

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT AND
COMPLIANCE**

FOR THE QUARTER ENDED DECEMBER 31, 2010



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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TABLE OF CONTENTS

REPORT ON STATEWIDE FINANCIAL MANAGEMENT AND COMPLIANCE

Quarter Ended December 31, 2010

	Page
STATEMENT OF PURPOSE	2
COMPLIANCE.....	3
<u>Auditor of Public Accounts Reports - Executive Branch Agencies</u>	3
Audit Reports – Quarter Ended December 31, 2010.....	3
Audit Findings – Quarter Ended December 31, 2010	5
Risk Alerts – Quarter Ended December 31, 2010	14
Efficiency Issues – Quarter Ended December 31, 2010	14
Special Reports – Quarter Ended December 31, 2010	14
Other Audit Reports Received – Quarter Ended December 31, 2010	15
Status of Prior Audit Findings	17
<u>Compliance Monitoring</u>	30
ARMICS Compliance.....	30
Confirmation of Agency Reconciliation to CARS Reports.....	31
Response to Inquiries.....	32
Trial Balance Review	32
Analysis of Appropriation, Allotments and Expenditures and Cash Balances.....	33
Disbursement Processing.....	33
Paperwork Decentralization.....	34
Prompt Payment Compliance	38
E-Commerce	41
<i>Financial Electronic Data Interchange (EDI)</i>	42
<i>Travel EDI</i>	43
<i>Direct Deposit</i>	48
<i>Payroll Earnings Notices</i>	51
<i>Small Purchase Charge Card (SPCC) and Increased Limit (Gold) Card</i>	54
<i>Travel Charge Card</i>	59
Payroll Controls.....	61
<i>PMIS/CIPPS Payroll Audit</i>	61
<i>PMIS/CIPPS Exceptions</i>	64
<i>Payroll Certification</i>	65
<i>Health Care Reconciliations</i>	67
FINANCIAL MANAGEMENT ACTIVITY	68
Commonwealth Accounting and Reporting System (CARS).....	68
Payroll.....	70
Accounts Receivable.....	72
Indirect Costs	84
Loans and Advances	86

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 December 31, 2010, and comparative FY 2010 data. Some information in the report is for the quarter ended September 30, 2010, 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 workplan.

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 in order to improve efficiency. Risk alerts and efficiency issues are summarized following the Audit Findings section.

The APA also issued several “Special Reports” and “Other 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 December 31, 2010

The APA issued fourteen separate reports covering 14 agencies, colleges and universities for the Executive Branch. The last column indicates whether the CAW has been received as of the date of this publication for each agency with audit findings. Note that in some cases, the CAW may not have been received because it is not yet due.

	New Findings	Repeat Findings	Total Findings	CAW Received
Administration				
Compensation Board	0	0	0	N/A
Agriculture and Forestry				
None				
Commerce and Trade				
Virginia Economic Development Partnership	0	0	0	N/A
Virginia Racing Commission	0	0	0	N/A
Department of Business Assistance	1	1	2	YES
Virginia Employment Commission	0	1	1	YES

	New Findings	Repeat Findings	Total Findings	CAW Received
Education				
University of Virginia	0	0	0	N/A
Department of Education (3)	0	0	0	N/A
Executive Offices				
Office of the Attorney General and Department of Law (1)	2	0	2	YES
Finance				
None				
Health and Human Resources				
Virginia Foundation for Healthy Youth	0	0	0	N/A
Office of Comprehensive Services for At-Risk Youth and Families	2	0	2	YES
Natural Resources				
None				
Public Safety				
Department of Alcoholic Beverage Control	1	3	4	YES
Department of Military Affairs	6	0	6	YES
Technology				
Innovation and Entrepreneurship Investment Authority (2)	0	0	0	N/A
Transportation				
Virginia Port Authority	1	0	1	YES

(1) This report includes the Division of Debt Collection.

(2) This report includes the Center for Innovative Technology, a Blended Component Unit

(3) This report includes Direct Aid to Public Education.



Audit Findings - Quarter Ended December 31, 2010

The following agencies had one or more findings contained in the audit report. Short titles assigned by the Auditor of Public Accounts (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.

Commerce and Trade

Department of Business Assistance (DBA)

1. Complete the Agency's Information Security Program. **Previous Finding – Significant Progress Made.** Business Assistance, in coordination with the Department of Accounts, has improved its information security program. During the fiscal year, Business Assistance developed and formalized their Information Technology Security Policy, and in August 2010 they completed the development of their disaster recovery plan.

The disaster recovery plan is a key component that is required to be fully compliant with the Commonwealth's information security standards. Therefore, now that Business Assistance has completed the development of the plan, the APA recommends that Business Assistance take the necessary steps to fully implement it.

2. Develop and Strengthen Business Assistance Agency Specific Policies. During the APA's audit, they noted that while Business Assistance had documented policies and procedures for many areas of its operations, it did not have complete policies and procedures covering human resources, state vehicle and fuel card usage, and document retention. In addition, the APA noted Business Assistance did not maintain all of its policies and procedures in a central location accessible by all staff, such as its internal network, or periodically communicate its policies and procedures to its staff. The risk of fraud and the potential for loss or unauthorized misuse of State resources and erroneous transactions increases without documented procedures that all agency employees follow.

In response to the APA's recommendation, Business Assistance has developed and documented agency specific internal policies and procedures in the areas mentioned above. Business Assistance has communicated and provided training to staff on the new policies and procedures and placed them in a central location accessible by its staff. The APA recommends that Business Assistance send periodic communications related to its policies and procedures to all employees and enforce compliance of all policies and procedures.

Virginia Employment Commission (VEC)

1. Strengthen Controls Over System Access. **This is a repeat finding and some progress has been made.** The Employment Commission should continue to strengthen procedures for granting and monitoring access to the Virginia Automated Benefit System (VABS) and the Virginia Automated Tax System (VATS). The APA identified this issue in their prior report and since then the Employment Commission has implemented a new Access Control

Verification system to help managers review and monitor system access; however, the following issues remain:

- The Employment Commission does not have written procedures to document who has the authorization to grant access or the process required for granting access.
- The Automated System Access Request (ASAR) form documents system access requests, but it does not clearly identify which level of access users receive. The form is outdated and does not reflect the current operating environment.
- According to their policy, the Employment Commission conducts a semi-annual management review of VATS and VABS access. They conducted their first review using the new system in May 2010; however, there is no way to tell if managers completed their review timely. In addition, as of June 1, 2010, there were 35 managers who had not completed their review.

VATS and VABS both contain sensitive information; therefore it is critical that only authorized Employment Commission staff have access to these systems. The APA recommended that the Employment Commission update, implement, and follow policies and procedures over granting and monitoring system access to VATS and VABS. This should include a review of the ASAR form to ensure it is up to date and reflects the current operating environment.

This APA Report also contained a discussion of issues impacting future years consisting of the following topics:

Trust Fund Borrowing and Repayment
System Development Projects

Executive Offices

Office of the Attorney General and Department of Law (OAG)

1. Improve Policies and Procedures over Accounting Transactions. The Finance Division periodically allocates expenses among accounts in its accounting system. However, the Division did not have sufficient policies and procedures related to the periodic allocation of costs among accounts, including the nature of the items the Division should allocate to the various accounts, its uses, and the time frame in which the Division should record the allocations. The APA noted the Division processed many of these allocations at year-end as opposed to throughout the year when the Office incurred the expenses. In addition, the APA found the Division did not maintain sufficient supporting documentation for all transactions allocating expenses among accounts. The APA also noted one instance where the Division did not process a recurring expense for fiscal year 2010 prior to year-end.

The Office has developed policies and procedures addressing the periodic allocation of expenses among accounts and year-end closing transactions and reorganized the Finance Division. These new policies and procedures should address the timing for processing transactions, the nature of the expenses the Division should allocate to its various accounts,

the approval process surrounding the transactions, and the documentation the Division should maintain supporting the transactions. In addition, the APA encourages the Division to create a checklist containing any recurring or year-end transactions to ensure appropriate posting to its accounting system.

2. Improve Supporting Documentation for Legal Service Billings. The Finance Division determines legal billings based on the number of qualifying hours charged to a specific agency, as recorded in their Legal Hours Database in the previous year, multiplied by the pre-determined billing rate. During the review, the APA noted several instances in which the Division modified the number of hours recorded related to an agency. The Finance Division made these adjustments based on discussions with the applicable attorney in charge of billing the agency. However, the Division did not maintain sufficient documentation to substantiate all of the changes.

The inability to substantiate billing changes increased the risk that agencies could be over or under-billed and that there could be questioned costs for legal services agencies charged to Federal funds. As a result, the Office has modified its policies and procedures over the billing process to ensure that it is consistent in the process it applies to each agency and that there is sufficient supporting documentation. The new policies and procedures require that attorneys record all hours worked in the Legal Hours Database, which should reduce the number of manual adjustments. The APA recommends, whenever the Division modifies the hours billed to an agency, that it documents the reason for the modification and maintains any related supporting documentation including correspondence with the agency or applicable attorney.

Health and Human Resources

Comprehensive Services for At-Risk Youth and Families (CSA)

1. Develop Monitoring Procedures to Review Locality Statistics. The Office of Comprehensive Services (Office) does not regularly monitor locality specific expenditures and statistics. If the Office had performed some type of trend analysis or other analytical review, it would have become clear that there was a problem in Pittsylvania County, as discussed in the section “Comprehensive Services Act in Pittsylvania County.”

The Office collects and publishes a wealth of data on CSA expenditures and services on their website. They collect data by locality, region, and statewide. By analyzing this data and investigating outliers, the Office could have potentially identified issues similar to those in Pittsylvania County much earlier. The Office should develop monitoring procedures to review analytics and statistics regularly to look for sudden or gradual changes in a locality’s standings.

2. Improve Guidance and Background Provided to CPA Firms. Local CPA firms audit compliance with the CSA program during the locality’s annual financial audit through audit specifications developed by the Office and distributed by the Auditor of Public Accounts. However, the program is so complex that without specific training on the CSA program, auditors can easily miss inappropriate use of CSA funds.

The APA recommends that the Office, in collaboration with the Departments of Education, Social Services, and Medical Assistance Services, provide background and guidance to the CPA firms with the audit specifications that will assist the CPA firms in understanding the program. In addition, during the annual update of the audit specifications, the Office should develop “hot topics” or “current issues” surrounding the program and service eligibility that the local CPA firms should be aware of during their audit work.

Public Safety

Department of Alcoholic Beverage Control (ABC)

1. Improve Systems Access Processes and Monitoring. **This is a repeat finding and some progress has been made.** This finding was previously reported as resolved by ABC. In the prior audit, the APA found the Department of Alcoholic Beverage Control (Department) does not perform system access security reviews in compliance with its information security program. The Department has made limited progress addressing this recommendation; however, based on the review of access, the APA believes the Department should make system access security reviews a priority. The Department does not maintain adequate documentation for many of its systems on what roles allow users to access what data or perform what functions within their systems. Many of the Department’s systems are several years old and the capabilities of the system to identify roles have become dated, due to organizational changes and the implementation of other systems. Not having this documented could lead to users having access to systems that they do not need or users receiving excessive access. Additionally, multiple users share administrative accounts that grant access to the entire system. Sharing accounts removes accountability for employees’ actions, as it is virtually impossible to determine what actions a specific employee has taken while they are using a shared administrative account.
2. Use Automated Workflow Process. The Department has the opportunity to improve its operational efficiency by using automated workflow process for the entering and approving of transactions in their general ledger system. Also, the Department could streamline its process for obtaining and reconciling information between systems, which results from not having automated system interfaces. The manual approval of entries into the general ledger system does not provide the level of internal control as required in an automated process. Review and approval of hardcopy supporting documentation provides no assurance over the accuracy of the system recorded information. This form of approval increases the risk of inaccurate and inappropriate transactions and the risk that employees will circumvent controls. The Department should either implement automated workflow with adequate segregation of duties in the Performance System or restructure and assign user roles to prevent users from entering and approving their own transactions. Either of these options will provide stronger controls, a more efficient process, and a reduction in paperwork by automating the entire process. The reconciliations are time consuming, but without an automated transfer of data between systems, they are essential. The ability to change information before transfer can result in misstatements, or accidental modification of data. The APA recommends that ABC analyze all system feeds to determine where there are opportunities to increase efficiencies automating the transfer of data, thus removing the need for reconciliations.

3. Improve Information Technology Policies and Procedures. **This is a repeat finding.** The Department's information security program continues to lack consistency across all sensitive systems. As noted last year, the Department has documented policies and procedures for security over its critical data in accordance with the Commonwealth's Information Security Standard; however, the Department has not made it clear that some of these policies and procedures only apply to certain systems. Communicating a consistent information security program is essential to ensuring that users of the systems understand their responsibility in protecting sensitive data, no matter the system. When security requirements and expectations differ greatly among the systems, the Department risks inconsistent application and enforcement of those requirements.
4. Improve Database Security Monitoring. **This is a repeat finding.** This finding was previously reported as resolved by ABC. The data owner and database administration staff do not consistently review database audit logs. Logging database activity and reviewing the logs consistently allows data owners to ensure the integrity of data and gives assurance that there are no unauthorized changes. The Department's logging policies and procedures do not specify the types of database activities to track, the frequency of the reviews, and who has responsibility for reviewing logs, or responding to suspicious activity. The Department should improve its policies and procedures for logging and monitoring to include requirements for logging of high-risk activities, frequent and regular reviews of logs by appropriate individuals, and procedures for documenting and responding to suspicious activity. Detailed and specific policies and procedures are essential to ensuring the Department can communicate and enforce expectations and responsibilities of its staff for the security of critical and sensitive data. When developing a strategy for regular log reviews, the Department should consider risk to Department operations and sensitivity of data in determining how often to perform log reviews.

Department of Military Affairs (DMA)

Virginia Commonwealth Challenge Program

Military Affairs needs to strengthen policies and procedures over the Virginia Commonwealth Challenge Program (Challenge Program). Military Affairs runs the Challenge Program at Camp Pendleton in Virginia Beach, as part of the National Guard Youth Challenge Program. This is a national program designed for 16 to 18 year old high school dropouts, with the goal of producing graduates with values, life skills, and self-discipline in order to be productive citizens. The APA found the following issues related to the Challenge Program. The APA believes the significant non-compliance with various federal requirements places all of the federal program cost for fiscal year 2010, which total \$2,560,525, at risk.

1. Improve Segregation of Duties over Challenge Accounts. During the course of the APA's audit, they received an inquiry concerning a situation involving the potential mishandling of public funds by an employee at the Virginia Commonwealth Challenge Program, housed at Camp Pendleton in Virginia Beach. As part of the State Police investigation, the APA reviewed transactions over a three year period and found approximately \$120,000 in questionable transactions involving a combination of state, federal, and private funds. The loss of funds was the result of a lack of internal controls, supervisory oversight, and a lack of segregation of duties. The Challenge Program employee had complete access to the petty

cash account as well as some other private funds with no effective supervisory oversight. As a result, the employee had the opportunity to write checks, make deposits, and control the bank account, until Military Affairs' management reassigned these responsibilities.

Military Affairs' management transferred responsibility for the Challenge Program petty cash account to the Deputy Director of Fiscal Operations in the central office in Blackstone in September 2009. Military Affairs is reviewing the need for this account; however, in the meantime, the Deputy Director has primary responsibility for writing checks from the account while also performing the bank reconciliation. The Director of Fiscal Operations reviews the reconciliation as well as all checks written from the account.

Ideally, management should implement procedures for someone independent of the check preparation and deposit process to reconcile the account. It is the APA's understanding that Military Affairs recently filled a vacant position in the Finance Office which should allow them to reassign responsibilities and better segregate petty cash functions.

2. *Improve Compliance with Eligibility Requirements in Challenge Program.* Military Affairs needs to improve compliance with federal eligibility requirements for the Challenge Program. The APA selected a sample of forty students that attended the program in fiscal year 2010 and reviewed their eligibility for the program based on the federal requirements. The APA found the following.

- Thirty four out of forty (85%) students tested did not meet the eligibility requirements set forth in the Youth Master Cooperative Agreement dated October 8, 2009, and CFR Title 32, Section 509 (e). These requirements cite individuals are eligible if they are dropouts from secondary school. Admissions staff admit students who are "at risk" of dropping out of school, but are still enrolled at a secondary school at the time their application is approved. This practice is not in compliance with the federal eligibility requirements.
- There was no documentation to support U.S. citizenship for three of forty (8%) students tested.
- There was no documentation to support the pre-screening drug tests for all twenty tested students who attended the Fall 2009 term because staff indicated that they had inadvertently lost the tests. Federal requirements state that program officials must maintain these records for three years.

