

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT AND
COMPLIANCE**

FOR THE QUARTER ENDED JUNE 30, 2008



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 June 30, 2008, and comparative FY 2007 data. Some information in the report is for the quarter ended March 31, 2008, which is the most current data available.

David A. Von Moll, CPA, CGFM
Comptroller



Virginia Department of Accounts

Financial Accountability. Reporting Excellence.

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 control deficiencies. Control deficiencies occur when the design or operation of internal control does not allow management or employees to prevent or detect errors 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 workplans.

The APA also reports risk alerts and efficiency issues. Risk alerts address issues for which the corrective action is beyond the capacity of the agency management to address. Efficiency issues identify agency practices, processes or procedures which the auditors believe agency management should consider to improve efficiency. Risk alerts and efficiency issues are summarized following the Findings section.

The APA also issued several Special Reports during the quarter. These reports are listed following the Efficiency Issues section. The full text of these reports is available at www.apa.virginia.gov.

Audit Reports – Quarter Ended June 30, 2008

The APA issued 23 separate reports covering 29 agencies, offices, boards, commissions, colleges and universities for the Executive Branch listed on the following table. All of the reports were for FY 2007. The last column indicates whether the CAW had been received as of the date of this publication for each agency with audit findings. Note that in some cases, the CAW has not been received because it is not yet due.

	New Findings	Repeat Findings	Total Findings	CAW Received
Administration				
Department of Minority Business Enterprise (1)	0	1	1	Yes
Agriculture and Forestry				
None				

	New Findings	Repeat Findings	Total Findings	CAW Received
Commerce and Trade				
Board of Accountancy	0	0	0	N/A
Department of Business Assistance	6	0	6	Not Due
Department of Labor and Industry	1	0	1	Not Due
Virginia Tourism Authority	0	0	0	N/A
Education				
The College of William and Mary in Virginia (2)	3	2	5	Yes
Richard Bland College	1	0	1	Yes
Virginia Institute of Marine Science	0	0	0	N/A
Christopher Newport University	1	0	1	Not Due
George Mason University	2	0	2	Yes
James Madison University	1	0	1	Yes
Longwood University	3	0	3	Yes
New College Institute	0	0	0	N/A
Old Dominion University	1	0	1	Not Due
Radford University	3	0	3	Yes
Southwest Virginia Higher Education Center	0	0	0	N/A
University of Mary Washington	1	0	1	Yes
Virginia Commission for the Arts	0	0	0	N/A
Virginia Military Institute	2	0	2	Yes
Virginia State University	2	0	2	Yes
Executive Offices				
None				
Finance				
Agencies of the Secretary of Finance: (1) (3)				
Department of Accounts (1)	2	0	2	Yes
Department of Planning and Budget	0	0	0	N/A
Department of Taxation (1)	2	0	2	Yes
Department of the Treasury	6	0	6	Yes
Treasury Board	0	0	0	N/A
Health and Human Resources				
Department of Health Professions	1	0	1	Not Due
Natural Resources				
Department of Conservation and Recreation (1)	1	0	1	Not Due
Department of Historic Resources	2	0	2	Not Due

	New Findings	Repeat Findings	Total Findings	CAW Received
Public Safety				
Department of Emergency Management	3	0	3	Yes
Technology				
None				
Transportation				
None				

- (1) This agency has a risk alert which is further described in the *Risk Alerts* section of this report.
- (2) The audits of these three institutions were released in one report.
- (3) The audits of these five agencies were released in one report.



Findings – Quarter Ended June 30, 2008

The following agencies had one or more findings contained in the 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

Department of Minority Business Enterprise (DMBE)

1. Update on Prior Year Recommendations. **This is a repeat finding and limited progress has been made.** The Department continues to have internal control issues and compliance problems that have been discussed in prior audit reports. Although the Department did achieve improvements in the fiscal operations within the past year, weaknesses continue to exist. DMBE must work with the Cabinet Secretaries to establish arrangements that outsource the entire fiscal function, rather than simply outsourcing transaction processing. In addition, DMBE should transfer additional responsibilities to service agencies, including the review of cell phones and information technology security responsibilities.

Commerce and Trade

Department of Business Assistance (DBA)

1. Shift to an Administrative Service Arrangement. DBA has reduced its total staff, including staff providing administrative support. The remaining staff continues to experience difficulty in maintaining the general accounting, procurement, information technology systems, and security requirements of the Commonwealth. DBA should expand its use of administrative arrangements with another agency to establish a central back office operation to provide business functions such as accounting, budgeting, information security, procurement and personnel services.
2. Deposit Funds in the State Treasury and Have an Appropriation. DBA sponsored a program for which it solicited money directly from companies and had them make the donation checks payable to a vendor the Department chose without competition. Two program sessions had been held and one was scheduled and subsequently postponed at the time of the audit. The *Constitution of Virginia* and the *Code of Virginia* require all Commonwealth revenues to be deposited in the State Treasury. The *Code of Virginia* and the Appropriation Act requires that no agency shall expend Commonwealth resources without authorization. DBA should institute procedures to prevent this from happening in the future.
3. Maintain Official Records of the Department. DBA does not maintain an official record of all its programs, correspondence, or other communication with outside organizations. The Virginia Public Records Act, Virginia Freedom of Information Act, and numerous other provisions of the *Code of Virginia* require agencies to maintain official records of their operations and dealings with the public.

4.

Improve Controls Over Wireless Devices. DBA does not monitor its staff usage of wireless devices and as a result incurred unnecessary costs by paying for usage in excess of plan minutes, having unassigned and unused devices, and paying for potential personal calls. Several users regularly exceed the existing plan usage limits and DBA did not take action to either reduce usage or obtain broader services. DBA also did not follow the policies and practices of the Commonwealth for monitoring and controlling these devices.

5. Properly Complete Employment Eligibility Verification Forms. The Department is not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security. The audit reviewed eight newly hired employees and found five instances where the employee did not either properly complete, sign, or date the I-9 form on or before the first day of employment and two instances where the employer did not either complete, sign, or date the I-9 form within three business days of the employee's first day of employment.
6. Document Information Security Program. DBA does not have an adequate information security program that is in compliance with the Commonwealth's Information Technology security standard, ITRM Standard SEC501-01. The Department is missing the following components of their security program:
 - Security awareness training program;
 - Risk Assessment relating to its entire IT infrastructure;
 - Business Impact Analysis;
 - Policies and procedures for approving logical access, and
 - Policies and procedures for systems, applications, and database monitoring.

Department of Labor and Industry (DOLI)

1. Properly Complete Employment Eligibility Verification Forms. The Department is not completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security. Five out of seven forms examined contained exceptions. All exceptions are unacceptable according to Homeland Security's Handbook for Employers (M-274). In addition, the Department does not have a separate documented policy regarding I-9 compliance.

Education

The College of William and Mary in Virginia (CWM)

1. Improve Financial Reporting. **This is a repeat finding and limited progress has been made.** During the audit, College staff and the auditors identified an \$8 million duplicate accounting error and a number of misstatements, reclassifications, and disclosure items that required adjustment from amounts previously reported. Over the past three years the College has seen extensive employee turnover in the financial reporting area while continuing to fully implement its new financial accounting and reporting system.

2. Improve Information Systems Security Program. The College's Information Security Program does not follow industry best practices. The College should improve the following information security areas to comply with industry best practices:
 - Institute a security awareness training program;
 - Include threat probabilities, vulnerabilities, and loss impacts in the Risk Assessment;
 - Identify the primary and secondary business functions, data and system classifications, and maximum allowable downtime for critical systems in the Business Impact Analysis;
 - Detail recovery requirements for critical systems in the Continuity of Operations Plan and test the Plan annually;
 - Add recovery time objectives and manual processes for essential business functions to the Disaster Recovery Plan; and
 - Develop formally approved security policies and procedures.
3. Improve Capital Asset Management. Property Control staff did not verify capital asset listings as required by The College and state policies. The College policies do not adequately address reassessing useful lives when assets are in use longer than their initial assigned useful life. Additionally, Property Control and departmental staff do not always adequately document equipment disposals.
4. Implement Separation Procedures for Terminated Employees. **This is a repeat finding and progress has been made.** The College has implemented separation procedures, however, individual departments are not following the faculty and contract employee procedures to document that property such as identification cards, charge cards, keys, portable computers, and cell phones are recovered when faculty and contract employees terminate.
5. Properly Complete Employment Eligibility Verification Forms. The College is not having employees properly complete Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. The audit reviewed twelve completed forms and found one or more errors on ten of the forms.

Richard Bland College (RBC)

1. Improve Contingency Plans. RBC has inadequate contingency plans which places its mission critical systems at risk and hinders the continuity of essential business functions during and after disruption. RBC does not have a Business Impact Analysis and its Risk Assessment lacked certain information, resulting in ineffective contingency plans. Further, RBC does not document specific information required by Commonwealth of Virginia standards that help protect critical Information Technology systems and sustain essential functionality.

Christopher Newport University (CNU)

1. Properly Complete Employment Eligibility Verification Forms. The University employees and supervisors are not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. The guidance requires the employee to complete, sign, and date the form on the first day of employment. The employer must complete, sign, and date the form within three business days of employment. The audit reviewed fifteen completed forms and found one or more errors on five of the forms.

George Mason University (GMU)

1. Improve Timeliness of Financial Reporting Controls. During the reporting period for the fiscal year ended June 30, 2007, GMU made prior period adjustments of \$2.9 million for improper matching of revenues and expenses and \$2.5 million to capitalize interest resulting from a cumulative error in Construction in Progress from fiscal year 2004 through 2006. In addition, the GMU staff found the financial statements required a reclassification of \$2.6 million to increase accounts receivable and deferred revenue to record summer term revenue earned but not received.
2. Properly Complete Employment Eligibility Verification Forms. The GMU Human Resources Department is not having employees properly complete Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. The audit reviewed 48 completed forms and found one or more errors on 31 of the forms.

James Madison University (JMU)

1. Improve Employment Eligibility Verification Process. The JMU Human Resources Department is not having employees properly complete Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. The audit reviewed 15 completed forms and found one or more errors on four of the forms.

Longwood University (LU)

1. Improve System Access Controls. LU policies and procedures require IT system access removal within three business days of an employee's termination. Of 16 employees reviewed, 12 (75 percent) did not have their IT system access removed within three business days. In addition, the current manual paper process makes it difficult to comply with LU access removal policy. The audit recommends that LU improve the manual paper system for logical access removal and educate managers on the important role they play in protecting critical data.
2. Improve Database Security. LU does not adequately train its system and database administrators on the LU information security policies and procedures. LU has established policies, procedures, and standards for access to information and technology resources, password management, security monitoring, and logging. However, the audit revealed that the system and database administration staff does not follow the established policies and procedures while implementing new systems.
3. Properly Complete Employment Eligibility Verification Forms. LU employees and supervisors are not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. The guidance requires the employee to complete, sign, and date the form on the first day of employment. The employer must complete, sign, and date the form within three business days of employment. The audit reviewed 14 completed forms and found one or more errors on five of the forms.

Old Dominion University (ODU)

1. Improve Employment Eligibility Verification Process. The University employees and supervisors are not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. The guidance requires the employee to complete, sign, and date the form on the first day of employment. The employer must complete, sign, and date the form within three business days of employment. The audit reviewed ten completed forms and found one or more errors on seven of the forms.

Radford University (RU)

1. Strengthen Controls for Reporting Capital Assets. The audit disclosed several control deficiencies. Two completed projects totaling \$1.75 million were not removed from Construction in Progress. Equipment additions were overstated by \$327,393. Finally, a sample of eight equipment disposals disclosed five exceptions.
2. Perform a Stringent Review of Existing Operations in the Athletic Department. Receipts were not deposited timely. There was a lack of separation of duties in the handling of receipts and the review process. Game guarantees were not properly accounted for. A sample of 25 purchase orders disclosed nine exceptions. Reports for the NCAA Schedule and the University's capital asset footnote were incomplete.
3. Properly Complete Employment Eligibility Forms. University personnel did not properly complete the Employment Eligibility Verification forms (I-9) in accordance with guidelines issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security. A sample of twelve I-9 forms disclosed three that were correct.

University of Mary Washington (UMW)

1. Properly Complete Employment Eligibility Verification Forms. UMW employees and supervisors are not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. The guidance requires the employee to complete, sign, and date the form on the first day of employment. The employer must complete, sign, and date the form within three business days of employment. The audit reviewed 15 completed forms and found one or more errors on ten of the forms.

Virginia Military Institute (VMI)

1. Improve Logical Access Policies and Procedures. VMI does not consistently remove user accounts on sensitive and mission critical systems upon employee termination. VMI instituted semi-annual user account reviews in response to the APA audit of access controls in 2005. However, VMI's user account removal policy and process lacks certain industry best practices, such as indicating a specific number of days after an employee has separated for the employee's department to submit an account deletion request to the IT department.
2. Properly Complete Employment Eligibility Verification Forms. VMI is not completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security. While all employees were eligible for employment, eight out of ten forms examined contained exceptions.

Virginia State University (VSU)

1. Promptly and Accurately Complete Reconciliations. VSU completed the June 30, 2007 reconciliation of their accounting records to the Commonwealth's accounting records in February 2008. The final operating bank reconciliation was not completed until October 2007. Failure to reconcile promptly could create an opportunity for errors in financial information reported to management and the Department of Accounts to go undetected.
2. Improve Employment Eligibility Verification Process. The University is not completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security. Five out of ten forms examined contained exceptions. All exceptions are unacceptable according to Homeland Security's Handbook for Employers (M-274).

Finance

Department of Accounts (DOA)

1. Enhance Validation of Lease Reporting. DOA had material errors in its operating lease disclosure for the CAFR for fiscal year 2007 resulting in an understatement of future lease payments of \$31 million. DOA has not updated the lease policies and procedures in the CAPP Manual to reflect the requirements of the new Lease Accounting System (LAS). There is no standardized lease document to provide all the data needed for agencies to properly record required data in LAS. DOA should implement additional methods and controls, including coordination with the Department of General Services, to validate the data recorded in LAS.
2. Properly Complete Employment Eligibility Verification Forms. The Department is not completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security.

Department of Taxation (TAX)

1. Improve Controls over Leases. TAX entered improper data in LAS for real property leases. In addition, TAX did not consider the portion of the monthly lease payments attributed to executory costs which are not included in minimum payments reported in financial statement footnotes.
2. Properly Document Application and Operating System Options. TAX has not applied vendor supplied patches to application software or allowed the VITA to update operating system software on four servers that support critical web applications since December 2005. The vendor has issued three patches during this period. Further, the vendor no longer supports the operating system software running on two of four servers. This situation risks system failure and/or data destruction.

Department of the Treasury (TD)

1. Properly Complete Employment Eligibility Verification Forms. Treasury is not completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security.
2. Establish Sufficient Controls over the Wire Transfer Process. Treasury executes wire transfers to pay vendors and transfer funds among bank accounts. In addition, Treasury also allows other state agencies, including the Virginia Employment Commission and Department of Housing and Community Development, to directly execute their own wire transfers. Currently, Treasury has limited or no involvement in agency-initiated wires and only grants, deletes, and changes access to the online banking systems as agencies request such access. Treasury provides no oversight and review to individual transactions or wire transfer account access. This has created a lack of adequate controls and a lack of segregation of duties.
3. Establish, Maintain, and Review Centralized Cash, Investment, and Application Access Account Listings. Treasury does not have a centralized automated record of employees' access, including those with signature authority for cash and investments, and those with access to information systems. This lack of centralized information hinders the ability to safeguard Commonwealth assets because management cannot determine quickly who has access to what assets and information systems.
4. Strengthen Controls Over Information Systems. In support of its responsibility for statewide financial services, Treasury owns or has access to a number of key systems and applications. Different divisions within Treasury, as well as other state agencies and external parties use these systems and applications. The report identifies three major concerns that Treasury does not have adequate controls and sufficient policies and procedures over these systems and applications:
 - *Establish sufficient controls over online banking systems.* The report noted a lack of controls surrounding access to these systems, including, how Treasury grants, deletes, and changes access and reviews the levels of access to these systems; maintaining a secure method to request access additions, modifications, and deletions; determining that agencies are tracking and reconciling accounts; and providing guidance to individual agencies.
 - *Segregate system access responsibilities.* Treasury data owners serve as their own system administrators for some systems; however the information security unit grants, changes or deletes access based upon requests from data owners for other systems. Management does not have a consistent policy to ensure data owners do not serve as system administrators.
 - *Enable audit trails and transaction history on information systems.* Treasury does not enable audit trails or transaction history features on all the Department's information technology systems. As a result, individuals could inappropriately change data and Treasury would not have a readily available mechanism to determine who accessed the data and what activity occurred. Due to the sensitive and critical nature of data on the systems, Treasury must have proper controls in place to manage access and log activity.

5. Strengthen Internal Controls over Disbursement Processing. Treasury reconciles check payment totals to CARS or other originating systems to ensure accuracy of processing. Treasury uses “payee match positive pay” processing with certain accounts where the amount and volume of checks is large, which makes the banks responsible for verifying data before clearing the disbursements. However, Treasury personnel have internal access to make certain check alterations before disbursement. Treasury should evaluate viable options to mitigate this risk. These options can include payee match for all disbursements or an internal reconciliation process.
6. Update Risk Assessment and Test Business Continuity Plan. Treasury last updated their risk assessment in July 2003 and has not consistently tested the business continuity plan and updated it to reflect any concerns noted during testing. Treasury also did not document the required annual review of the business impact analysis and the continuity of operations plan.

