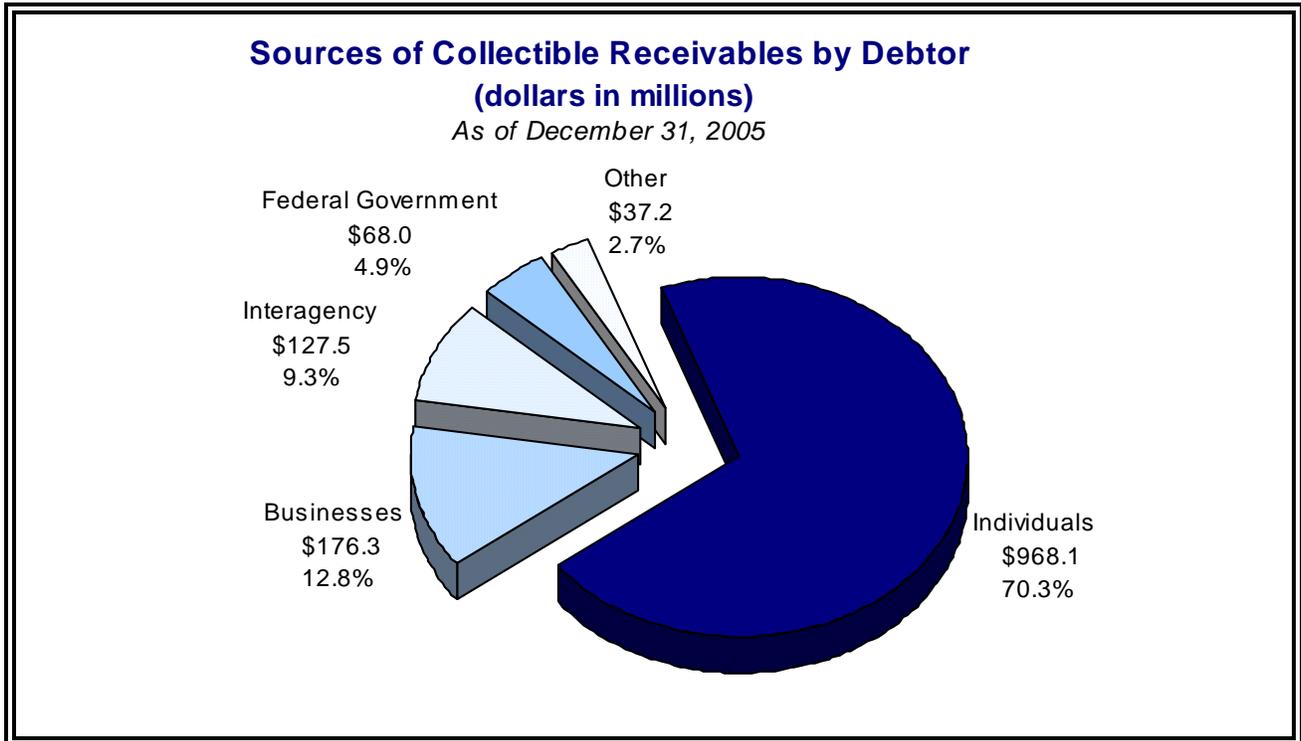
primarily for Medicaid penalties. The balance (approximately \$1.3 billion) is due to several non-general funds.

**Collectible Receivables by Fund
Not Including Circuit and District Courts, or the Department of Taxation**

As of December 31, 2005

Fund	Source	Amount	Percent
General Fund 3%	Medicaid	\$ 33,363,444	75%
	Social Services	3,385,657	8%
	State Police Permits	1,398,326	3%
	Labor and Industry Inspections	1,192,804	3%
	Other	3,824,748	9%
	Subtotal	43,164,979	98%
	Interagency Receivables	738,063	2%
Total General Fund Collectible		\$ 43,903,042	100%
Nongeneral Funds 97%	Medicaid	\$ 9,511,867	1%
	Unemployment Taxes	71,549,053	5%
	Transportation	24,300,019	2%
	Child Support Enforcement	66,033,999	5%
	Federal Government	58,524,607	4%
	MHMR Patient Services	30,302,700	2%
	Hospital	93,323,663	7%
	Enterprise	67,325,224	5%
	Higher Education	768,727,536	58%
	Other	16,823,558	1%
	Subtotal	1,206,422,226	90%
Interagency Receivables	126,746,986	10%	
Total Nongeneral Fund Collectible		\$ 1,333,169,212	100%
All Funds	Grand Total	\$ 1,377,072,254	100%

Summary of Receivables by Source



Not counting Taxation and the Courts, 10 agencies account for 71 percent of the Commonwealth's adjusted gross and 70

percent of the adjusted collectible accounts receivable balances.