The APA recommended that Military Affairs strengthen procedures to ensure compliance with the federal requirements over the Challenge Program. Challenge Program management should consult with federal officials to ensure their eligibility practices comply with the federal requirements. Also, staff should retain documentation supporting eligibility determinations. Finally, Challenge Program management needs to adequately review and approve program expenses to ensure they are allowable under the federal requirements. The Commonwealth of Virginia Single Audit Report, for the year ended June 30, 2010, considers this deficiency in internal control over compliance to be a material weakness.

Other Findings

Military Affairs' Finance Office processes payroll, handles procurement, pays vendors and accounts for related financial operations of the agency. The Office has a Director of Fiscal Operations and eight other staff. During fiscal year 2010, one individual resigned to accept another position and another individual was on extended short term disability. In both instances, Military Affairs' management did not reassign some job duties performed by these individuals. Some of the findings in the next section result from the lack of staff addressing these individuals' duties.

3. Improve Internal Controls over Small Purchase Charge Cards. Military Affairs needs to improve controls over granting access to and monitoring small purchase charge cards. There are 28 Military Affairs employees with small purchase charge cards, and fiscal year 2010 expenses charged to these cards was almost \$6 million. The APA found several issues related to small purchase charge cards as follows.

- There were nine individuals with credit limits of \$100,000, one individual with a \$60,000 limit and seven individuals with \$50,000 limits. The APA reviewed these credit limits in comparison to the individual's job responsibilities and their expense patterns over the year for all individuals with a credit limit of \$100,000. For many of these individuals, these credit limits seem excessive. Most of the individuals did not consistently spend near their credit limits.
- One card issued in February 2009 with a credit limit of \$100,000 went unused the entire year.
- In three instances, the cardholder's purchases exceeded their credit limit for the month. In two instances, the amount exceeded was approximately \$1,000 without obtaining approval from the Department of Accounts (Accounts). In the third instance, Military Affairs was aware of the overage and obtained approval from Accounts; however, Military Affairs could not provide documentation of the approval.
- In one instance, the cardholder split a purchase to circumvent the single transaction limits (\$5,000) on the small purchase charge card.

Overall, Military Affairs needs to strengthen controls over its small purchase charge card program. Management should review who has charge cards so that only individuals who need them for their job have cards. In addition, management should review credit limits to determine if they are appropriate. Lastly, cardholders need to monitor their charge card activity to ensure they do not exceed their credit limits or split purchases to circumvent controls.

4. Improve Internal Controls over Payroll Procedures and Recordkeeping. Military Affairs could not provide adequate documentation to support certain payroll transactions and did not comply with state requirements for wage employees working over 1,500 hours. The APA analyzed payroll information for fiscal years 2008 and 2009 and found the following.

- Military Affairs could not provide adequate documentation to support various payroll transactions for Workforce Transition Act payments. The APA reviewed payroll transactions that exceeded a certain threshold to determine if they were reasonable and properly documented. The APA found three special pay transactions, two pay rate changes, and four overtime payments that all relate to Workforce Transition payments; however, Military Affairs could provide no documentation to support the transactions or their calculations.
- Eleven wage employees in fiscal year 2008 and seven wage employees in fiscal year 2009 worked in excess of 1,500 hours in the year. Department of Human Resource Management policies require approval from the agency head for any employees who work more than 1,500 hours in a year. Military Affairs did not obtain proper approval for any of the eleven employees in fiscal year 2008 and four of the employees in fiscal year 2009.

Military Affairs should maintain documentation to support all payroll transactions. Military Affairs began using the Payroll Service Bureau in August 2008, and subsequently implemented new procedures to improve payroll documentation.

In addition, Military Affairs should comply with requirements over wage employees working more than 1,500 hours in a year. To better monitor these employees, Military Affairs began using a new statewide report in fiscal year 2010. They should review this report regularly to better monitor their wage employees and ensure compliance with state requirements.

5. *Improve Internal Controls over the I-9 Process.* Military Affairs personnel 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. The guidance requires that the employer document the forms of identification shown by the employee that substantiates the employees' eligibility to legally work in the United States. The employer must document the Document Title, Issuing Authority, the Document Number, and the Expiration Date of the documentation, if any. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

The APA reviewed a sample of five I-9 forms completed in fiscal year 2009 and found the following errors, which occurred on one or more of the forms:

- Two employees did not sign and/or date the form on or before the first day of work.
- Two employees' identification did not match the appropriate list on the form.
- One employee's certification of first date of employment on the I-9 did not match the employee's hire date.
- One form did not have the certifying agency's name.

The APA also reviewed five I-9 forms completed in fiscal year 2010 and found similar errors in one of these forms.

The APA recommended that Military Affairs' management develop steps to continuously review the I-9 process, train Military Affairs' staff on the requirements of completing I-9 forms, and develop procedures to continuously review all or a sample of I-9 forms for compliance with federal regulations. Weaknesses in the I-9 process could result in fines and penalties against Military Affairs.

6. Strengthen Recording and Tagging of Equipment. Military Affairs is not recording acquisition or dispositions of fixed assets in the fixed asset system (FAACS) or tagging equipment on a timely basis. In early January 2010, the individual responsible for these functions took a position with another agency. Since that time, the position is vacant and management has not reassigned these responsibilities to other staff.

As a result, the Finance Office did not tag or record fixed assets in FAACS for the last six months of fiscal year 2010. In addition, the Office has not performed timely reconciliations of FAACS to the accounting system for this same period. It is the APA's understanding that Military Affairs is working with the Department of Accounts to correct this situation.

The primary function of these controls is to safeguard and ensure accurate recording of fixed asset values. The Commonwealth Accounting Policies and Procedures Manual as well as federal requirements require that agencies enter their fixed assets into FAACS as soon as practicable, and tag equipment at the time of physical receipt or as soon thereafter as possible. The APA recommended that management immediately reassign the responsibility for tagging and recording fixed assets.

Transportation

Virginia Port Authority (VPA)

1. Improve IT Security Program. The Virginia Port Authority (Authority) has an information security program; however, it is not up to date and does not focus on a specific information security industry best practice. Without documenting and implementing a specific industry best practice and keeping it current, the Authority's Board of Commissioners (Board) significantly increases the risk that someone could either compromise or change data without authorization.

There are two predominant industry best practices that enterprises follow around the world. The first is the International Organization for Standardization's ISO27002, and the second is the COBIT Framework for IT Governance and Control by ISACA. In addition, the Commonwealth has its own set of information security standards, SEC501. The APA recommended that the Board select and implement one of these standards to decrease the risks mentioned above. The Authority also needs a comprehensive security program to communicate the Board's security expectations to its IT Infrastructure provider, the Virginia International Terminals (VIT). The Board should also require that VIT implement and follow an industry best practice to meet the Authority's security expectations. The Authority can verify these expectations by obtaining an independent security audit of VIT's security program and controls.



Risk Alerts – Quarter Ended December 31, 2010

The APA encounters issues that are beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations.

One APA report contained a Risk Alert:

Department of Business Assistance

Shift to an Administrative Service Arrangement. During the course of their audits, the APA encountered issues 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 to improve efficiency, reduce risk, and enhance its operations. This audit risk alert requires the attention of the Secretary of Commerce and Trade and multiple agencies.

In the APA's previous report, due to its limited number of administrative staff and the pending retirement of its Director of Administration, the APA recommended that Business Assistance seek out an opportunity to work with another agency to establish a central back office operation to provide accounting, budgeting, human resources, and procurement services. Since their last audit, Business Assistance has outsourced its human resources function to the Department of Human Resource Management. In addition, due to the retirement of its Director of Administration, Business Assistance is using some of its staff normally assigned to the Virginia Small Business Financing Authority to assist with accounting functions. Further, Business Assistance approached another agency concerning consolidating back office operations, but the agency indicated it did not have excess capacity to assume these responsibilities.

The APA recommends that the Secretary of Commerce and Trade review the agencies within the Commerce and Trade Secretariat and determine how to most effectively combine back office operations for the agencies with a limited number of administrative staff to enhance internal controls and gain risk management benefits.

Efficiency Issues – Quarter Ended December 31, 2010

No APA reports containing an Efficiency Issue were received.

Special Reports – Quarter Ended December 31, 2010

The APA issued the following Special Reports:

General Assembly, Legislative Agencies, and Commissions of the Commonwealth of Virginia Financial Report for the fiscal year ended June 30, 2010.

Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2010 through September 30, 2010. This report contains management recommendations.

Revenue Stabilization Fund Calculations for the year ended June 30, 2010.

2010 State of Information Security in the Commonwealth – as of October 31, 2010. This report contains management recommendations.

Review of the Comprehensive Services Act for At-Risk Youth and Families Program in Pittsylvania County – November, 2010. This report contains management recommendations.

Review of the Virginia Gas and Oil Board – November, 2010. This report contains management recommendations.

Accounts Receivable Review – November, 2010. This report contains management recommendations.

Study of State Disbursement Processes – November, 2010. This report contains management recommendations.

Commonwealth Data Point Transparency Best Practices – December 1, 2010.

Review of Unemployment Benefit Overpayments—Virginia Employment Commission, November 2010. This report contains management recommendations.

Review on Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2010. This report contains management recommendations.

Review of Compliance with the Federal Payments in Lieu of Taxes Act for the period October 1, 2009 through September 30, 2010.

Single Audit Interim Communication for ARRA Programs – Department of Rehabilitative Services, December 1, 2010. This report contains management recommendations.

Student Housing at Virginia’s State-supported Universities (Phase Two), December 2010. This report contains management recommendations.

Other Audit Reports Received – Quarter Ended December 31, 2010

The APA also issued the following Other Reports:

Virginia State Lottery Department for the year ended June 30, 2010. This report contains management recommendations.

Virginia Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2010.

Virginia Commercial Space Flight Authority for the year ended June 30, 2010.

Virginia Retirement System for the year ended June 30, 2010. This report contains management recommendations.

Internal Control Report on Audit for Local Government Investment Pool, Virginia College Building Authority, Virginia Public Building Authority, and Virginia Public School Authority for the year ended June 30, 2010.

Virginia College Savings Plan for the year ended June 30, 2010.

Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2010. This report contains management recommendations.



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.

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Department of General Services (DGS)</u>				
2008	06-06	Finalize and distribute real estate policies and procedures.	Three final policies are in various stages of development and approval. They are due to be released in May 2011, December 2011, and March 2012.	In Progress (Delayed)
<u>Virginia Employment Commission (VEC)</u>				
2009	09-01	Review, approve, and disseminate information technology disaster recovery plan.	Need to complete Disaster Recovery and COOP testing. Then both plans will be updated based on test results.	In Progress (On Schedule)
	09-02	Strengthen controls over system access	A new access control system was implemented.	In Progress (Delayed)
<u>Christopher Newport University (CNU)</u>				
2009	09-02	Compare changes in Blackboard back to Banner.	All recommendations have been implemented and CNU will continue monitoring to ensure accuracy and compliance.	Completed (On Schedule)
	09-04	Improve information security management.	All actions complete except for the hiring of a full-time Banner DBA.	In Progress (On Schedule)
<u>Frontier Culture Museum of Virginia (FCMV)</u>				
2009	09-01	Perform fixed asset reconciliations.	Policies and procedures regarding fixed assets and reconciliations are completed. Procedures will be tested once a new fixed asset is obtained.	In Progress (Delayed)
<u>Jamestown-Yorktown Foundation (JYF)</u>				
2009	09-01	Improve logical access management.	Policies and forms were updated. Document retention processes improved.	Completed (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Norfolk State University (NSU)</u>				
2009	09-01	Improve information security program.	VSU is aligning its policies and updating its forms to ensure compliance with the SEC 501 standard. Some actions require coordination with applicable vendors.	In progress (On schedule)
	09-02	Strengthen clearing procedures over separated employees	Electronic forms and workflows are being developed to quickly process separating employees.	In progress (On schedule)
	09-03	Promptly calculate and return Title IV funds for unofficial withdrawals.	NSU has implemented additional procedures to ensure all Title IV refund calculations are completed accurately and timely. NSU will develop a tutorial for all faculty and will include the Title IV refund requirements in the University's faculty handbook.	Completed (On schedule)
	09-04	Comply with Federal Regulations for Exit Counseling.	Controls have been implemented to track exit counseling sessions. A process is in place to identify students without exit interviews documentation so further action can be taken. Finally, procedures have been implemented to withhold services to an exiting student until an exit interview is conducted.	Completed (On schedule)
<u>Radford University (RU)</u>				
2009	09-01	Improve financial statement preparation process.	The University has documented a complete set of procedures to prepare and review the annual financial statements.	Completed (On schedule)
<u>The College of William and Mary in Virginia (CWM)</u>				
2009	09-01	Continue to improve financial reporting. This is a repeat finding.	Three significant improvements to Foundation Financial Statements have been made. Two vacancies have been filled with one more pending.	Completed (Delayed)
	08-01	Continue to improve financial reporting.	See 09-01.	
	07-01	Improve financial reporting.	See 08-01.	

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-01	Improve financial statement preparation process.	See 07-01.	
	05-01	Test financial statement preparation process.	See 06-01.	
	09-02	Complete formal capital asset policies and procedures.	Policies and procedures were completed and provided to APA.	Completed (Delayed)
<u>University of Mary Washington (UMW)</u>				
2009	09-01	Improve information systems security program. This is a repeat finding and progress has been made.	ISO begins work on February 10, 2011. Information Security program policies, standards, and procedures have been finalized, approved, and implemented.	In Progress (Delayed)
	08-01	Improve information systems security program.	See 09-01.	
	09-02	Properly procure information technology software.	Process changes and improved data sharing have resulted from meeting regularly to address the IT purchasing structure. Also, VITA is developing a training presentation for UMW.	In Progress (Delayed)
<u>Central Virginia Community College (CVCC)</u>				
2009	09-01	Properly manage Title IV refunds.	The college utilized the DOE software resulting in accurate Title IV refund calculations. Policies and Procedures were also modified to manage the return process.	Completed (On schedule)
<u>Dabney S. Lancaster Community College (DSLCC)</u>				
2009	09-01	Improve implementation of new AIS user roles.	The security access has been changed so that employees that post accounts payable and revenue transactions in AIS will not have the capability to approve their own batches.	Completed (On schedule)
	09-02	Improve revenue contract management.	The College created written policies and procedures for collecting and accounting for contract revenue.	Completed (On schedule)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Eastern Shore Community College (ESCC)</u>				
2009	09-01	Improve revenue contract management.	The cold beverage vending service will be procured through the competitive bid process. (2-1-11)	In Process (On Schedule)
<u>J. Sargeant Reynolds Community College (JSRCC)</u>				
2009	09-01	Improve safeguards over gift card awards.	Additional procedures have been developed to meet the standards of the Commonwealth.	Completed (Delayed)
	09-02	Improve revenue contract management.	The college has implemented a tracking process to ensure timelier contract review. They have started the process to renew their vending contracts.	Completed (On schedule)
<u>John Tyler Community College (JTCC)</u>				
2009	09-01	Improve implementation of new AIS user roles.	JTCC has adjusted the AIS user roles of business office staff to comply with this finding.	Completed (Delayed)
	09-02	Improve revenue contract management.	The college will modify the contract to satisfy the Commonwealths Prompt Pay guidelines.	Completed (On schedule)
<u>Mountain Empire Community College (MECC)</u>				
2009	09-01	Properly manage Title IV refunds.	The college implemented a policy for identifying and processing unofficial withdrawals to ensure the proper calculation of Title IV refunds for students who unofficially withdraw during the semester.	Completed (On Schedule)
<u>Northern Virginia Community College (NVCC)</u>				
2009	09-01	Resolve internal control issues. This is a repeat finding.	Responsible Directors have revised policies and procedures for payment processing, revenue recognition, deposits, accounts receivable, write-offs and collections, and capital asset management and accounting.	Completed (On schedule)
	09-02	Improve revenue contract management.	The Director will review all college revenue contracts and ensure timely review of performance, renewals, and comparison to competitive market rates for commissions.	Completed (On schedule)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Rappahannock Community College (RCC)</u>				
2009	09-01	Improve implementation of new AIS user roles.	Roles have been modified, individuals will not have the capability to approve their own batches.	Completed (Delayed)
	09-02	Improve revenue contract management.	Until renovations are complete an interim contract will be issued. After renovations the service will be procured through the complete bid process (2-1-11).	In Process (On Schedule)
<u>Virginia State University (VSU)</u>				
2009	09-01	Improve database management.	VSU will continue its efforts to extend the Banner system boundary to include the Financial Reporting process and its associated IT resources. Also, access controls will be reviewed to prevent unauthorized access.	In Process (On Schedule)
	09-02	Improve firewall management.	VSU will review firewall settings and controls to ensure all access is authorized.	In Process (Delayed)
	09-03	Approve and implement updated information security program.	VSU will enhance multiple areas of its security programs to improve safeguards to agency data.	In Process (On Schedule)
	09-04	Strengthen controls over capital asset reporting. This is a repeat finding and progress has been made.	A work team is evaluating all aspects of the capital asset process.	In Process (Delayed)
	09-05	Strengthen access controls over Banner.	Preventative controls and detective reports are being developed to ensure the timely access of terminated employees. User access is being reviewed to ensure access is based upon user job responsibilities.	In Process (On Schedule)
<u>Secretary of the Commonwealth (SOC)</u>				
2010	10-01	Improve compliance with the Commonwealth's deposits policy.	The SOC through the Division of Selected Agency Support Services (DSAS) has implemented several controls to speed up depositing or protect deposits until they can be processed.	Completed (On Schedule)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Department of Accounts (DOA)</u>				
2009	09-01	Improve information systems security program. This is a repeat finding.	Application baselines established. Established roles for SQL patching that were approved by NG.	Completed (Delayed)
	08-01	Improve information systems security program.	See 09-01.	
	09-02	Improve web application management and security.	Vulnerability scans completed and security adjustments made.	Completed (Delayed)
<u>Department of the Taxation (TAX)</u>				
2009	09-01	Improve database administrator access oversight.	Progress is being made. Tax is taking due care to ensure that the corrective actions completely address the issues in the audit.	In Process (Delayed)
	09-02	Improve efficiency of access management and change management procedures.	A software application has been selected and implementation is beginning.	In Process (Delayed)
	09-05	Improve data sharing security requirements.	All processes have been revised.	Completed (Delayed)
<u>Department of Behavioral Health and Developmental Services (DBHDS)</u>				
2009	09-01	Improve management and controls for facilities. This is a repeat finding.	Progress made Resolved per APA FY 2010 Audit.	Completed (On Schedule)
	08-01	Improve management and controls for facilities.	See 9-01.	
	09-03	Improve security awareness training documentation. This is a repeat finding.	DBHDS has implemented training requirements and are monitoring the compliance rate at most facilities and the Central Office. Resolved per APA FY 2010 Audit.	Completed (Delayed)
	08-04	Improve security awareness training documentation.	See 9-03.	