Health and Human Resources

Department of Health Professions (DHP)

1. Properly Complete Employment Eligibility Verification Forms. The Department is not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security. The audit reviewed twelve employees and found four instances where the employee did not date the I-9 form on or before the first day of employment, four employers did not date the I-9 form within three business days of the employee’s first day of employment, and two instances where the employer did not include the issuing authority, document number, and expiration date when recording documents to establish identity and employment eligibility.

Natural Resources

Department of Conservation and Recreation (DCR)

1. Properly Complete Employment Eligibility Verification Forms. DCR staff did not properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. A sample of ten I-9 forms was tested and all ten forms contained errors.

Department of Historic Resources (DHR)

1. Complete Information Security Program. DHR does not have a complete Information Technology (IT) Security Program that meets the minimum requirements outlined in the Commonwealth’s Information Technology Security Standard. While DHR maintains a certain level of security over IT systems and data and has improved most aspects of their IT Security Program, the Department has not developed all of the policies and procedures needed to complete their IT Security Program. DHR may want to work with the Department of Accounts to achieve adequate information security programs.

2. Improve Employment Eligibility Verification Process. DHR staff did not properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U. S. Citizenship and Immigration Services of the U. S. Department of Homeland Security in its Handbook for Employers. A sample of I-9 forms was tested and one employee had left blank their beginning employment date.

Public Safety

Department of Emergency Management (DEM)

1. Improve Internal Controls over Processes. Over the past year, DEM has experienced significant employee turnover in both the finance and human resources divisions and several positions remain vacant. This turnover has led to many new staff in key positions, increased individual workloads, and limited time to train new managers and staff. This resulted in numerous clerical errors, incomplete work, and improper processing of transactions. Also contributing to the problems is a lack of agency specific policies and procedures that the staff could use to perform their work.
2. Establish Policies and Procedures over Federal Reporting. DEM accounting records did not agree with the state match reported on the quarterly financial status reports submitted for fiscal 2007 related to the Public Assistance Grant. DEM accounting records contained more expenses than reported. The Department could not supply any support as to why the agency excluded amounts from the accounting records when reporting state match.
3. Improve Continuity and Disaster Recovery Plans. The Department does not have an adequate business impact analysis, risk assessment, continuity of operations plan, or disaster recovery plan. Inadequate documentation of the continuity of operations and disaster recovery plans places the confidentiality, integrity, and availability of the Commonwealth's sensitive and mission critical information at risk.



Risk Alerts - Quarter Ended June 30, 2008

The APA encounters issues, which are reported as risk alerts, that are beyond the corrective action of management and require the action of either another agency, outside party, or a change in the method by which the Commonwealth conducts its operations. The following agencies were identified as having risk alerts:

Secretary of Finance
Department of Accounts
Virginia Information Technologies Agency and the Rest of State Government

Modernize Financial Systems and Processes.

Financial Systems:

The Commonwealth's current accounting systems are all over 20 years old or older and have passed their normal life cycle, and are fundamentally at risk of a failure where either the vendor or expertise of keeping the system operating could become unsustainable. Current accounting systems limit the ability to expedite the financial reporting process. Statewide systems use an outdated programming language.

Financial Processes:

The Department of Accounts is actively improving the process used to prepare the Commonwealth's Comprehensive Annual Financial Report using a risk based approach. Since the timeframe for implementing a new financial system is uncertain, Accounts must continue to seek more efficient and effective methodologies for managing the current statewide systems and accumulating and analyzing data. This includes evaluating the guidelines in the Commonwealth Accounting Policies and Procedures Manual to ensure the guidelines are up-to-date and appropriate. In addition, as Accounts performs reviews of agencies' processes, they should evaluate the efficiency and effectiveness of the processes and make recommendations for improvements.

Secretary of Finance
Department of Accounts
Department of Minority Business Enterprise
Virginia Information Technologies Agency and the Rest of State Government

Improve Service Arrangements between Agencies.

APA continues to advocate that smaller agencies use larger agencies for business functions, such as accounting, budgeting, information security, or personnel resources. Smaller agencies do not have resources to adequately process financial transactions, personnel and payroll, procurement, and other administrative processes, while at the same time maintain adequate segregation of functions to provide basic internal controls and management oversight of public resources. The APA recommends that the Secretaries of Administration, Finance, and Technology should work with the Departments of Accounts, General Services, Planning and Budget, Human Resources Management, and the Virginia Information Technologies Agency to develop and implement an administrative agreement for all back office operations, including information security, management oversight, and internal controls, to provide these functions to agencies that need them.

Secretary of Finance
Department of Accounts
Virginia Information Technologies Agency and the Rest of State Government

Collect Information in the Commonwealth Portfolio.

Accounting standards will require the Commonwealth to accumulate and capitalize the cost associated with both new and legacy computer systems. The Virginia Information Technologies Agency's (VITA) Project Management Division (PMD) has developed a computerized tool, known as the Portfolio, which will capture system development information. DOA and VITA should work together to develop data exchange standards so the Portfolio can capture all required information and eliminate any unnecessary duplicate data entry.

Department of Accounts
Department of Taxation

Security Risk Assurance for Infrastructure.

The agency heads of the Departments are responsible for the security and safeguarding of the Departments' information technology systems and information. Over the past four years the Commonwealth has moved the information technology infrastructure supporting the databases to the Virginia Information Technologies Agency (VITA), which has an Information Technology (IT) partnership with Northrop Grumman. The departments have provided VITA with all the required documentation to assess the adequacy of security. However, VITA has not been able to provide the departments with assurance that VITA can provide hardware and software configurations that satisfy security requirements. In addition, a special audit of the Information Technology Partnership (IT Partnership) between VITA and Northrop Grumman indicated the IT Partnership staff did not have a formal, documented infrastructure change control process, and also disclosed that the Partnership did not have formal documented policies and procedures and had insufficient administrative controls and logical access controls.

Department of Conservation and Recreation (DCR)

Complete Information Technology (IT) Security Program.

DCR is responsible for the security and safeguarding of all its information technology systems and information, but does not have a complete IT security program that meets the requirements outlined in the Commonwealth's IT Security Standard. Some aspects of their program are the responsibility of the Virginia Information Technologies Agency (VITA) and Northrop Grumman Infrastructure Partnership (NG) and DCR will continue to need to work with VITA to ensure those areas are appropriately addressed. Further, except for one programmer, all of the DCR IT support employees are now NG employees. With the NG employees beginning to be reallocated, DCR will lack internal resources to perform basic IT administrative duties that did not transfer to VITA.

Efficiency Issues – Quarter Ended June 30, 2008

During the course of its audits, the APA observes agency practices, processes, or procedures that management should consider for review to improve efficiency, reduce risk, increase accuracy, or otherwise enhance their operations. These matters, which are reported as efficiency issues, do not require management's immediate action and may require the investment of resources to provide long-term benefit.

No efficiency issues were reported for the quarter ended June 30, 2008.

Special Reports – Quarter Ended June 30, 2008

The APA issued the following Special Reports for the quarter. The full text of these reports is available at www.apa.virginia.gov.

Comparative Report of Local Government Expenditures and Revenues for the year ended June 30, 2007

Review of Agency Performance Measures for the year ended June 30, 2007*

Review of Cost Allocation Plan, Billing, and Collections for the Virginia Information Technologies Agency, June 2008*

Review of Non-General Fund Revenue Forecasting Process Final Report*

Review of the Budget and Appropriation Processing Control System Report on Audit for the year ended June 30, 2007*

Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2007*

Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2008 to March 31, 2008*

Service Management Organization of the Virginia Information Technologies Agency, Interim Review of the Information Technology Partnership, February 29, 2008*

* Contains management control findings

Other Audit Reports Received – Quarter Ended June 30, 2008

The APA also issued the following other reports for the quarter. The full text of these reports is available at www.apa.virginia.gov.

A. L. Philpott Manufacturing Extension Partnership Report on Audit for the years ended June 30, 2006 and June 30, 2007

Indigent Defense Commission Report on Audit for the period July 1, 2006 through June 30, 2007*

State Corporation Commission Report on Audit for the years ended June 30, 2006 and 2007*

The Assistive Technology Loan Fund Authority Report on Audit for the year ended June 30, 2007*

Virginia Board of Bar Examiners Report on Audit for the period July 1, 2006 through June 30, 2007*

Virginia Outdoors Foundation Report on Audit for the year ended June 30, 2007

Virginia Small Business Financing Authority Report on Audit for the year ended June 30, 2007

Virginia State Bar Report on Audit for the year ended June 30, 2007*

Virginia's Workers Compensation Commission Report on Audit for the years ended June 30, 2006 and June 30, 2007*

* Contains management control findings



Status of Prior Audit Findings

The policy governing the Agency Response to APA Audits requires follow-up reports on agency workplans every 90 days until control findings are certified by the agency head as corrected. The status of corrective action information reported by agencies under this policy is included in this report.

It is important to note that the status reported is self-reported by the agencies and will be subject to subsequent review and audit.

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
<i>Department of General Services (DGS)</i>				
2007	07-01	Strengthen internal controls over capital asset useful life methodologies.	DGS is reviewing internal controls in connection with ARMICS work.	In progress
	07-02	Strengthen controls over capital project record keeping, closing, and capitalization processes.	DGS is reviewing internal controls in connection with ARMICS work.	In progress
	07-03	Update and comply with Virginia's state plan of operation for federal surplus property.	Further procedures are being developed by Warehouse management.	In progress
2006	06-01	Improve documentation and internal controls over fiscal operations.	DGS is preparing a risk assessment of the Fiscal Services Section in conjunction with ARMICS.	In progress
	06-03	Develop and implement policies and procedures for the surplus warehouses.	Further procedures are being developed by Warehouse management.	In progress
	06-04	Include mandated procedures in the surplus property manual.	Mandated procedures, including ARMICS requirements, will be incorporated in the written procedures.	In progress
	06-05	Increase awareness and use of the surplus property and disposal process.	Surplus is continuing research into transportation pick up service.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-06	Finalize and distribute real estate policies and procedures.	Real Estate Services is revising their policies and procedures in conjunction with ARMICS work.	In progress
	06-07	Improve internal controls over appointment of contract administrator.	DGS is reviewing internal controls in connection with ARMICS work.	In progress
<u>Virginia War Memorial Foundation</u>				
2007	07-01	Consolidate accounting processes and internal controls.	The Department of Veterans Services assumed responsibility for administrative support effective July 2008.	In progress
<u>Norfolk State University (NSU)</u>				
2007	07-01	Improve financial statement preparation process.	A new procedure has been developed to complete the more detailed fluctuation analysis, together with a review of prior year adjustments.	In progress
	07-02	Strengthen controls over capital project management. This is a repeat finding.	Corrective action underway. NSU needs to continue to review and revise capital outlay policies and procedures. The University Controller is reviewing the procedures.	In progress
	06-02		See 07-02.	
	07-03	Promptly tag all equipment.	As the current inventory for FY 2008 is conducted, the Fixed Asset Accountant will tag any items found that do not have tags.	In progress
	07-04	Properly complete Employment Eligibility Verification Forms.	Human Resources is developing processes to ensure forms are complete and correct. The Department is also developing a training program for human resources staff on the requirements of completing I-9 forms.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Eastern Shore Community College (ESCC)</u>				
2006	06-01	Comply with the Commonwealth's Security Standard, SEC 2001, and VCCS Standards.	The College purchased Roam Secure for the security awareness training program. The College also purchased MOAT, the online security training program. The training program was placed in operation on May 31, 2008.	Completed
<u>Wytheville Community College (WCC)</u>				
2006	06-01	Comply with the Commonwealth's Security Standard, SEC 2001, and VCCS Standards.	The College acquired the MOAT security awareness training system. Training was completed March 31, 2008. Policies and procedures were completed in the second SEC 501 compliance filing December 31, 2007.	Completed
<u>Virginia Highlands Community College (VHCC)</u>				
2006	06-01	Report payment data to NSLDS timely.	Cross training to ensure reports are made timely has been implemented. Additional reviews by the Financial Aid Officer and Director of Admissions, Records, and Financial Aid have been added to the process.	Completed
<u>Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS)</u>				
2007	07-01	Improve monitoring program over Community Service Boards.	The Offices of Community Services Administration, Internal Auditing, and Budget and Financial Reporting are developing a formal, documented risk assessment framework to evaluate field site reviews.	In progress
	07-02	Properly complete Employment Eligibility Verification Forms.	The Department has issued the Handbooks to all facility Human Resource Officers. The facilities are developing their own in-house policies.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-03	Improve security awareness training programs. This is a repeat finding.	The Department has taken adequate corrective action with respect to this audit finding.	Completed
	07-04	Improve contingency and disaster recovery planning. This is a repeat finding.	The Department believes the manual contingency plans are the responsibility of the service area and not IT.	In progress
	06-02	Expand security awareness training programs.	See 07-03 and 07-04.	
<u>Department of Juvenile Justice (DJJ)</u>				
2006	06-03	Strengthen controls over capital project procurement and capitalization.	The Department is producing updated policies and procedures to ensure files contain required information.	In progress
	06-04	Improve controls over Anthem contract.	A contract Project Monitor has been assigned to the Anthem contract. The balance forward is still unresolved.	In progress
	05-01	Improve controls over procurement records and contract administration.	See 06-03 and 06-04.	
<u>Department of Forestry (DOF)</u>				
2006	06-01	Strengthen internal controls over capital asset useful life methodologies.	Corrective action complete.	Completed
<u>Department of Education (DOE)</u>				
2007	07-01	Update and revise Risk Assessment Plan.	DOE has updated its 5-year old Plan.	Completed

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-02	Revise and document year end closing procedures.	Year end closing procedures have been revised and documented.	Completed
<u>Department of Planning and Budget (DPB)</u>				
2006	06-01	Complete an information security program.	DPB is purchasing an online security package, and training all employees.	In progress
	06-02	This is a repeated point. Improve documentation for appropriation adjustments.	DPB is reviewing and updating the Form 27 Manual, and is providing mandatory training for all budget analysts.	In progress
	05-02	Improve documentation for appropriation adjustments.	See 06-02.	
<u>Department of State Police (VSP)</u>				
2006	06-01	Information Technology Planning.	Limited progress made. VSP IT staff will review/modify the plan and perform gap analysis. Recommendations to resolve discrepancies will be made to Executive staff.	In progress
	06-02	Payroll.	Progress made. The Finance Division will perform the review after ARMICS deadlines are completed.	In progress
	06-03	Travel.	Progress made. The accounts payable Manager will perform the compliance review and desk procedures will be detailed enough to ensure thoroughness.	In progress
	06-04	Petty Cash and Charge Cards.	Progress made. Current VSP policy is being updated to make it clear when P&L approval is required. Finance is now stamping all SP299 forms.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-05	Fleet Management.	VSP has provided APA with the forms and summary reports which show maintenance performed, cost, and cost per mile operating cost. A SP-261 IT change request form has been submitted to authorize divisions' access to MAPPER vehicle maintenance history reports.	Completed
	06-06	System Access.	The ISO is periodically reviewing the VSP Special Orders and the list of personnel who have access. Payroll type 8 approval is now limited to 2 employees.	Completed
<u>Virginia Commonwealth University (VCU)</u>				
2007	07-01	Clear cash reconciling items timely.	The General Accounting Department is working to improve the reconciliation process in Banner.	In progress
	06-02	Departments should resolve cash reconciliation items timely.	See 07-01.	
	07-02	Improve employment eligibility verification process.	An annual training on legal aspects of hiring has been implemented. A formal Personnel Administrator program is being created.	In progress
<u>University of Virginia – Academic Division (UVA)</u>				
2007	07-01	Close out capital projects promptly.	A new internal control process has been installed. Two projects cited by the APA remain unclosed.	In progress
	07-02	Properly complete employment eligibility verification forms.	UVA created an Office of Compliance and Immigration Services, instituted mandatory training, and began monthly internal audits.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Christopher Newport University (CNU)</u>				
2006	06-01	Improve password management policies.	The finding was not repeated.	Completed
<u>University of Mary Washington (UMW)</u>				
2006	06-01	Develop policies and procedures. This is a repeat finding.	The finding was not repeated. The University developed several procedures and implemented ARMICS stages 1 and 2.	Completed
	05-01	Prepare written policies and procedures.	See 06-01.	
	06-02	Strengthen physical and environmental controls for critical information technology equipment.	The finding was not repeated.	Completed
<u>Virginia Employment Commission (VEC)</u>				
2007	07-01	Properly complete employment eligibility verification forms.	Human Resources is reviewing all I-9 forms. Additional training is being scheduled.	In progress
	07-02	Improve tax performance.	Field Operations is evaluating and pursuing opportunities to improve quality. Staff assignments were made to address quality issues in the UI program.	In progress
	07-03	Develop information security program. This is a repeat finding.	VEC has made significant progress. Untimely deletions continue to be an area of concern.	In progress
	06-01		See 07-03.	
	07-04	Continue efforts to improve entered participant data. This is a repeat finding.	VEC has made progress towards resolution. Field Operations is aggressively conducting compliance testing and monitoring activities of the Local Areas. Reviews are on schedule and reports are up to date.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-03		See 07-04.	
<u>Radford University (RU)</u>				
2006	06-02	Update the business continuity plan.	The finding was not repeated.	Completed
<u>Department of Health (VDH)</u>				
2007	07-01	Update and expand security awareness training.	Training materials have been updated. A web-based security awareness program has been piloted in the districts.	In progress
	07-02	Improve contingency and disaster recovery planning.	VDH Internal Audit has identified additional areas needing improvement. The ISO has worked with application owners to implement corrective actions.	In progress
	07-03	Properly complete Employment Eligibility Verification Forms.	Corrective action has been completed and will also be ongoing as a preventative measure.	Completed
<u>Department of Social Services (DSS)</u>				
2007	07-01	Improve system access controls. This is a repeat finding.	The SAMS Instruction Manual was updated as of February 15, 2008. SAMS is also used to identify access and refresh efforts as well. Local agencies have to identify all exceptions before the Central Office will start conversions.	Completed
	06-17	Properly manage access to information systems. This is a repeat finding.	See 07-01.	
	05-02		See 06-17.	