Accounts Receivable Summary
Not Including Circuit Courts, District Courts, and Department of Taxation
Quarter Ended December 31, 2005

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
Virginia Polytechnic Institute and State University	\$ 171,576,983	\$ 957,596	\$ 170,619,387
University of Virginia Medical Center	141,983,363	16,389,686	125,593,677
Department of Social Services	249,645,256	126,463,435	123,181,821
Virginia Commonwealth University	116,018,342	2,405,940	113,612,402
George Mason University	86,797,159	451,905	86,345,254
James Madison University	79,981,079	1,377,718	78,603,361
University of Virginia - Academic Division	79,602,628	1,583,000	78,019,628
Virginia Employment Commission	102,270,418	28,115,528	74,154,890
The College of William & Mary	60,400,300	6,481	60,393,819
Old Dominion University	56,973,976	942,947	56,031,029
Total	1,145,249,504	178,694,236	966,555,268
All Other Agencies	467,013,883	56,496,897	410,516,986
Grand Total	\$ 1,612,263,387	\$ 235,191,133	\$ 1,377,072,254

In addition to internal administrative collection efforts, agencies have three other collection tools available to them. These are computerized matching and debt setoff programs at the Departments of Taxation, Lottery and Accounts, private collection agencies, and the Attorney General's Division of Debt Collection.

DOA requires state agencies and institutions to use the computerized matching and debt setoff programs for receivables that are 30 days or more past due. DOA also requires the use of private collection agencies on delinquent accounts that are 60 days or more past due that are not sent to the Attorney

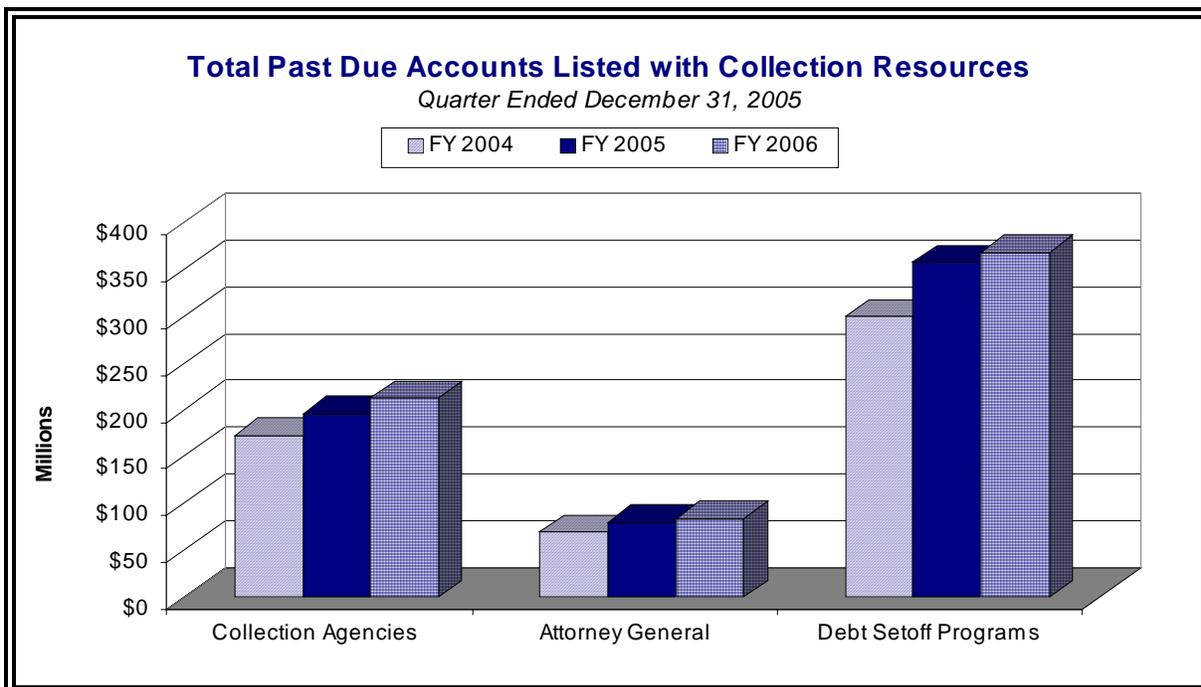
General's Division of Debt Collection. The Office of the Attorney General requires state agencies and institutions to send accounts of \$3,000 or more and 60 days or more past due to the Division of Debt Collection.

