

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**

FOR THE QUARTER ENDED MARCH 31, 2004



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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SPECIAL REPORT

2003 Information Returns Reporting

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

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

States have some special information returns reporting requirements unique to their governmental functions. These include

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

In February 2004, a Statewide Information Returns compliance survey was conducted for the 2003 tax year. Based on the survey, 127 tax reporting entities (representing 245 agencies and institutions) filed 3.4 million information returns totaling \$5.9 billion. Five reporting entities did not file information returns for 2003. The Commonwealth filed 99.9 percent of the information returns with the IRS using electronic or magnetic media.

Information Returns *Filed for Calendar Year 2003*

<u>Number of Information Returns Filed</u>	<u>Number of Tax Reporting Entities</u>
No Returns	5
1 to 50 Returns	62
51 to 250 Returns	26
Over 250 Returns	<u>34</u>
Total Reporting Entities	<u>127</u>

The agencies and institutions of the Commonwealth filed the following types of information returns for the tax year ended December 31, 2003. When the number of information returns filed in 2003 is compared with 2002, percent changes by category range from plus 45% to minus 53%. The number of 1099-Q's issued by Virginia College Savings Plan (VCSP) increased by 45% in proportion to the increased number of college students who drew down on their savings accounts. The number of 1099-DIV's decreased by 20% in proportion to the lesser number of persons

claiming stock shares from the Unclaimed Property Division of the Department of the Treasury. The number of 1099-S's decreased by 40% in proportion to the reduced number of highway construction projects requiring right of way purchases. The number of 1099-INT's decreased by 53% due to new and improved tax refund processing systems initiated by the Department of Taxation, resulting in less interest owed to the tax payers for delayed tax refunds.

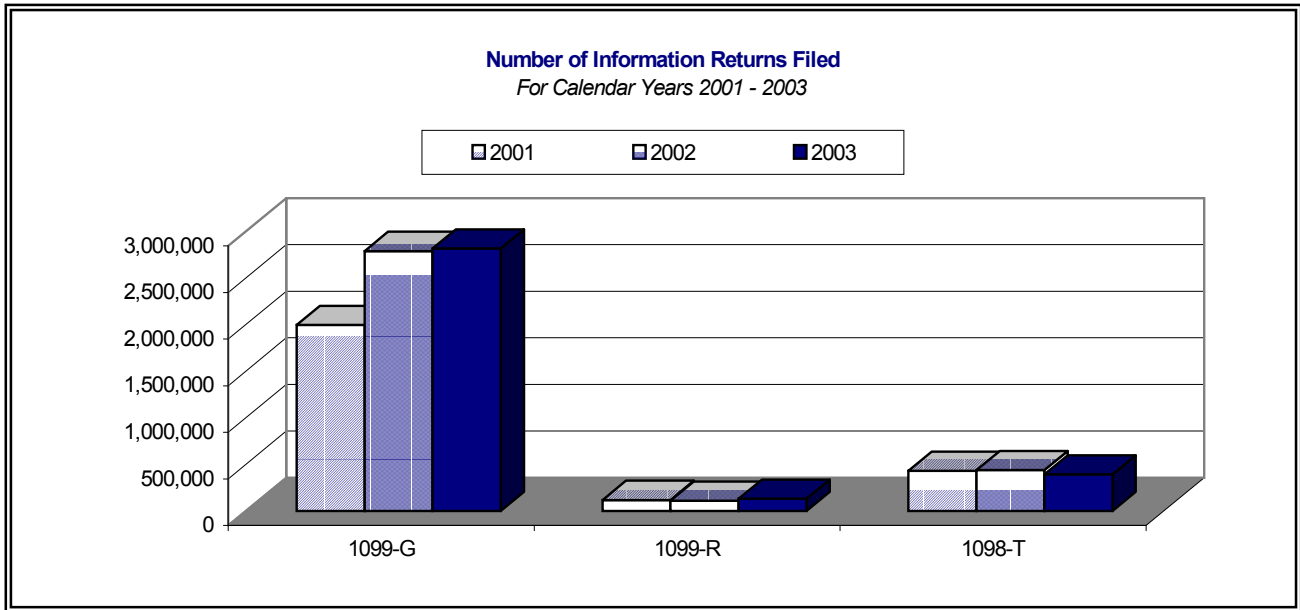
2003 Information Returns Reporting Results