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	06-02	Expand security awareness training programs.	See 08-04.	
	09-04	Continue improving IT continuity of operations and disaster recovery plans. This is a repeat finding.	COOP, BIA, and DRP plans have been submitted by facilities and are being reviewed.	In Progress (Delayed)
	08-05	Improve IT continuity of operations and disaster recovery plans.	See 09-04.	
	07-04	Improve contingency and disaster recovery planning.	See 08-05.	
	09-05	Improve system access controls.	ISO visiting sites to perform security reviews. Resolved per APA FY 2010 Audit.	Completed (On Schedule)
	09-07	Strengthen timekeeping operations.	Working with VITA/NG to implement new system.	In Progress (On Schedule)
Department of Social Services (DSS)				
2009	09-02	Improve and comply with information security program.	DSS has completed several areas related to this finding. They are still in the process of reviewing the exceptions logs for unusual activity and including sufficient data protection requirements in interoperability agreements.	In progress (Delayed)
	09-04	Continue Improving System Access	The Chief Information Security Officer is reviewing employee access, updating applicable forms, and is educating supervisors on levels of access.	In Process (Delayed)
	09-05	Ensure hours are entered correctly.	The second level review in home office is now an ongoing practice. Monthly monitoring of a sample of local case actions will continue. Resolved per APA in FY 2010 audit.	Completed (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	09-06	Improve coordination between local eligibility workers and the division of child support enforcement.	DSS is preparing the new release of user acceptance testing, in the interim, division staff continues to monitor reports of non-cooperation and cases dropped, and manually notifying local workers. Resolved per APA in FY 2010 audit.	Completed (Delayed)
2006	06-18	Maintain a tracking system for local employees. This is a repeat finding.	DSS has successfully implemented an interface with four pilot local departments. Resolved per APA in FY 2010 audit.	Completed (Delayed)
2005	05-04	Maintain a tracking system for local employees.	See 06-18.	
<u>Department of Conservation and Recreation (DCR)</u>				
2009	09-01	Continue to improve information technology security programs. This is a repeat finding.	Progress is being made on the BIA and risk analysis with completion expected by the end of the fiscal year.	In Process (On Schedule)
	09-02	Properly complete employment eligibility verification forms. This is a repeat finding.	DCR has implemented several controls over the I-9 process to ensure prompt and accurate completion.	Completed (On Schedule)
<u>Department of Game and Inland Fisheries (DGIF)</u>				
2009	09-01	Conduct and document business impact analysis. This is a repeat finding and progress has been made.	BIA is complete	Completed (Delayed)
	07-03	Improve information system security.	See 09-01.	
<u>Department of Alcoholic Beverage Control (ABC)</u>				
2009	09-01	Improve compliance with information security program	Progress made. Four additional steps to be completed.	In Progress (Delayed)
	09-03	Improve Information Security Program.	PCI addressed. Additional policies to be developed.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Department of Corrections (DOC/CA)</u>				
2009	09-01	Continue to improve controls and processes surrounding construction-in-progress. This is a repeat finding.	Construction-in-Progress (CIP) issues have been addressed by using a tracking spreadsheet and increased coordination and cooperation between the Agency Budget Office and the Architectural and Engineering Office.	Completed (On Schedule)
	08-01	Improve controls and processes surrounding capital assets and construction-in-progress.	See 09-01.	
	07-04	Strengthen supervisory reviews over capital assets and construction-in-progress.	See 08-01.	
	06-01	Strengthen controls over capital project closing and capitalization processes.	See 07-04.	
	09-04	Improve procedures for monitoring vehicle and fuel card use.	DOC is evaluating, changing, and rewriting policies.	In Process (Delayed)
	09-05	Improve procedures for tracking vehicle inventory.	DOC is evaluating, changing, and rewriting policies.	In Process (Delayed)
	09-06	Update IT risk management plans.	DOC has completed a BIA and is working with "The Partnership" on a disaster recovery plan.	In Process (Delayed)
<u>Department of Criminal Justice Services (DCJS)</u>				
2009	09-01	Determine an organizational structure for Criminal Justice Services.	An organizational structure has been agreed upon and implemented.	Completed (Delayed)
	09-02	Improve communications practices.	A communications policy has been drafted and is under review.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Department of Fire Programs (DFP)</u>				
2009	08-01	Strengthen information systems security program. This is a repeat finding and progress has been made.	DFP has completed its portion and is awaiting transformation by VITA to fully address the finding.	In Progress (Delayed)
<u>Department of Forensic Science (DFS)</u>				
2009	09-01	Evaluate risks related to aging hardware and non-participation in the IT partnership.	Risk evaluation and documentation is complete. A transformation plan has been signed with VITA.	In Progress (Delayed)
<u>Department of State Police (VSP)</u>				
2009	09-02	Improve fleet management process. This is a repeat finding and progress has been made.	VSP is developing a requirements definition to obtain and implement new software.	In Progress (On Schedule)
	09-03	Upgrade database system software.	Four MAPPER programs have been replaced and seven others are in the process of being replaced.	In Progress (On Schedule)
<u>Department of Veterans Services (DVS)</u>				
2009	09-01	Evaluate the agency structure.	Central offices have been physically relocated to provide necessary space. Organization structure has been revised to reflect the current agency operations. Future organizational changes may occur as operations are expanded.	Completed (Delayed)
	09-02	Improve the information system security program. This is a repeat finding.	Completed a comprehensive Business Impact Analysis and Risk Assessment. All draft IT Policies were approved and current with version control implemented.	Completed (On Schedule)
	08-01	Develop an information security program and comply with HIPAA regulations.	See 09-02.	
	07-07	Comply with the Health Insurance Portability and Accountability Act.	See 08-01.	

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	07-05	Establish a complete information security plan to comply with Commonwealth security standards.	See 07-07.	
	06-08	Information systems security assurance.	See 07-05.	
	09-03	Improve and implement HIPAA Policies.	All IT plans and security requirements were completed (BIA, RA, Recovery, Plans). HIPAA requirements were discussed with relevant staff to ensure due diligence and compliance efforts are enforced.	Completed (Delayed)
<u>Virginia Correctional Enterprises (DOC/CE)</u>				
2009	09-01	Strengthen controls over capital asset useful life methodologies.	Procedures issued to address changes needed.	Completed (On Schedule)
<u>Virginia War Memorial Foundation (VWMF)</u>				
2009	09-01	Develop and monitor budgets. This is a repeat finding.	Monthly budget reports are reviewed with the Chairman and Treasurer of the Board of trustees. The Memorial continues to work with the DVS Budget Office.	Completed (On Schedule)
	08-02	Adopt a formal budget development and execution process.	See 09-01.	
	09-02	Review donations of historical artifacts.	A second letter of request asking for permission to accept historical artifacts has been submitted to the Governor. Waiting for a response.	In Progress (On Schedule)
	09-04	Develop adequate internal controls. This is a repeat finding.	Monthly reports will be sent to the Board when received. All checking accounts and regular annual budget funds will be handled by the DVS, no funds will be handled by the War Memorial.	Completed (On Schedule)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	08-01	Consolidate accounting processes and internal controls.	See 09-04.	
	09-05	Manage funds in compliance with Commonwealth standards.	Funds have been returned to the General Fund. The Memorial and the Education Foundation have discussed formulating a strategic plan that will address the relationship of the two entities.	Completed (On Schedule)

Virginia Information Technologies Agency (VITA)

2008	08-02	Establish and document procedures for classifying assets in service option 5.	Procedures and documentation regarding the review of asset classification changes is in progress.	In Progress (Delayed)
	08-04	Improve reporting to allow comparison of revenue versus allowable costs.	Workflow and process documentation is being drafted and nearly complete. Identification of imputed revenues have been made to reports.	In Progress (Delayed)
	08-05	Establish and document procedures for the creation of rate structures.	Value added enhancements to original corrective action plan to provide additional information on rates.	In Progress (Delayed)
	08-09	Properly monitor system access.	The back-up to the System Administrator has been trained. Limited access to the production environment has been applied to appropriate roles. Adjustments to restrict access as appropriate are underway.	In Progress (Delayed)
	08-11	Adequately segregate system access responsibilities.	Roles and permissions have been updated and applied to user profiles. A segregation of duties review is underway.	In Progress (Delayed)
	08-14	Adequate oversight over technology procurements.	User training sessions completed. Plans made with DGS to modify eVA to improve controls.	In Progress (Delayed)

Department of Motor Vehicles (DMV)

2009	09-01	Improve information system security program.	The hardware has been obtained and system testing is underway.	In Progress (Delayed)
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Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>State Corporation Commission (SCC)</u>				
2009	09-02	Establish sufficient controls over the revenue process.	Internal Audit tested compliance with the new procedures.	Completed (Delayed)
	09-03	Improve the information systems security program. This is a repeat finding.	All work except for completing System Access Reviews in all other SCC systems is complete.	In Progress (On Schedule)
	07-01	Comply with Commonwealth security standards.	See 09-03.	
<u>Wireless E-911 Services Board</u>				
2009	09-01	Ensure completeness of revenue.	Legislation to shift the collection of the surcharge to the Department of Taxation is expected in the 2011 General Assembly Session.	In Progress (On Schedule)
	09-02	Ensure compliance with grant guidelines.	Changes to the programmatic reports with grant data have been completed.	Completed (Delayed)



Compliance Monitoring

Agency Risk Management and Internal Control Standards (ARMICS) Compliance

ARMICS is a comprehensive, risk based, approach to Internal Control. It is based on the Treadway Commission's Committee of Sponsoring Organizations, 1992 publication "Internal Control Framework" and their 2004 work entitled, "Enterprise Risk Management."

ARMICS provides guidance for establishing and assessing agency internal controls in order to more effectively manage risk and maintain accountability. The ARMICS process concludes with an annual certification by the agency head and fiscal officer that they have established, maintained, and evaluated their agencies' internal control framework.

Non-compliance with ARMICS can take two forms:

1. Incomplete or late submission of the annual certification statement (without an extension authorized by DOA).
2. Substantial non-compliance with the processes required for the successful implementation of ARMICS based on a Quality Assurance Review (QAR) performed by the DOA.

Non-Compliance results in the Agency being included in the Comptroller's Quarterly Report. Remediation of the deficiency will result in the agency being removed from the non-compliant list published in the subsequent Comptroller's Quarterly Report.

As of December 31, 2010, the following agencies were not in compliance with ARMICS:

<u>Agency Name</u>	<u>Reason for Non-Compliance</u>
None	

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 September, October⁽¹⁾, and November⁽¹⁾ were due 10/29/10, 12/06/10 and 01/04/11 respectively.

Confirmations Late or Outstanding

As of January 12, 2011

Agency	September	October	November
Frontier Culture Museum of Virginia	-	1/12/2011	-

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

⁽¹⁾ The October and November due dates were extended due to the holiday schedule.

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 December 31, 2010, 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 December 31, 2010, no agencies failed to respond timely, make corrective action and/or provide additional information.

Trial Balance Review *As of January 18, 2011*

<u>Agency</u>	<u>September</u>	<u>October</u>	<u>November</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 December 31, 2010, no agencies failed to respond timely, make corrective action and/or provide additional information.

Credit Cash, Excess Expenditures, and Expenditure Credits

As of January 18, 2011

Agency	July	August
None		

Disbursement Processing

During the quarter ended December 31, 2010, DOA deleted, at the submitting agency's request, 32 payments that were awaiting disbursement from the vendor payment file. These included duplicate payments, payments with incorrect vendor indicators and payments with incorrect vendor name, address or amount. These types of transactions may

point to areas where improved agency internal accounting controls should be evaluated. Twenty-one agencies requested deletes during the quarter. For the quarter ended December 31, 2010, the agencies that requested more than four vendor payment deletions were:

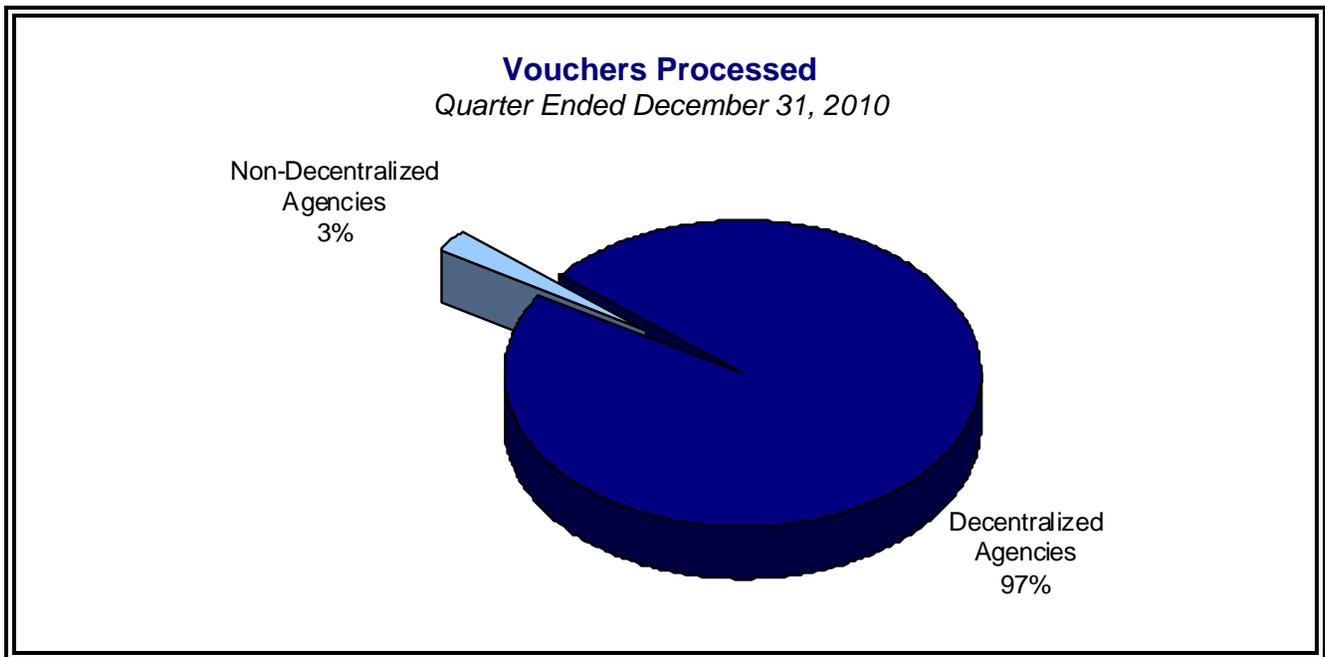
- Department of Transportation



Paperwork Decentralization

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

The overall quality of the State pre-audit program is monitored through the use of quality control reviews conducted by DOA staff. Results of these reviews are provided to the agency with corrective action recommendations. The great majority of problems encountered involve documentation inconsistencies, which should be easily corrected. Travel vouchers continue to be the primary source of all problems found.