Status Report on Resolution of Prior APA Audit Findings

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Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-02	Improve notification and timely reduction of benefits when clients are not cooperating with Division of Child Support Enforcement. This is a repeat finding.	A new report, DCSE Non-Cooperation Alerts Report, was made available to local staff on February 11, 2008. The report lists non-cooperators by caseload, FIPS, region, and statewide. The report is being used by state staff to monitor compliance.	Completed
	06-01	Improve case file documentation for temporary assistance to needy families.	See 07-02.	
	07-03	Define responsibilities for monitoring locality operations. This is a repeat finding.	Regional Manager and Local Review Team positions have been filled. Employee work profiles have been updated to show local budget monitoring responsibilities.	Completed
	06-04	Expand budgeting to include total locality operations, not just by program or budget line.	See 07-03.	
	06-05	Define budget oversight responsibilities.	See 07-03.	
	07-04	Align plan for monitoring local social services offices with best practices.	The Coordinator's position has not been filled. Division directors are researching comprehensive risk assessment tools. Local department options regarding compliance with program requirements are being reviewed and recommendations prepared.	In progress
	07-05	Establish procedures for controlling the cash in the Child Support Enforcement Fund.	Procedures were rewritten and reviewed with staff. Transfers are being reviewed and approved by knowledgeable staff. Special funds are being watched and reconciled by the Fiscal Director responsible for the Disbursements Unit.	Completed

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-06	Systems development policies and procedures need improvement and updating.	The Software Lifecycle Development Methodology has been revised to comply with Commonwealth Standards. Service Requests are tracked by the Weekly Review Committee and are tracked in the SR Database. The ITIM Manual has been revised. DSS feels that VITA should establish a statewide protocol to determine IS lifetimes.	Completed
	06-02	Improve usage of income eligibility and verification system and case file documentation.	The finding was not repeated.	Completed
	06-06	Budget adjustments and budget execution oversight.	The finding was not repeated.	Completed
	06-08	Improve documentation of Medicaid cases.	The finding was not repeated.	Completed
	06-09	Establish control mechanisms for adult services payments.	The finding was not repeated.	Completed
	06-11	Establish adequate controls and separation of duties in collection of child support payments.	The finding was not repeated.	Completed
	06-12	Establish adequate controls over the payroll and human resources functions.	The finding was not repeated.	Completed
	06-13	Follow established policies over small purchase charge card program.	The finding was not repeated.	Completed
	06-18	Maintain a tracking system for local employees. This is a repeat finding.	Corrective action complete. A supervisor and two staff verify monthly the employee information for each local agency.	Completed

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	05-04	Maintain a tracking system for local employees.	See 06-18.	
	06-19	Establish controls for foster care and adoption payments. This is a repeat finding.	The finding was not repeated.	Completed
	05-05	Establish controls for foster care and adoption payments.	See 06-19.	
<u>Department of Medical Assistance Services (DMAS)</u>				
2007	07-01	Improve controls over leases.	The Director has certified that the agency has completed all corrective action related to this finding.	Completed
2006	06-01	Address findings in internal audit report.	The finding was not repeated. They have completed their corrective action plan.	Completed
<u>Department of Rehabilitative Services (DRS)</u>				
2007	07-01	Update and expand security awareness training.	DRS is updating its security awareness training program. DRS is using the DHRM Knowledge Center to track employees' initial training and periodic refresher training.	In progress
	07-02	Improve data protection.	DRS must use the Claims Processing System as required by the U. S. Social Security Administration. DRS hopes to resolve the issue by using secure File Transfer Protocol (FTP).	In progress
	07-03	Limit CIPPS access for Woodrow Wilson Rehabilitation Services employees.	With the addition of a fourth payroll position at the DRS site, fiscal staff at the WWRC will have "view only" access to CIPPS.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-04	Remove an employee's ability to create and approve payroll payments.	With the addition of a fourth payroll position at the DRS site, dual access is no longer required. The employee's dual access has been removed.	In progress
<u>Department of Motor Vehicles (DMV)</u>				
2007	07-01	Properly complete Employment Eligibility Verification Forms.	Human Resource staff have been trained and are reviewing all files of employees hired since January 1, 2004. DMV will continue to review the ongoing process.	In progress
<u>Department of Transportation (VDOT)</u>				
2007	07-01	Properly complete Employment Eligibility Verification Forms.	VDOT Human Resources staff have established new internal controls, prepared training tools, and established a transactional review process.	In progress
<u>The College of William and Mary in Virginia (CWM)</u>				
2006	06-01	Improve financial statement preparation process. This is a repeat finding.	The College is continuing to work with the Banner financial system vendor and other Virginia schools also using Banner to improve the reporting process.	In progress
	05-01	Test financial statement preparation process.	See 06-01.	
<u>Virginia Racing Commission (VRC)</u>				
2007	07-01	Comply with the Commonwealth's Security Standard, ITRM Standard SEC 501 (formerly SEC 2001).	The Commission requested that VITA assure VRC that the standards used to operate the operating system meet current security standards.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-01	Update and document information security program.	See 07-01.	
<u>The Science Museum of Virginia (SMV)</u>				
2006	06-01	Clarify the status of the Gift Shop operations.	The Board of Trustees and Museum management are working to enhance operational performance and strengthen management accountability.	In progress
	06-02	Enforce Small Purchase Charge Card procedures.	See 06-01.	
	06-03	Document departures from State practice.	See 06-01.	
	06-04	Review and establish cash depositing practices.	See 06-01.	
	06-05	Examine data system security and other computer considerations.	See 06-01.	
	05-01	For the 4 th year, SMV experienced material financial difficulties.	See 06-01.	
	04-01	Improve cash management.	See 05-01.	
<u>Attorney General and Department of Law (OAG)</u>				
2007	07-01	Finalize information security program.	Significant progress has been made towards resolving this repeated point.	In progress
	06-01	Complete an information security program.	See 07-01.	

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Department of Minority Business Enterprise (DMBE)</u>				
February 1, 2006 through January 31, 2007	06-01	Update on prior year recommendations. This is a repeat finding.	Corrective action taken. General Services took over the fiscal, budgetary, and procurement functions. The Payroll Service Bureau handles payroll maintenance. Two memorandums with VDOT have been signed. A plan to improve controls over cell phones has been implemented.	Completed
	04-01	Enhance the housing agreement.	See 06-01.	
	04-03	Update memorandum of understanding and funding plan with VDOT.	See 06-01.	
	04-04	Improve controls over cell phone usage.	See 06-01.	
	06-02	Document information security program.	Corrective action taken. The agency is training its staff on IT security. DMBE hopes to use the new DOA security officers to assist DMBE.	Completed
<u>State Corporation Commission (SCC)</u>				
2005	05-01	Implement a complete and current information security system.	Corrective action underway. The Commission has been implementing systems and controls recommended after hiring Accenture, a consulting firm.	In progress
<u>Department of Environmental Quality (DEQ)</u>				
2007	07-01	Properly complete Employment Eligibility Verification Forms.	Office Managers and Human Resources staff review and copy original required documents. HR staff have taken the DOA I-9 training. HR team leaders conduct a quality assurance review.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Department of Forensic Science (DFS)</u>				
2006	06-01	Establish and implement an information security program.	DFS implemented its IT security policy in accordance with VITA requirements. DFS contracted with North Highland to develop comprehensive security documentation.	Completed
<u>Department of Veterans Services (DVS)</u>				
April 1, 2006 Through June 30, 2007	07-01	Reconcile patient revenue system to the Commonwealth's Accounting System.	The VVCC accounting position has been filled and the policies and procedures have been drafted and are being reviewed. Initial work on reconciliation is beginning. The target date is September 2008.	In progress
	07-02	Properly prepare reconciliations in a timely manner. This is a repeat finding.	Policies and procedures for petty cash and trust fund accounts have been written and implemented at Sitter Barfoot. They will be modified for staffing pattern differences and used at VVCC as well.	In progress
	06-03	Improve petty cash controls.	See 07-02.	
	07-03	Improve debt collection efforts and account write-offs. This is a repeat finding.	Corrective action underway. New collection procedures are being formulated. Accounts receivable are reviewed at least quarterly.	In progress
	06-13		See 07-03.	
	05-05		See 06-13.	
	07-04	Establish adequate controls over cemetery funds.	Policies and procedures have been written and are being reviewed to handle federally reimbursed interments and spousal and dependent interments at the cemeteries.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-05	Establish a complete information security plan to comply with COV Security Policy. This is a repeat finding.	Corrective action underway. DVS has begun coordinating the development of the complete plan as individual policies and procedures are completed.	In progress
	07-06	Establish sufficient access policies and ensure appropriate system access. This is a repeat finding.	Corrective action underway. DVS has published policies regarding use of personal laptops and controlling veterans' information. DVS will obtain assistance from VITA to assess security around the newly installed Financial Management System (FMS); also the FY 2007 VITA contract is now modified to provide additional system security.	In progress
	06-08	Information systems security assurance	See 07-06.	In progress
	07-07	Comply with the health insurance portability and accountability act.	DVS has signed a memorandum of understanding with Rehabilitative Services to provide assistance in complying with HIPAA regulations.	In progress
	07-08	Appropriately segregate information system service duties.	DVS is reviewing the segregation of information system service duties and is working to mark policies not yet reviewed as "draft." The target date is Dec. 2008.	In progress
	07-09	Establish adequate controls over the Payroll and Human Resources functions.	Two policies and two statements of operating procedures have been drafted and are being reviewed.	In progress
	07-10	Periodically review employee classifications under the Fair Labor Standards Act. This is a repeat finding.	Two statements of operating procedures have been drafted and are being reviewed.	In progress

Status Report on Resolution of Prior APA Audit Findings

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Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-11	Develop a plan for utilizing federal veterans' subsidy funds. This is a repeat finding.	Corrective action complete. DVS corrected the accounting classification of the federal VA subsidy funds. The use of the funds at the Care Centers was reviewed. The review resulted in the funds being included in the DVS Six Year Revenue Plan.	Completed
	06-12	Implement and monitor procedures to ensure proper use of funds.	See 07-11.	
	05-04		See 06-12.	
	07-12	Comply with the Davis-Bacon Act. This is a repeat finding.	DVS signed a memorandum of agreement with DMHMRSAS to provide architectural and engineering services to manage capital projects.	Completed
	07-13	Establish adequate budgets for individual cost centers.	Budgets for both care centers and all other programs have been entered in the financial management system and reports are being distributed to management staff.	Completed
	07-14	Appropriately allocate administrative costs. This is a repeat finding.	Corrective action underway. Changes have been identified for allocating administrative costs for FY 2007.	In progress
	06-07	Appropriately allocate administrative costs.	See 07-14.	
	07-15	Implement appropriate controls over inventory.	DVS believes that standards such as cost per meal and drugs prescribed are better ways to manage activities. Cost and variance analysis should drive changes in inventory practices.	In progress
	07-16	Establish adequate internal controls over fixed assets. This is a repeat finding.	Corrective action underway. Policies and procedures are written. Staff have received FAACS training and are entering data.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-15	Properly manage fixed assets.	See 07-16.	
	07-17	Properly report construction in progress. This is a repeat finding.	Corrective action complete. The CIP account was closed effective June 30, 2008.	Completed
	06-04		See 07-17.	
	07-18	Establish other administrative policies. This is a repeat finding.	Corrective action complete. DVS issued a purchasing guide on 10/1/2007. The purchasing charge card program policy was distributed on 9/19/2007. Seven other policies, including using small and minority owned businesses, were issued in February 2008.	Completed
	06-09	Improve voucher documentation and compliance with procurement and payment policies.	See 07-18.	
	06-05	Establish and implement adequate policies and procedures over the Veterans Services Foundation.	See 07-18.	
<u>Department of Corrections (DOC)</u>				
2006	06-01	Strengthen controls over capital project closing and capitalization processes.	Responsibilities of various units in the procedures related to the capital project closeout and capitalization processes have been determined and reorganization of resources is being planned.	In progress
	06-02	Strengthen controls over capital asset useful life methodologies.	Various alternative approaches for reevaluating asset useful lives have been explored, but a final selection has not been made.	In progress

Status Report on Resolution of Prior APA Audit Findings

As of June 30, 2008

Latest Audit Year	Finding Number	Title of APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-03	Strengthen procedures over agency transaction vouchers. This is a repeat finding.	DOC emailed facilities to have both preparers and approvers sign and date ATVs. DOC did not modify the form to require both signatures and dates.	In progress
	05-03		See 06-03.	
<u>Department of Criminal Justice Services (DCJS)</u>				
2006	06-02	Comply with the Commonwealth's Security Standard, SEC 2001.	The Department is implementing VITA Data Security Policies and Procedures. Users are required to participate in an annual web-based security awareness training program.	In progress
<u>Department of Fire Programs (DFP)</u>				
2006	06-01	Comply with the Commonwealth's Security Standard, SEC 2001.	The Department is establishing data security policies and procedures, including logical access, physical access, logging and monitoring.	In progress



Compliance Monitoring

Confirmation of Agency Reconciliation to CARS Reports

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 the confirmation of agency reconciliation to CARS reports.

DOA closely monitors confirmation status, evaluates exceptions, and posts correcting entries in CARS. Confirmations for March, April, May and June* were due 4/30/08, 5/31/08, 6/30/08 and 7/18/08, respectively.

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

Confirmations Late or Outstanding

As of July 30, 2008

<u>Agency</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun*</u>
State Board of Elections	-	7/2/08	-	-
Germanna Community College	-	-	-	7/29/08

Key: O/S – Confirmation is outstanding
DATE – The date received by DOA

* The FY 2008 Year-End Closing Memorandum to the heads of all state agencies and institutions and all fiscal officers required that the final June Confirmation be received in the Comptroller's Office by 5:00 p.m. on July 18, 2008. Faxed copies were accepted on July 18, with the expectation the original would be received by July 23, 2008

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 June 30, 2008, 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 anomalies and investigate and correct immediately. If the anomaly cannot be corrected at the agency level, the problem should be noted on the exception register.

DOA monitors selected general ledger balances and contacts agencies in writing about certain irregular balances. For the quarter ended June 30, 2008, no agencies failed to respond timely, make corrective action and/or provide additional information.

Trial Balance Review

As of July 30, 2008

<u>Agency</u>	<u>March</u>	<u>April</u>	<u>May</u>
None			

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 versus expenditure anomalies. For the quarter ended June 30, 2008, no agencies failed to respond timely, make corrective action and/or provide additional information.

Credit Cash, Excess Expenditures, and Expenditure Credits

As of July 30, 2008

Agency	March	April	May
None			

Disbursement Processing

During the quarter ended June 30, 2008, DOA deleted, at the submitting agency's request, 46 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.

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

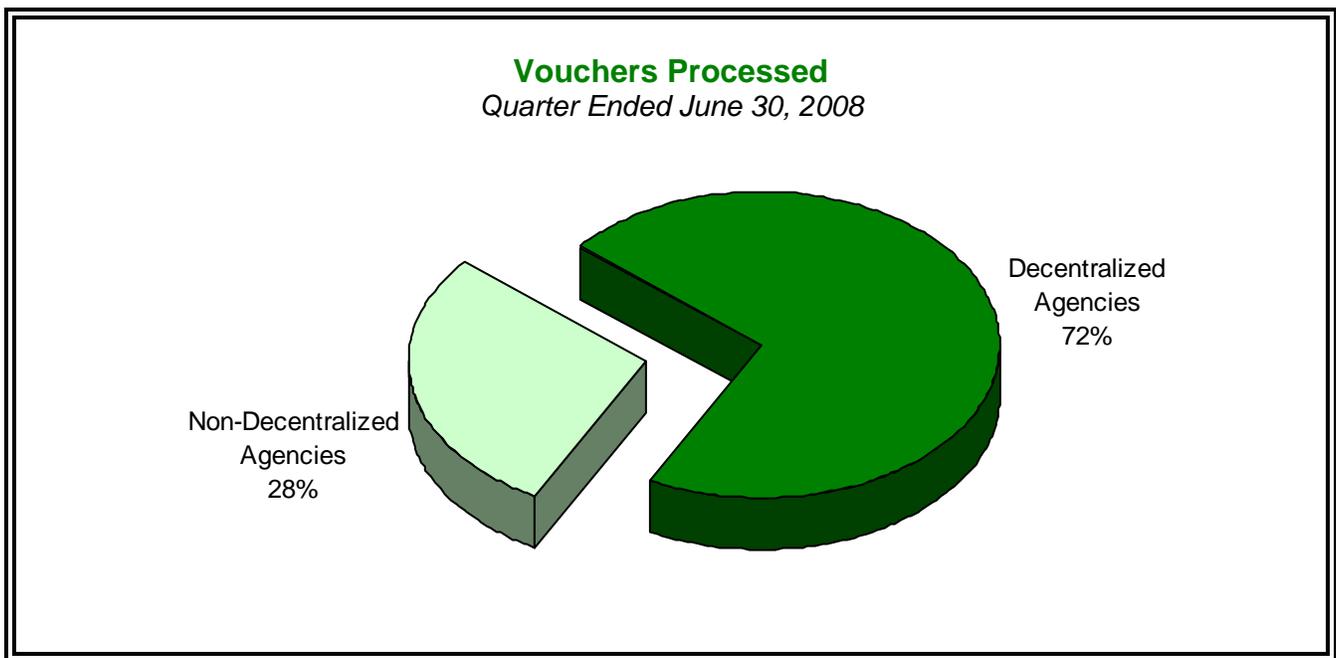
- Department of Transportation
- Virginia Polytechnic Institute and State University



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

Beginning with the quarter ended December 31, 2007, DOA has changed the way deficiencies under the Decentralized Agency Review program are reported. In the past, the focus was on the quantity of findings. The new approach will emphasize the impact and effect of the findings on overall compliance with the applicable sections of the Commonwealth Accounting Policies and Procedures Manual.