By Major Filing Category

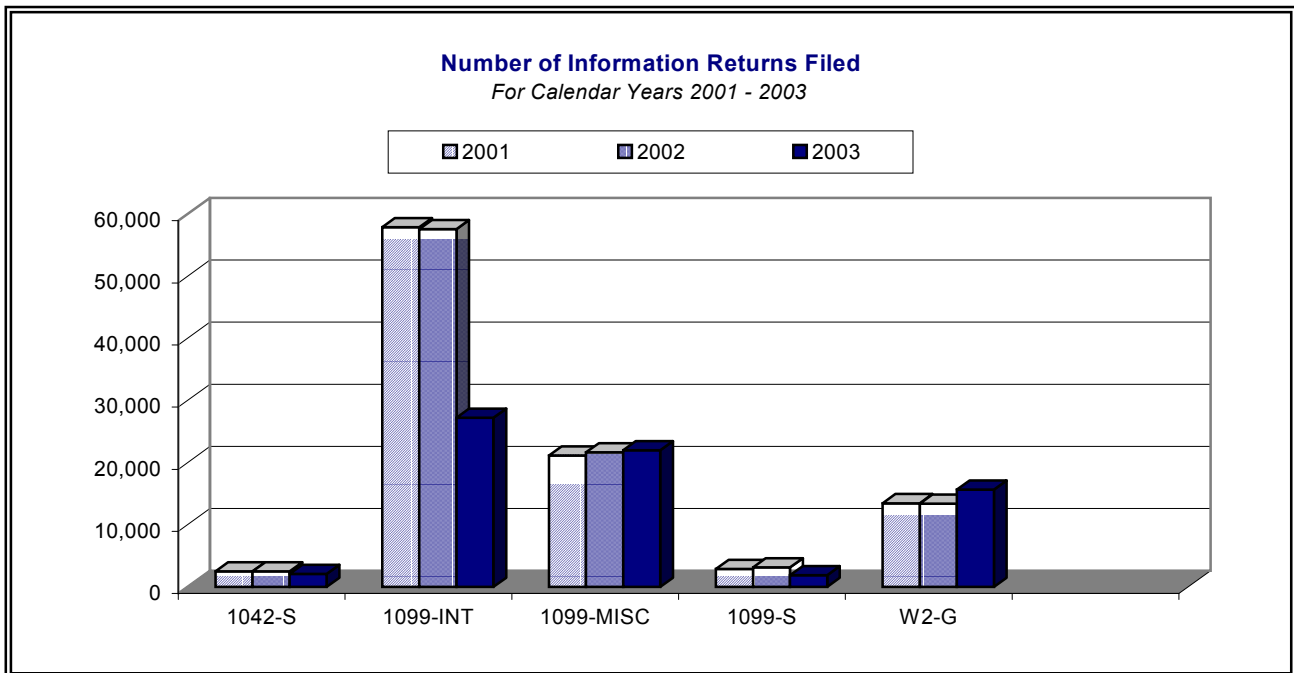
Form Type	Dollars Reported	Number of Payees	Paper Media	Magnetic Media	Electronic Media	% Change in Number of Filings from 2002
1042-S, Foreign Persons	\$ 16,831,498	2,073	249	350	1,474	-17.0%
1099-G, Gov't. Payments	2,148,596,622	2,819,127	139	2,818,386	602	1.0%
1099-Q, Qualified Tuition Program	32,401,359	7,276	0	0	7,276	45.0%
1099-INT, Interest	3,975,679	27,209	88	26,029	1,092	-53.0%
1099-DIV, Dividends	10,906	88	0	0	88	-20.0%
1099-MISC, Misc. Income ⁽¹⁾	406,061,098	21,973	3,198	4,503	14,272	2.0%
1099-R, Retirement	1,747,901,690	131,530	141	0	131,389	18.0%
1099-S, Real Estate Trans.	74,877,065	1,862	0	0	1,862	-40.0%
W2-G, Lottery Winnings	29,541,306	15,640	0	15,640	0	17.0%
1098-E, Student Loan Interest	37,386	316	3	0	313	17.0%
1098-T, Tuition Payments	1,488,683,064	394,916	0	34,201	360,715	-10.0%
	\$ 5,948,917,673	3,422,010	3,818	2,899,109	519,083	-1.0%