These additional collection tools recovered \$3.3 million during the quarter ended December 31, 2005. The largest contributors were the Private collection agencies, which collected \$2.1 million. The debt setoff programs (Tax, Comptroller's and Lottery) collected \$839,100, and the Division of Debt Collection contributed \$298,579.

Collectible Receivables Over 60 Days Past Due
Not Including Circuit and District Courts and the Department of Taxation
As of December 31, 2005

Agency	Total Over 60 Days	With Collection Agency	With Attorney General	Retained by State Agency
Department of Social Services	\$ 71,316,465	\$ -	\$ -	\$ 71,316,465
Virginia Employment Commission	36,499,738	8,430,937	6,767,725	21,301,076
University of Virginia Medical Center	25,953,172	-	-	25,953,172
Department of Medical Assistance Services	25,590,508	5,344,369	1,737,188	18,508,951
Department of Transportation	15,839,448	304,361	3,250,472	12,284,615
Department of Mental Health, Mental Retardation & Substance Abuse Services	11,276,386	-	-	11,276,386
Virginia Polytechnic Institute & State University	5,601,776	547,348	972,760	4,081,668
University of Virginia	4,240,720	1,083,816	-	3,156,904
George Mason University	3,402,227	1,652,778	42,184	1,707,265
Department of General Services	3,397,797	-	-	3,397,797
Total	203,118,237	17,363,609	12,770,329	172,984,299
<i>All Other Agencies</i>	32,588,269	6,803,034	3,082,349	22,702,886
TOTAL OVER 60 DAYS	\$ 235,706,506	\$ 24,166,643	\$ 15,852,678	\$ 195,687,185
Uncollectable Amounts Placed for Collection, Including Accounts Written Off	428,811,678	189,183,795	67,718,479	171,909,404
TOTAL COLLECTION EFFORTS	\$ 664,518,184	\$ 213,350,438	\$ 83,571,157	\$ 367,596,589

Note: The additional amounts retained by agencies are placed for collection with several debt setoff collection programs.



Comptroller's Debt Setoff (CDS) Program

CDS is one of the debt setoff programs used by agencies to collect past due accounts receivable owed the State, primarily by businesses and individuals acting in a business capacity. Under CDS, a payment made by the State to the debtor may be

withheld, in full or in part, to satisfy the debt owed the State. CDS collected \$7.7 million through the third quarter of FY 2006. Please note the amount reported is before any refunds.

Receivable Trend Data

One way to measure an agency's effectiveness at collecting its accounts receivable is to look at how efficient collection procedures are on accounts that are more than 60 days past due. The following

table looks at trend percentages of receivables over 60 days past due as a percentage of gross receivables for the agencies with the largest amounts over 60 days past due.

Percentage of Gross Receivables Over 60 Days Past Due

<u>Agency</u>	<u>Percent at 12/31/05</u>	<u>Comparative</u>	
		<u>Percent at 9/30/05</u>	<u>Percent at 6/30/05</u>
Department of Social Services	28%	28%	28%
Virginia Employment Commission	43%	43%	29%
University of Virginia Medical Center	15%	15%	17%
Department of Medical Assistance Services	32%	32%	47%
Department of Transportation	22%	22%	15%
Department of Mental Health, Mental Retardation & Substance Abuse Services	27%	27%	22%
Virginia Polytechnic Institute & State University	3%	4%	8%
University of Virginia - Academic Division	5%	10%	14%
George Mason University	4%	6%	48%
Department of General Services	42%	6%	9%
Statewide Average - All Agencies	15%	20%	19%

Another way to measure agency debt collection effectiveness is to compare amounts collected to amounts billed. The table below presents trend percentages for the ten agencies with the highest collectible account receivables balances. In total, these ten agencies are responsible for 71 percent of the Commonwealth's collectible receivables balances, as adjusted to exclude the Department of Taxation and the circuit and district courts. Percentages over 100% indicate the collection of prior balances as well as current billings.

In evaluating these percentages, it is important to understand that the percentages may fluctuate based on how the different agencies conduct their business and the cycles that those businesses typically follow.

The statewide average of 71% indicates that for every \$1 billed during the quarter ended December 31, 2005, the state collected 71 cents. This rate is a 1% increase from last year, and a 1% decrease from the December 31, 2003 quarter.

