REPORT ON
STATEWIDE FINANCIAL MANAGEMENT AND COMPLIANCE

FOR THE QUARTER ENDED MARCH 31, 2011

OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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**REPORT ON STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**
Quarter Ended March 31, 2011

STATEMENT OF PURPOSE

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

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

This *Quarterly Report* includes information for the quarter ended March 31, 2011, and comparative FY 2010 data. Some information in the report is for the quarter ended December 31, 2010, which is the most current data available.

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Comptroller

SPECIAL REPORT
2010 Information Returns Reporting

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

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

States have special information returns reporting requirements unique to their governmental functions. These include reporting payments for state unemployment compensation, taxable grants, reforestation payments, state tax refunds, and lottery winnings.

In February 2011, a Statewide Information Returns compliance survey was conducted for the 2010 tax year. Based on the survey, 127 tax reporting entities (representing 256 agencies and institutions) filed 3.8 million information returns totaling $11.3 billion. Two reporting entities did not file information returns for 2010. The Commonwealth filed 99.95 percent of the information returns with the IRS using electronic media.

Information Returns
Filed for Calendar Year 2010

Number of Information Returns Filed	Number of Tax Reporting Entities
No Returns	2
1 to 50 Returns	72
51 to 250 Returns	22
Over 250 Returns	31
Total Reporting Entities	127

The agencies and institutions of the Commonwealth filed the following types of information returns for the tax year ended December 31, 2010. When the number of information returns filed for 2010 is compared with 2009, percent changes by category range from a negative 33.5 percent for Forms 1099-S, *Real Estate Transactions*, to a positive 11.7 percent for Forms 1099-Q, *Qualified Education Programs*. The 33.5 percent decrease in Forms 1099-S, *Real Estate Transactions*, was due to a reduction in road projects authorized by the Virginia Department of Transportation that required right-of-way land purchases. The Department of the Treasury's Division of Unclaimed Property reported a 26.7 percent decrease in Forms 1099-DIV, *Dividends*, and a 20.7 percent decrease in Forms 1099-B, *Stock Sale Proceeds*, due to the annual variation in the number and types of claims processed each year. The Department of Taxation attributed the 13.8 percent reduction in Forms 1099-INT, *Interest Income*, to an increased number of electronically processed income tax returns thereby reducing the necessity for interest payments. The Virginia College Savings Plan attributed the 11.7 percent increase in the number of Forms 1099-Q, *Qualified Education Programs*, to the increased number of distributions made to (i) institutions pursuant to Virginia Prepaid Education Program contracts, and (ii) participants, beneficiaries and institutions pursuant to Virginia Education Savings Trust and CollegeWealth savings accounts.

2010 Information Returns Reporting Results
By Major Filing Category

Form Type (1)	Dollars Reported in 2010	Number of Payees in 2010	Electronic Media	Paper Media	% Change in Number of Filings from 2009
1099-G, Government Payments	$ 4,181,080,373	3,081,854	3,081,846	8	-1.3%
1099-R, Retirement	3,201,580,969	174,797	174,735	62	3.9%
1098-T, Tuition Payments	2,540,213,877	437,060	437,060	-	-2.4%
1099-MISC, Miscellaneous Income (2)	793,878,657	24,995	23,407	1,588	0.8%
W-2G, Lottery Winnings	304,085,862	27,908	27,908	-	9.6%
1099-Q, Qualified Education Programs	196,068,886	26,286	26,286	-	11.7%
1099-S, Real Estate Transactions	27,297,863	608	599	9	-33.5%
1042-S, Foreign Persons	15,679,069	2,425	2,257	168	-0.6%
1099-INT, Interest	6,226,296	46,224	46,199	25	-13.8%
1099-B, Stock Sale Proceeds by Unclaimed Property Div. of the Treasury Department	1,776,739	815	815	-	-20.7%
1099-DIV, Dividends	313,233	1,436	1,436	-	-26.7%
Total	**$ 11,268,201,824**	**3,824,408**	**3,822,548**	**1,860**	-1.2%

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

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

Number of Information Returns Filed
For Calendar Years 2008 - 2010

[Legend: 2008, 2009, 2010]

Chart showing returns for 1099-G (approx 3,000,000 - 3,400,000), 1099-R (low, under 500,000), 1098-T (low, under 700,000), with vertical axis from 0 to 3,500,000.
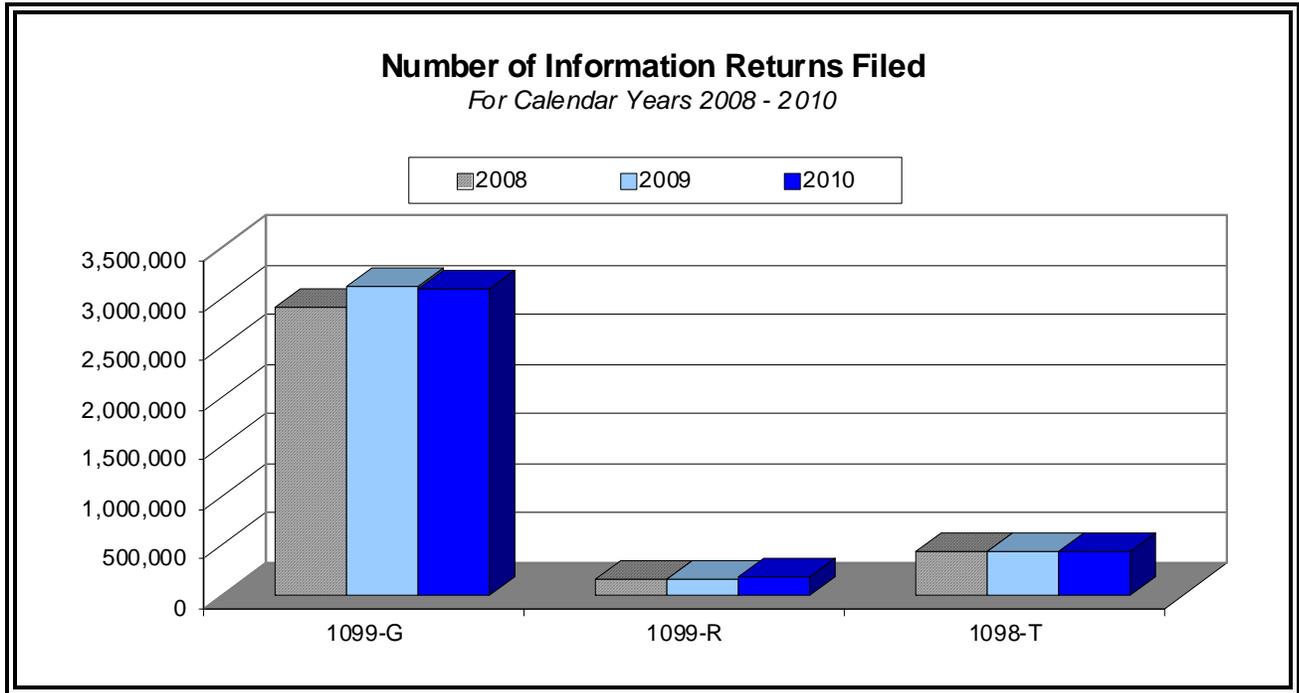
Note: This chart does not include comparison information for Forms 1042-S, 1099-INT, 1099-MISC, 1099-Q, 1099-S, or the W2-G which are shown on the chart below.