Agencies considered deficient in their compliance responsibilities are required to develop a formal corrective action plan and are subject to a follow-up review 90 days after its implementation. Compliance improvement recommendations are made to most agencies, even those who are considered compliant overall. Recommendation implementation effectiveness is considered in future reviews in determining overall compliance levels and the corresponding

requirement for corrective action plan development.

Compliance reviews were conducted for ten decentralized agencies during the quarter. The agencies were evaluated for compliance with the following sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual:

- CAPP Topic 20310 - *Expenditures*
- CAPP Topic 20315 - *Prompt Payment*
- CAPP Topic 20330 - *Petty Cash*
- CAPP Topic 20335 - *State Travel Regulations*
- CAPP Topic 20336 - *Agency Travel Processing*
- CAPP Topic 20345 - *Moving and Relocation*
- CAPP Topic 20355 - *Purchasing Charge Card*

Compliant Agencies

Bland Correctional Center
Central Virginia Community College
Department of Environmental Quality
Eastern State Hospital
Greensville Correctional Center
Indigent Defense Commission
John Tyler Community College
Lunenburg Correctional Center
Northern Virginia Mental Health Institute (1)

(1) This was a follow-up review.

Agencies Requiring Corrective Action

Southwest Virginia Community College

Corrective Action Required

Travel: Incorrect Application of Mileage Reimbursement Policy; Lodging Costs Exceeding State Limits; and Travel Expense Reimbursement Vouchers Not Approved in a Timely Manner.

Vendor Payments: Vendor Payments Not in Compliance With Prompt Payment Requirements.



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 all non-decentralized agencies. A total of 1,533 non-travel disbursement batches and 483 travel disbursement batches were reviewed, disclosing 25 exceptions that were resolved prior to releasing the transactions for payment.



Prompt Payment Compliance

The *Code of Virginia* 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 Ended June 30, 2008		Fiscal Year 2008 To-Date		Comparative Quarter Ended June 30, 2007	
	Late	Total	Late	Total	Late	Total
Number of Payments	5,237	614,110	26,044	2,385,194	4,904	643,648
Dollars (in thousands)	\$ 28,121	\$ 1,607,328	\$ 142,602	\$ 6,150,510	\$ 26,459	\$ 1,530,422
Interest Paid on Late Payments				\$55,506		
Current Quarter Percentage of Payments in Compliance				99.1%		
Fiscal Year-to-Date Percentage of Payments in Compliance				98.9%		
Comparative Fiscal Year 2007 Percentage of Payments in Compliance				98.8%		



Prompt Payment Performance by Secretarial Area

Quarter Ended June 30, 2008

<u>Secretarial Area</u>	<u>Payments in Compliance</u>	<u>Dollars in Compliance</u>
Administration	99.5%	97.6%
Agriculture and Forestry	99.7%	99.5%
Commerce and Trade	98.2%	99.3%
Education*	99.1%	98.4%
Executive Offices	98.2%	96.8%
Finance	99.6%	99.8%
Health and Human Resources	98.9%	99.1%
Independent Agencies	99.6%	99.8%
Judicial	99.9%	99.9%
Legislative	99.9%	99.9%
Natural Resources	99.6%	99.0%
Public Safety	99.5%	97.9%
Technology	98.9%	98.3%
Transportation*	99.5%	96.9%
Statewide	99.1%	98.3%

Prompt Payment Performance by Secretarial Area

Fiscal Year 2008

<u>Secretarial Area</u>	<u>Payments in Compliance</u>	<u>Dollars in Compliance</u>
Administration	99.4%	97.7%
Agriculture and Forestry	99.5%	99.0%
Commerce and Trade	98.7%	99.1%
Education *	98.7%	98.0%
Executive Offices	98.0%	94.6%
Finance	99.8%	99.9%
Health and Human Resources	99.0%	98.0%
Independent Agencies	99.0%	99.6%
Judicial	99.7%	99.7%
Legislative	99.9%	99.4%
Natural Resources	99.5%	98.7%
Public Safety	99.4%	96.8%
Technology	99.0%	96.4%
Transportation*	99.0%	97.1%
Statewide	98.9%	97.7%

* 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 may include local payments. These agencies and institutions are decentralized for vendor payment processing.

For the quarter ended June 30, 2008, 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 Percent**
Quarter Ended June 30, 2008

<u>Agency</u>	<u>Late Payments</u>	<u>Total Payments</u>	<u>Payments in Compliance</u>
Education			
New College Institute	8	97	91.8%
Executive Offices			
Office of Workforce Development	6	57	89.5%

For FY 2008, 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 Percent**
Fiscal Year 2008

<u>Agency</u>	<u>Late Payments</u>	<u>Total Payments</u>	<u>Payments in Compliance</u>
Education			
New College Institute	53	457	88.4%

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. Other agencies of the Commonwealth that are responsible for payment processes outside of those processed centrally have also embraced e-commerce initiatives (e.g., VEC, DSS). As a result, the methodology for accumulating the Statewide E-Commerce Performance Statistics has been modified to include additional payments made by these agencies. The comparative quarter and year-to-date amounts have been restated to account for the new methodology. 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 June 30, 2008			Comparative Quarter Ended June 30, 2007 as restated
	E-Commerce	Total	Percent	Percent
Number of Payments	2,114,224	2,946,474	71.8%	69.5%
Payment Amounts	\$ 8,127,787,607	\$ 9,506,279,631	85.5%	85.2%
	Fiscal Year 2008 To-Date			Comparative Fiscal Year 2007, as restated
	E-Commerce	Total (a)	Percent	Percent
Number of Payments	8,065,038	10,662,784	75.6%	56.1%
Payment Amounts	\$ 31,188,285,100	\$ 36,700,900,828	85.0%	84.0%

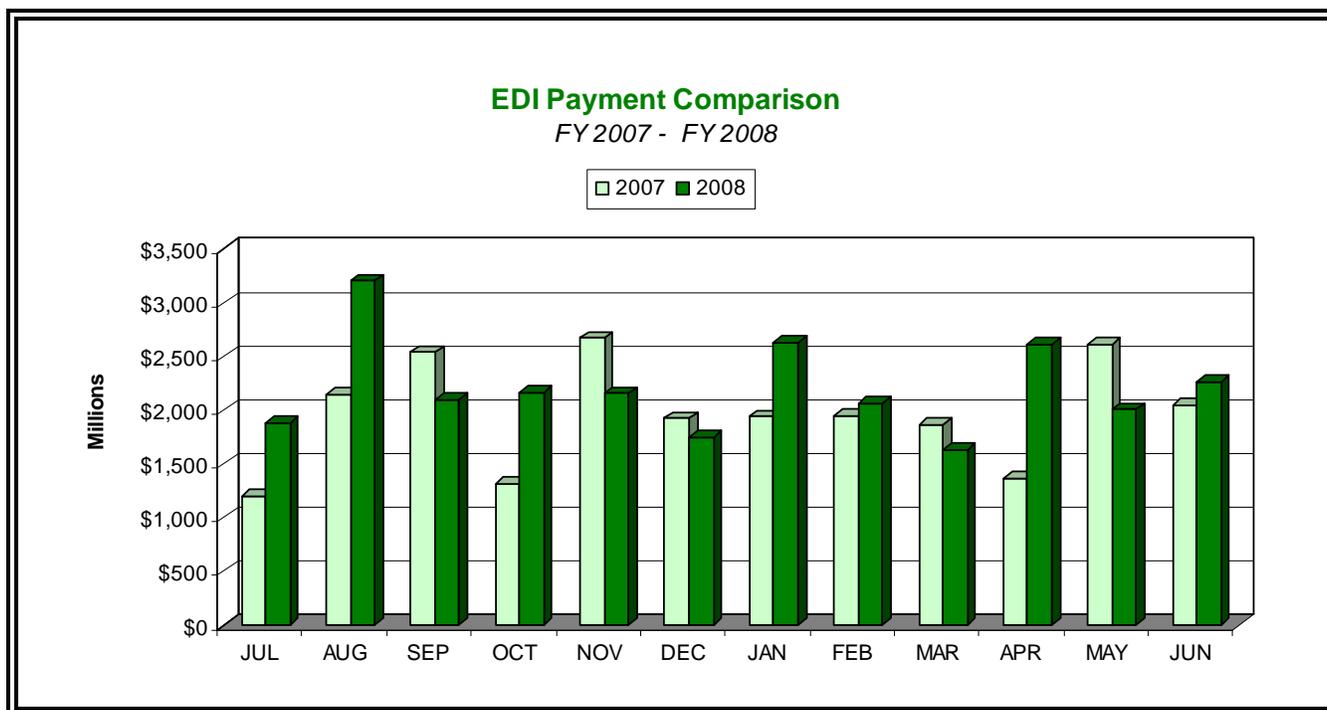
Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the fourth quarter of FY 2008 were \$859 million (14.2 percent) more than the same quarter last year. The number of trading partner accounts increased by 8.2 percent

from June 2007. 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 June 30, 2008	Fiscal Year 2008 To-Date	Comparative FY 2007 To-Date
Number of Payments	60,176	201,740	197,437
Amount of Payments	\$ 6,899,970,492	\$ 26,503,303,513	\$ 23,598,688,401
Number of Invoices Paid	222,350	803,154	784,278
Estimated Number of Checks Avoided	87,327	315,445	312,533
Number of Trading Partner Accounts as of 06/30/2008		46,824	43,280



Travel EDI

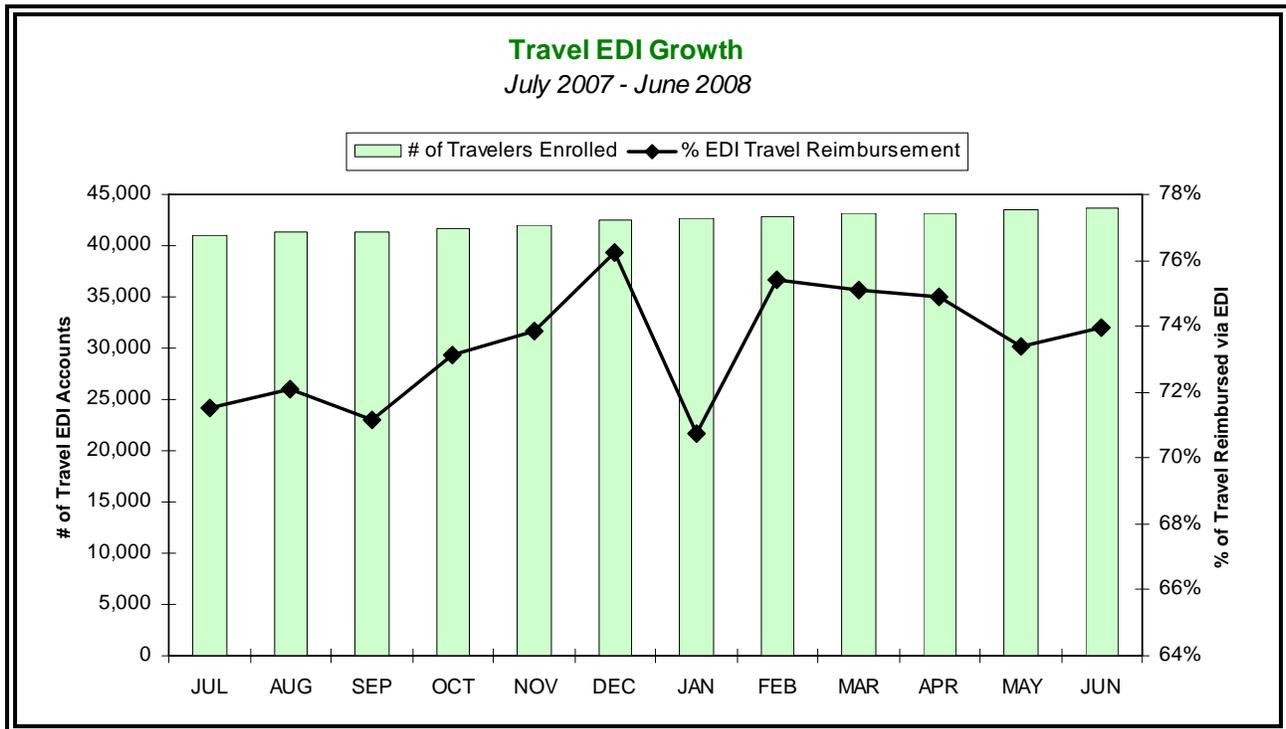
Expansion of the Travel EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI. DOA notified agencies 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 §4-5.04g of the Appropriation Act, the Comptroller charges agencies for each travel reimbursement check issued in lieu of Travel EDI. Agencies are expected to take action to enroll applicable employees in the EDI program and thus avoid the fees altogether. For FY 2008, the fee is \$5 per travel reimbursement check.

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 June 30, 2008

Secretarial Area	Employee Percent	Non-Employee Percent	Reimbursement Checks Issued
Administration	81.2%	3.9%	59
Agriculture and Forestry	95.6%	18.9%	93
Commerce and Trade	97.0%	72.4%	147
Education (1)	86.9%	16.9%	1,878
Executive Offices	96.1%	9.7%	42
Finance	98.1%	45.0%	27
Health and Human Resources	93.9%	44.7%	1,019
Independent Agencies	94.7%	0.0%	102
Judicial	15.7%	3.1%	4,512
Legislative	96.6%	31.3%	65
Natural Resources	96.4%	55.6%	111
Public Safety	88.7%	5.0%	962
Technology	68.7%	15.4%	58
Transportation (1)	79.0%	20.0%	492
Statewide for Quarter	80.9%	25.0%	9,567
<i>Fiscal Year 2008 To-Date</i>			
Statewide	80.6%	22.5%	36,643
<i>Comparative Fiscal Year 2007 To-Date</i>			
Statewide	79.6%	17.6%	41,221

(1) Statistics do not include agencies and institutions decentralized for vendor payment processing.

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. Beginning the 1st quarter of FY 2009, the threshold for reporting Employee EDI participation will increase to 85 percent.

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

Agency	Percent	Reimbursement Checks Issued
Education		
Norfolk State University	47.5%	128
Judicial		
Supreme Court	4.3%	1,360
Magistrate System	4.0%	214
Circuit Courts	3.3%	723
General District Courts	2.4%	445
Combined District Courts	1.6%	306
Juvenile and Domestic Relations District Courts	1.2%	420
Court of Appeals of Virginia	0.0%	71
Public Safety		
Western Regional Correctional Field Units	53.5%	27
Technology		
Virginia Information Technologies Agency	68.9%	46
Transportation		
Department of Transportation	72.2%	376

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**

Agency	Percent	Reimbursement Checks Issued
Agriculture and Forestry		
Department of Agriculture and Consumer Services	5.6%	51
Education		
Department of Education	5.0%	494
Christopher Newport University	0.0%	62
Virginia Commission for the Arts	0.0%	50
Virginia Military Institute	0.0%	43
The Library of Virginia	0.0%	26
Health and Human Resources		
Department of Mental Health, Mental Retardation and Substance Abuse Services	9.1%	80
Judicial		
Juvenile and Domestic Relations District Courts	6.7%	56
General District Courts	5.0%	57
Circuit Courts	4.4%	454
Indigent Defense Commission	3.5%	55
Virginia State Bar	0.0%	273
Natural Resources		
Department of Conservation and Recreation	3.6%	27
Public Safety		
Department of Forensic Science	0.0%	168
Department of Veterans Services	0.0%	39
Department of Criminal Justice Services	0.0%	36
Commonwealth's Attorneys' Services Council	0.0%	32
Department of Emergency Management	0.0%	27
Transportation		
Towing and Recovery Operations	8.1%	34

The following table lists agencies that have accumulated more than \$250 in employee EDI check charges for the fiscal year and have a utilization rate below 80 percent. Agencies are charged for each travel reimbursement check issued to an employee after their second check of the fiscal year.