Collections as a Percentage of Billings

<u>Agency</u>	<u>Percent at 12/31/05</u>	<u>Comparative</u>	
		<u>Percent at 12/31/04</u>	<u>Percent at 12/31/03</u>
Virginia Polytechnic Institute and State University	49%	46%	50%
University of Virginia Medical Center	46%	46%	38%
Department of Social Services	86%	80%	84%
Virginia Commonwealth University	38%	46%	51%
George Mason University	48%	50%	51%
James Madison University	27%	28%	30%
University of Virginia - Academic Division	81%	78%	86%
Virginia Employment Commission	103%	105%	100%
The College of William & Mary in Virginia	27%	29%	33%
Old Dominion University	33%	34%	32%
Statewide Average - All Agencies	71%	70%	72%

Commonwealth Receivables Analysis

Included for the third time this quarter are individual agency accounts receivables descriptive narratives. These narratives are designed to describe agency collection programs and related trend information.

Department of Medical Assistance Services (DMAS)

DMAS is responsible for overseeing service delivery to eligible recipients and reviewing and auditing the providers of a variety of federally and State funded health care programs. These programs include Medicaid, Family Access to Medical Insurance Security (FAMIS), and State and Local Hospitalization (SLH) programs.

DMAS' collectible accounts receivable of \$43.1 million at December 31, 2005 is only \$66,568 more than the \$43.1 million reported at December 31, 2004. At the same time, total past due receivables have decreased \$31 million to \$28.4 million from \$59.4 million.

University of Virginia Medical Center (UVAH)

UVAH provides primary and specialty health care for Central Virginia by operating a 500 bed hospital, a School of Medicine and over twenty research centers. The majority of their receivables consist of Medicaid and Medicare reimbursements and payments from third party insurers.

The Hospital's collectible receivables of \$125.6 at December 31, 2005 were a decrease of \$9 million over the \$134.6 million reported the previous year. Past due receivables

mirrored this with a decrease of \$4.9 million to \$76.5 million at December 31, 2005.

Virginia Employment Commission (VEC)

VEC is responsible for paying unemployment insurance benefits to workers who have become unemployed. VEC also provides employment assistance for job seekers and analyzes and reports on a variety of labor market information.

VEC collectible receivables were \$74.2 million at December 31, 2005, an increase of \$12.3 million over the previous year. This increase combined an increase of \$14.3 million in current accounts together with a \$2 million decrease in past due receivables. Total past due receivables of \$41.8 million decreased from \$43.8 million the previous year. VEC collects employer tax receivables in-house. The Attorney General's Office is involved in contested cases. Unemployment benefit overpayments to individuals are referred to private collections agencies after in-house efforts have produced no results and when debtors have left the state.

Virginia Information Technologies Agency (VITA)

VITA is the state's central information technologies provider. VITA operates the information technology infrastructure for much of State government, providing both hardware and services. VITA also procures hardware and software for agencies and institutions of higher education.

VITA reported collectible receivables at December 31, 2005 of \$36.6 million, a \$4.6

million increase over the previous year's \$32.0 million. Most of these dollars are owed by other state agencies. As of December 31, 2005, \$840,725 was over 60 days past due, a \$319,981 increase over the previous year.

State Lottery Department (SLD)

The State Lottery Department is an independent agency that is responsible for operating the State's scratch and on-line lottery games and actively participates in two multi-state games, Mega Millions and Lotto South. Retail merchants who sell the Virginia Lottery games are covered by surety bonds and deposit Lottery receipts into bank accounts approved by the State Treasurer.

At December 31, 2005, the Virginia Lottery reported net receivables of \$55.2 million, a \$2.9 million increase over the previous year's net of \$52.3 million. Billings during the December 31, 2005 quarter grew \$22.8 million and collections increased by \$15.7 million when compared to the December 31, 2004 quarter. At December 31, 2005, the Virginia Lottery had \$158,534 that was over 60 days past due. The total amount is covered by surety bond and involves 20 retailers.

State Department of Education (SDE)

Education acts as the pass-through agency for state and federal education funds and determines the allocation of funds to local school divisions under the Direct Aid to Public Education Program. Localities file expenditure reimbursement requests with the Department who then reviews the claims for accuracy and correctness. Eligible expenditures under federal grants are paid by SDE, which then draws down the money from the U. S. Department of Education.

At December 31, 2005, SDE had no accounts receivable due from the Federal government under Direct Aid. This is consistent with the prior year.