Number of Information Returns Filed
For Calendar Years 2008 - 2010

[Legend: 2008, 2009, 2010]

Chart showing returns for 1042-S, 1099-INT (approx 47,000-52,000), 1099-MISC (approx 25,000-27,000), 1099-Q (approx 19,000-27,000), 1099-S, W2-G (approx 17,000-28,000), with vertical axis from 0 to 60,000.
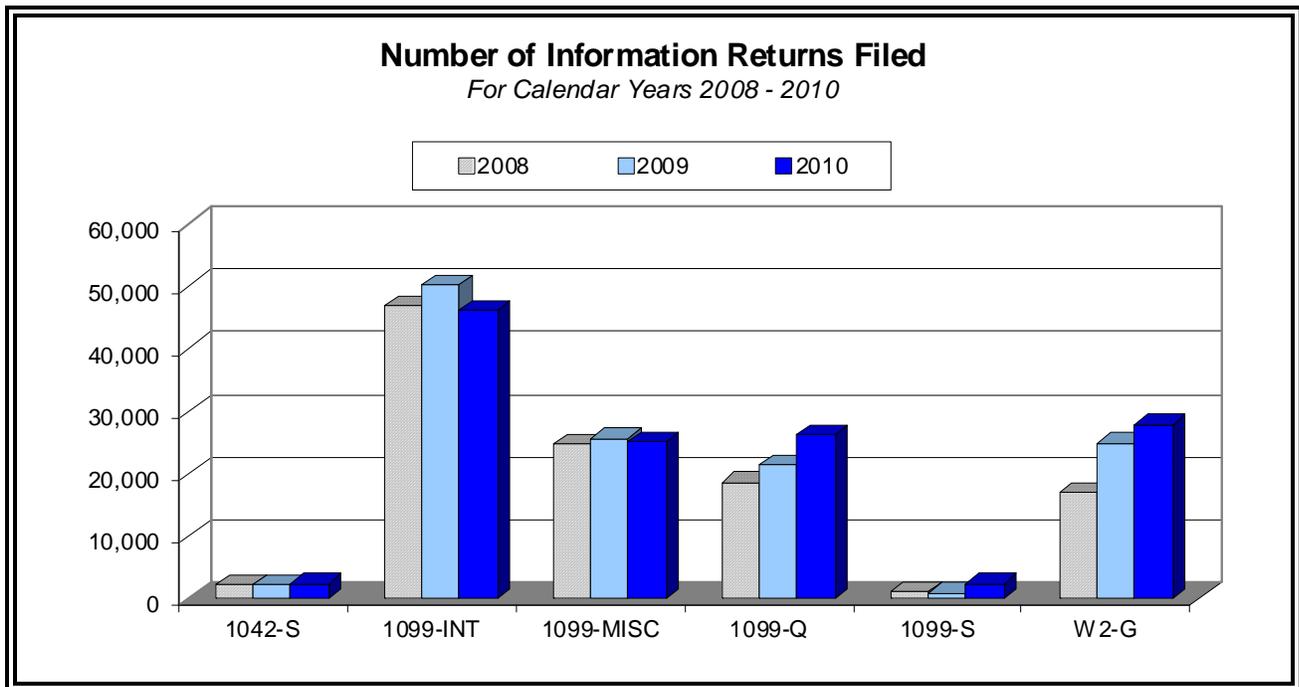
Note: This chart does not include comparison information for Forms 1099-G, 1099-R and 1098-T which are shown in the chart at the top of this page.

Discrepancy Notices

During 2010, nine control agencies reported receiving IRS CP2100 Notices or other correspondence related to information returns filed for the previous tax years. These notices stated that the agencies had filed information returns using (1) an incorrect taxpayer identification number or (2) a taxpayer identification number that did not match a taxpayer record in either the IRS or Social Security Administration's databases. To avoid penalties for erroneous filings, the agencies were required to research these discrepancies and respond to the IRS. All agencies receiving notices complied. The IRS has either waived the proposed penalties or deferred action on the proposed penalties in order to review the additional information received.

Agency Training

Eighty-seven persons from 54 agencies/higher education institutions reported having attended DOA's on-line Information Returns training class. Some agencies/higher education institutions requested additional training. The most frequently mentioned areas of interest were: (1) Future tax year changes and IRS updates, (2) basic information returns reporting requirements, and (3) FINDS download training.

The chart below lists the reporting entities that filed more than 500 information returns for calendar year 2010.