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

Decentralized Agencies

DOA performs decentralized record reviews to fulfill its statutory responsibilities under the *Code of Virginia* regarding expenditures by state agencies and institutions. The decentralized record reviews emphasize the impact and effect of the findings on overall compliance with the applicable sections of the Commonwealth Accounting Policies and Procedures Manual.

A formal corrective action plan is required for agencies in which significant compliance findings were noted. DOA will perform a follow-up review, within 6 to 12 months, to verify the actions taken by the agency adequately addressed the findings noted in the original report.

Although an agency's report may state that it "generally complies with the CAPP Manual" and not require a formal corrective action plan, most reports do contain some findings and recommendations. Agencies are strongly encouraged to address these findings. Repeat occurrences of the same findings in future

reviews may result in the agency having to prepare a formal corrective action plan.

Reviews were conducted for nine 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*

Agencies are generally selected each quarter using a systematic risk evaluation of all decentralized agencies.

Compliant Agencies

Indian Creek Correctional Center
St. Brides Correctional Center
Sussex I State Prison
Sussex II State Prison
Southwestern Virginia Mental Health Institute (1)
Virginia Workers' Compensation Commission
Woodrow Wilson Rehabilitative Center

(1) Follow-up Review

Agencies Requiring Corrective Action

Corrective Actions Needed

Science Museum of Virginia

Travel: Contractor travel reimbursement; Approvals for exceeding lodging limitations; Appropriate expenditure documentation; Mileage reimbursement compliance; Business use justification; and Approvals for trips exceeding \$500.

Documentation: Transaction support.

Prompt Payment: Early Payments

Wytheville Community College

Small Purchase Charge Cards: Appropriate justification and documentation.

Travel: Using the correct Meals and Incidental Expense rates; Signing travel vouchers by traveler and supervisor; prompt submission of travel vouchers; and proper approvals for exceeding lodging limitations.



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 851 non-travel disbursement batches and 406 travel disbursement batches were reviewed, disclosing 13 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 December 31, 2010		Fiscal Year 2011 To-Date		Comparative Quarter Ended December 31, 2009	
	Late	Total	Late	Total	Late	Total
Number of Payments	5,568	590,735	10,721	1,213,455	5,883	568,490
Dollars (in thousands)	\$ 36,531	\$ 1,486,521	\$ 67,134	\$ 3,114,553	\$ 32,282	\$ 1,477,522
Interest Paid on Late Payments				\$21,795		
Current Quarter Percentage of Payments in Compliance				99.1%		
Fiscal Year-to-Date Percentage of Payments in Compliance				99.1%		
Comparative Fiscal Year 2010 Percentage of Payments in Compliance				99.0%		

Prompt Payment Performance by Secretarial Area
Quarter Ended December 31, 2010

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.8%	99.0%
Agriculture and Forestry	99.3%	99.1%
Commerce and Trade	98.7%	99.5%
Education*	99.0%	97.7%
Executive Offices	99.5%	98.8%
Finance	99.3%	76.7%
Health and Human Resources	99.2%	98.2%
Independent Agencies	99.0%	97.7%
Judicial	99.9%	99.9%
Legislative	100.0%	100.0%
Natural Resources	97.4%	90.0%
Public Safety	99.4%	98.6%
Technology	99.6%	99.4%
Transportation*	99.0%	94.1%
Statewide	99.1%	97.5%

Prompt Payment Performance by Secretarial Area
Fiscal Year 2011

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.8%	98.5%
Agriculture and Forestry	99.5%	99.5%
Commerce and Trade	98.6%	99.4%
Education *	99.1%	98.2%
Executive Offices	98.9%	97.1%
Finance	99.8%	89.5%
Health and Human Resources	99.2%	98.5%
Independent Agencies	98.8%	98.2%
Judicial	99.9%	99.9%
Legislative	100.0%	100.0%
Natural Resources	98.4%	93.5%
Public Safety	99.4%	98.8%
Technology	99.7%	99.7%
Transportation*	98.9%	93.7%
Statewide	99.1%	97.8%

* 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 December 31, 2010, the following agencies 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 December 31, 2010**

<u>Agency</u>	<u>Late Payments</u>	<u>Total Payments</u>	<u>Payments in Compliance</u>
EDUCATION			
Gunston Hall	10	52	80.8%
HEALTH AND HUMAN RESOURCES			
Southeastern Virginia Training Center	133	681	80.5%
Hiram W Davis Medical Center	32	586	94.5%
PUBLIC SAFETY			
Department of Military Affairs	144	2,565	94.4%

For FY 2011, the following agencies 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 2011**

<u>Agency</u>	<u>Late Payments</u>	<u>Total Payments</u>	<u>Payments in Compliance</u>
HEALTH AND HUMAN RESOURCES			
Southeastern Virginia Training Center	164	1,473	88.9%

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 includes additional payments made by these agencies. 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 December 31, 2010			Comparative Quarter Ended December 31, 2009
	E-Commerce	Total	Percent	Percent
Number of Payments	2,826,289	3,249,124	87.0%	87.4%
Payment Amounts	\$ 9,023,394,674	\$ 10,280,973,139	87.8%	87.5%

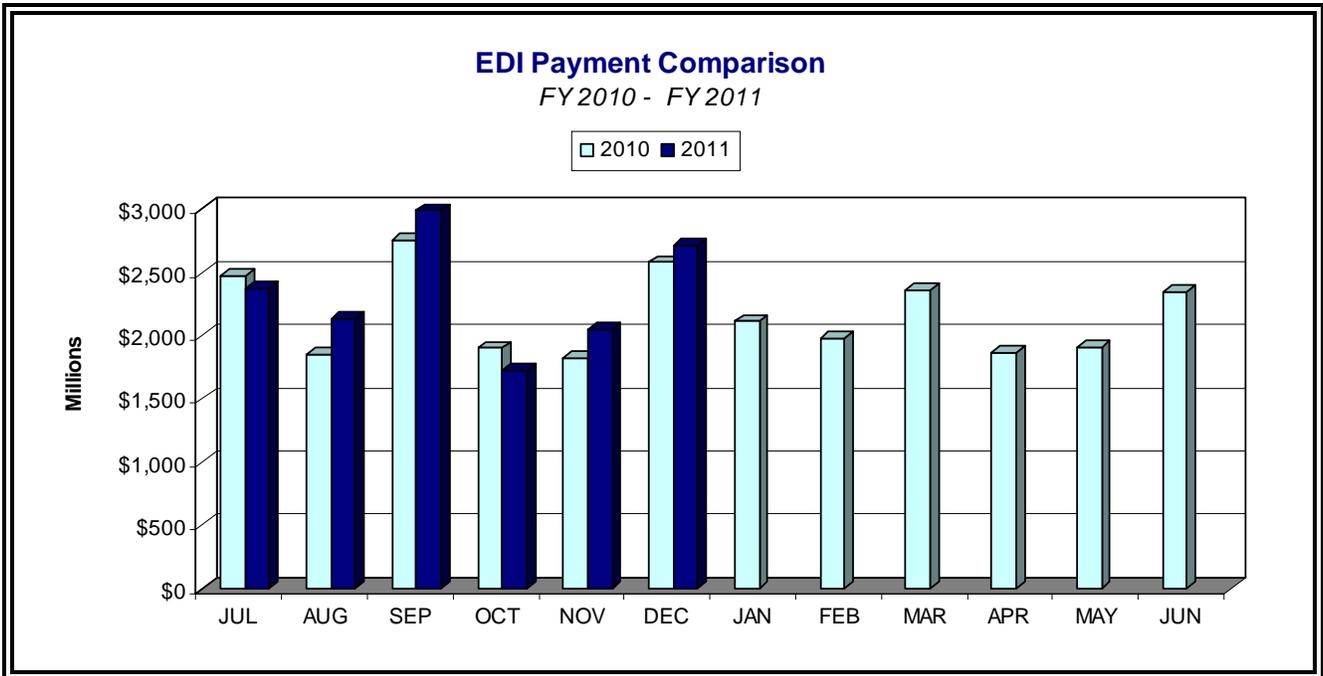
Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the second quarter of FY 2011 was \$192 million (3 percent) more than the same quarter last year. The number of trading partner accounts increased by 6.3 percent from December 2009. The largest portion of this increase is due to efforts to convert state

employee travel reimbursements from checks to electronic payments. In addition, enrollment by corporations, sole proprietors and grantees has increased significantly due to solicitation by Department of Accounts staff.

Financial EDI Activity

Financial EDI Activity	Quarter Ended December 31, 2010	Fiscal Year 2011 To-Date	Comparative FY2010 To Date
Number of Payments	55,386	117,597	99,156
Amount of Payments	\$ 6,496,959,658	\$ 14,011,862,309	\$ 13,394,608,790
Number of Invoices Paid	196,490	399,768	355,064
Estimated Number of Checks Avoided	82,759	165,868	150,409
Number of Trading Partner Accounts as of 12/31/10		55,528	52,216



Travel EDI

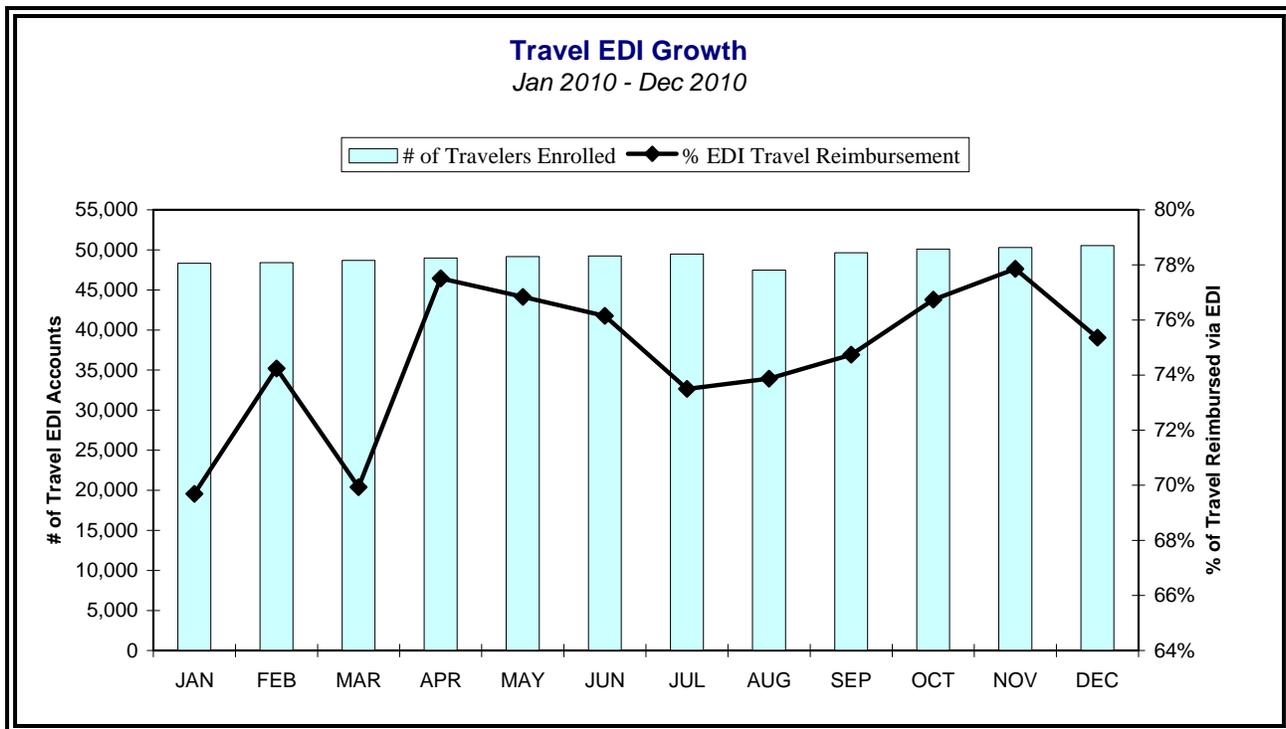
Expansion of the Travel EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI. DOA notified agencies 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 §4-5.04f 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 2011, 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 December 31, 2010

Secretarial Area	Employee Percent	Non-Employee Percent	Reimbursement Checks Issued
Administration	87.0%	5.9%	49
Agriculture and Forestry	97.6%	6.7%	45
Commerce and Trade	95.8%	77.4%	134
Education (1)	88.3%	29.8%	1,321
Executive Offices	94.8%	12.5%	33
Finance	98.1%	0.0%	12
Health and Human Resources	93.2%	28.8%	1,030
Independent Agencies	96.6%	25.0%	66
Judicial	30.1%	6.9%	3,169
Legislative	95.0%	20.8%	128
Natural Resources	92.3%	55.0%	120
Public Safety	91.6%	17.4%	587
Technology	95.1%	5.9%	23
Transportation (1)	80.6%	20.2%	339
Statewide for Quarter	83.7%	26.9%	7,056
<i>Fiscal Year 2011 To-Date</i>			
Statewide	82.5%	25.0%	13,339
<i>Comparative Fiscal Year 2010 To-Date</i>			
Statewide	80.7%	26.7%	14,076

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

The following table lists agencies with Employee EDI participation rates below 85 percent that issued more than 25 travel reimbursement checks during the quarter.

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

**Agency Employee EDI Performance
Utilization Below 85 Percent**

Agency	Percent	Reimbursement Checks Issued
Education		
Northern Virginia Community College	81.1%	42
Southside Virginia Community College	70.4%	50
Norfolk State University	54.5%	86
Health and Human Resources		
Department of Rehabilitative Services	84.3%	91
Judicial		
Magistrate System	83.5%	51
Supreme Court	25.6%	526
General District Courts	15.4%	386
Juvenile and Domestic Relations District Courts	13.0%	390
Combined District Courts	7.2%	219
Circuit Courts	5.0%	772
Natural Resources		
Department of Conservation and Recreation	75.0%	62
Public Safety		
Department of Emergency Management	69.8%	98
Transportation		
Department of Transportation	74.9%	223

The following EDI 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. **For this quarter, these statistics are informational only.** The expansion of EDI for non-employees is a cost savings

opportunity for the Commonwealth. Per action by the 2011 General Assembly, certain nonlegislative members of state boards, commissions, etc, that meet three or more times a year must receive their payments via EDI. Failure to comply with this may result in fees per §4-5.04f of the Appropriation Act.

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

Agency	Percent	Reimbursement Checks Issued
Agriculture and Forestry		
Department of Agriculture and Consumer Services	6.9%	27
Education		
Christopher Newport University	0.0%	29
Longwood University	0.0%	67
Health and Human Resources		
Department of Social Services	3.9%	49
Department of Medical Assistance Services	2.9%	33
Virginia Board for People with Disabilities	2.3%	86
Department of Health	1.8%	276
Judicial		
Circuit Courts	7.6%	341
Virginia State Bar	0.0%	294
Public Safety		
Department of Criminal Justice Services	1.4%	73
Department of Forensic Science	0.0%	119

The following table lists agencies that have accumulated more than \$100 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 2011, the charge is \$5 per check. These statistics indicate noncompliance with §4-5.04f 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	54.5%	\$ 160
Judicial		
Supreme Court	25.6%	450
General District Courts	15.4%	2,125
Juvenile and Domestic Relations District Courts	13.0%	2,510
Combined District Courts	7.2%	1,220
Circuit Courts	5.0%	5,125
Transportation		
Department of Transportation	74.9%	275



Direct Deposit

During the second quarter of FY 2011, 522,742 checks were avoided using direct deposit. Effective August 1, 2008, direct

deposit was mandated for all new hires. Agencies may mandate direct deposit for all eligible employees at their discretion.