For FY 2008, the charge is \$5 per check. These statistics indicate noncompliance with §4-5.04f.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 Non-Compliance Travel Check Charges
Utilization Below 80 Percent**

Agency	Percent	Year-to-date Charges
Education		
Norfolk State University	47.5%	\$ 980
Health and Human Resources		
Department of Social Services	78.1%	685
Judicial		
Supreme Court	4.3%	5,800
Magistrate System	4.0%	2,870
Circuit Courts	3.3%	10,460
General District Courts	2.4%	5,025
Combined District Courts	1.6%	3,935
Juvenile and Domestic Relations District Courts	1.2%	5,175
Court of Appeals of Virginia	0.0%	875
Public Safety		
Western Regional Correctional Field Units	53.5%	260
Technology		
Virginia Information Technologies Agency	68.9%	415
Transportation		
Department of Transportation	72.2%	1,815



Direct Deposit

During the fourth quarter of FY 2008, 486,863 checks were avoided using direct

deposit. Agencies are expected to take proactive steps to improve participation rates.

Direct Deposit Performance by Secretarial Area

Quarter Ended June 30, 2008

<u>Secretarial Area</u>	<u>Direct Deposit % of Salaried Employees</u>	<u>Direct Deposit % of Wage Employees</u>
Administration	93.0%	83.3%
Agriculture and Forestry	95.8%	55.9%
Commerce and Trade	98.0%	87.8%
Education	98.3%	74.9%
Executive Offices	98.6%	82.6%
Finance	98.1%	94.4%
Health and Human Resources	91.9%	83.8%
Independent Agencies	97.5%	90.1%
Judicial	97.7%	57.9%
Legislative	98.3%	85.8%
Natural Resources	97.7%	53.9%
Public Safety	92.3%	88.6%
Technology	99.0%	100.0%
Transportation	92.8%	86.2%
Statewide	94.2%	77.2%
<i>Comparative</i>		
<i>Quarter Ended June 30, 2007</i>		
Statewide	93.1%	74.8%

Statewide Salaried Direct Deposit Performance

Quarter Ended June 30, 2008

Salaried Direct Deposit Participation	94.2%
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Salaried Direct Deposit Below 90 Percent

<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
Administration		
State Board of Elections	86.2%	29
Education		
Virginia School for the Deaf, Blind and Multi-Disabled at Hampton	89.2%	93
Health and Human Resources		
Southwestern Virginia Training Center	89.7%	497
Eastern State Hospital	88.8%	931
Southern Virginia Mental Health Institute	88.3%	171
Western State Hospital	88.0%	717
Piedmont Geriatric Hospital	78.7%	324
Central Virginia Training Center	70.8%	1,430
Public Safety		
Virginia Correctional Center for Women	89.6%	212
Powhatan Reception and Classification Center	89.1%	129
Southampton Correctional Center	89.0%	346
Central Region Correctional Field Units	89.0%	118
Lunenburg Correctional Center	88.8%	260
Eastern Region Correctional Field Units	88.5%	139
Deerfield Correctional Center	87.9%	348
Deep Meadow Correctional Center	87.6%	315
Mecklenburg Correctional Center	87.6%	386
Powhatan Correctional Center	87.4%	364
Sussex II State Prison	86.8%	340
Greensville Correctional Center	85.7%	789
Augusta Correctional Center	85.0%	394
Bland Correctional Center	84.7%	287
Nottoway Correctional Center	84.5%	432
Brunswick Correctional Center	82.0%	383
Dillwyn Correctional Center	79.8%	267
Transportation		
Department of Transportation - Bristol	88.5%	758
Department of Transportation - Lynchburg	87.7%	641

Statewide Wage Direct Deposit Performance

Quarter Ended June 30, 2008

Wage Direct Deposit Participation	77.2%
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Wage Direct Deposit Below 50 Percent

<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
Education		
Wytheville Community College	48.6%	105
New River Community College	48.3%	172
Southwest Virginia Community College	47.1%	138
Thomas Nelson Community College	43.1%	297
Paul D. Camp Community College	40.0%	140
Radford University	39.4%	493
Virginia Highlands Community College	34.8%	155
Health and Human Resources		
Central Virginia Training Center	46.3%	147
Judicial		
General District Courts	46.2%	260
Combined District Courts	40.9%	22
Natural Resources		
Department of Conservation and Recreation	47.9%	1,009

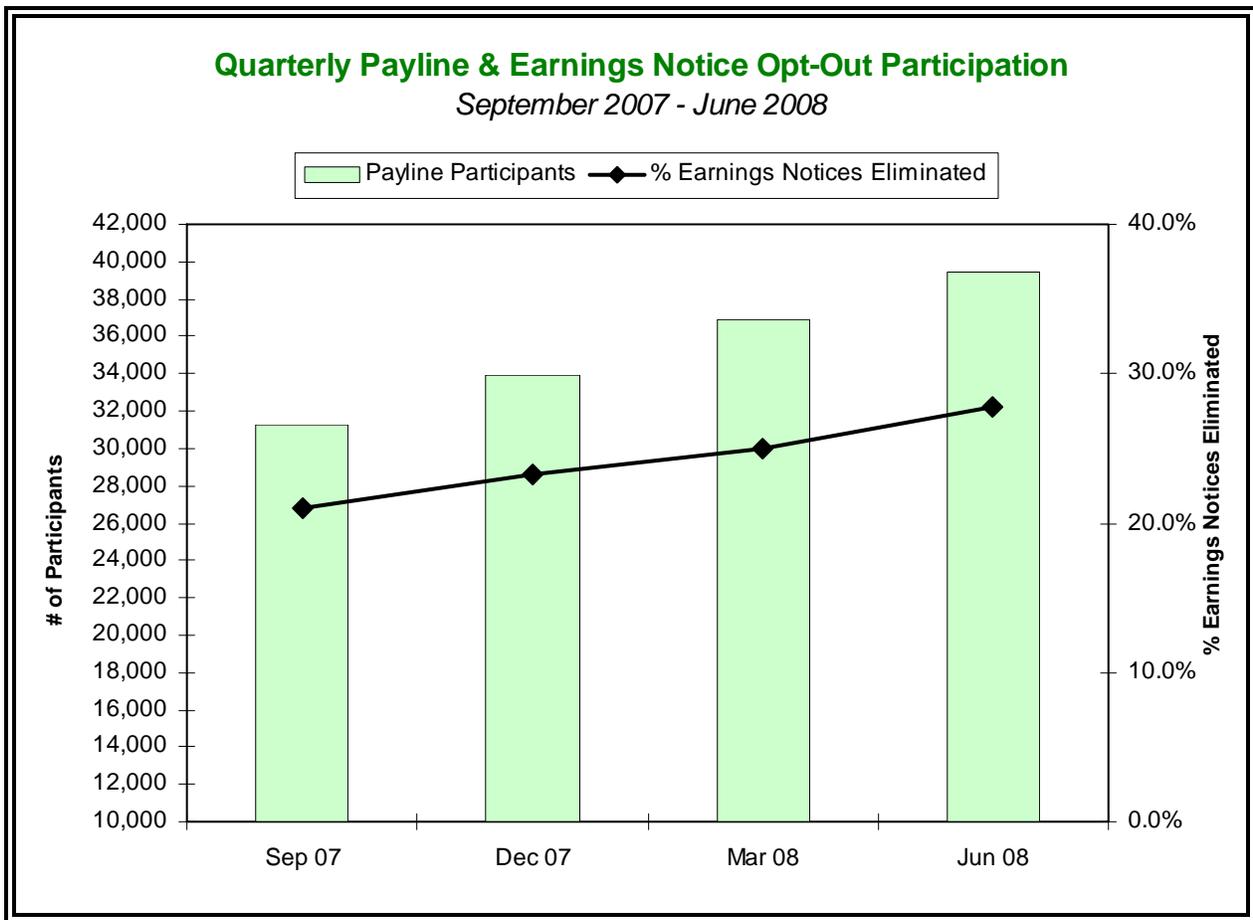


Payroll Earnings Notices

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 1,696,140 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 June 30, 2008

<u>Secretarial Area</u>	<u>Percent Payline Participation</u>	<u>Percent Earnings Notices Eliminated*</u>
Administration	70.2%	41.3%
Agriculture and Forestry	30.3%	17.2%
Commerce and Trade	82.3%	57.5%
Education	43.1%	29.5%
Executive Offices	71.2%	60.0%
Finance	96.4%	95.7%
Health and Human Resources	43.9%	21.3%
Independent Agencies	71.1%	69.0%
Judicial	30.1%	16.9%
Legislative	59.2%	53.6%
Natural Resources	47.7%	39.8%
Public Safety	41.7%	24.5%
Technology	95.3%	98.0%
Transportation	42.3%	17.1%
Statewide	45.3%	27.8%
<i>Comparative</i>		
<i>Quarter Ended June 30, 2007</i>		
Statewide	34.9%	19.8%

* 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 6 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 6 Percent
Quarter Ended June 30, 2008**

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 07/01/08 Payday
Agriculture and Forestry		
Department of Forestry	5.4%	279
Education		
Radford University	5.3%	1,209
Central Virginia Community College	5.1%	225
Christopher Newport University	4.2%	987
Northern Virginia Community College	2.3%	2,016
Virginia School for the Deaf, Blind and Multi-Disabled at Hampton	1.6%	105
Health and Human Resources		
Virginia Rehabilitation Center for the Blind and Vision Impaired	5.9%	28
Piedmont Geriatric Hospital	3.3%	293
Central Virginia Training Center	2.2%	1,033
Judicial		
Court of Appeals of Virginia	2.5%	75
Circuit Courts	0.0%	184

(Continued on next page)

**Payline Earnings Notice Elimination
Under 6 Percent**

(continued)

Quarter Ended June 30, 2008

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 07/01/08 Payday
Public Safety		
Dillwyn Correctional Center	5.5%	200
Lunenburg Correctional Center	5.3%	215
Virginia Veterans Care Center	5.0%	248
Keen Mountain Correctional Center	4.9%	278
Deerfield Correctional Center	4.7%	300
Nottoway Correctional Center	4.3%	347
Brunswick Correctional Center	4.1%	295
Fluvanna Women's Correctional Center	3.9%	289
Greensville Correctional Center	3.3%	649
Transportation		
Department of Transportation - Hourly	5.3%	275



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.

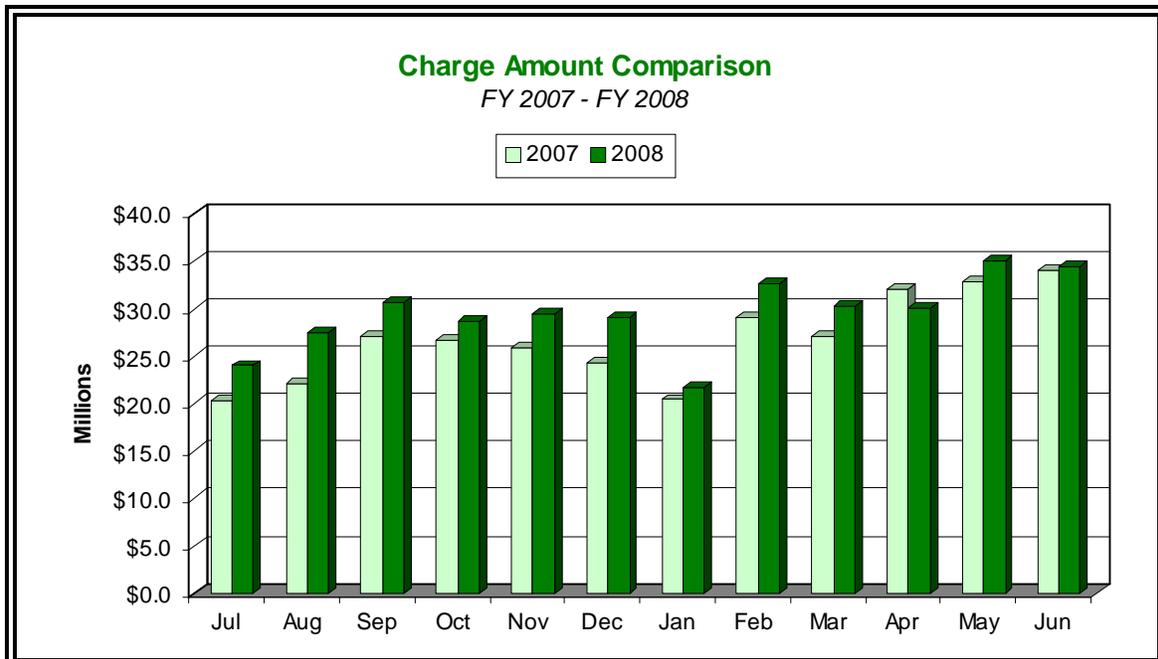
The Small Purchase Charge Card continues to be used for purchases under \$5,000. Agencies are strongly encouraged to obtain a Gold Card for use for purchases up to \$50,000.

The total amount charged on SPCC and Gold cards during the fourth quarter of FY 2008 increased by \$888,230 or 0.9 percent from the same quarter last year. Overall, for FY 2008, there was an increase of \$32.3 million over FY 2007.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended June 30, 2008	Fiscal Year 2008 To-Date	Comparative Fiscal Year 2007 To-Date
Amount of Charges	\$ 99,774,874	\$ 354,050,126	\$ 321,790,956
Estimated Number of Checks Avoided	177,397	656,650	680,638
Total Number of Participating Agencies		227	222
Total Number of Cards Outstanding		14,947	14,956

The following chart compares charge activity for FY 2008 to activity for FY 2007:



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.

For purposes of computing the \$5 underutilization charge imposed in accordance with §4-5.04g of the Appropriation Act, the threshold has been set at 70 percent. Beginning in the second quarter of FY 2007, all local governments have been exempted from the utilization process.

In accordance with §4-5.04g of the Appropriation Act, the underutilization charge imposed for agencies under the 70 percent threshold is \$5.

All payments under \$5,000 processed through CARS and not placed on the purchase card will be matched against GE MasterCard's vendor base in excess of 26 million merchants based on Tax Identification number.

Each agency will receive a report of payments to participating suppliers which should have been paid by the SPCC from DOA. Questions regarding the data can be emailed to cca@doa.virginia.gov.

Statewide SPCC Performance

Quarter Ended June 30, 2008

Percentage Utilization for Eligible Transactions

81%

SPCC Utilization by Secretarial Area

Quarter Ended June 30, 2008

<u>Secretarial Area</u>	<u>Payments in Compliance ⁽¹⁾</u>	<u>Non-Compliant Transactions ⁽²⁾</u>
Administration	82%	747
Agriculture and Forestry	86%	616
Commerce and Trade	83%	684
Education*	84%	6,780
Executive Offices	94%	57
Finance	87%	186
Health and Human Resources**	80%	6,870
Independent Agencies	65%	950
Judicial	41%	2,392
Legislative	96%	55
Natural Resources	89%	968
Public Safety	93%	2,628
Technology	87%	105
Transportation*	61%	8,354
Statewide	81%	31,392

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

** Department of Rehabilitative Services division of DDS payments not included in the above statistics.

(1) **"Payments in Compliance"** represents the percentage of purchases made from participating SPCC vendors using the purchasing card.

(2) **"Non-Compliant Transactions"** represents the number of small purchases from participating SPCC vendors where the purchasing card was not used for payment.



**Agency SPCC Performance
Utilization Below 70 Percent**

Agency	Payments in Compliance	Non-Compliant Transactions
Administration		
Department of Charitable Gaming	48%	13
Commerce and Trade		
Virginia Employment Commission	46%	519
Education		
Virginia State University	69%	437
Tidewater Community College	68%	889
J. Sargeant Reynolds Community College	66%	512
Norfolk State University	60%	904
Executive		
Office of Workforce Development and Workforce Council Support	43%	23
Health and Human Resources		
Eastern State Hospital	66%	481
Central Virginia Training Center	61%	546
Independent Agencies		
State Corporation Commission	2%	597
Judicial		
Indigent Defense Commission	62%	203
Judicial Inquiry and Review Commission	62%	5
Board of Bar Examiners	0%	41
Circuit Courts	0%	203
Combined District Courts	0%	257
General District Courts	0%	722
Juvenile and Domestic Relations District Courts	0%	504
Magistrate System	0%	91
Virginia Criminal Sentencing Commission	0%	32
Legislative		
Commission on the Virginia Alcohol Safety Action Program	0%	35
Public Safety		
Sitter-Barfoot Veterans Care Center	43%	348
Transportation		
Virginia Department of Transportation	58%	7,608



SPCC and ATC Payment Compliance

Agencies and institutions participating in the Charge Card program are required to submit GE MasterCard payments via EDI no later than the 8th of each month. Failure to pay the correct amount when due jeopardizes the Commonwealth's contractual relationship with the charge 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. For the month of April, this represents the bill date of April 15, 2008, with the payment due no later than May 8, 2008.

Agencies are credited under prompt payment reporting for timely payment of each purchasing charge card transaction. ***Effective July 1, 2007, any late payments on the Airline Travel Card (ATC) will be reflected in this section along with purchase card late payments. If an agency is late paying their ATC bill, agency prompt payment statistics may be adjusted downward to reflect each ATC bill submitted as a late payment.***

The following chart lists agencies more than two days late in submitting their payments by each program type.

Agency	Apr	May	Jun
<u>Purchase Card Program:</u>			
Education			
University of Virginia Medical Center	X		X
Virginia School for the Deaf, Blind and Multi-Disabled at Hampton	X		
Virginia Western Community College		X	
Health and Human Resources			
Central Virginia Training Center	X		
Virginia Center for Behavioral Rehabilitation	X		
<u>Airline Travel Card Program:</u>			
Education			
Norfolk State University			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.

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.
- 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.

The following table identifies the number of delinquent card accounts with GE MasterCard by agency during the quarter ended June 30, 2008, and the total amounts past due.