Virginia Polytechnic Institute and State University (VPISU)

VPISU is one of the Commonwealth's largest universities and one of two land grant institutions in the state. At December 31, 2005, the University reported net collectible receivables of \$170.6 million, a \$10.5 million increase over the prior year. \$10 million (6%) of VPISU total receivables were past due, a decrease of \$382,093 from last year.

Accounts over 60 days past due of \$5.6 million increased by \$1.2 million over the prior year. The University uses a variety of collection methods to encourage payments. At December 31, 2005, VPISU had \$1 million of accounts with the Attorney General's Division of Debt Collection, \$565,133 placed with private collection agencies and \$3.3 million listed for Taxation's Debt Setoff Programs.

Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS)

DMHMRSAS operates 16 facilities around the State to treat patients. These facilities account for nearly all of the department's receivables, consisting primarily of fees due for patient care. DMHMRSAS bills third party insurers and patient assistance programs such as Medicare and Medicaid whenever they are available. In other cases, the Department looks to responsible family members and tangible real and personal property for payment. When property is located, liens are filed in the local courts so

that when estates are liquidated, DMHMRSAS can recover some of the costs involved in a patient's care.

At December 31, 2005, the Department reported net receivables of \$30.3 million, a \$3.6 million decrease from the previous year. \$17.4 million was past due, with \$11.3 million being over 60 days past due. Total past due receivables decreased by \$15.4 million over the year, and accounts over 60 days past due decreased by \$6.7 million. At December 31, 2005, the Department had \$6.7 million of accounts placed with the Attorney General and \$1.5 million listed in Taxation's Debt Setoff Programs.

Department of Transportation (VDOT)

Depending upon how a particular road construction project is funded, VDOT receives payments from a variety of sources. These include the federal government, local government units, and for damage repairs, responsible parties or their insurers. The majority of VDOT receivables stem from these sources.

At December 31, 2005, VDOT reported \$24.3 million of collectible receivables, a decrease of \$7.7 million from the prior year. VDOT also reported \$18.4 million total past due and \$15.8 million being over 60 days past due. Past due receivables increased by \$15.1 million over the year, with receivables over 60 days past due constituting \$12.6 million of the increase. VDOT reports that the large majority of the accounts over 60 days past due are owed by cities, counties and towns that are participating on long-term construction projects with the department and where the local fund shares are provided by local debt financing.

VDOT reported placing \$8.9 million of their unpaid accounts with the Attorney General's Division of Debt Collection, \$673,667 with private collection agencies and \$915,798 with Taxation's Debt Setoff Programs.

Department of Social Services (DSS)

Social Services provide financial assistance to eligible individuals and families through 121 local departments of social services. The assistance programs include the Temporary Assistance for Needy Families (TANF), Medicaid, Food Stamps, and Community Services Block Grants. In addition to the assistance programs, DSS is the federally-mandated state agency to provide child support enforcement assistance. Child support paid for children receiving money from an assistance program is required to be paid to the federal and state funds which provide the assistance. Overpayments of assistance benefits from ineligible participants must also be repaid to the originating funds. Receivables due from the Federal government usually are the Federal share of assistance payments and allowable cost recoveries made through the local offices during the preceding month.

At December 31, 2005, DSS reported gross receivables of \$249.6 million, an allowance for doubtful accounts of \$126.4 million and collectible receivables of \$123.2 million.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for \$172.6 million (69%) of the gross receivables, \$106.6 million (84%) of the allowance for doubtful accounts and \$66 million (54%) of the net receivables. Past due receivables totaled \$72.6 million, of which \$71.3 million was over 60 days past due.

Between December 31, 2005 and 2004, gross receivables decreased \$1.1 million and collectible receivables decreased \$33.7 million. Write offs for the quarter totaled \$364,897. Total past due receivables increased \$20.1 million and receivables over 60 days past due increased \$19.8 million.

Department of Rail and Public Transportation (DRPT)

DRPT is responsible for overseeing Virginia's railroads, providing funding and project resources for public transportation, and researching feasible alternatives for commuters. DRPT works closely with VDOT, the railroads, local governments, the Washington Metropolitan Area Transit Authority, and the Federal Transit Authority.

At December 31, 2005, DRPT had gross and net receivables of \$5.4 million. Over 98% of this money is due via an interagency transfer from VDOT. \$2.2 million was past due at December 31, 2005, however, only \$59,006 was over 60 days past due.

Virginia Commonwealth University (VCU)

VCU, based in Richmond, offers 140 degree programs to over 28,500 students in a variety of fields ranging from accounting to pharmacy at both undergraduate and graduate levels.