Reporting Entities Filing More Than
500 Information Returns for 2010

Reporting Entity	Number of Agencies	Number of Returns	Dollars	Automated System (s)
Department of Taxation	1	2,810,141	2,141,855,724	In-House System
Virginia Employment Commission	1	316,079	1,698,798,128	AMS
Virginia Community College System (VCCS) (1)	24	193,600	296,682,279	PeopleSoft Oracle Database System
Virginia Retirement System	1	174,699	3,268,524,519	Adams 2010 Tax Form Helper, Version 9.5
Virginia Commonwealth University	1	50,607	362,121,999	Banner Finance and Evisions
George Mason University	1	39,968	344,077,820	Sunguard Banner, ACS, Windstar
Virginia Polytechnic Institute and State University	2	35,642	393,765,559	Banner System
State Lottery Department	1	29,074	347,754,526	JD Edwards & GTECH
Virginia College Savings Plan	1	26,308	197,815,364	AMS
Old Dominion University	1	25,371	145,131,371	Banner and Secure 32 Software
University of Virginia	4	24,382	461,431,697	In-House System
James Madison University	1	22,150	207,813,322	Winfiler Software
The College of William and Mary in Virginia	3	13,047	171,866,966	Banner
Radford University	1	11,342	77,101,097	AMS
Norfolk State University	1	9,335	63,758,039	Insight (Sunguard Bitech)
Virginia State University	2	8,033	77,943,147	1099 Express
University of Mary Washington	1	6,980	52,142,982	Banner
Christopher Newport University	1	6,023	59,443,985	Evisions
Longwood University	1	5,411	45,096,246	Banner
Department of the Treasury, Division of Unclaimed Property	1	2,873	2,277,193	In-House System
Supreme Court	9	2,648	100,166,131	IDSS Oracle Database
Department of Transportation	1	1,941	97,268,436	PeopleSoft FMS
Virginia Military Institute	1	1,879	31,772,591	Colleague Datatel
Department of Rehabilitative Services	6	1,337	17,081,563	Powerhouse
Department of Forestry	1	1,063	1,813,753	AMS
Department of Health	2	774	12,370,751	FAS (Oracle)
Total	**70**	**3,820,707**	**10,675,875,188**	

 (1) The number of returns filed by VCCS includes 193,573 Forms 1098-T filed on behalf of the 23 community colleges.

At the end of calendar year 2010, DOA working with 216 state agencies and institutions, verified and printed 118,597 W-2s. This was a slight increase from the number of W-2s printed in 2009.

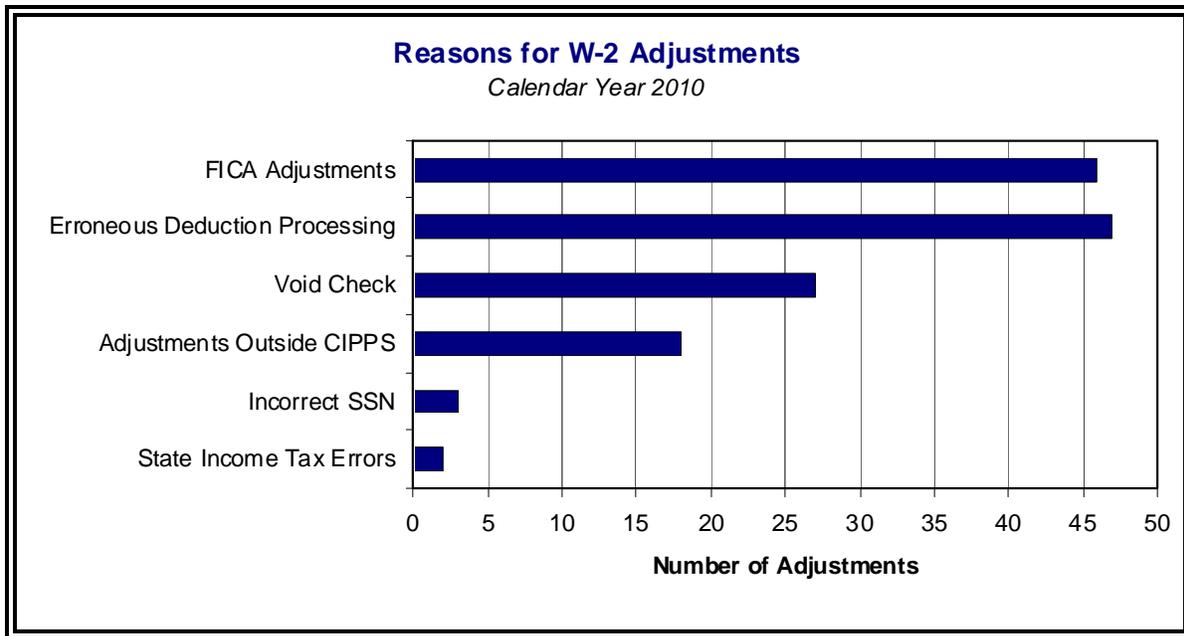|	CY 2009	CY 2010
W-2s Printed	116,986	118,597
W-2Cs Printed	42*	21*
Agencies Making Adjustments	37	58
Employee Records Requiring Year-End Adjustments	101	143

*# of W-2C's printed as of the date of this report.

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

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

Agencies adjusted 143 employee records. FICA adjustments related to the calculation of imputed life for ORP retirees was the most common reason for W-2 adjustments. Adjustments made outside of the payroll system processed at year-end also constituted a large portion, as did adjustments for erroneous deduction processing.

W-2s are printed at the Commonwealth Enterprise Solutions Center and subsequently distributed to a third party vendor for folding and envelope stuffing. Upon return from the vendor, agencies are notified that the W-2s are ready for pickup. All CIPPS W-2s were available in Payline by January 19 and all paper copies were picked up by January 25th for subsequent delivery to employees.

Reasons for W-2 Adjustments
Calendar Year 2010

Reason	Number of Adjustments
FICA Adjustments	46
Erroneous Deduction Processing	47
Void Check	27
Adjustments Outside CIPPS	18
Incorrect SSN	3
State Income Tax Errors	2

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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 additional recommendations that are not considered internal control findings. These recommendations can include risk alerts, efficiency issues, or any other improvements that can be made within agency operations. Additional recommendations 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 March 31, 2011

The APA issued 19 reports covering 34 State Agencies 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				
State Board of Elections	1	1	2	YES
Agriculture and Forestry				
None				
Commerce and Trade				
Board of Accountancy	0	0	0	N/A
Department of Housing and Community Development	1	0	1	YES
Virginia National Defense Industrial Authority	0	0	0	N/A
Virginia Tourism Authority	0	0	0	N/A