Direct Deposit Performance by Secretarial Area

Quarter Ended December 31, 2010

<u>Secretarial Area</u>	<u>Direct Deposit % of Salaried Employees</u>	<u>Direct Deposit % of Wage Employees</u>
Administration	99.4%	100.0%
Agriculture and Forestry	98.5%	92.4%
Commerce and Trade	99.2%	99.8%
Education	99.2%	94.8%
Executive Offices	100.0%	64.7%
Finance	99.5%	99.0%
Health and Human Resources	99.5%	98.8%
Independent Agencies	99.2%	100.0%
Judicial	99.3%	80.9%
Legislative	99.5%	97.3%
Natural Resources	99.5%	98.7%
Public Safety	99.4%	97.3%
Technology	96.6%	100.0%
Transportation	99.6%	98.4%
Statewide	99.4%	95.4%
<i>Comparative</i>		
<i>Quarter Ended December 31, 2009</i>		
Statewide	99.4%	95.0%

Statewide Salaried Direct Deposit Performance

Quarter Ended December 31, 2010

Salaried Direct Deposit Participation	99.3%
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Salaried Direct Deposit Below 98 Percent

<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
Administration		
Department of Employment Dispute Resolution	77.8%	9
Health and Human Resources		
Northern Virginia Mental Health Institute	96.4%	302
Judicial		
Circuit Courts	97.3%	148
Public Safety		
Central Region Correctional Field Units	97.0%	66
Department of Military Affairs	95.3%	274
Technology		
Virginia Information Technologies Agency	96.5%	288

Statewide Wage Direct Deposit Performance

Quarter Ended December 31, 2010

Wage Direct Deposit Participation	95.4%
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Wage Direct Deposit Below 90 Percent

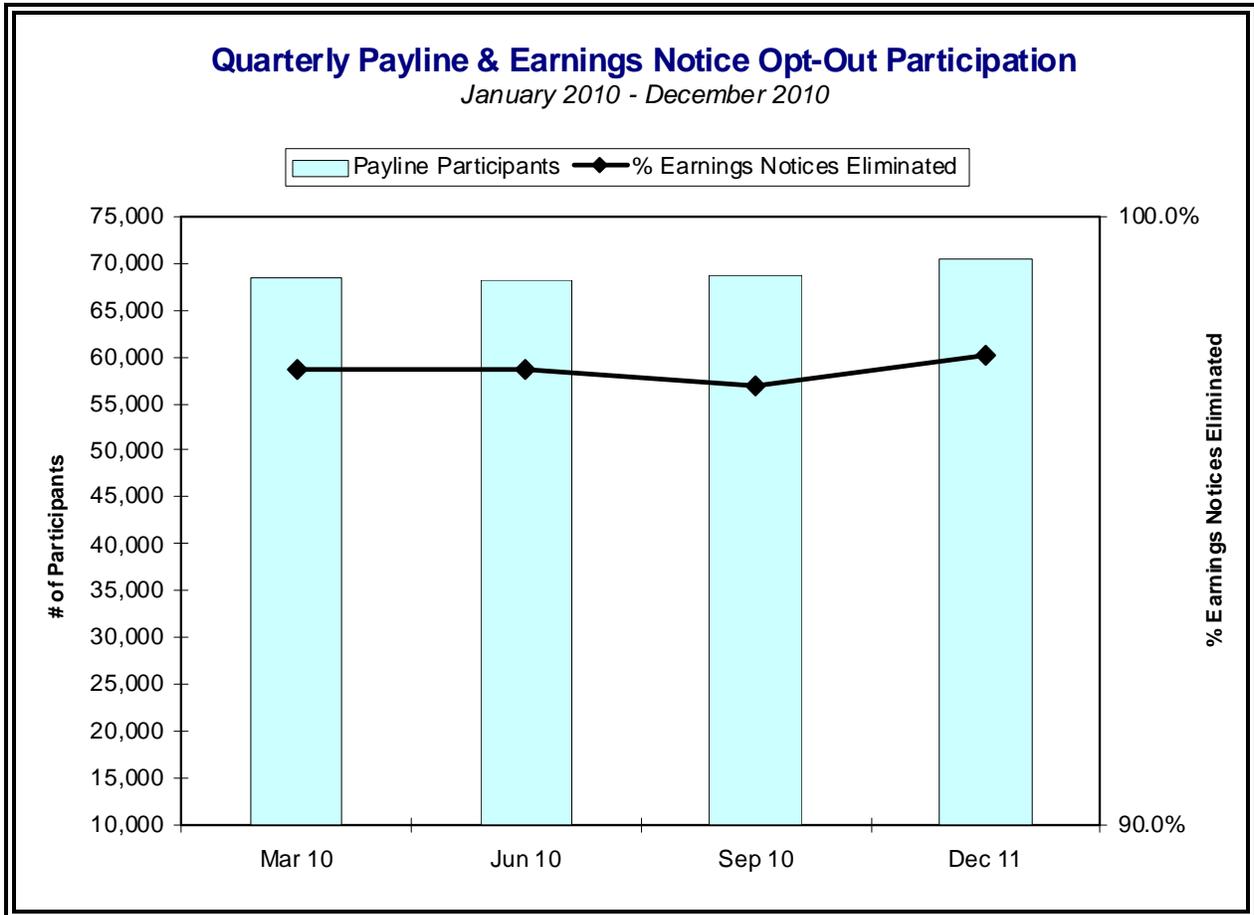
Agency	Percent	Number of Employees
Agriculture and Forestry		
Department of Agriculture and Consumer Services	88.3%	128
Education		
New River Community College	88.7%	300
Rappahannock Community College	86.7%	255
Southwest Virginia Community College	85.4%	349
Mountain Empire Community College	85.2%	271
Norfolk State University	81.6%	838
Virginia State University	78.7%	544
Virginia Highlands Community College	77.9%	258
Paul D. Camp Community College	74.0%	177
Health and Human Resources		
Northern Virginia Mental Health Institute	86.4%	22
Judicial		
General District Courts	72.5%	218
Combined District Courts	65.0%	20
Public Safety		
Virginia Veterans Care Center	86.0%	57
Various		
Selected Agency Support	61.3%	31



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 6,152,860 earnings notices.



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

Payline and Earnings Notice Opt-Out Participation by Secretarial Area

Quarter Ended December 31, 2010

Secretarial Area	Percent Payline Participation	Percent Earnings Notices Eliminated*
Administration	96.8%	100.0%
Agriculture and Forestry	79.8%	81.0%
Commerce and Trade	95.5%	100.0%
Education	63.4%	98.9%
Executive Offices	84.3%	100.0%
Finance	98.5%	100.0%
Health and Human Resources	87.5%	97.7%
Independent Agencies	90.4%	100.0%
Judicial	84.6%	93.4%
Legislative	66.6%	72.8%
Natural Resources	76.1%	78.7%
Public Safety	84.6%	99.0%
Technology	96.1%	100.0%
Transportation	93.4%	100.0%
Statewide	80.5%	97.7%
<i>Comparative</i>		
<i>Quarter Ended December 31, 2009</i>		
Statewide	76.6%	97.7%

* Employees must participate in Direct Deposit 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.

Effective January 1, 2009, all employees who have access to state-issued computers and internet access are required to use Payline and to opt out of earnings notice print. Agencies can implement this mandate by either requiring their employees to individually access Payline and make the appropriate elections in the user's security record to opt out or the agency can make a global election to opt out its employees. Agency elections to eliminate earnings notice print can be applied

systematically to salary-only employees, hourly-only employees, or all employees.

Most agencies elected a global opt-out in response to the January 1, 2009, mandate. Only 22 agencies have not chosen a global opt-out and participation is reviewed to monitor progress. As of December 31, 2010, the following agencies have not met their established thresholds for eliminating earnings notice print.

Earnings Notice Elimination

Agency	Percent Earnings Notices Eliminated QE 12/31/2010	Percent Earnings Notices Eliminated QE 09/30/2010
Agriculture and Forestry		
Department of Agriculture and Consumer Services	86.6%	82.4%
Department of Forestry	72.9%	90.8%
Education		
Frontier Culture Museum	58.8%	69.2%
Judicial		
Circuit Courts	73.8%	75.5%



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.

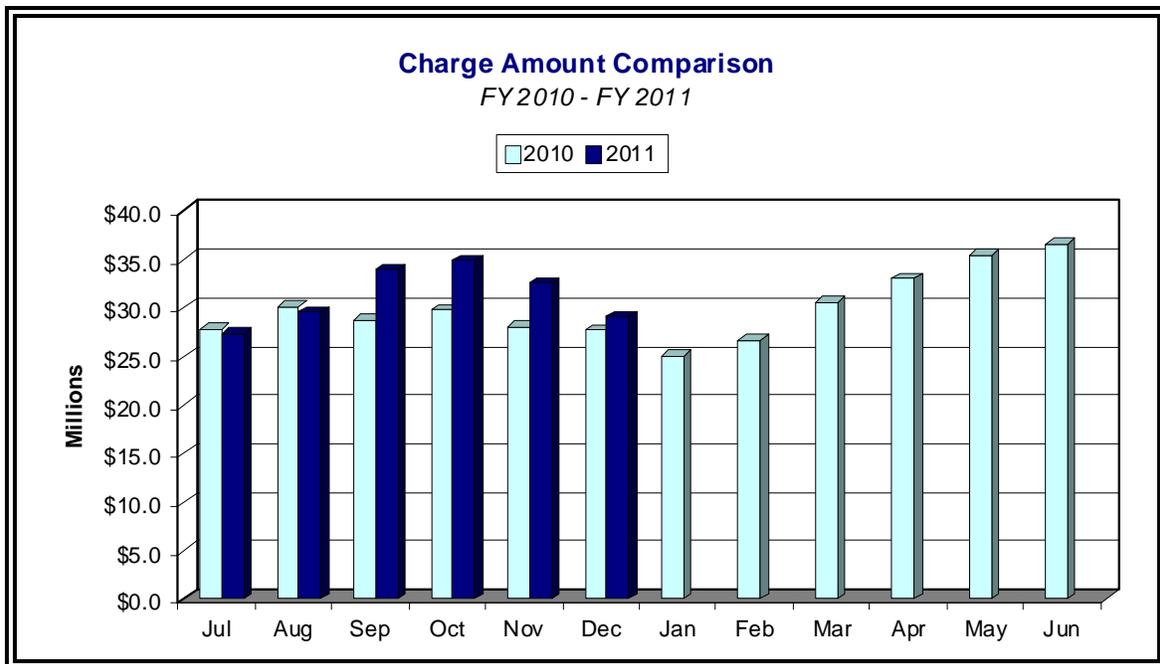
The Small Purchase Charge Card continues to be used for purchases under \$5,000. Agencies are strongly encouraged to obtain a Gold Card for use for purchases up to \$50,000.

The total amount charged on SPCC and Gold cards during the second quarter of FY 2011 increased by \$10.9 million or 12.8 percent from the same quarter last year.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended December 31, 2010	Fiscal Year 2011 To-Date	Comparative Fiscal Year 2010 To-Date
Amount of Charges	\$ 96,493,000	\$ 187,299,619	\$ 172,294,661
Estimated Number of Checks Avoided	180,255	351,950	318,233
Total Number of Participating Agencies		217	227
Total Number of Cards Outstanding		17,462	18,005

The following chart compares charge activity for FY 2011 to activity for FY 2010:



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 75 percent. Beginning in Fiscal Year 2012 the threshold will increase to 80%.

For data compilation purposes, 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 75 percent threshold is \$5 for FY 2011 2nd Quarter.

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

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 e-mailed to cca@doa.virginia.gov.

Statewide SPCC Performance

Quarter Ended December 31, 2010

Percentage Utilization for Eligible Transactions

84%

SPCC Utilization by Secretarial Area

Quarter Ended December 31, 2010

<u>Secretarial Area</u>	<u>Payments in Compliance ⁽¹⁾</u>	<u>Non-Compliant Transactions ⁽²⁾</u>
Administration	82%	768
Agriculture and Forestry	88%	440
Commerce and Trade	80%	767
Education*	89%	4,906
Executive Offices	91%	97
Finance	92%	100
Health and Human Resources**	81%	6,930
Independent Agencies	66%	1,146
Judicial	33%	2,794
Legislative	95%	61
Natural Resources	89%	1,159
Public Safety	92%	3,147
Technology	91%	44
Transportation*	74%	6,905
Statewide	84%	29,264

* 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 75 Percent**

Agency	Payments in Compliance	Non-Compliant Transactions
Administration		
Department of Minority Business Enterprise	57%	39
Commerce and Trade		
Virginia Employment Commission	51%	633
Health and Human Resources		
Department of Behavioral Health and Developmental Services	62%	169
Central Virginia Training Center	58%	447
Independent Agencies		
Virginia Retirement System	71%	142
Virginia Workers' Compensation Commission	66%	224
State Corporation Commission	4%	543
Judicial		
Indigent Defense Commission	74%	101
Supreme Court	66%	234
Judicial Inquiry and Review Commission	57%	3
Board of Bar Examiners	0%	22
Circuit Courts	0%	184
Combined District Courts	0%	264
General District Courts	0%	1,213
Juvenile and Domestic Relations District Courts	0%	518
Magistrate System	0%	126
Virginia Criminal Sentencing Commission	0%	46
Public Safety		
Sitter-Barfoot Veterans Care Center	53%	353
Transportation		
Virginia Department of Transportation	73%	6,256



SPCC and ATC Payment Compliance

Agencies and institutions participating in the Charge Card program are required to submit Bank of America VISA payments via EDI no later than the 7th 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 October, this represents the bill date of October 15, 2010, with the payment due no later than November 7th.

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.

<u>Agency</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
<u>Purchase Card Program:</u>			
Education			
University of Virginia Medical Center		X	X
Health and Human Resources			
Southern Virginia Mental Health Institute			X
Public Safety			
Virginia Veterans Care Center	X		
<u>Airline Travel Card Program:</u>			
N/A			



Travel Charge Card

The Commonwealth of Virginia has contracted with Bank of America 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 Bank of America by agency during the quarter ended December 31, 2010 and the total amounts past due.

Travel Charge Card Program

As of December 31, 2010

Agency	Total Delinquent Accounts	Amounts 60 Days Past Due	Amounts 90-120 Days Past Due	Amounts >150 Days Past Due
Education				
Longwood University	2	\$ 594	\$ 0	\$ 0
Norfolk State University	1	222	0	0
Old Dominion University	2	751	1,069	0
State Council of Higher Education for Virginia	1	227	420	0
University of Virginia	2	122	275	0
Virginia Commonwealth University	2	401	0	0
Virginia Military Institute	1	314	0	0
Virginia Polytechnic Institute and State University	1	500	0	0
Virginia State University	5	1,089	0	0
Health and Human Resources				
Department of Health	2	924	502	0
Independent				
Virginia College Savings Plan	1	63	0	0
Public Safety				
Department of Emergency Management	1	44	0	0
Department of Military Affairs	1	0	446	0



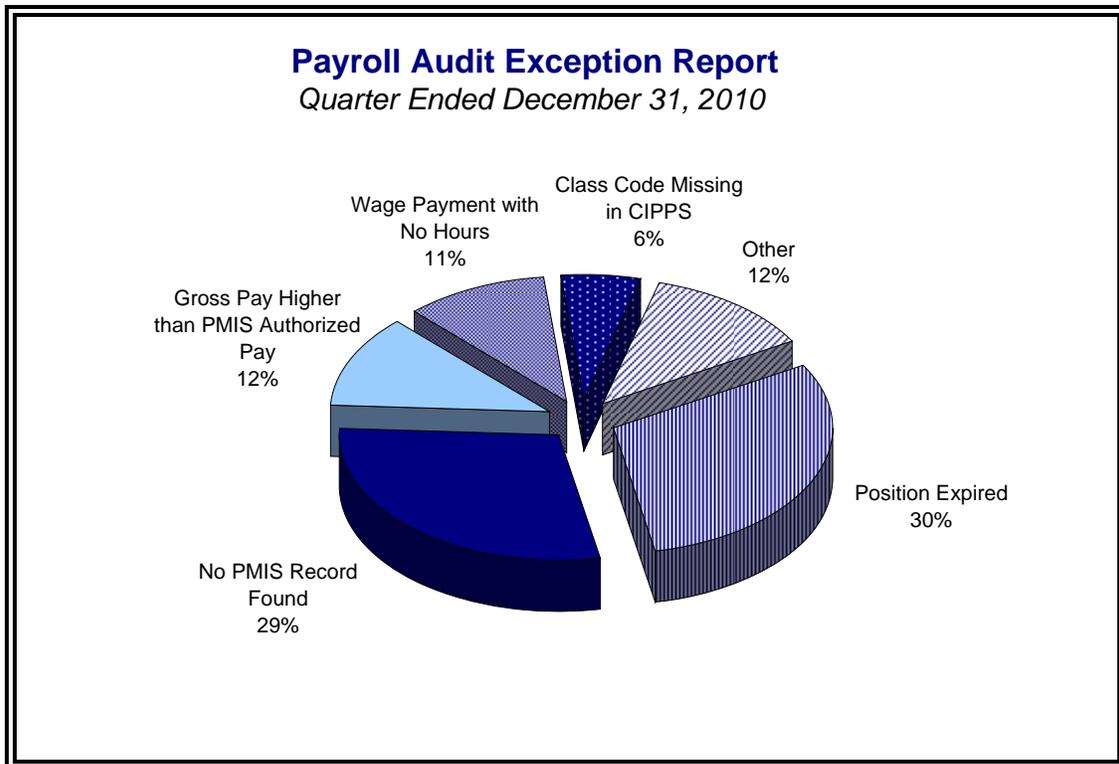
Payroll Controls

PMIS/CIPPS Payroll Audit

During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 412,144 salaried pay transactions and 223,080 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 6,674 new exceptions noted statewide during the quarter, with an overall exception rate of .98 percent.