Travel Charge Card Program

As of June 30, 2008

Agency	Total Delinquent Accounts	Amounts 60 Days Past Due	Amounts 90-120 Days Past Due	Amounts >150 Days Past Due
Education				
Norfolk State University	1	\$ 583	\$ 2,732	\$ 0
Old Dominion University	3	0	326	1,655
University of Virginia Medical Center	1	1,357	869	0
Virginia Polytechnic Institute and State University	2	0	1,293	0
Public Safety				
Department of Military Affairs	2	143	1,494	356



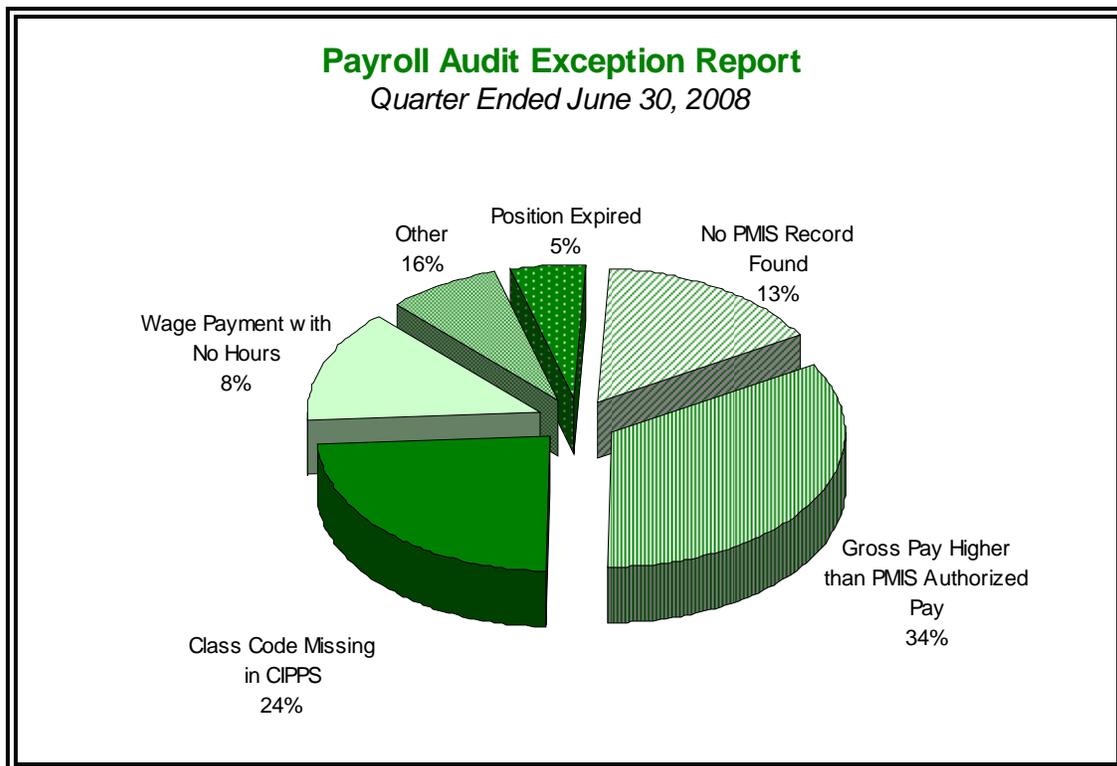
Payroll Controls

PMIS/CIPPS Payroll Audit

During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 434,024 salaried pay transactions and 212,288 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 1,845 new exceptions noted statewide during the quarter, with an overall exception rate of 0.31 percent.

The statewide salaried payroll exception rate was 0.38 percent and the wage payroll exception rate was 0.15 percent. During this quarter, 22 employee paychecks were reduced to recover \$6,608.23 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 failure to update the employee record in CIPPS with the assigned class code. 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.



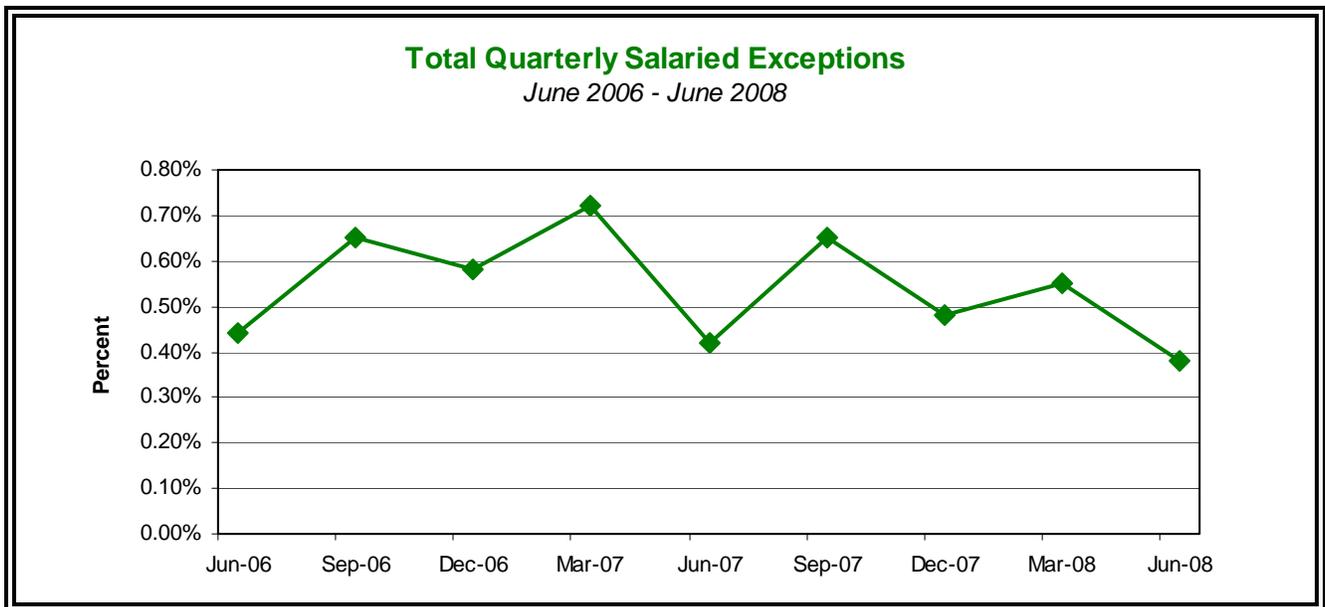
Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Agencies are reported below if the percentage

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 June 30, 2008

<u>Agency</u>	<u># of Salaried Exceptions</u>	<u>Exceptions as a % of Salaried Payments</u>
None		
Total Salaried Payroll Exceptions for the Quarter		0.38%

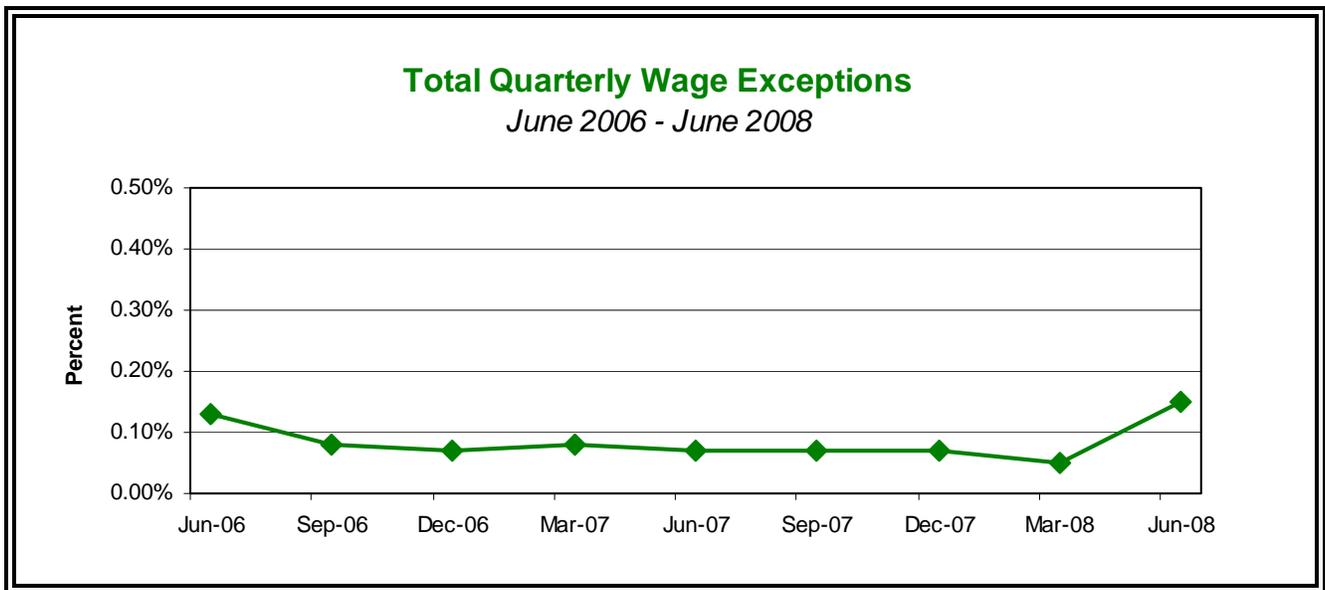
The following chart compares payroll exceptions as a percentage of salaried payments by quarter for the past two years.



Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended June 30, 2008

<u>Agency</u>	<u># of Wage Exceptions</u>	<u>Exceptions as a % of Wage Payments</u>
Radford University	46	0.46%
Wage Payroll Exceptions for the Quarter		0.15%

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



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>
None	



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 each 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

Agency	Variance Amount (a)	Performed by DOA (b)	Submitted Late (c)	Corrected by DOA (d)
Education				
Lord Fairfax Community College	\$151,159			
Paul D. Camp Community College	189,777			
Tidewater Community College		1		
University of Mary Washington	71,879			
Virginia Museum of Fine Arts			2	
Health and Human Resources				
Department of Rehabilitative Services		1		
Southwestern Virginia Mental Health Institute		1		
Public Safety				
Department of Emergency Management	47,150			
Eastern Region Correctional Field Units	90,000			
Wallens Ridge State Prison	582,526			

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 March, April and May were due 04/30/08, 05/31/08 and 6/16/08, respectively.

Schedule of Healthcare Reconciliations Received Late

Agency	March	April	May
None			



FINANCIAL MANAGEMENT ACTIVITY

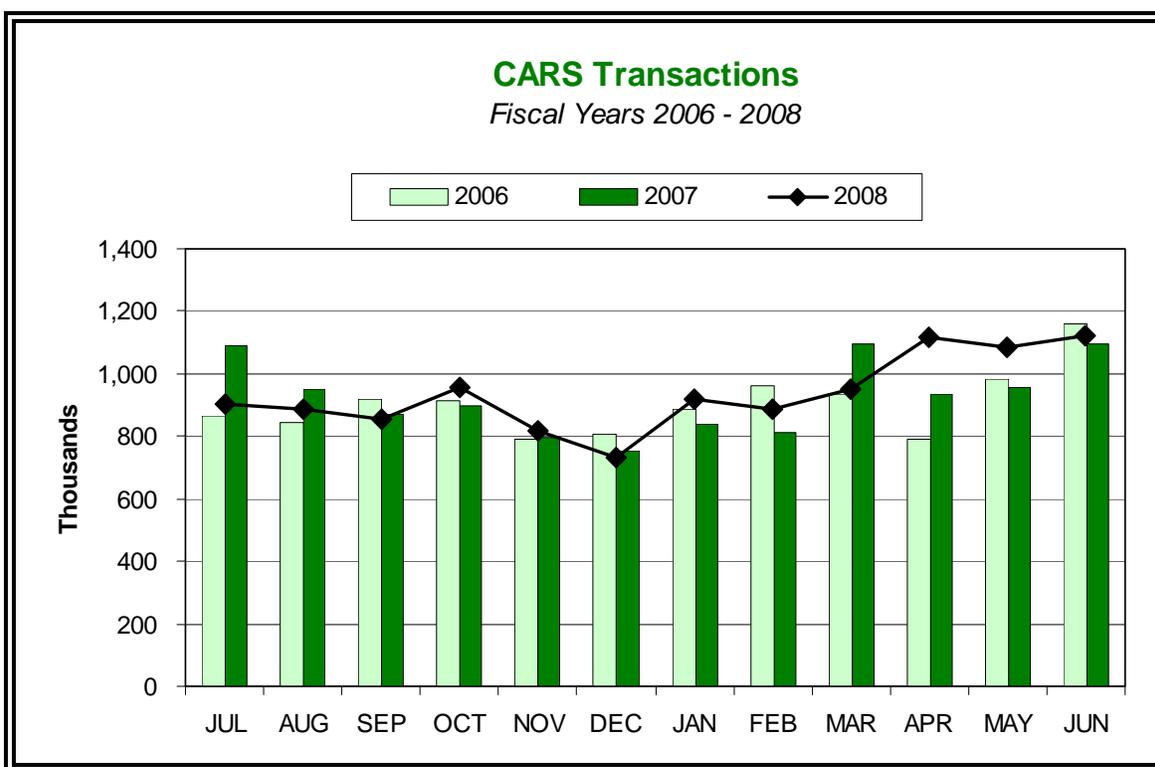
DOA monitors several types of financial activity. Various measures are used to track activities for CARS, payroll, accounts

receivable, indirect cost recoveries, treasury loans, and the 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.

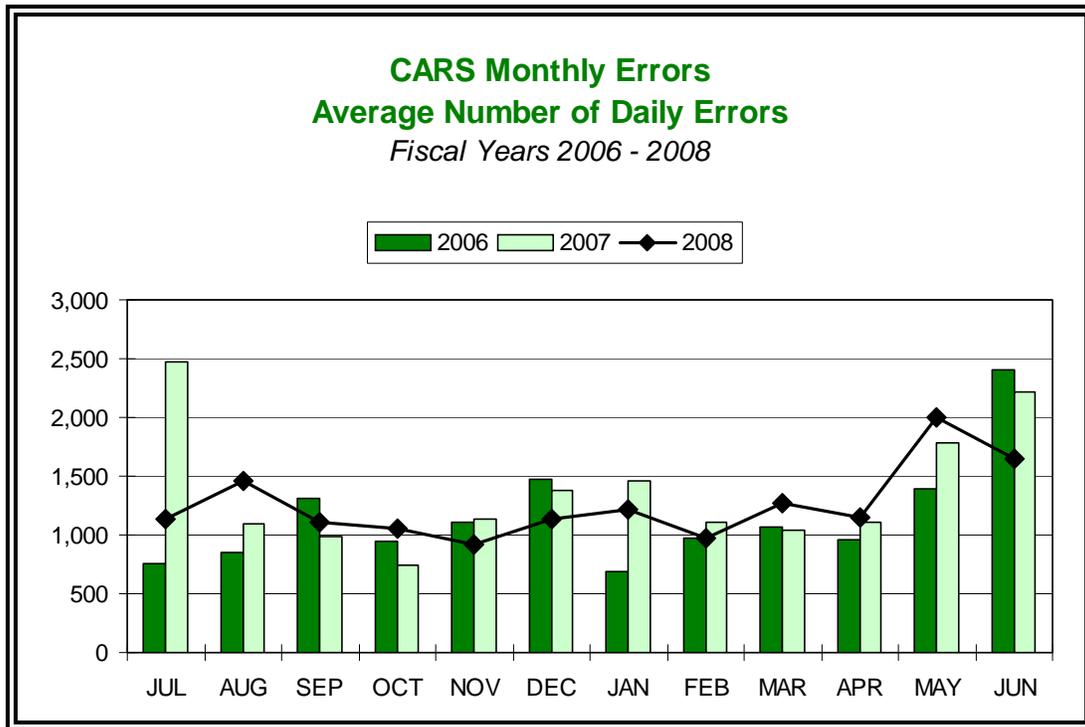


CARS Edits

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 fourth quarter of FY 2008, the most frequent reasons cited for transactions processing to the error file were:

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

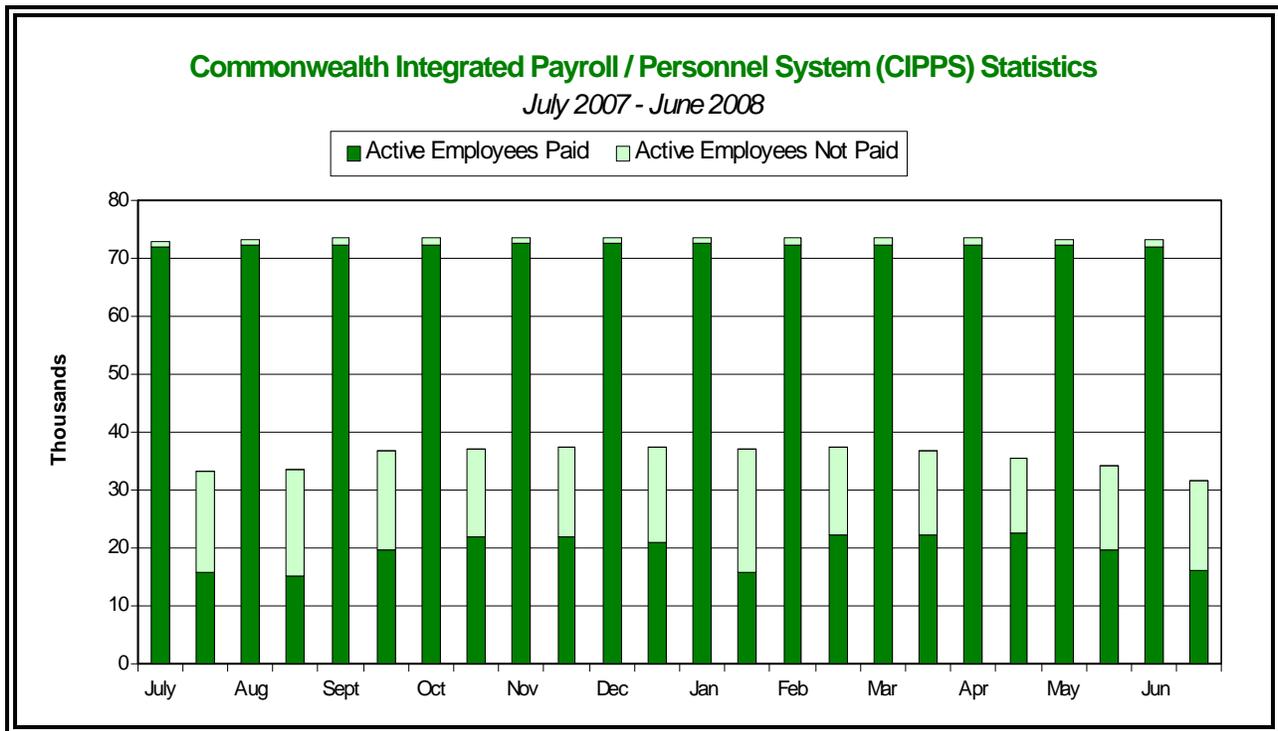
Agencies may avoid funding errors by more closely monitoring cash and allotment balances. Sound agency cash management practices should be developed to ensure transactions are not submitted to CARS when funding is not available. Agencies should develop procedures to ensure certified amounts are calculated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



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 107,154 employees. Payroll services are also provided through eight decentralized higher education institutions.