	New Findings	Repeat Findings	Total Findings	CAW Received
Education				
George Mason University	1	0	1	YES
Old Dominion University	1	0	1	YES
Southern Virginia Higher Education Center	0	0	0	N/A
The Library of Virginia	0	0	0	N/A
Virginia Commonwealth University	0	0	0	N/A
Virginia Polytechnic Institute and State University	2	0	2	YES
Executive Offices				
None				
Finance [1]				
Department of Accounts	0	0	0	N/A
Department of Planning and Budget	0	0	0	N/A
Department of Taxation	0	2	2	YES
Department of Treasury	0	0	0	N/A
Health and Human Resources [2]				
Department for the Aging	1	0	1	YES
Department of Behavioral Health and Developmental Services	5	4	9	YES
Department of Health	2	0	2	YES
Department of Health Professions	0	0	0	N/A
Department of Medical Assistance Services [4] [5]	2	0	2	YES
Department of Social Services	1	4	5	YES
Department of Rehabilitative Services	3	0	3	YES
Office of Comprehensive Services for At-Risk Youth and Families [6] [7]	2	0	2	YES
Natural Resources				
Marine Resources Commission	0	0	0	N/A
Virginia Museum of Natural History	2	1	3	YES
Public Safety				
Department of Emergency Management	2	0	2	YES
Department of Juvenile Justice	2	0	2	YES
Technology				
None				
Transportation [3]				
Board of Towing and Recovery Operations	0	0	0	N/A
Department of Aviation	0	0	0	N/A
Department of Motor Vehicles	1	0	1	YES
Department of Rail and Public Transportation	0	0	0	N/A
Department of Transportation	1	0	1	YES
Motor Vehicle Dealer Board	0	0	0	N/A
Virginia Port Authority	0	0	0	N/A

(1) All of the following agencies were included under one report titled, "Agencies of the Secretary of Finance, Report on Audit for the year ended June 30, 2010".

(2) All but one of the following Health and Human Resources agencies were included under one report titled, "Agencies of the Secretary of Health and Human Resources for the year ended June 30, 2010". The audit report on the Department of Aging is included in a separate report.

(3) All of the following agencies were included under one report titled, "Agencies of the Secretary of Transportation, Report on Audit for the year ended June 30, 2010".

(4) The Department of Medical Assistance Services is the primary agency for one finding related to valid social security numbers. The Secretary of Health and Human Resources and the Department of Social Services are also included within this finding.

(5) The Department of Medical Assistance Services is the primary agency for one finding related to transparency of Medicaid payments. The Department of Accounts and the Department of Planning and Budget are also included within this finding.

(6) Comprehensive Services for At-Risk Youth and Families received administrative services from the Department of Education that was audited and reported on under a separate report.

(7) In addition to being included in the report titled, "Agencies of the Secretary of Health and Human Resources for the year ended June 30, 2010," Comprehensive Services for At-Risk Youth and Families is also reported individually in a separate audit report that contained the same findings.

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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.

Administration

State Board of Elections (SBE)

1. Improve Federal Financial Status Reporting Process. While Elections submitted the required Federal Financial Status Reports as of September 30, 2009, showing expenses by the various titles and sections of the Help America Vote Act (HAVA), the APA could not determine the accuracy of the information reported. Specifically, Elections did not provide supporting financial documentation for the HAVA Title I – Section 101 and HAVA Title II Section 251 federal expenses, program income, or state matching expenses.

   Federal regulations require that Elections complete separate financial status reports by title and section for HAVA funds and submit them annually to the Election Assistance Commission (EAC). Elections should maintain supporting financial documentation with each submission to ensure the validity of all amounts reported, thereby enabling management and the EAC to monitor the financial status of the HAVA program awards. Failing to report correct expenses on the report can result in the EAC revoking federal funds.

   The APA recommends that Elections recheck the state and federal expenses and program income reported to the EAC for the 2009 federal fiscal year. Elections should either reconcile the expenses and revenue in the Commonwealth Accounting and Reporting System to the filed reports or if necessary, file an amended report that correctly reflects expenses and program income, or adjust the current report to reflect those changes since the report shows cumulative financial activity.

   The APA also recommends that Elections document the process for compiling these reports. These procedures should address maintaining an adequate audit trail to ensure that expenses and program income report results from the state accounting system, and which in turn reconciles to the reports that the Federal Government receives.

2. Improve Information Systems Security Program. **This is a repeat finding.** Elections has made some progress on its information security program since its last audit. However, there are key components that management must complete to ensure compliance with the Commonwealth's information security standards.

   While Elections approved their Information Technology Security Policies, they have not performed a Business Impact Analysis (BIA) or a Risk Assessment (RA). A first step in evaluating information security risks to an organization is completing a business impact analysis to determine what systems are sensitive or mission critical, and require additional

risk assessments to ensure establishing, documenting, and communicating proper mitigating controls within the organization.

Elections is currently working with the Department of Accounts to complete a Business Impact Analysis and Risk Assessment. They plan to have both completed by April 2011.

Elections needs to complete a BIA and RA to ensure that they have identified and properly mitigated information security risks. Once the analysis and assessments are completed, Elections needs to address the results and implement them into their information security policies and procedures.

Commerce and Trade

Department of Housing and Community Development (DHCD)
1. <u>Improve Timeliness of Sub-Recipient Monitoring Reports</u>. The Department of Housing and Community Development (DHCD) passes through about 98 percent of its U.S. Department of Energy (Energy) Weatherization Grant funding to sub-recipients who administer the program. While each of the twenty-two recipients must undergo annual A-133 compliance audits, DHCD provides guidance and monitors these sub-recipients for both operational and financial compliance. The APA found that DHCD can improve the timeliness of reporting results of sub-recipient monitoring for compliance with the provisions of the grant.

The APA found that DHCD completed and issued reports on 11 of 22 required annual sub-recipient reviews. DHCD partially completed all the reviews for fiscal year 2010, but as of the date of this audit had not completed reports or finalized questioned costs for half of its sub-recipients. Additionally, Energy is withholding 25 percent of DHCD's Weatherization Grant funds due, in part, to incomplete monitoring reviews of all sub-recipients.

DHCD's ability to complete reviews timely is a factor of a number of conditions. First, the Weatherization program experienced significant growth with the passing of the American Recovery and Reinvestment Act. Energy, in response to the program's growth, changed its grant management guidelines, but has not communicated all of these changes to DHCD timely.

For example, in the midst of performing the sub-recipient monitoring reviews, Energy informed DHCD that sub-recipients were no longer required to fully complete individual jobs prior to requesting payment. Rather, ongoing monthly costs could be reimbursed as incurred as long as they are associated with a job. This is a significant change to how DHCD previously managed Weatherization funds and impacted the results of some of the partially completed monitoring reports.