At December 31, 2005, VCU had \$113.6 million of collectible receivables, a \$15 million increase over December 31, 2004. Total past due accounts were \$9.9 million, a decrease of \$3.4 million from December 31, 2004. Accounts over 60 days past due of \$2.9 million decreased \$219,554 from the prior year. Billings increased by \$4.3 million to \$127.8 million and collections decreased by \$8.5 million to \$48.7 million for the December 31, 2005 quarter when compared to the December 31, 2004 quarter.

The following table is prepared to present the December 31, 2005 aging information in conformity with the provisions of Section 2.2-603.E.(ii) of the Code of Virginia.

Commonwealth's total \$1.87 billion past due accounts receivable at December 31, 2005. Another eighteen agencies accounted for 18% (\$336 million), leaving 68 other agencies to comprise the last two percent at \$31 million.

Taxation and the Circuit and District Courts accounted for 80% (\$1.50 billion) of the

Agencies with the Largest Volume of Past Due Receivables

As of December 31, 2005

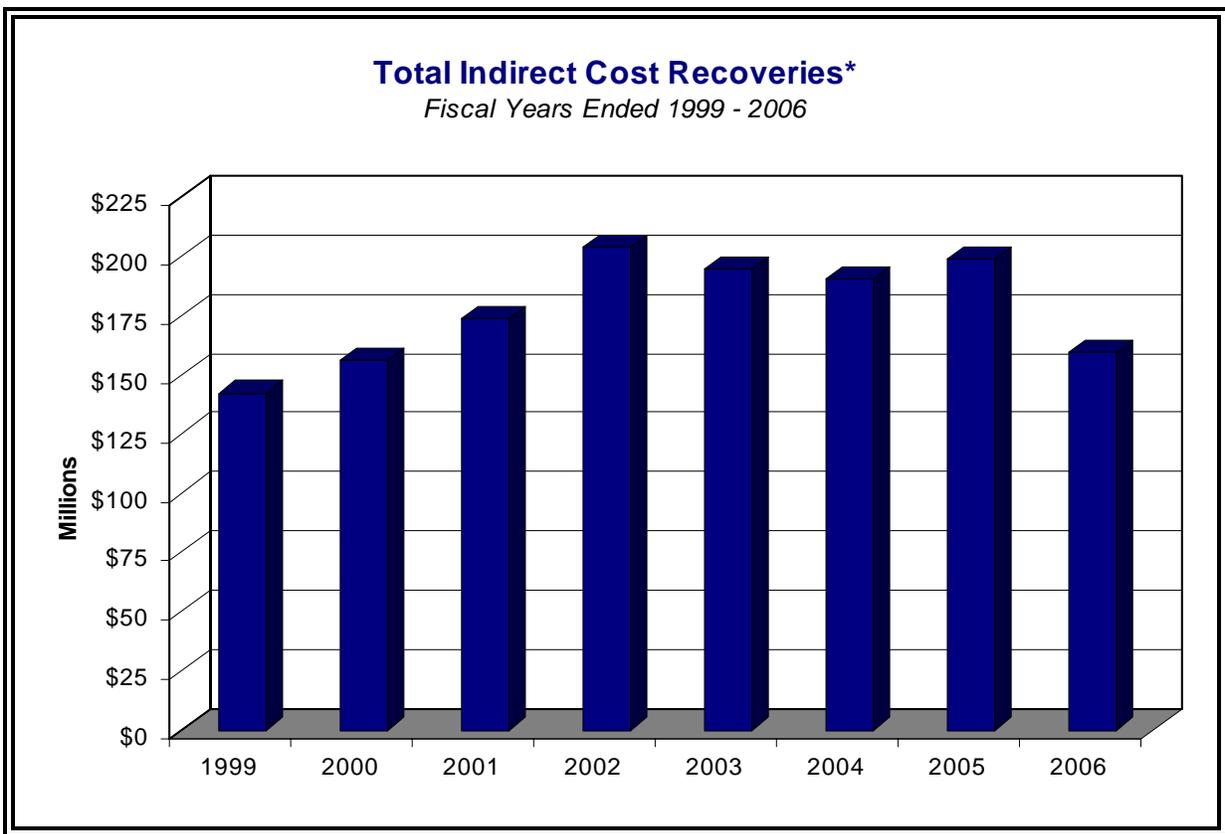
Agency	Total Past Due	1 to 180 Days Past Due	181 to 360 Days Past Due	Over One Year
Department of Taxation	\$ 1,082,215,640	\$ 75,491,255	\$ 175,788,534	\$ 830,935,851
Localities' Circuit and District Courts	418,464,286	32,902,443	54,006,570	331,555,273
Total - Taxation Assessments and Court Fines and Fees	1,500,679,926	108,393,698	229,795,104	1,162,491,124
All Other Large Dollar Agencies:				
University of Virginia Medical Center	76,532,643	67,364,346	9,335,177	(166,880)
Department of Social Services	72,638,485	3,922,477	3,944,270	64,771,738
Virginia Employment Commission	41,760,202	9,647,255	7,747,830	24,365,117
Department of Medical Assistance Services	28,444,038	9,645,214	3,266,059	15,532,765
Department of Transportation	18,358,524	6,455,512	332,252	11,570,760
Department of Mental Health, Mental Retardation and Substance Abuse Services	17,352,794	13,489,500	3,863,294	-
Virginia Information Technologies Agency	10,931,261	10,834,097	92,757	4,407
University of Mary Washington	10,423,539	10,187,846	104,716	130,977
Virginia Polytechnic Institute & State University	10,004,215	8,339,777	636,433	1,028,005
Virginia Commonwealth University	9,891,521	7,391,934	764,819	1,734,768
University of Virginia - Academic Division	7,984,918	6,500,777	748,292	735,849
Virginia Community College System	6,629,371	5,957,656	402,966	268,749
George Mason University	5,704,778	4,951,417	623,157	130,204
University of Virginia's College at Wise	4,859,446	4,858,962	321	163
Department of General Services	4,463,122	4,463,122	-	-
Old Dominion University	3,627,332	3,516,730	46,623	63,979
Department of Motor Vehicles	3,447,492	2,096,793	1,350,699	-
Department of Labor and Industry	3,104,990	588,436	434,044	2,082,510
Total - Largest Dollar Volume Agencies	336,158,671	180,211,851	33,693,709	122,253,111
All Other Agencies	30,942,676	21,886,979	3,507,132	5,548,565
Grand Total Past Due Receivables	\$ 1,867,781,273	\$ 310,492,528	\$ 266,995,945	\$ 1,290,292,800