¹ Does not include Medicaid payments to third party providers made by the DMAS fiscal agent.

Following is a comparison of the number of returns filed in the past three years in various categories. Two graphs have been created due to the difference in scale.



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



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

Discrepancy Notices

During 2003, five reporting entities received IRS CP-2100 notices, or other correspondence, related to information returns filed for the previous tax years. This is a 38% reduction over 2002. This reduction is largely due to diligent efforts by management and staff to improve procedures and avoid notices, improved technical support for specialized information returns software, and verification of information returns data against vendor edit tables. The majority of these notices stated that the agencies had filed information returns using an incorrect taxpayer identification number or a taxpayer identification number that did not match a taxpayer record in either the IRS or Social Security Administration's databases. To avoid penalties for erroneous filings, agencies were required to research these discrepancies and respond to the IRS within 30 days from the date that the CP-2100

notice was received. All agencies that received CP-2100 notices complied and responded accordingly.

Information Returns training was requested by eighteen agencies, primarily on compliance issues, the use of the DOA Adjustment and Reporting System (ARS), downloading 1099 data from Financial Information Downloading System (FINDS), and the preparation of returns using electronic software.

In 2003, 14 state agencies and institutions received approval from the IRS to participate in the Combined Federal/State Filing Program. Through this program the IRS forwards information returns filed magnetically or electronically to participating states.

Prompt Payment Performance by Secretarial Area
Quarter Ended March 31, 2004

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.2%	97.3%
Commerce and Trade	98.8%	99.2%
Education*	98.8%	97.5%
Elected Officials	99.1%	97.7%
Finance	99.0%	92.6%
Health and Human Resources	98.7%	96.2%
Independent Agencies	98.6%	99.0%
Judicial	99.4%	99.6%
Legislative	99.4%	96.8%
Natural Resources	99.1%	99.1%
Public Safety	99.0%	98.2%
Technology	97.1%	94.4%
Transportation*	98.6%	96.2%
Statewide	98.8%	97.2%

Prompt Payment Performance by Secretarial Area
Fiscal Year 2004

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.1%	97.9%
Commerce and Trade	98.9%	99.0%
Education*	98.8%	97.8%
Elected Officials	97.8%	95.6%
Finance	99.4%	97.3%
Health and Human Resources	98.6%	97.1%
Independent Agencies	98.8%	99.0%
Judicial	99.5%	99.8%
Legislative	99.5%	98.8%
Natural Resources	99.2%	99.0%
Public Safety	98.9%	98.6%
Technology	97.6%	96.7%
Transportation*	98.6%	96.5%
Statewide	98.8%	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, and the College of William and Mary in Virginia and may include local payments. These agencies and institutions are decentralized for vendor payment processing.

Statewide Salaried Direct Deposit Performance
Quarter Ended March 31, 2004

Salaried Direct Deposit Participation	87.3%
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Salaried Direct Deposit Below 80 Percent