Further, due to the growth of the Weatherization program over the last three years and the fact that the increased funding is only a short-term increase, DHCD does not have the same amount of resources devoted to monitoring as they have with similarly sized programs, such as Community Development Block Grants.

Energy needs to clarify and work with DHCD to establish guidelines before DHCD is directed to spend funds so that DHCD can effectively establish appropriate controls and monitoring processes. The APA recognizes the factors described above have affected DHCD's ability to complete sub-recipient monitoring reviews timely, however, DHCD should continue to work to ensure their timely completion. Energy's lack of timely guidance has delayed the completion of monitoring reports, which is a prerequisite for the release of Virginia's remaining Weatherization funds held by Energy. Completing these reports timely will also provide for the timely resolution of findings and recovery of disallowed costs when DHCD identifies them.

Education

George Mason University (GMU)

1. <u>Improve Information Security Program</u>. During the APA's review of one of the University's databases containing confidential mission critical data, the APA found the University does not perform adequate activity auditing and monitoring, account management, or password management. Without proper controls over accounts with elevated privileges, or appropriate password controls, the University increases the risk of data breach, data corruption, and data unavailability.

   The APA has communicated the details of these areas to management in a separate confidential document that is exempt from disclosure from the Freedom of Information Act under Section 2.2-3705.2 of the <u>Code of Virginia,</u> because it contains descriptions of the University's information security.

   The APA recommends that the University dedicate the necessary resources to develop policies and procedures to set management's expectations regarding the weaknesses stated above. The University should also take this opportunity to evaluate their current information security program and identify any other areas where the program does not meet the requirements of the information security standard that the University has adopted, ISO/IEC 27002:2005. Lastly, the University needs to ensure that staff is made aware of any new requirements and provide any necessary training.

Old Dominion University (ODU)

1. <u>Improve Risk Management and Contingency Planning</u>. Old Dominion University has not performed a comprehensive review and update of its information security program since 2007, and did not meet its internal objective of a regular update and review every three years in 2010. While the University does update the plan for new systems, it does not consider their impact on other systems or fully assess their impact on business operations and contingency planning. An incremental approach to updating the information security program is reasonable, as long as a comprehensive review is still completed every three years, in accordance with University policy, and whenever major systems are implemented.

   By not performing a prompt systematic review of its information security program as the information systems environment changes, the University has introduced inconsistencies in their business impact analysis, risk assessments, and contingency planning documents. An outdated business impact analysis, risk analysis, and continuity of operations plan may

impair the University's ability to address information systems security risks and restore essential business functions.

The APA recommends that the University conduct the review it had planned for 2010, and reinstate its three year systematic review of their risk management and contingency planning documents for accuracy, consistency, and current system information. The University should review and update risk management documents, such as the business impact analysis and risk assessment, at least every three years and when there are major changes in their information systems environment. Contingency planning documents, such as the continuity of operations plan and disaster recovery plan should be tested and reviewed annually. The APA understands that the University is currently working to update the business impact analysis, and encourages the University to complete this in accordance with the Commonwealth Security Standard requirements.

Virginia Polytechnic Institute and State University (VPISU)
1. <u>Review Current Operations for Opportunities to Enhance Financial Reporting and Reduce Paperwork</u>. The University uses a strategic plan for improving automation of university-wide business processes. This broad plan does not focus on individual department improvements.

Opportunities may exist to improve the financial reporting process and make it more efficient. The APA recommended that the University incorporate into its strategic plan an examination of its financial reporting process. This plan should include reviewing additional Banner features that may increase efficiencies and provide for succession planning.

2. <u>Improve Database Management</u>. The University should improve its protection of the databases storing critical and confidential data. The APA audit of the Oracle databases supporting the administrative systems noted no password and logging controls over the database administrators responsible for managing Oracle, and the need to formalize into written policies and procedures its current database practices.

While the University exercises strong password and logging controls for most of its Oracle users, it does not require the same degree of rigor and control over the personal accounts of its Oracle database administrators. These administrator accounts have significantly more access than typical user accounts, and therefore represent an increased security risk.

To protect the University's critical and confidential data and improve accountability for changes to this data, the APA recommended that the University establish password and logging controls over the administrators' personal accounts. Specifically, the APA recommended that the University create personal accounts for all administrators rather than using shared accounts, enforce password controls consistent with existing password policies, log critical administrator activity, review the logs regularly to search for inadvertent or malicious changes, and prevent administrators from gaining access to the logs so they cannot alter them.

Additionally, the APA review found several areas where the University should formalize its Oracle database practices into written policies and procedures. Written policies and procedures provide an effective vehicle for management to communicate its expectations and increase the likelihood that employees will understand and comply with those expectations.

The APA recommended that the University develop or improve its written policies and procedures relative to the review of Oracle default settings, change management, and data backup and restoration tests.

Finance

Department of Taxation (TAX)

1. <u>Improve Database Administrator Access Oversight</u>. **This is a repeat finding.** Taxation has not implemented controls and processes to address certain weaknesses in security over databases that APA identified during the prior year's audit. Taxation does not provide adequate oversight for its database administration user accounts to address the risk of unauthorized disclosure of taxpayer information. Database administrator accounts have the highest level of privileges in a database. Without adequate oversight over high-privileged administration accounts, Taxation cannot determine accountability for the adding, deleting, or changing of data in the systems that Taxation has classified as containing confidential or mission critical data.

   The APA communicated the details of this issue separately from this report because they contain the descriptions of a security system. Such information is exempt from public disclosure by the Freedom of Information Act. This recommendation is precautionary and the APA's work did not include a review to determine if the lack of oversight resulted in a compromise of confidential taxpayer data.

   The APA recommends that Taxation improve database administrator user account oversight. Improving oversight for these accounts will allow Taxation to reduce the risk of unauthorized access and improve accountability.

2. <u>Improve System Access Management</u>. **This is a repeat finding.** Taxation has not implemented sufficient controls and processes to address weaknesses in system access management that the APA identified during the prior year's audit. In the prior year, the APA found processes that resulted in inefficient access management and inappropriate user privileges.

   To address the prior year's issues, Taxation planned to develop an automated system to improve the accuracy and efficiency of its system access management; however, Taxation is still in the process of deciding what product to use, and therefore, has not made adequate progress toward resolving this issue.