Indirect Costs

The Department of Accounts prepares a Federal Statewide Indirect Cost Allocation Plan (SICAP) annually that identifies the central service agency General Fund support provided to all State agencies. Agencies receiving Federal grants or contracts prepare indirect cost rate proposals or cost allocation plans that include both the agency (agency

specific overhead expenditures) and Statewide (overhead expenditures incurred by the State's central service agencies for support provided to other State agencies) indirect costs associated with the administration and management of federal, State, or private grant and contract activity.



* FY 2006 reflects indirect cost recoveries through March 31, 2006.

Indirect Cost Recoveries from Grants and Contracts

Fiscal Year 2006

Fund	Year-to-Date		Total
	Higher Ed	Non-Higher Ed	
Nongeneral:			
Agency / Institution (1)	\$ 112,707,156	43,160,824	\$ 155,867,980
Statewide	2,302,576	474,645	2,777,221
Total Nongeneral	115,009,732	43,635,469	158,645,201
General:			
Agency (Cash Transfers)	-	80,605	80,605
Statewide	-	560,753	560,753
Statewide (Cash Transfers)	-	5,858	5,858
Total General	-	647,216	647,216
Total All Funds	\$ 115,009,732	\$ 44,282,685	\$ 159,292,417

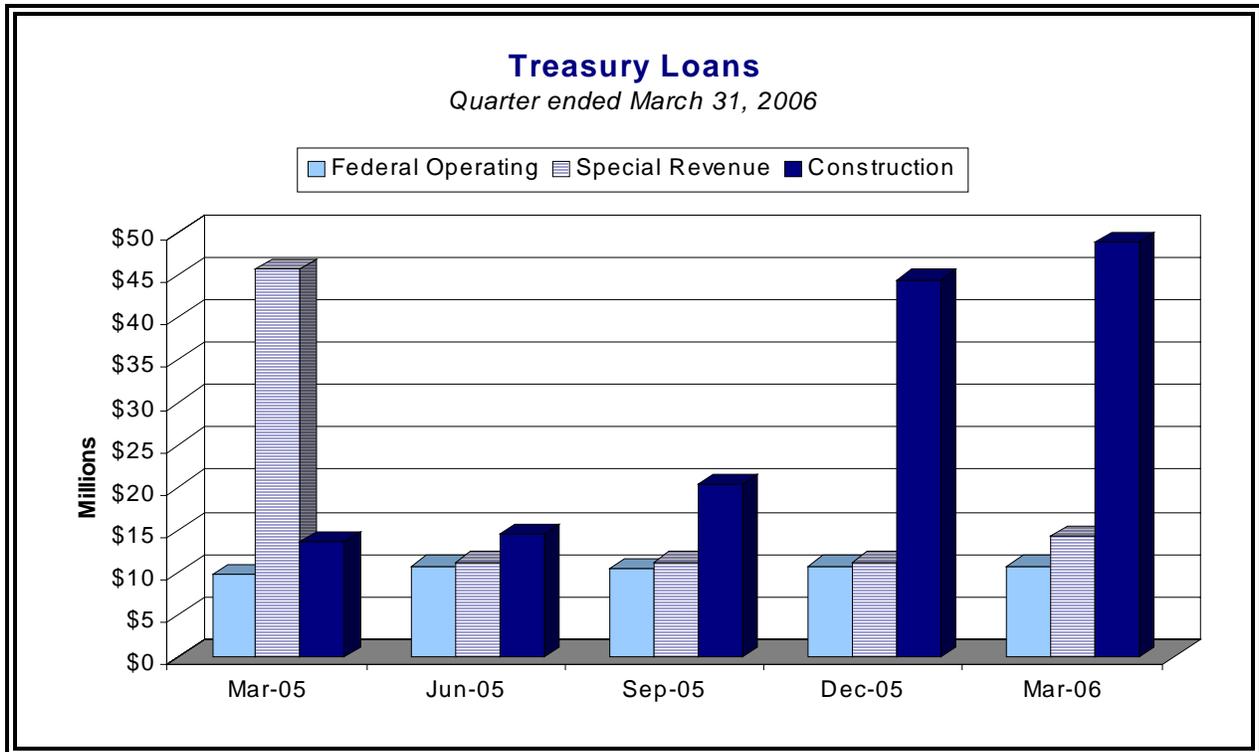
- (1) The Department of Social Services records all federal monies received in CARS. However, they do not separately classify such receipts between direct and indirect. Included in the agency nongeneral fund category is \$29,648,171 representing the Department of Social Services' estimate of indirect cost recoveries received.



Loans and Advances

Treasury loans may be used to advance funds to a State agency or institution for a designated purpose prior to some form of reimbursement. Working capital advances and lines of credit are other methods for ensuring

that an agency or institution has sufficient operating cash, within its appropriation, prior to collection of revenues. The total of all types of treasury loans and advances as of March 31, 2006, was \$73.9 million.



These advances are in the form of temporary loans funded on the basis of the following conditions:

- **Anticipation of Federal Operating Funds** supports the operations of federal grants and contract programs for which advance funding has been delayed or for those that require expenditure of funds prior to federal reimbursement.
- **Anticipation of Special Revenue Funds** supports the operations of non-

general funded activities when collections are spread unevenly throughout the year while expenses require steady funding.

- **Construction** supports capital projects in anticipation of the sale of authorized debt or other financing for such projects.

Other types of loans and advances that are not charted include:

- **Authorized Appropriation Deficit**, which provides funding, when authorized by the Governor, under emergency conditions as described in §4-3.01 and §4-3.02 of the Appropriation Act. There were no deficit loans outstanding at March 31, 2006.
- **Working Capital Advances**, which provide operating funds for nongeneral fund projects when revenues to be used for repayment will not be generated within the twelve months required for anticipation loans. There were no outstanding working capital advances at March 31, 2006.

Significant New Loans / Drawdowns	New Balance
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<p>Department of Emergency Management (DEM) Authorization and drawdown of a new loan to provide assistance to states impacted by Hurricane Katrina.</p>	<p>\$ 3,000,000</p>
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<p>Virginia Commonwealth University (VCU) Additional drawdowns of \$2,552,779 on an authorized \$7,037,147 loan to construct the new School of Business.</p>	<p>\$ 6,664,987</p>
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<p>Virginia Commonwealth University (VCU) Additional drawdowns of \$1,463,116 on an authorized \$7,690,315 loan to construct the School of Engineering – Phase II.</p>	<p>\$ 5,409,773</p>
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Significant Loan Repayments	Prior Balance
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<p>Department of Emergency Management (DEM) Full repayment of loan that provided operating funds while awaiting reimbursement grants from the Department of Homeland Security's Emergency Management Performance Grant program.</p>	<p>\$ 2,000,000</p>
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