The statewide salaried payroll exception rate was 1.24 percent and the wage payroll exception rate was 0.50 percent. During this quarter, 12 employee paychecks were reduced to recover \$8,119.34 in overpayments.

While the largest cause of exceptions is payments made to employees in a position which has an authorized period that has expired, the second largest cause of exceptions is the processing of payments to salaried employees who no longer have an active record for their current agency set up in the PMIS system. 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.



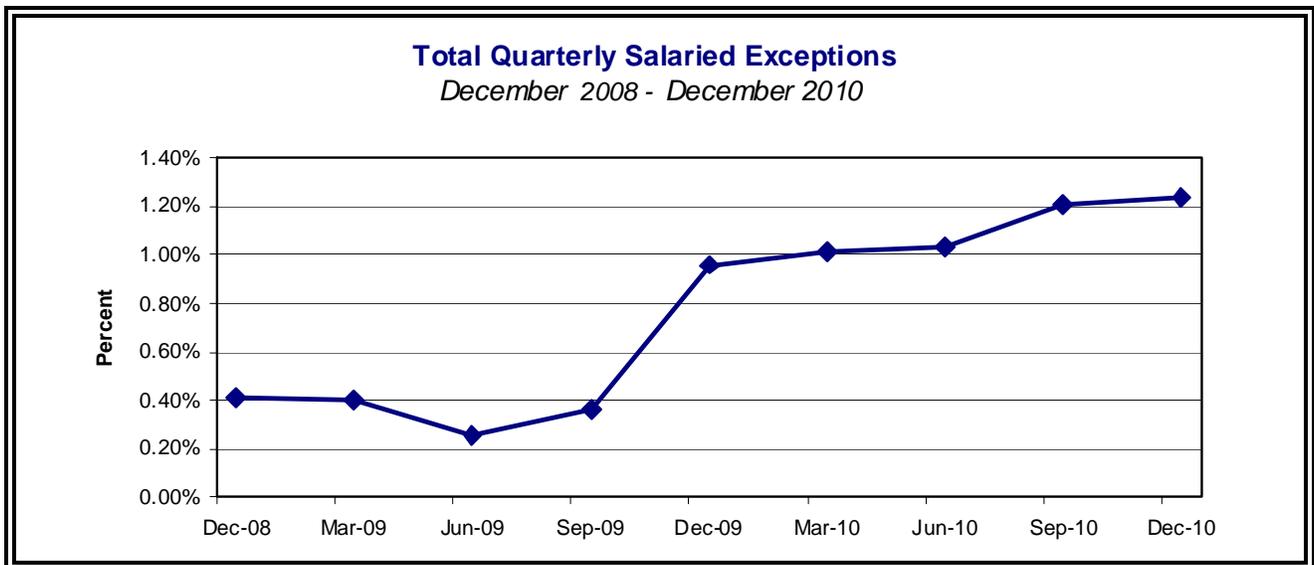
Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Agencies are reported below if the percentage

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 December 31, 2010

Total Salaried Payroll Exceptions for the Quarter	1.24%
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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 December 31, 2010

Wage Payroll Exceptions for the Quarter	0.50%
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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.

Agency	Unresolved Exceptions
<i>Education</i>	
Norfolk State University	20
VSU Cooperative Extension and Agricultural Research	1
<i>Transportation</i>	
VDOT - Richmond District	3
VDOT - Hampton Roads District	1
<i>Health and Human Resources</i>	
Department of Health	5
Eastern State Hospital	1



Payroll Certification

Agencies are required to calculate, verify, and authorize the amount 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				
Christopher Newport University			2	
Dabney S. Lancaster Community College	\$ 111,686			
Northern Virginia Community College	115,681		2	
Piedmont Virginia Community College	4,908 *			
Southside Virginia Community College	257,839	1		
Health and Human Resources				
Central Virginia Training Center		1		
Department of Health	21,233			
Transportation				
Department of Transportation	178,536			

* Explanation not received by deadline

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 certifications. Health care reconciliations for the months of September, October and November were due 10/29/10, 11/30/10 and 12/30/10, respectively.

**Schedule of Health Care Reconciliations
Received Late**

<u>Agency</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>
VSU-Cooperative Extension and Agricultural Research Services			X
Piedmont Virginia Community College		X	
Eastern Shore Community College			X
Patrick Henry Community College			X
Mountain Empire Community College			X



FINANCIAL MANAGEMENT ACTIVITY

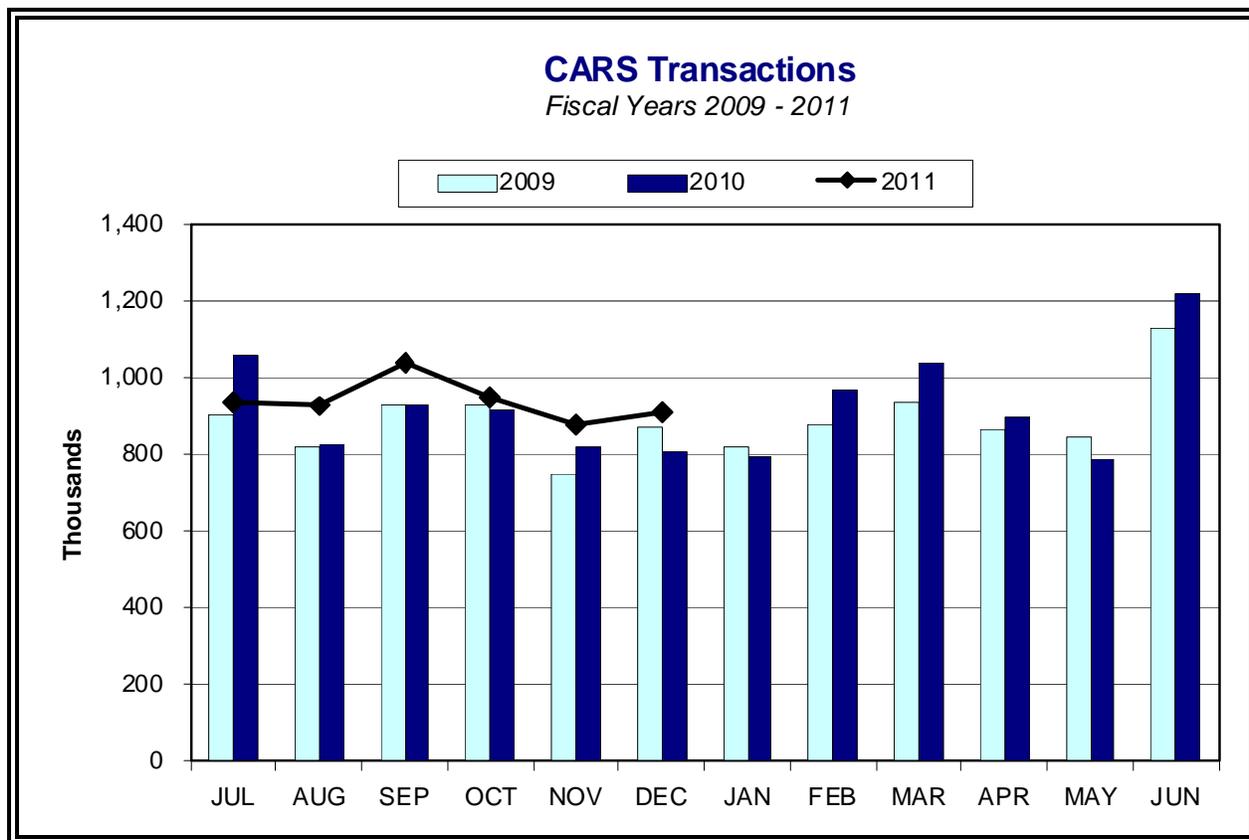
DOA monitors several types of financial activity. Various measures are used to track activities for CARS, payroll, accounts

receivable, indirect cost recoveries, treasury loans, and 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.

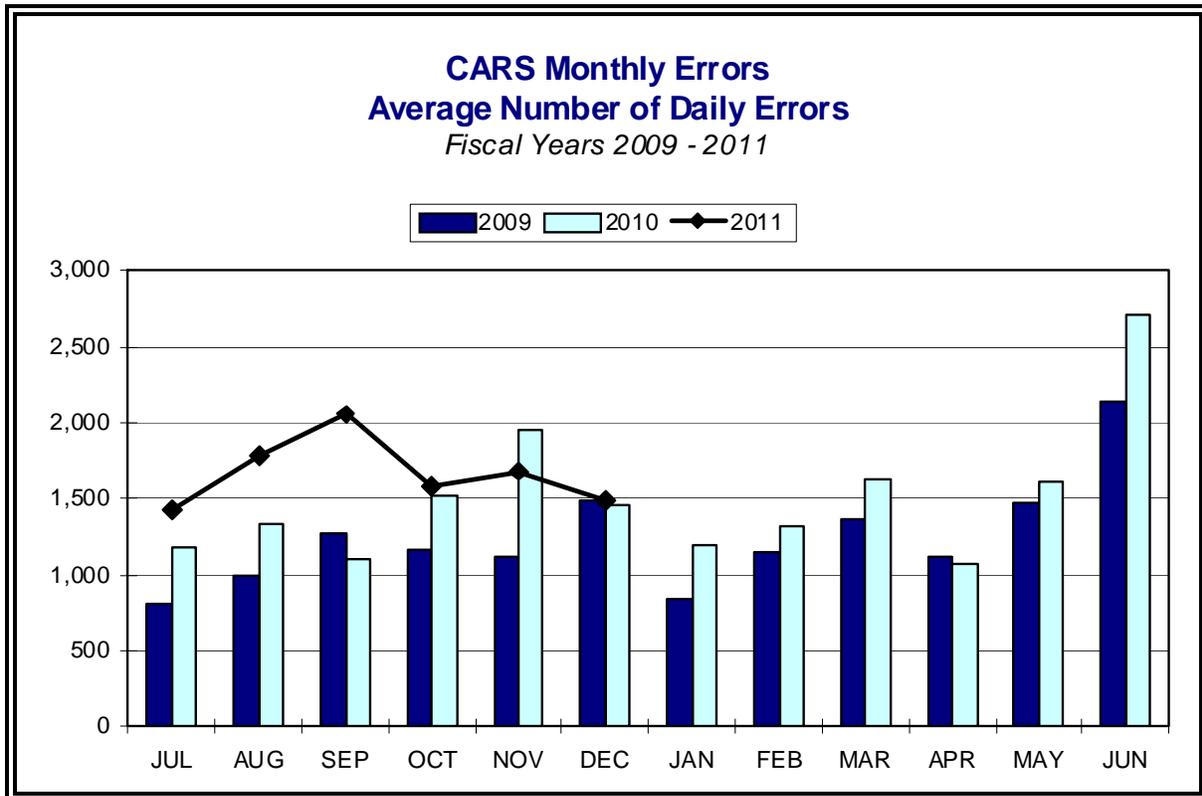


CARS Edits

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 second quarter of FY 2011, the most frequent reasons cited for transactions processing to the error file were:

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.

- Available Cash Negative
- Expenditures > Allotment
- Certified Amounts Not Balanced

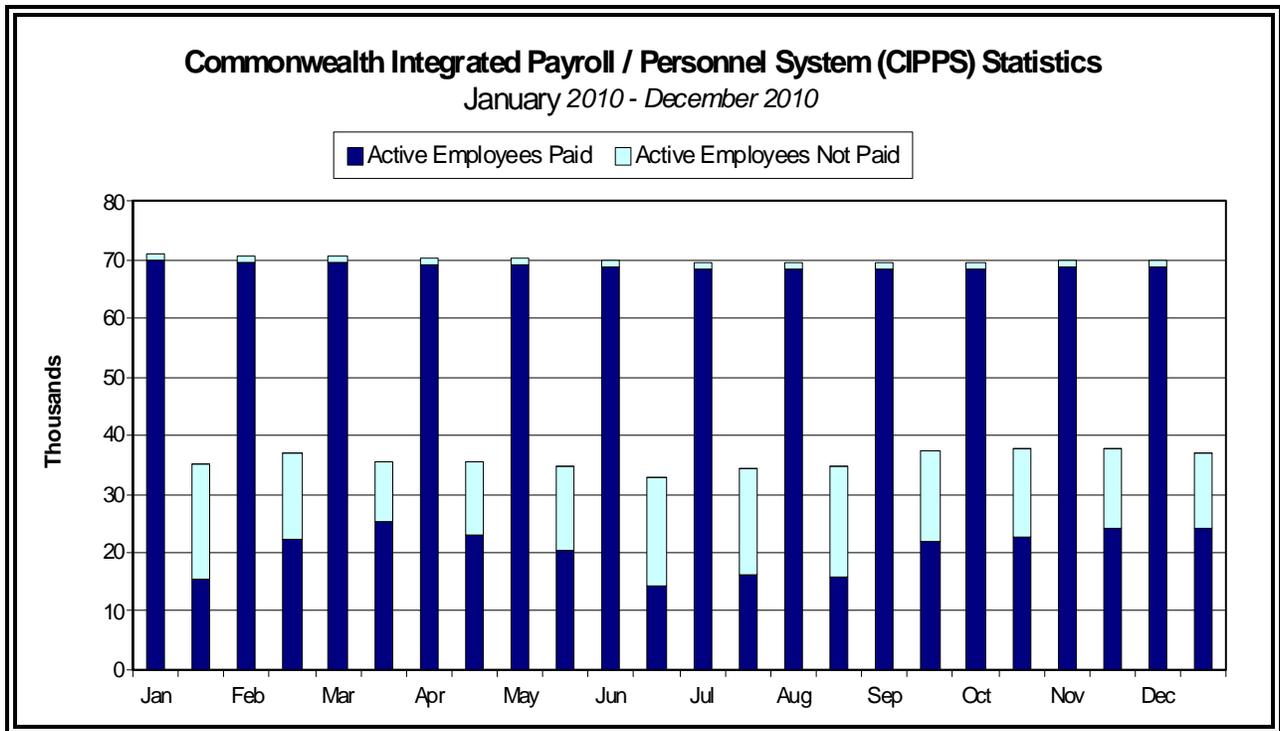


Payroll

The central payroll system for State government is known as *CIPPS*, the Commonwealth Integrated Payroll Personnel System. CIPPS is one of the largest payroll operations in the Commonwealth, serving 107,394 employees. Payroll services are also

provided through eight decentralized higher education institutions.

On average, 92,323 employees were paid each month, of which 68,712 were 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. As of September 1, 2010, U. S.

Savings Bonds can only be purchased through payroll by enrolling with Treasury Direct and funding the TD account via a direct deposit to that account.