   Without adequate controls for system access management, Taxation does not comply with the Commonwealth's Security Standard 501, and Taxation employees could have unnecessary access to sensitive and high-risk applications. The APA recommends that Taxation develop and implement efficient controls to reduce the risk of improper access to systems. Taxation should ensure that, at a minimum, these controls meet the Commonwealth's Security Standard.

Health and Human Resources

Department for the Aging (VDA)

1. <u>Improve Sub-Recipient Monitoring Program</u>. About 94 percent of Aging's expenses are transfer payments to about 65 entities comprised of local Area Agencies on Aging (Area Agencies) and other non-profit entities that provide services for the elderly. Of these, the 25 Area Agencies receive 93 percent of the transfer payments. All of the Area Agencies receive annual financial statement and federal compliance audits.

   Of the remaining 40 entities that receive the other seven percent of transfer payments, five have both annual financial statement and federal compliance audits and 15 have annual financial statement audits. The remaining entities either do not have annual audits or are not required to provide them to Aging because they receive less than $30,000 in funding.

   Aging employs a financial auditor that conducts on-site visits of sub-recipients throughout the year. In 2010, the financial auditor performed 38 site visits of sub-recipients without regard to their amount of funding, prior audit results and findings, effectiveness of internal systems, or the potential risks to Aging.

   Aging management and the financial auditor should develop a risk assessment to better utilize audit resources. The risk assessment should consider recipients' prior audit results and findings, the effectiveness of their internal systems, and potential risks to Aging. Aging management should review the financial auditor's assessment of the various entities to determine if they agree with this audit work plan.

Department of Behavioral Health and Developmental Services (DBHDS)

1. <u>Properly Manage Energy Contracts and Debt</u>. The Fiscal Director for Southwestern Virginia Training Center (SWVTC) prepaid $1,298,216.31 on SWVTC's energy contract. These actions potentially shift the risk of this contract away from the contractor and may void the intent of the contract.

   The BHDS has entered into a series of energy contracts, under which a contractor makes a number of capital improvements to various facilities to reduce overall energy costs. Further, both the contractor and BHDS agree to determine a baseline of energy cost and the savings that will pay for the contractor's improvements. Under these arrangements, the contractor finances the energy improvements and expects BHDS to make payments from the expected savings. Normally, both parties treat these arrangements as a form of debt and have monthly payment schedules that last more than ten years. If the energy savings do not occur, the contractor has posted a surety bond to offset the cost of the energy improvements.

   While SWVTC prepayment of ten years on the contract potentially wasted $222,472.29 in prepaying interest, which should have come out of the payments, these actions also place the program at risk by eliminating the ability to perform provisions of these contracts. Also, SWVTC is not the only facility which has prepaid some amount of these contracts. The APA understands that a number of facilities have made prepayments of up to a year. These other facilities are also shifting the risk of nonperformance to the Commonwealth.

BHDS should immediately stop the practice of making prepayments on its energy contracts, recover all prepaid interest, and renegotiate the contract for SWVTC or recover the prepayment. Considering the complexity of the contracts, the chances of improperly shifting risk and therefore cost from the contractor to the Commonwealth, the APA recommends that BHDS reconsider its oversight of these contracts both from a monitoring with their terms, but also the general financial oversight. Considering the affect that budget reductions have had on the fiscal staff at the facilities consolidation of this function may be appropriate.

2. <u>Accurately Report Energy Contract Debt to the Commonwealth's Controller</u>. BHDS did not accurately report Energy Performance information to the State Comptroller for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The APA found that BHDS incorrectly completed three of its five submissions for Energy Performance contracts, which contained significant errors.

   The State Comptroller needs accurate energy performance information from BHDS to correctly report obligations for the state. Failure to submit accurate information by the due dates established by the State Comptroller may result in delays or errors in the CAFR.

   In advance of next year's CAFR deadlines, the APA recommends that the State Comptroller work with BHDS's management to ensure that its staff understands how to create and produce accurate Energy Performance information.

3. <u>Remove Terminated Employees Timely from Payroll</u>. **This is a repeat finding**. Again this year the APA found facilities not removing terminated employees from the payroll system. In the APA's sample of five facilities, two facilities are not removing all terminated employees from the payroll system in a timely manner. Together, these two facilities represent over 20 percent of BHDS' payroll expenses. Not removing inactive employees from the payroll system increases the risk of inactive employees receiving payments in error.

   Management uses a "pool" of hourly workers to fill temporary staffing needs. However, management has not established procedures for removing pool employees from the payroll system after it stops using an individual. Therefore, the APA recommends that management communicate to Payroll when a pool employee is no longer being used and that the facilities evaluate and test their payroll certification process to ensure that Payroll and Human Resource records reconcile prior to certifying payroll each pay period.

4. <u>Coordinate Independent Peer Reviews</u>. **This is a repeat finding**. Federal law requires that at least five percent of all entities providing mental health services in the community receive a review each year, and the APA has again found that BHDS' Office of Mental Health Services has still not done any independent peer reviews of Community Services Boards (Boards). Boards that provide Community Mental Health services must have the federal mandatory independent peer reviews.

   The Office of Mental Health Services should coordinate these independent reviews to ensure reviewers are not reviewing their own programs. The federal regulation does not consider a review conducted as part of licensing or certification process as an independent peer review. Failure to comply with federal requirements not only increases the risk of inadequate

services, but also compromises the funding to the state for Community Mental Health services.

In July 2010, the Office of Mental Health Services hired an employee to coordinate peer reviews; however, because of other priorities the Office had not completed any peer reviews as of the date of the follow-up. Management is currently in the process of developing protocols for conducting peer reviews in the future. The Office of Mental Health Services should conduct the independent peer reviews according to federal guidelines.

5. <u>Use System Functionalities to Improve Payroll Processing</u>. BHDS spent $463.9 million in payroll costs and currently manually computes earnings for shift and weekend differentials, overtime, compensatory time and other items. BHDS is in the process of implementing a web-based KRONOS Workforce Central timekeeping system for all facilities, which includes timekeeping and attendance and scheduling modules.

KRONOS also has additional modules which may give BHDS the capability to expand the system into other payroll related areas. As with any major implementation of a modern system, there are opportunities to further enhance operations and examine the system's impact on existing internal controls and processes.