Agency	Percent	Number of Employees
Education		
Tidewater Community College	72.8%	1,500
Health and Human Resources		
Southern Virginia Mental Health Institute	77.7%	162
Hiram W. Davis Medical Center	75.1%	181
Central State Hospital	71.5%	716
Piedmont Geriatric Hospital	65.1%	321
Southside Virginia Training Center	63.8%	1,368
Central Virginia Training Center	61.0%	1,538
Public Safety		
Augusta Correctional Center	79.1%	394
Eastern Regional Correctional Field Units	79.1%	211
Central Regional Correctional Field Units	78.4%	158
Greensville Correctional Center	78.2%	820
Lunenburg Correctional Center	78.1%	266
Fluvanna Women's Correctional Center	77.8%	371
Mecklenburg Correctional Center	75.2%	303
Southampton Reception & Classification Center	75.1%	245
Bland Correctional Center	75.0%	284
Brunswick Correctional Center	72.4%	378
Dillwyn Correctional Center	71.8%	266
Buckingham Correctional Center	70.7%	345
Nottoway Correctional Center	65.5%	418
Virginia Center for Behavioral Rehabilitation	61.2%	62
Transportation		
Department of Transportation - Fredericksburg District	79.9%	653
Department of Transportation - Richmond District	79.2%	1,164
Department of Transportation - Staunton District	78.3%	799
Department of Transportation - Lynchburg District	72.2%	765
Department of Transportation - Salem District	71.4%	952
Department of Transportation - Culpeper District	69.8%	644
Department of Transportation - Bristol District	68.9%	1,022

Statewide Wage Direct Deposit Performance

Quarter Ended March 31, 2004

Wage Direct Deposit Participation

44.9%

Wage Direct Deposit Below 40 Percent

<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
Commerce and Trade		
Department of Forestry	17.3%	173
Education		
Germanna Community College	39.0%	151
Eastern Shore Community College	34.5%	55
Paul D. Camp Community College	31.9%	94
John Tyler Community College	30.5%	252
Central Virginia Community College	30.2%	129
Gunston Hall Plantation	30.0%	20
New River Community College	28.9%	304
Southwest Virginia Community College	27.8%	241
Dabney S. Lancaster Comm. College	26.6%	90
Lord Fairfax Community College	26.1%	306
Norfolk State University	24.8%	853
Piedmont Virginia Community College	23.4%	303
Wytheville Community College	20.1%	213
Thomas Nelson Community College	16.3%	558
Richard Bland College	15.9%	44
Rappahannock Community College	15.8%	120
Mountain Empire Community College	12.9%	278
Radford University	12.4%	1,633
Danville Community College	10.8%	268
Virginia Western Community College	10.8%	342
Southside Virginia Community College	8.5%	176
Longwood University	7.8%	611
Northern Virginia Community College	6.5%	1,932
Virginia Highlands Community College	5.0%	220
Health and Human Resources		
Southside Virginia Training Center	32.2%	96
Central Virginia Training Center	0.0%	89
Judicial		
Combined District Courts	39.2%	28
General District Courts	32.6%	202

Number of

**Agency SPCC Performance
Utilization Below 70 Percent**

<u>Agency</u>	<u>Payments in Compliance</u>	<u>Non-Compliant Transactions</u>
Administration		
Council on Human Rights	0%	2
Commerce and Trade		
Virginia Employment Commission	47%	621
Department of Minority Business Enterprise	25%	9
Department of Labor and Industry	7%	154
Tobacco Indemnification & Revitalization Commission	0%	22
Executive Offices		
Attorney General - Div of Debt Collection	0%	4
Education		
Christopher Newport University	53%	775
Norfolk State University	50%	815
New River Community College	45%	217
Virginia School for the Deaf and Blind at Staunton	32%	198
Virginia State University – Cooperative Extension and Agricultural Research Services	14%	870
Melchers-Monroe Memorials – Mary Washington College	0%	2
Virginia Commission for the Arts	0%	17
Finance		
Department Taxation	69%	171
Department of the Treasury	65%	95
Health and Human Resources		
Virginia Office for Protection and Advocacy	69%	21
Central Virginia Training Center	68%	289
Commonwealth Center for Children and Adolescents	63%	41
Southeastern Virginia Training Center	60%	148
Hiram W. Davis Medical Center	56%	81
Virginia Board for People with Disabilities	47%	23
Hiram W Davis Medical Center	46%	122
Northern Virginia Mental Health Institute	45%	183
Eastern State Hospital	39%	556
Northern Virginia Training Center	28%	239
Center for Behavioral Rehabilitation	0%	16

Payments in

Non-Compliant