**Benefit Participation
Number of Participating Employees**

Benefit	As of 12/31/2010	Comparative	
		As of 12/31/2009	As of 12/31/2008
Health Care			
COVA Care	74,159	73,049	84,520
COVA Connect	7,617	N/A	N/A
Kaiser	2,131	2,062	2,049
Optional Retirement Plans*			
Fidelity Investments	573	571	575
TIAA/CREF	1,624	1,592	1,632
Political Appointee - ORP	90	85	88
Deferred Compensation*	40,439	39,966	39,392
Flexible Reimbursement*			
Dependent Care	777	775	824
Medical Care	7,443	7,416	7,753

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



Accounts Receivable

Executive Summary

The *Code of Virginia* § 2.2-4800 et seq. 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 on-going effectiveness of agencies in managing their accounts receivable.

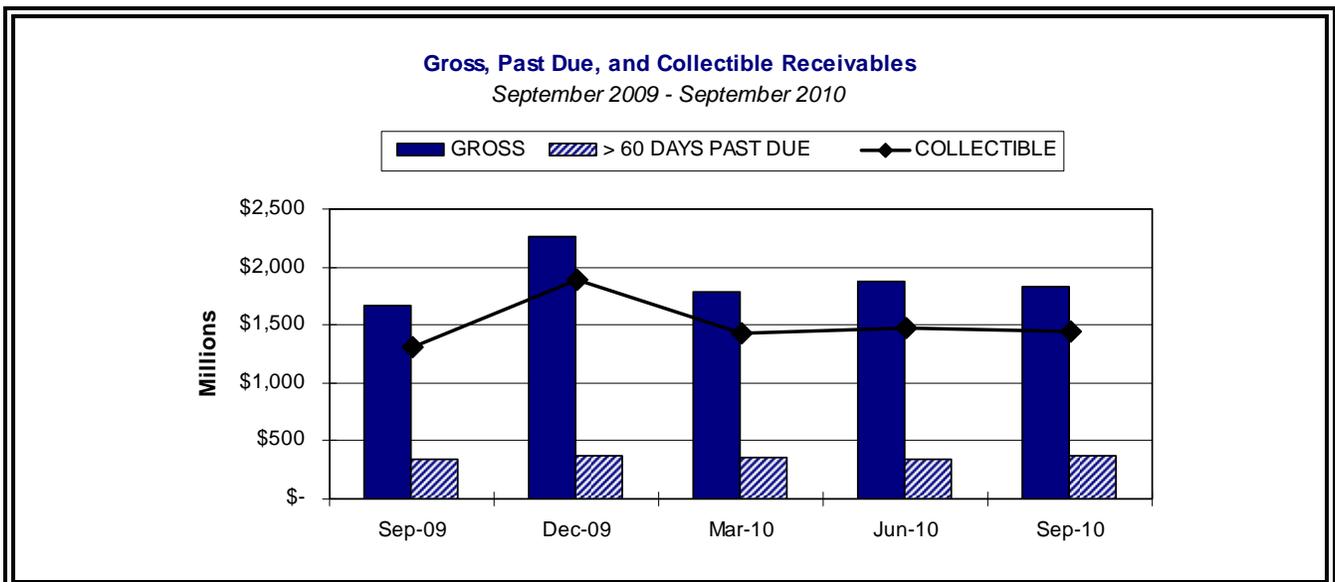
In an effort to present more meaningful information, DOA continues to exclude data from the tables (except for the final table on past due receivables) from the Department of Taxation, consisting largely of statutory assessments and non-filers assessments, and the circuit and district courts, which report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

Commonwealth agencies and institutions reported adjusted gross receivables of \$1.83

billion at September 30, 2010, with \$1.44 billion considered collectible. Receivables over 60 days past due as of September 30, 2010, totaled \$378.8 million. Of that amount, \$17.5 million was placed with private collection agencies, \$32.9 million was placed with the Division of Debt Collection and \$328.4 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.

Further, the majority of the significant outstanding receivable balances have statutory or other restrictions specifying the distribution of any collections. The collection of the outstanding receivable balances would not provide additional resources to fund the Commonwealth's operations.



As of September 30, 2010, agencies expected to collect \$1.44 billion (79 percent) of the \$1.83 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 nongeneral funds.

Collectible Receivables by Fund

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

As of September 30, 2010

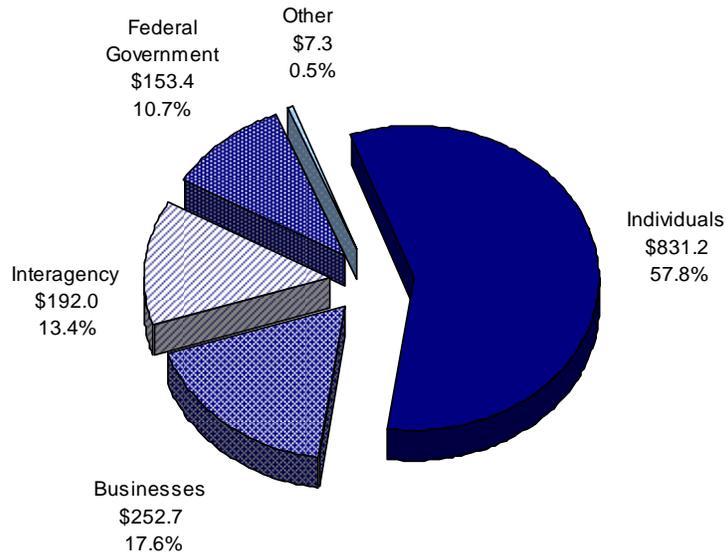
Fund	Source	Amount	Percent
General Fund 2%	Medicaid - Current Recoveries	\$ 11,856,372	51%
	Social Services	3,291,300	14%
	Labor and Industry Inspections	1,053,320	5%
	State Police Permits	1,467,855	6%
	Corrections	1,290,859	6%
	Other	1,249,141	6%
	Subtotal	20,208,847	88%
	Interagency Receivables	2,839,462	12%
Total General Fund Collectible		\$ 23,048,309	100%
Nongeneral Funds 98%	Medicaid - Dedicated Penalty Fees	\$ 54,466,021	4%
	Medicaid - Federal Reimbursements	17,174,006	1%
	Unemployment Taxes *	85,342,488	6%
	Transportation	102,094,326	7%
	Child Support Enforcement	143,288,476	10%
	Federal Government	21,887,319	2%
	DBHDS Patient Services	24,254,594	2%
	Hospital	241,176,958	17%
	Enterprise	55,937,922	4%
	Higher Education	443,307,754	31%
	Other	35,502,156	3%
	Subtotal	1,224,432,020	87%
	Interagency Receivables	189,111,685	13%
Total Nongeneral Fund Collectible		\$ 1,413,543,705	100%
All Funds	Grand Total	\$ 1,436,592,014	100%

* Note: The Virginia Employment Commission provides Unemployment Taxes Information.

Summary of Receivables by Source

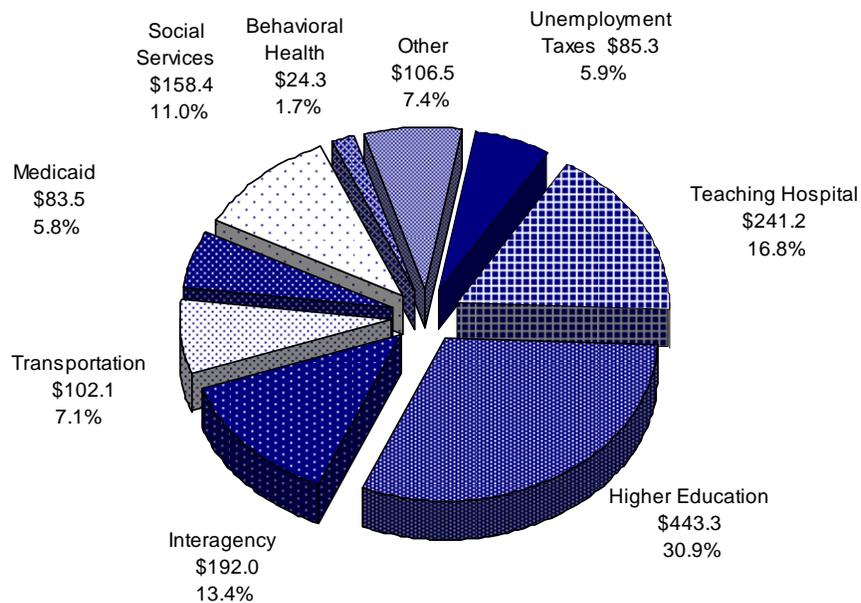
Sources of Collectible Receivables by Debtor (dollars in millions)

As of September 30, 2010



Sources of Collectible Receivables by Type (dollars in millions)

As of September 30, 2010



Not counting Taxation and the Courts, ten agencies account for 78 percent of the Commonwealth's adjusted gross and 74

percent of the adjusted collectible accounts receivable balances.

Accounts Receivable Summary
Not Including Circuit Courts, District Courts, or Department of Taxation
Quarter Ended September 30, 2010

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
University of Virginia Medical Center	\$ 305,982,912	\$ 17,294,484	\$ 288,688,428
Department of Social Services	416,990,490	256,033,908	160,956,582
Department of Transportation	96,040,365	1,086,598	94,953,767
Virginia Employment Commission	141,891,998	52,122,742	89,769,256
Virginia Polytechnic Institute & State University	87,164,625	2,695,859	84,468,766
Department of Medical Assistance Services	111,365,722	27,841,429	83,524,293
Virginia Commonwealth University	78,660,015	4,883,718	73,776,297
University of Virginia - Academic Division	71,069,910	215,707	70,854,203
George Mason University	62,022,658	615,645	61,407,013
Virginia Information Technologies Agency	49,577,798	-	49,577,798
Total	\$ 1,420,766,493	\$ 362,790,090	\$ 1,057,976,403
All Other Agencies	407,788,529	29,172,918	378,615,611
Grand Total	\$ 1,828,555,022	\$ 391,963,008	\$ 1,436,592,014

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.

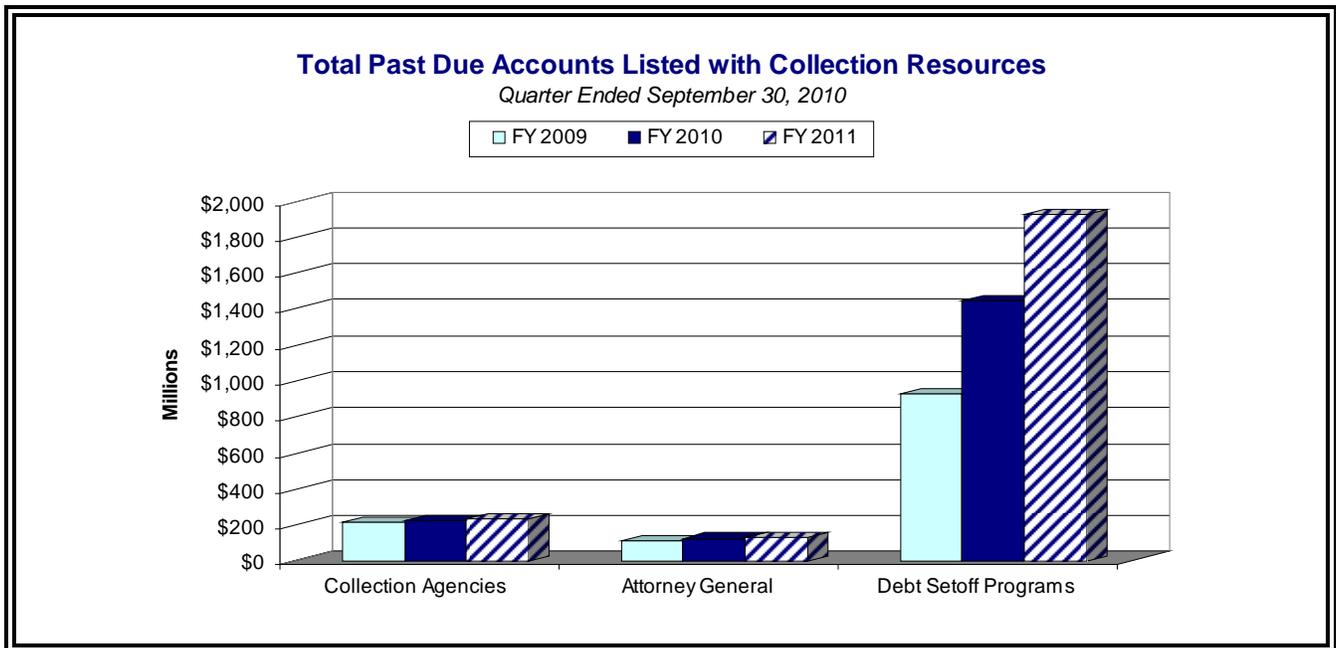
These additional collection tools recovered \$4.7 million during the quarter ended September 30, 2010. The Division of Debt Collection contributed \$1.9 million. Private collection agencies collected \$1.3 million, and the debt setoff programs (Tax, Comptroller's and Lottery) collected \$1.5 million.

Private collection agencies returned \$7.0 million of accounts to agencies, and the Division of Debt Collection discharged \$3.2 million of accounts and returned \$6.5 million of accounts to agencies.

Collectible Receivables Over 60 Days Past Due
Not Including Circuit Courts, District Courts or the Department of Taxation
As of September 30, 2010

Agency	Total Over 60 Days	With Collection Agency	With Attorney General	Retained by State Agency
Department of Social Services	\$ 148,149,107	\$ 2,610	\$ -	\$ 148,146,497
Virginia Employment Commission	60,646,907	8,602,031	11,918,137	40,126,739
Department of Medical Assistance Services	43,679,701	362,843	209,856	43,107,002
University of Virginia Medical Center	37,973,090	-	-	37,973,090
Department of Transportation	18,116,668	1,668,657	11,596,592	4,851,419
University of Virginia - Academic Division	9,180,411	378,330	44,247	8,757,834
Department of Behavioral Health and Developmental Services	8,195,541	-	-	8,195,541
Virginia Community College System	7,275,377	2,033,009	-	5,242,368
Virginia Commonwealth University	5,465,420	261,612	23,585	5,180,223
Virginia Information Technologies Agency	4,703,708	-	-	4,703,708
TOTAL	\$ 343,385,930	\$ 13,309,092	\$ 23,792,417	\$ 306,284,421
All Other Agencies	35,455,923	4,250,320	9,096,503	22,109,100
TOTAL OVER 60 DAYS	\$ 378,841,853	\$ 17,559,412	\$ 32,888,920	\$ 328,393,521
Uncollectible Amounts Placed for Collection, Including Accounts Written Off	1,911,066,188	218,465,834	95,134,141	1,597,466,213
TOTAL COLLECTION EFFORTS	\$ 2,289,908,041	\$ 236,025,246	\$ 128,023,061	\$ 1,925,859,734

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 \$7.1 million through the second quarter of FY 2011. 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 9/30/10	Comparative	
		Percent at 6/30/10	Percent at 3/31/10
Virginia Employment Commission	43%	35%	12%
Department of Medical Assistance Services	39%	35%	29%
Department of Social Services	36%	33%	34%
Department of Behavioral Health and Developmental Services	22%	20%	27%
Department of Transportation	19%	10%	27%
Virginia Community College System	14%	15%	15%
University of Virginia - Academic Division	13%	14%	20%
University of Virginia Medical Center	12%	12%	13%
Virginia Information Technologies Agency	9%	14%	26%
Virginia Commonwealth University	7%	15%	17%
Statewide Average - All Agencies	21%	18%	20%

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 74 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 89 percent indicates that for every \$1 billed during the quarter ended September 30, 2010, the state collected 89 cents. This rate is four percent more than last year, and one percent more than the September 30, 2008 quarter.

Collections as a Percentage of Billings

Agency	Percent 9/30/2010	Comparative	
		Percent 9/30/2009	Percent 9/30/2008
Department of Transportation	151%	126%	166%
Virginia Employment Commission	107%	102%	114%
University of Virginia - Academic Division	97%	89%	96%
Department of Social Services	91%	93%	82%
Virginia Polytechnic Institute and State University	89%	87%	88%
Virginia Commonwealth University	81%	84%	86%
George Mason University	79%	80%	79%
Virginia Information Technology Agency	70%	82%	94%
Department of Medical Assistance Services	42%	39%	33%
University of Virginia Medical Center	30%	29%	38%
Statewide Average - All Agencies	89%	85%	88%

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 \$83.5 million at September 30, 2010, is a \$23.8 million increase over the \$59.7 million reported at September 30, 2009. Over the same period, total past due receivables of \$48.7 million have increased by \$10.4 million.