On average, 91,674 employees were paid each month, of which 72,220 are salaried 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 9,319 savings bonds with a face value of over \$1.19 million.

**Benefit Participation
Number of Participating Employees**

Benefit	As of 6/30/2008	Comparative	
		As of 6/30/2007	As of 6/30/2006
Health Care			
COVA Care	84,100	82,890	81,948
Kaiser	2,010	2,017	1,961
Optional Retirement Plans*			
Fidelity Investments	490	468	451
TIAACREF	1,446	1,428	1,413
Political Appointee - ORP	97	98	98
Deferred Compensation*			
Great West Life	37,318	34,356	32,821
Flexible Reimbursement*			
Dependent Care	767	707	640
Medical Care	6,966	5,842	4,847

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



Accounts Receivable

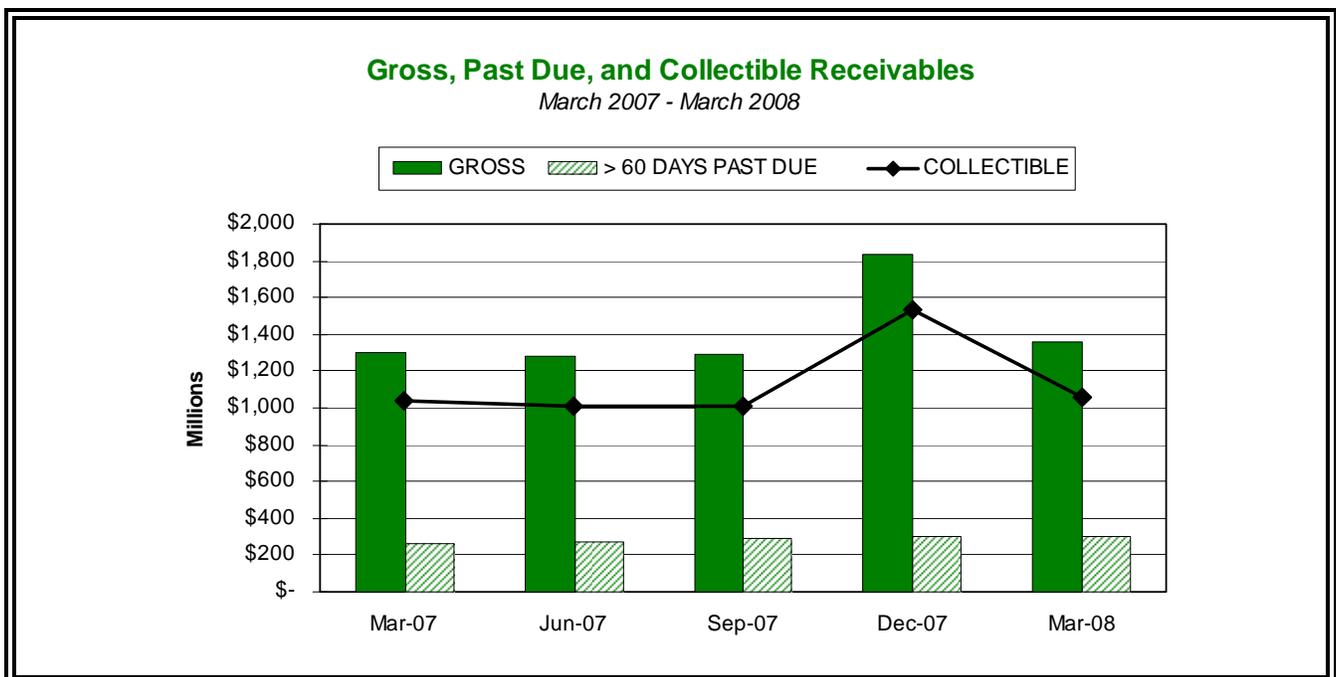
Executive Summary

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 \$1.36 billion at March 31, 2008, with \$1.06 billion considered collectible. Receivables over 60 days past due as of March 31, 2008, totaled \$298.4 million. Of that amount, \$15.4 million was placed with private collection agencies, \$19.0 million was placed with the Division of Debt Collection and \$264.0 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 challenges 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 March 31, 2008, agencies expected to collect \$1.06 billion (78 percent) of the \$1.36 billion adjusted gross receivables. About 1 percent is due to the General Fund, primarily for benefit recoveries and sales of permits.

The balance, which contains Medicaid penalties that are no longer revertible, is due to several non-general funds.

Collectible Receivables by Fund

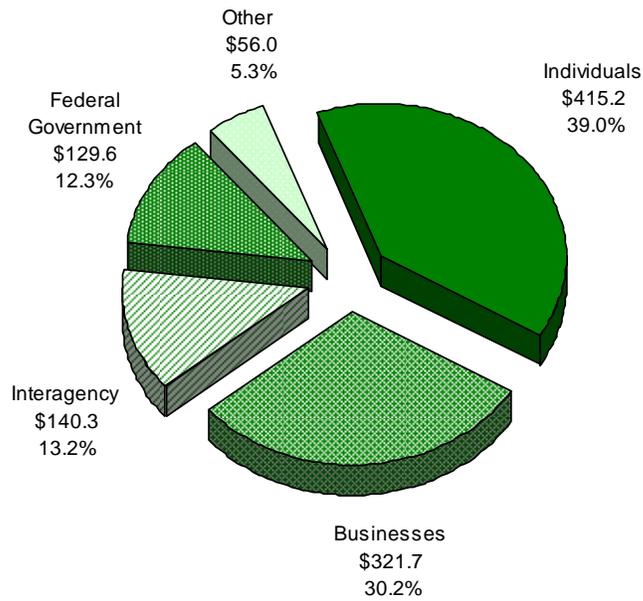
Not Including Circuit and District Courts, or the Department of Taxation

As of March 31, 2008

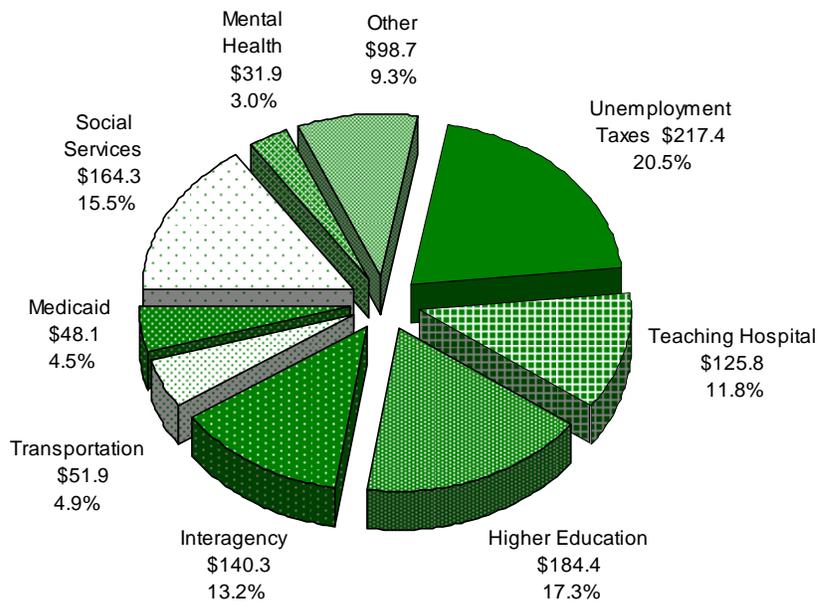
Fund	Source	Amount	Percent
General Fund 1%	Medicaid - Current Recoveries	\$ 6,687,922	47%
	Social Services	3,294,464	22%
	Labor and Industry Inspections	945,974	6%
	State Police Permits	835,529	6%
	Corrections	649,210	4%
	Other	1,344,816	9%
	Subtotal	13,757,915	94%
	Interagency Receivables	921,452	6%
Total General Fund Collectible		\$ 14,679,367	100%
Nongeneral Funds 99%	Medicaid - Dedicated Penalty Fees	\$ 26,881,779	3%
	Medicaid - Federal Reimbursements	14,487,060	1%
	Unemployment Taxes	217,353,885	21%
	Transportation	45,487,087	4%
	Child Support Enforcement	106,113,132	11%
	Federal Government	63,892,082	6%
	MHMR Patient Services	31,937,089	3%
	Hospital	125,819,881	12%
	Enterprise	46,822,783	4%
	Higher Education	184,337,991	18%
	Other	45,559,117	4%
	Subtotal	908,691,886	87%
Interagency Receivables	139,404,064	13%	
Total Nongeneral Fund Collectible		\$ 1,048,095,950	100%
All Funds	Grand Total	\$ 1,062,775,317	100%

Summary of Receivables by Source

Sources of Collectible Receivables by Debtor
(dollars in millions)
As of March 31, 2008



Sources of Collectible Receivables by Type
(dollars in millions)
As of March 31, 2008



Not counting Taxation and the Courts, ten agencies account for 83 percent of the Commonwealth's adjusted gross and 80

percent of the adjusted collectible accounts receivable balances.

Accounts Receivable Summary
Not Including Circuit Courts, District Courts, or Department of Taxation
 Quarter Ended March 31, 2008

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
Virginia Employment Commission	\$ 245,276,106	\$ 24,974,484	\$ 220,301,622
University of Virginia Medical Center	178,717,893	10,281,862	168,436,031
Department of Social Services	359,391,314	193,123,122	166,268,192
Virginia Polytechnic Institute & State University	65,932,188	1,619,188	64,313,000
Virginia Information Technologies Agency	50,410,532	-	50,410,532
Department of Medical Assistance Services	82,171,172	34,033,264	48,137,908
Department of Transportation	43,811,519	1,300,213	42,511,306
State Lottery Department	32,410,011	-	32,410,011
Mental Health, Retardation & Substance Abuse Services	48,583,246	16,646,157	31,937,089
University of Virginia - Academic Division	29,689,325	-	29,689,325
Total	\$ 1,136,393,306	\$ 281,978,290	\$ 854,415,016
All Other Agencies	226,740,488	18,380,187	208,360,301
Grand Total	\$ 1,363,133,794	\$ 300,358,477	\$ 1,062,775,317

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 which 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.

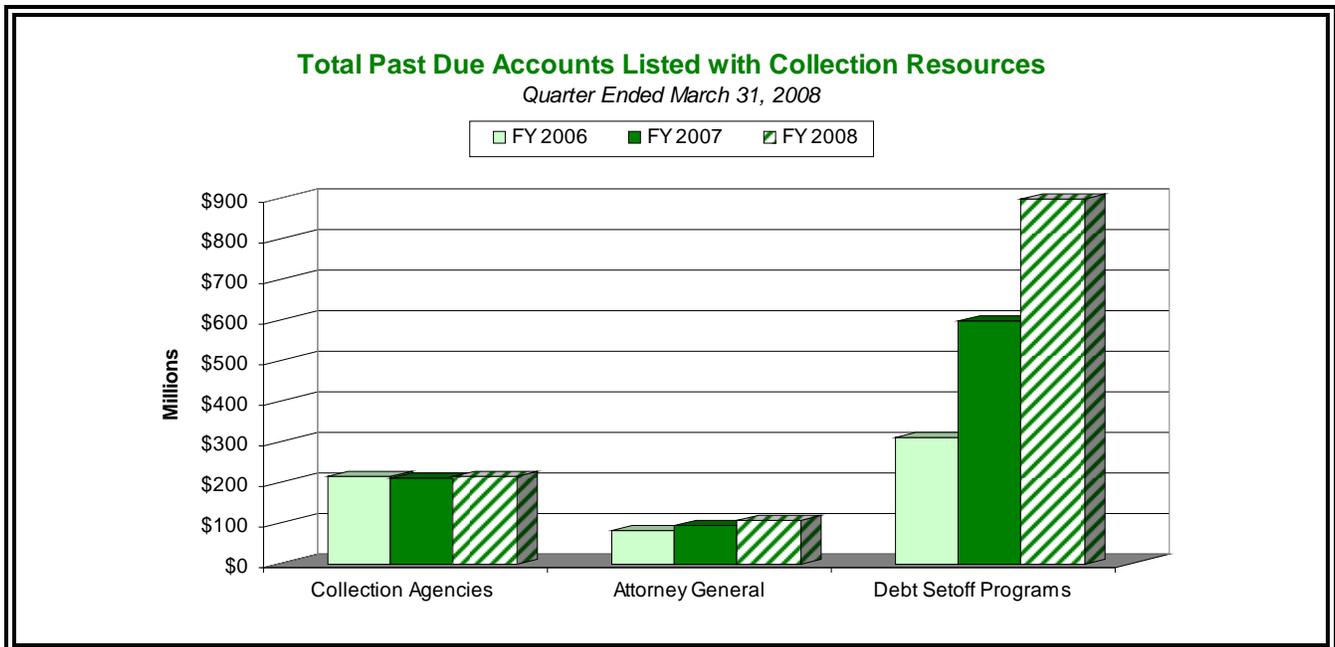
These additional collection tools recovered \$5.2 million during the quarter ended March 31, 2008. The Division of Debt Collection contributed \$1.8 million. Private collection agencies collected \$2.4 million, and the debt setoff programs (Tax, Comptroller's and Lottery) collected \$1.0 million.

Private collection agencies returned \$7.5 million of accounts to agencies, and the Division of Debt Collection discharged \$1.4 million of accounts and returned \$590,918 to agencies.

Collectible Receivables Over 60 Days Past Due
Not Including Circuit Courts, District Courts or the Department of Taxation
 As of March 31, 2008

Agency	Total Over 60 Days	With Collection Agency	With Attorney General	Retained by State Agency
Department of Social Services	\$ 110,877,326	\$ -	\$ -	\$ 110,877,326
University of Virginia Medical Center	38,819,672	-	-	38,819,672
Virginia Employment Commission	33,458,300	7,361,276	7,519,053	18,577,971
Department of Medical Assistance Services	27,719,311	784,070	674,552	26,260,689
Department of Mental Health, Mental Retardation & Substance Abuse Services	11,648,164	-	-	11,648,164
Department of Transportation	7,522,128	1,319,221	4,264,460	1,938,447
Virginia Information Technologies Agency	7,424,288	-	-	7,424,288
Virginia Commonwealth University	4,898,251	480,285	8,345	4,409,621
University of Virginia - Academic Division	4,874,348	349,763	44,247	4,480,338
Department of General Services	4,511,184	-	76,236	4,434,948
TOTAL	\$ 251,752,972	\$ 10,294,615	\$ 12,586,893	\$ 228,871,464
All Other Agencies	46,683,517	5,114,841	6,376,257	35,192,419
TOTAL OVER 60 DAYS	\$ 298,436,489	\$ 15,409,456	\$ 18,963,150	\$ 264,063,883
Uncollectible Amounts Placed for Collection, Including Accounts Written Off	919,032,012	199,874,134	86,996,917	632,160,961
TOTAL COLLECTION EFFORTS	\$ 1,217,468,501	\$ 215,283,590	\$ 105,960,067	\$ 896,224,844

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 to 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 to the State. CDS collected \$14.3 million through the fourth quarter of FY 2008. 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

Agency	Percent at 3/31/08	Comparative	
		Percent at 12/31/07	Percent at 9/30/07
Department of Social Services	31%	32%	32%
University of Virginia Medical Center	22%	23%	25%
Virginia Employment Commission	14%	41%	38%
Department of Medical Assistance Services	34%	36%	36%
Department of Mental Health, Mental Retardation & Substance Abuse Services	24%	27%	23%
Department of Transportation	17%	28%	52%
Virginia Information Technologies Agency	15%	21%	9%
Virginia Commonwealth University	17%	3%	6%
University of Virginia - Academic Division	16%	4%	9%
Department of General Services	32%	6%	19%
Statewide Average - All Agencies	22%	16%	23%

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 accounts receivable balances. In total, these ten agencies are responsible for 70 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 percent 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 103 percent indicates that for every \$1 billed during the quarter ended March 31, 2008, the state collected \$1.03. This rate is three percent less than last year, and three percent more than the March 31, 2006 quarter.