Management expects that the transition to KRONOS should improve timekeeping in the future by reducing the amount of time and effort that employees, supervisors, and payroll staff spend processing payroll and allow them to use their time elsewhere. As a result of BHDS' plans to implement KRONOS system-wide, the APA reviewed prior and current year findings related to payroll and noted some opportunities where they believe BHDS can improve its internal controls and possibly eliminate or reduce manual efforts and enhance operations.

While the APA provided management with the following listing of ideas, they will need to determine the feasibility of each idea and examine their existing internal controls and processes in light of how KRONOS operates. Finally, since KRONOS automates information and transactions, old internal controls processes may no longer work effectively and new risks may arise.

- <u>Improve Access Management</u>
  Fundamental to a sound system of internal controls are separation of duties and proper approval of transactions. Modern systems such as KRONOS rely on separating duties by restricting system access and requiring on-line approvals. Failing to restrict automated access increases the risk of fraud or error occurring or going undetected.

  BHDS' management needs to develop a system-wide protocol for assigning access and on-line approval and continuously monitor access for compliance. The APA further recommends that management use Behavioral Health's internal auditor and information security officers to lead this development and review, since restriction of existing access may meet with some resistance because some managers may not fully comprehend the impact of their earlier access decisions.

Finally, this group should have the responsibility for developing long-term policies and procedures for granting access, reviewing access and, when necessary, terminating access. This group should consider a combination of internal and external facility reviews and assessments.

The APA identified specific access issues during their audit that were communicated to Behavioral Health's management so they could improve access management in KRONOS.

- Use Overtime Alerts and Scheduling Module
  KRONOS offers overtime alerts and a scheduling module that facilities could use to manage their labor costs. Additionally, it helps supervisors ensure employees work their hours as scheduled as it flags any deviation between the employee's approved schedule and timesheet.

- Leave Tracking
  Currently, BHDS uses CIPPS and KRONOS for leave tracking. Once the implementation is complete, all facilities should use one system for tracking employee leave. If implemented, there are functions that could make it easier for the Central Office to determine their leave liability at year-end.

- Reassign Timekeepers
  In the prior year, the APA recommended that Facility Directors reassign timekeepers away from Human Resources to the Office of Finance and Administration or provide a justification as to why this reporting structure does not represent a significant weakness in internal controls. Management has decided to still have Central Virginia Training Center timekeepers report to the Director of Human Resources until the completion of the KRONOS' implementation. At that time, management is expecting to reassign timekeepers to Fiscal Services.

- KRONOS to CIPPS Interface
  BHDS facilities already using an earlier version of KRONOS have implemented an interface between CIPPS and KRONOS, though this interface is not fully compatible. If it is economically possible, developing an interface that would recognize shift differentials would reduce or eliminate the need for the manual input into CIPPS. A fully functioning interface would allow facilities to reduce or eliminate duplicate data entry into both systems.

6. Promptly Remove Terminated Employees from Critical Systems. BHDS did not promptly remove access to critical systems for six percent of the terminated employees the APA tested. The APA found eight employees that retained their access from 49 to 369 days after their termination from BHDS. Allowing terminated employees to retain their access opens the door for disgruntled employees to jeopardize the confidentiality, integrity, and availability of BHDS' critical information.

The Commonwealth Security Standards SEC 501 Section 5.2.2.23/24 requires the prompt removal of access when employees leave the agency. The APA recommends that the

facilities review their processes for deleting access to ensure that individuals responsible for deleting access do so promptly after an employee's termination.

7. Continue Improving IT Continuity of Operations and Disaster Recovery Plans Follow-up. **This is a repeat finding and adequate progress has been made (long term project).**

    Complete and proper solutions to some prior findings may take time. Due to the long-term commitment required to implement, monitor, and evaluate management's corrective actions for this finding, the APA is providing this follow-up on the progress that management is making.

    From the APA's review of the prior findings, they determined that management is making adequate progress through their corrective action plans or modifying their plans to react to changing situations properly. The APA will continue to provide an update on this finding in future reports until management has had enough time to fully implement their corrective actions and the APA has evaluated them for sustainability.

    In the prior year, the APA recommended that BHDS dedicate the necessary resources to ensure that their facilities develop plans for continuing operations and recovering IT systems that meet the Commonwealth's IT standard. Additionally, the APA recommended that Facility Security Officers and Central Office's ISO ensure that facilities are complying with IT standards for Continuity of Operations and Disaster Recovery plans.

    BHDS concurred with the APA's recommendations and has made progress in updating contingency plans to meet the Commonwealth's IT standard across its 16 facilities. However, due to the timing of last year's audit recommendations, the number of facilities, and the ISO not gaining authority over Facility Security Officers until May 2010, BHDS is still in the process of updating the plans across its 16 facilities. Since May 2010, the ISO has been making site visits to review facility contingency plans to ensure compliance.

    The APA recommends that BHDS continue to update plans to meet the Commonwealth's IT Standard for its facilities, which management anticipates completing by February 28, 2011. Once developed, these plans should be tested and updated at least annually, as required by the Commonwealth's IT standard.

8. Manage Infrastructure Security Risk. The Commonwealth has moved the information technology infrastructure supporting BHDS's databases to the IT Infrastructure Partnership. In this environment, the IT Infrastructure Partnership and BHDS clearly share responsibility for the security of BHDS's information technology assets, systems, and information and must provide mutual assurance of this safeguarding.

    During Deloitte & Touche's review of Northrop Gumman's Information Systems Infrastructure Services for the Virginia Information Technologies Agency, the review identified certain security risks. These reviews are confidential, but VITA has communicated the results to BHDS.

Although BHDS is not responsible for correcting these findings, they should receive regular status reports from VITA on the progress the IT Partnership correction of the issues. As part of the progress reporting, VITA should provide BHDS with any interim steps they should take if the IT Partnership must delay addressing these issues. The APA brings this matter to the attention of BHDS, so that they can properly manage their risk and monitor corrective action.

9. <u>Improve Information Security Awareness Training</u>. **This is a repeat finding and significant progress has been made.** BHDS does not provide information security awareness training to its employees with access to mission critical and confidential data in accordance with its training policy. Based on the APA's last year's recommendation, BHDS developed policies and procedures to consistently provide information security awareness training to its employees at all locations. However, the APA found that the Central Virginia Training Center has not provided training to 182 of 1171 (15.5 percent) employees with access to mission critical and confidential information.