University of Virginia Medical Center (UVAH)

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

UVAH collectible receivables of \$288.7 million at September 30, 2010, were a \$6.6 million increase from the \$282.1 million reported the previous year. Past due receivables increased by \$6.0 million to \$108.3 million at September 30, 2010.

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 \$89.8 million at September 30, 2010, an increase of \$26.7 million from the previous year. Total past due receivables were \$66.8 million, a \$20.2 million 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 September 30, 2010, of \$49.6 million, which is an increase of \$8.4 million reported in the previous year. Most of these receivables are due from other state agencies. As of September 30, 2010, \$4.7 million was over 60 days past due, a decrease of \$3.8 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 three multi-state games, Mega Millions, PowerBall 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 September 30, 2010, the State Lottery reported net receivables of \$43.2 million, a \$10.7 million decrease from the previous year. Billings decreased by \$6.3 million and collections increased by \$7.8 million during the September 30, 2010 quarter when compared to the September 30, 2009 quarter. At September 30, 2010, the State Lottery had \$230,969 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 September 30, 2010, DOE had no accounts receivable due from the Federal government under Direct Aid to Public Education. This is consistent with the prior year.

Virginia Polytechnic Institute and State University (VPISU)

VPISU is one of the Commonwealth's largest universities and one of two land grant institutions in the state. At September 30, 2010, the University reported net collectible receivables of \$84.5 million, a \$2.9 million decrease over the prior year. At the same time, total past due receivables of \$12.4 million decreased by \$7.7 million over the prior year.

The University uses a variety of collection methods to encourage payments. At September 30, 2010, VPISU had \$3.4 million of accounts over 60 days past due. \$1.4 million was placed with the Attorney General's Division of Debt Collection, another \$979,401 was placed with private collection agencies and \$1.6 million was subject to additional in-house efforts.

Department of Behavioral Health and Developmental Services (DBHDS)

DBHDS 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. DBHDS 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, DBHDS can recover some of the costs involved in a patient's care.

At September 30, 2010, the Department reported collectible receivables of \$24.3 million, a \$4.4 million decrease over the previous year. \$12.9 million was past due, with \$8.2 million being over 60 days past due. Total past due receivables decreased by \$2.9 million over the year, and accounts over 60 days past due decreased by \$2.0 million. At September 30, 2010, the Department had a total of \$5.7 million of accounts placed with the Attorney General and \$641,631 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 September 30, 2010, VDOT reported \$95.0 million of collectible receivables, an increase of \$9.1 million from the prior year. VDOT also reported \$26.2 million total past due and \$18.1 million being over 60 days past due. Past due receivables decreased by \$1.3 million over the year, while receivables over 60 days past due decreased by \$4.5 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 \$11.6 million of their accounts over 60 days past due with the Attorney General's Division of Debt Collection, and \$1.7 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 September 30, 2010, DSS reported gross receivables of \$417.0 million, an allowance for doubtful accounts of \$256.0 million and collectible receivables of \$161.0 million. Past due receivables totaled \$150.5 million, of which \$148.1 million was over 60 days past due.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for \$376.2 million (90 percent) of the gross receivables, \$232.9 million (91 percent) of the allowance for doubtful accounts and \$143.3 million (89 percent) of the collectible receivables.

From September 30, 2009, to September 30, 2010, gross receivables increased \$23.0 million and collectible receivables increased by \$3.9 million. Total past due receivables increased by \$11.2 million and receivables over 60 days past due increased by \$11.3 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 September 30, 2010, DRPT had gross and net receivables of \$47.8 million. The majority of this money is due via an interagency transfer from VDOT. DRPT had reported \$51,599 of past due receivables at September 30, 2010.

Virginia Commonwealth University (VCU)

VCU, based in Richmond, offers 211 degree programs to over 32,000 students in a variety of fields ranging from accounting to pharmacy at both undergraduate and graduate levels.

At September 30, 2010, VCU had \$78.7 million of collectible receivables, a \$26.1 million increase from September 30, 2009. Total past due accounts were \$7.3 million, a \$621,272 increase from September 30, 2009. Accounts over 60 days past due (\$5.5 million) increased by \$353,825 from the prior year. Billings increased by \$41.3 million to \$256.3 million and collections increased by \$27.2 million to \$207.9 million for the September 30, 2010 quarter, when compared to the September 30, 2009 quarter.

The following table is prepared to present the September 30, 2010, aging information in conformity with the provisions of the *Code of Virginia* § 2.2-603.E.(ii).

Commonwealth's total \$2.79 billion past due accounts receivable at September 30, 2010. Another 18 agencies accounted for 19 percent (\$536.7 million), leaving 71 other agencies to comprise the last one percent at \$36.6 million.

Taxation and the Circuit and District Courts accounted for 80 percent (\$2.22 billion) of the

Agencies with the Largest Volume of Past Due Receivables

As of September 30, 2010

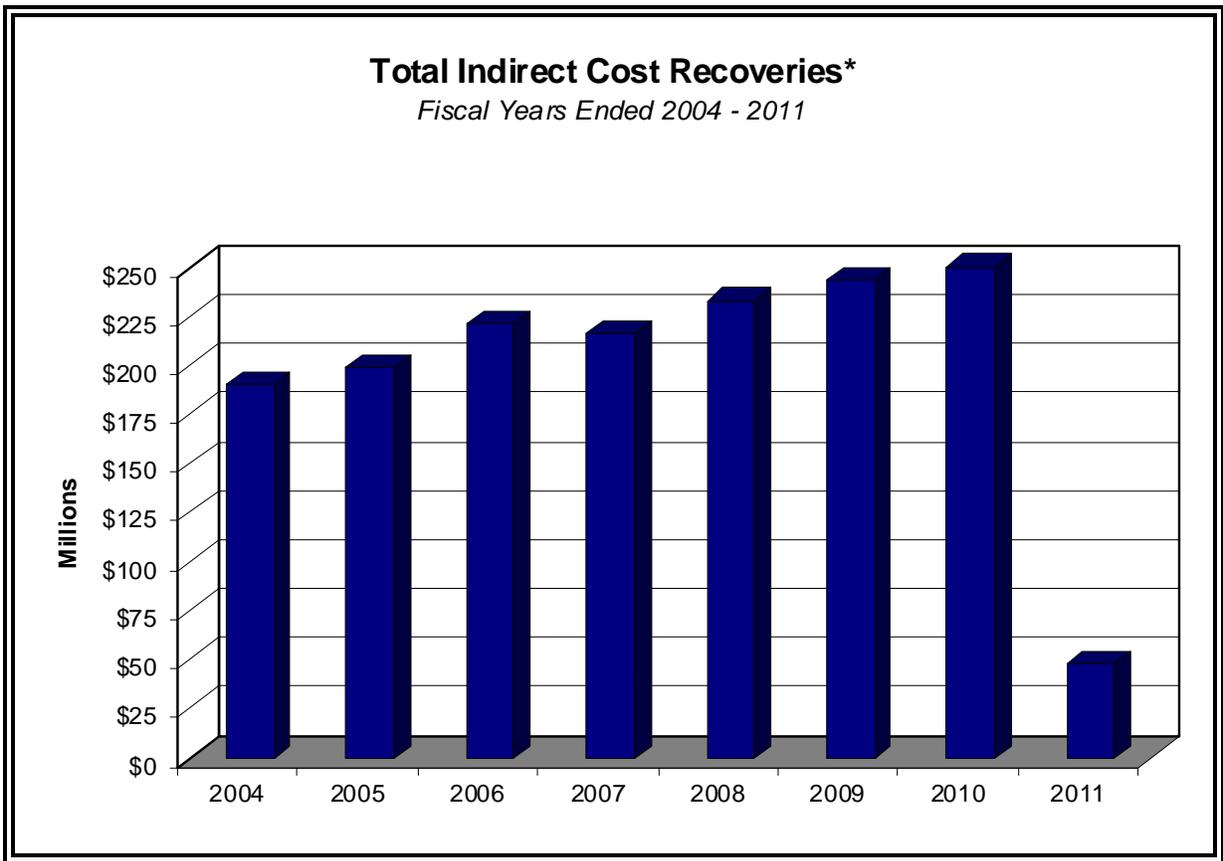
Agency	Total Past Due	1 to 180 Days Past Due	181 to 360 Days Past Due	Over One Year
Department of Taxation	\$ 1,748,457,183	\$ 258,757,927	\$ 130,896,947	\$ 1,358,802,309
Localities' Circuit and District Courts	472,270,405	39,408,317	63,461,821	369,400,267
Total - Taxation Assessments and Court Fines and Fees	\$ 2,220,727,588	\$ 298,166,244	\$ 194,358,768	\$ 1,728,202,576
All Other Large Dollar Agencies:				
Department of Social Services	150,465,055	7,171,308	7,155,268	136,138,479
University of Virginia Medical Center	108,274,544	95,903,468	8,073,612	4,297,464
Virginia Employment Commission	66,774,728	25,265,617	12,641,741	28,867,370
Department of Medical Assistance Services	48,651,839	18,939,844	9,349,892	20,362,103
Department of Transportation	26,197,697	9,169,160	6,638,958	10,389,579
University of Virginia - Academic Division	22,391,024	19,329,416	1,708,081	1,353,527
George Mason University	15,056,293	14,004,852	1,004,846	46,595
Department of Behavioral Health and Developmental Services	12,928,775	11,031,781	5,642	1,891,352
Virginia Community College System	12,428,670	10,707,756	976,152	744,762
Virginia Polytechnic Institute & State University	12,392,749	9,973,056	641,644	1,778,049
Department of General Services	9,503,402	7,561,311	345,758	1,596,333
Virginia Information Technologies Agency	8,780,307	6,075,124	1,358,275	1,346,908
Norfolk State University	8,319,976	7,994,599	36,032	289,345
Old Dominion University	8,297,214	8,195,240	67,364	34,610
James Madison University	8,104,027	7,356,791	257,138	490,098
Virginia Commonwealth University	7,266,648	3,204,534	1,835,975	2,226,139
University of Mary Washington	5,566,936	5,023,169	137,157	406,610
Virginia State University	5,316,652	4,538,010	460,348	318,294
Total - Largest Dollar Volume Agencies	\$ 536,716,536	\$ 271,445,036	\$ 52,693,883	\$ 212,577,617
All Other Agencies	36,580,481	23,155,855	4,754,239	8,670,387
Grand Total Past Due Receivables	\$ 2,794,024,605	\$ 592,767,135	\$ 251,806,890	\$ 1,949,450,580



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 2011 reflects indirect cost recoveries through December 31, 2010.

Indirect Cost Recoveries from Grants and Contracts

Fiscal Year 2011

Fund	Year-to-Date		Total
	Higher Ed	Non-Higher Ed	
Nongeneral:			
Agency / Institution (1)	\$ 11,360,795	\$ 33,836,249	\$ 45,197,044
Statewide	55,171	521,927	577,098
Agency / Institution ARRA	692,435	374,653	1,067,088
Statewide ARRA	294	97,427	97,721
Total Nongeneral	\$ 12,108,695	\$ 34,830,256	\$ 46,938,951
General:			
Agency (Cash Transfers)	-	-	-
Statewide	-	375,729	375,729
Statewide (Cash Transfers)	-	-	-
Total General	\$ -	\$ 375,729	\$ 375,729
Total All Funds	\$ 12,108,695	\$ 35,205,985	\$ 47,314,680

- (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 \$22,262,301 representing the Department of Social Services' estimate of indirect cost recoveries received. This does not include covered higher education institutions.



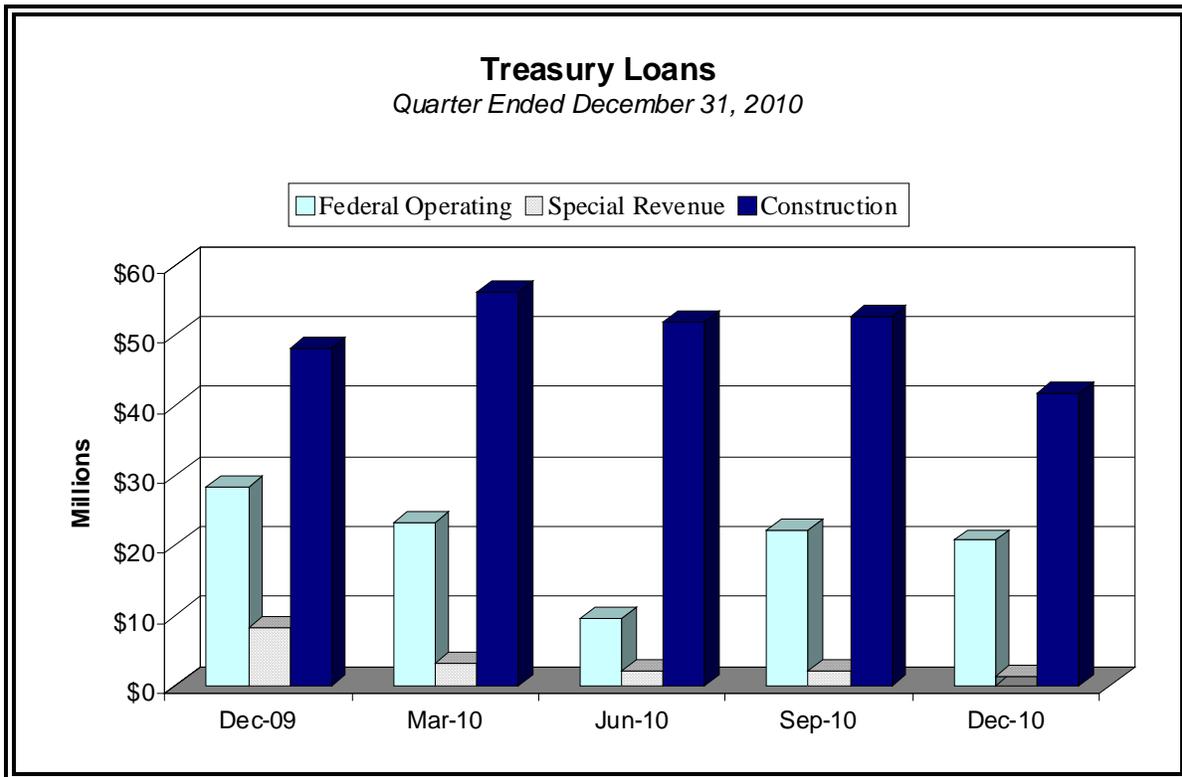
Loans and Advances

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 December 31, 2010, was \$63.6 million.



Significant New Loans / Drawdowns		New Balance
Virginia Commonwealth University (VCU)		
Drawdown on a \$22.7 million loan used for the construction of the new School of Medicine	\$	1,293,326.10
Department of Military Affairs (DMA)		
Drawdown on a \$5 million loan used to pay expenditures incurred in anticipation of reimbursement from the National Guard Bureau.	\$	3,000,000.00
Virginia Commonwealth University (VCU)		
Drawdown on a \$5.4 million loan used for the construction of the West Grace Street Parking Deck.	\$	3,640,391.29
Virginia College Building Authority (VCBA)		
Drawdown on a \$25 million loan used to reimburse institutions of higher education for expenditures made on authorized capital projects under the 21 st Century program.	\$	19,167,896.12
Significant Loan Repayments		Prior Balance
Department of Veterans Services (DVS)		
Payment on a \$10.2 million loan used for the construction of the Southwest Virginia Veterans Cemetery.	\$	1,675,897.57
Virginia Commonwealth University (VCU)		
Final payment on a \$5.4 million loan used for the construction of the West Grace Street Parking Deck.	\$	3,640,391.29
Department of Transportation (VDOT)		
Payment on a \$10 million loan used to fund the Highway Planning and Construction – ARRA Fund.	\$	5,000,000.00
Virginia College Building Authority (VCBA)		
Final payment on a \$25 million loan used to reimburse institutions of higher education for expenditures made on authorized capital projects under the 21 st Century program.	\$	19,167,896.12

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/appropriations as of December 31, 2010.
- **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. The total of all outstanding working capital advances as of December 31, 2010, was \$21.7 million.

- **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 December 31, 2010, was \$71.8 million.