Collections as a Percentage of Billings

Agency	Percent at 3/31/08	Comparative	
		Percent at 3/31/07	Percent at 3/31/06
Virginia Employment Commission	35%	32%	28%
University of Virginia Medical Center	35%	39%	32%
Department of Social Services	95%	98%	98%
Virginia Polytechnic Institute & State University	210%	216%	234%
Virginia Information Technologies Agency	95%	78%	107%
Department of Medical Assistance Services	70%	55%	65%
Department of Transportation	92%	118%	110%
State Lottery Department	113%	106%	103%
Mental Health, Mental Retardation & Substance Abuse Services	64%	65%	53%
University of Virginia - Academic Division	177%	173%	172%
Statewide Average - All Agencies	103%	106%	100%

Commonwealth Receivables Analysis

The following individual accounts receivable narratives 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 \$48.1 million at March 31, 2008, is a \$1.8 million increase over the \$46.3 million reported at March 31, 2007. Over the same period, total past due receivables of \$30.8 million have decreased by \$184,118.

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 its receivables consist of Medicaid and Medicare reimbursements and payments from third party insurers.

UVAH collectible receivables of \$168.4 million at March 31, 2008, were a \$2.3 million increase from the \$166.1 million reported the previous year. Past due receivables increased by \$12.1 million to \$108.4 million at March 31, 2008.

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 \$220.3 million at March 31, 2008, a decrease of \$56.2 million from the previous year. Total past due receivables were \$37.1 million, a \$528,264 increase over last 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 March 31, 2008, of \$50.4 million, a \$1.2 million decrease from the previous year's \$51.6 million. Most of these receivables are due from other state agencies. As of March 31, 2008, \$7.4 million was over 60 days past due, an increase of \$6.6 million from the previous year.

State Lottery Department (SLD)

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

At March 31, 2008, the State Lottery reported net receivables of \$32.4 million, a \$19.4 million decrease from the previous year's net of \$51.8 million. Billings decreased by \$23.9 million and collections decreased by \$14.0 million during the March 31, 2008 quarter when compared to the March 31, 2007 quarter. At March 31, 2008, the State Lottery had \$281,090 that was over 60 days past due. The total amount owed is covered by surety bonds.

Department of Education (DOE)

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 DOE, which then draws down the money from the U. S. Department of Education.

At March 31, 2008, DOE had no accounts receivable due from the Federal government under Direct Aid to Public Education. This is the same as 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 March 31, 2008, the University reported net collectible receivables of \$64.3 million, an \$8.0 million increase over the prior year. At the same time, total past due receivables decreased by \$60,049 from last year.

The University uses a variety of collection methods to encourage payments. At March 31, 2008, VPISU had \$4.3 million of accounts over 60 days past due. \$58,588 was placed with the Attorney General's Division of Debt Collection, another \$770,671 was placed with private collection agencies and \$3.4 million was listed with Taxation's Debt Setoff Programs and additional in-house efforts.

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, a lien is 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 March 31, 2008, the Department reported net receivables of \$31.9 million, a \$5.5 million increase over the previous year. \$18.5 million was past due, with \$11.6 million being over 60 days past due. Total past due receivables increased by \$4.1 million over the year, and accounts over 60 days past due increased by \$3.4 million. At March 31, 2008, the Department had a total of \$7.8 million of accounts placed with the Attorney General and \$822,020 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 March 31, 2008, VDOT reported \$42.5 million of collectible receivables, an increase of \$15.8 million from the prior year. VDOT also reported \$12.2 million total past due and \$7.5 million being over 60 days past due. Past due receivables decreased by \$9.2 million over the year, while receivables over 60 days past due decreased by \$10.0 million. VDOT reports that the large majority of the accounts over 60 days past due continue to be amounts 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 \$4.3 million of their accounts over 60 days past due with the Attorney General's Division of Debt Collection, and \$1.3 million with private collection agencies.

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 reimburse 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 March 31, 2008, DSS reported gross receivables of \$359.4 million, an allowance for doubtful accounts of \$193.1 million and collectible receivables of \$166.3 million. Past due receivables totaled \$112.9 million, of which \$110.9 million was over 60 days past due.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for \$278.6 million (78 percent) of the gross receivables, \$172.5 million (89 percent) of the allowance for doubtful accounts and \$106.1 million (64 percent) of the collectible receivables.

From March 31, 2007, to March 31, 2008, gross receivables increased \$80.9 million and collectible receivables increased by \$44.2 million. Total past due receivables increased by \$21.9 million and receivables over 60 days past due increased by \$21.6 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 March 31, 2008, DRPT had gross and net receivables of \$5.1 million. The majority of this money is due via an interagency transfer from VDOT. \$1.7 million was past due at March 31, 2008. Of this amount, \$1.2 million was over 60 days past due.

Virginia Commonwealth University (VCU)

VCU, based in Richmond, offers 140 degree programs to over 32,000 students in a variety of fields ranging from accounting to pharmacy at both undergraduate and graduate levels.

At March 31, 2008, VCU had \$26.5 million of collectible receivables, a \$1.8 million decrease from March 31, 2007. Total past due accounts were \$6.1 million, a \$0.8 million decrease from March 31, 2007. Accounts over 60 days past due (\$4.9 million) decreased by \$96,387 from the prior year. Billings increased by \$14.0 million to \$63.8 million and collections increased by \$19.1 million to \$163.1 million for the March 31, 2008, quarter as compared to the March 31, 2007, quarter.

The following table is prepared to present the March 31, 2008, aging information in conformity with the provisions of Section 2.2-603.E.(ii) of the *Code of Virginia*.

Commonwealth's total \$2.31 billion past due accounts receivable at March 31, 2008. Another 18 agencies accounted for 17 percent (\$403.0 million), leaving 70 other agencies to comprise the last two percent at \$29.8 million.

Taxation and the Circuit and District Courts accounted for 81 percent (\$1.88 billion) of the

Agencies with the Largest Volume of Past Due Receivables

As of March 31, 2008

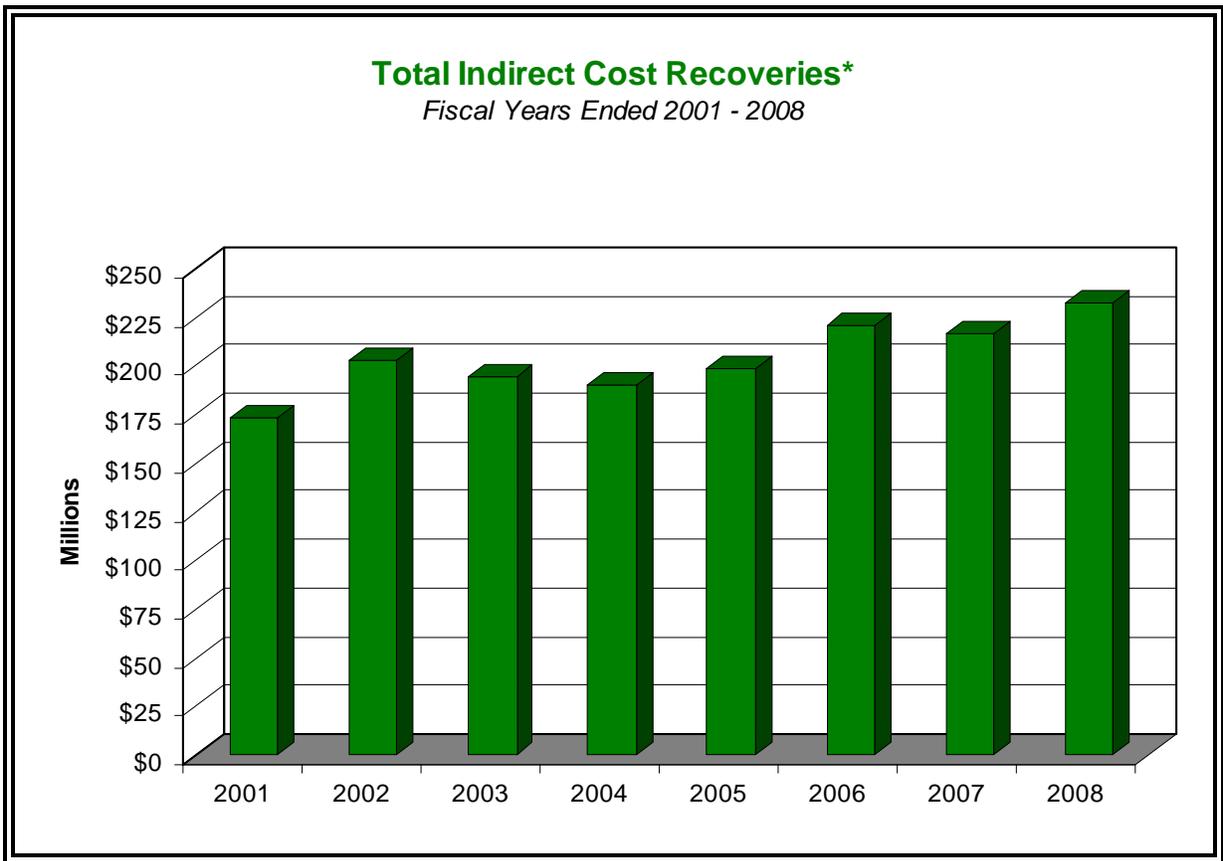
Agency	Total Past Due	1 to 180 Days Past Due	181 to 360 Days Past Due	Over One Year
Department of Taxation	\$ 1,365,747,947	\$ 195,191,684	\$ 149,830,348	\$ 1,020,725,915
Localities' Circuit and District Courts	513,207,480	38,497,882	66,991,542	407,718,056
Total - Taxation Assessments and Court Fines and Fees	\$ 1,878,955,427	\$ 233,689,566	\$ 216,821,890	\$ 1,428,443,971
All Other Large Dollar Agencies:				
Department of Social Services	112,940,393	6,106,012	6,132,175	100,702,206
University of Virginia Medical Center	108,398,330	95,565,941	10,949,719	1,882,670
Virginia Employment Commission	37,050,668	8,669,460	7,234,080	21,147,128
Department of Medical Assistance Services	30,814,120	8,123,547	6,875,872	15,814,701
Department of Mental Health, Mental Retardation & Substance Abuse Services	18,473,399	15,613,923	2,859,476	-
Virginia Information Technologies Agency	14,025,532	10,663,740	2,935,040	426,752
Department of Transportation	12,197,097	5,954,774	(6,144,771)	12,387,094
University of Virginia - Academic Division	9,720,039	8,539,733	496,856	683,450
Virginia Polytechnic Institute & State University	9,495,556	7,732,524	772,773	990,259
Department of Health	8,836,496	7,300,983	904,222	631,291
Virginia Community College System	7,232,954	5,666,255	900,802	665,897
George Mason University	6,630,736	5,629,722	835,332	165,682
Virginia Commonwealth University	6,081,069	3,459,906	941,672	1,679,491
Norfolk State University	5,873,168	5,731,584	62,715	78,869
Department of General Services	5,470,933	5,470,933	-	-
Department of State Police	3,552,650	919,593	152,842	2,480,215
VA Workers' Compensation Commission	3,411,787	1,148,790	853,196	1,409,801
Department of Labor and Industry	2,806,410	318,208	186,224	2,301,978
Total - Largest Dollar Volume Agencies	\$ 403,011,337	\$ 202,615,628	\$ 36,948,225	\$ 163,447,484
All Other Agencies	29,808,786	18,032,051	4,134,144	7,642,591
Grand Total Past Due Receivables	\$ 2,311,775,550	\$ 454,337,245	\$ 257,904,259	\$ 1,599,534,046



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 2008 reflects indirect cost recoveries through June 30, 2008.

Indirect Cost Recoveries from Grants and Contracts

Fiscal Year 2008

Fund	Year-to-Date		Total
	Higher Ed	Non-Higher Ed	
Nongeneral:			
Agency / Institution (1)	\$ 153,851,151	\$ 73,830,670	\$ 227,681,821
Statewide	2,702,442	651,562	3,354,004
Total Nongeneral	\$ 156,553,593	\$ 74,482,232	\$ 231,035,825
General:			
Agency (Cash Transfers)	-	151,910	151,910
Statewide	-	1,613,575	1,613,575
Statewide (Cash Transfers)	-	13,244	13,244
Total General	\$ -	\$ 1,778,729	\$ 1,778,729
Total All Funds	\$ 156,553,593	\$ 76,260,961	\$ 232,814,554

- (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 \$45,825,984 representing the Department of Social Services' estimate of indirect cost recoveries received.



Loans and Advances

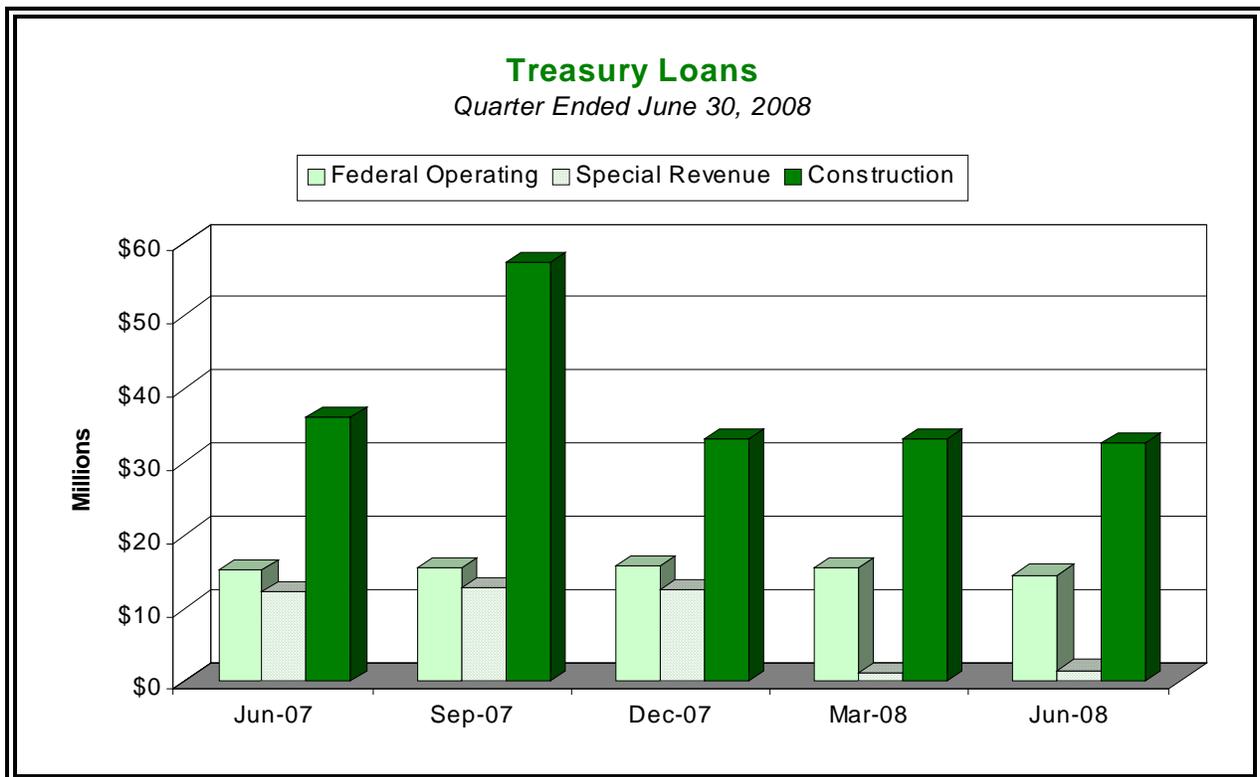
Treasury loans may be used to advance funds to a State agency or institution for a designated purpose prior to some form of reimbursement, typically federal or special revenues. They are loans of a temporary nature, approved on the basis of the following conditions:

- **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.

The total of all types of treasury loans as of June 30, 2008, was \$48.6 million.



Significant New Loans / Drawdowns	New Balance
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<p>Department of State Police (VSP) Authorization and drawdown of a new loan to support 34 grant-funded programs that operate on a reimbursement basis.</p>	\$ 1,531,530
<p>George Mason University (GMU) Authorization and drawdown of a new \$11.5 million loan to provide operating funds while awaiting reimbursement from various federal grants and contracts.</p>	\$ 11,500,000

Significant Loan Repayments	Prior Balance
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<p>Department of Emergency Management (DEM) Repaid loan that provided disaster relief funds for two severe tropical weather systems that were federally declared disasters.</p>	\$ 3,000,000
<p>George Mason University (GMU) Full repayment of loan used to provide operating funds while awaiting reimbursement from various federal grants and contracts.</p>	\$ 10,500,000

Other methods not charted but used to ensure an agency or institution has sufficient operating cash include authorized appropriation deficits, working capital advances, and lines of credit.

- **Authorized Appropriation Deficits**, which provide 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 June 30, 2008.
- **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 June 30, 2008.
- **Lines of Credit**, which provide funding for recurring shortfalls of operating cash and are authorized in §3-2.03 of the Appropriation Act. The total of all outstanding lines of credit as of June 30, 2008, was \$37.2 million.