While Human Resources track employees' completion of security awareness training, there is not action taken to lock the accounts for those employees that have not completed the training. Requiring security awareness training and retaining employees' acknowledgment of training provides management some assurance that employees understand their responsibilities and allows management to take appropriate action when employees fail to protect BHDS's data and systems.

For those facilities that combine HIPAA and security awareness training together this is also a potential HIPAA violation. The Commissioner has ultimate responsibility for BHDS's security program, and knowing whether employees are receiving or completing training is a requirement of the Commonwealth's Information Technology Security Standard (COV ITRM Standard SEC501-01). The APA recommends that BHDS dedicate the resources necessary to identify users who are not receiving their security awareness training and lock them out of the system until they have completed the training.

Department of Health (DOH)

1. <u>Use System Capabilities to Ensure Proper Service Delivery</u>. Health's management is not using its eligibility system's capability to reproduce snap-shots of all eligibility profiles to monitor service delivery. Using this capability would allow management to remotely test that only eligible individuals are receiving services from the Supplemental Nutritional Program for Women, Infants, and Children (WIC), which could possibly lead to more targeted reviews that could lead to a reduction in travel and staff time.

2. <u>Improve Information Security Program</u>. Although Health had developed a supplement to the state's information security standards, this supplement did not include agency-wide expectations regarding risk management and contingency planning. Without these expectations, the Chief Information Officer (CIO) and Information Systems Security Officer (ISO) could not hold individual divisions responsible for identifying risks and developing appropriate controls to mitigate those risks.

Health delegated the creation of its Information Security Policies and Standards, which are the responsibility of the Health Commissioner, to its CIO and ISO. The CIO and ISO are responsible for communicating these policies and standards to Health's individual divisions.

The APA found that different divisions within Health used their own interpretation of the Commonwealth's Security Standard when developing risk management and contingency plans for Health's systems. The lack of agency-wide risk management and contingency planning expectations resulted in divisions producing inconsistent plans; and some plans did not include all requirements of the Commonwealth's Security Standard.

Best practices suggest and security standards require that management develop an entity-wide Information Security Program to communicate expectations. While Health has an Information Security Program, the APA found that it did not cover all required elements of the standard, which caused some risks to go unaddressed.

The APA recommends that Health further develop its agency-wide expectations for developing risk management and contingency plans. The agency should do this by revising its Information Security Program to include all procedures and processes needed to meet the minimum requirements of the Commonwealth Security Standard. Finally, Health's management should use the agency-wide expectations to evaluate the actions of its divisions to ensure they are effectively identifying and mitigating Health's risks.

Department of Medical Assistance Services (DMAS) – Primary
Department of Social Services (DSS)
Secretary of Health and Human Resources (SHHR)

1. <u>Obtain Valid Social Security Numbers</u>. Invalid social security numbers from local departments of social services could be creating $5 million in questioned cost each year for the Medicaid program. The APA found in one month that Medical Assistance Services did not receive corrected social security numbers for 1,350 individuals, which cost the program $426,000. Medical Assistance Services relies on the Department of Social Services and local departments of social services for determining eligibility.

   For the Medicaid program, social workers must accept a person's social security number on good faith if they are not able to validate the social security number during the intake process. Additionally, individuals in the Medicaid program have a year to provide a correct number to Medical Assistance Services, the Department of Social Services or local departments of social services, if the federal Social Security Administration determines that the number is invalid or does not match the name provided.

   Recently Social Services reminded local social workers that they need to follow-up on all invalid numbers returned by the Social Security Administration. However, management at Medical Assistance Services and Social Services believe that they do not have the authority or the ability to hold the local departments of social services financially accountable if they do not resolve the invalid social security numbers. Additionally, Medical Assistance Services does not have a process for removing individuals from the program if their social security numbers are not correct or validated with the Social Security Administration.

To help decrease the number of invalid social security numbers, Social Services could focus its monitoring of local social services offices by targeting cases that appear to contain an error or have riskier profiles (i.e. more complicated). Currently, Social Services conduct these reviews by selecting random cases. Social Services could select specific cases from the eligibility system that are returned by the Social Security Administration.

For example, Social Services could analyze the exceptions in the cases where Medical Assistance cannot verify the social security numbers with the federal government, to determine if there is a concentration of these cases within one or more localities or with a few social workers spread across the state. However, before conducting targeted reviews, Social Services will need to gain a better understanding of the information it houses within its eligibility system and develop the skill sets needed to perform such an analysis of this information to ensure that localities, social workers, and system controls are working as intended to prevent ineligible individuals from receiving benefits.

Department of Medical Assistance Services (DMAS) – Primary
Department of Accounts (DOA)
Department of Planning and Budget (DPB)

2. <u>Improve Payment Transparency</u>. Medical Assistance Services uses two different systems for processing payments, the Medicaid Management Information System (MMIS) and Oracle. Oracle is a typical agency accounting system that uploads detail payment information into the Commonwealth Accounting and Reporting System (CARS) for payments.

    MMIS's original intent was making payments to Medicaid providers through Medical Assistance Services' fiscal agent. Additionally, MMIS has automated processes for allocating provider payments between different funding sources. Medical Assistance Services then uploads summary information for MMIS payments into its other accounting system, then CARS.

    In fiscal 2010, management at Medical Assistance Services started processing administrative vendor payments through MMIS, which summarizes all the payments as a group and only produces a total allocation of the amounts. This process eliminates detailed information from the Commonwealth's accounting and budgetary oversight systems so that oversight agencies do not have the ability to review individual vendor payments and other detailed information. Additionally, this approach does not make the information available on the Commonwealth's public portal.

    While the APA recognizes that management made the change to create operational efficiencies; they recommend that Medical Assistance Services work with the State's Comptroller and the Department of Planning and Budget to examine ways for MMIS payments to be more transparent, user friendly, and available to the citizens of the Commonwealth.

Department of Rehabilitative Services (DRS)

1. <u>Improve Timeliness of Eligibility Determination</u>. Rehabilitative Services does not enforce their policy for documenting eligibility extensions related to the Vocational Rehabilitation (VR) program within its case management system: AWARE. Section 361.41 of the Code of Federal Regulations, requires the Rehabilitative Services to determine whether an individual

is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless certain exceptional and unforeseen circumstances beyond the control of the agency preclude making an eligibility determination within 60 days. In this case, the Rehabilitative Services and the client must agree to a specific extension of time.

The APA's review found over 1,200 cases in AWARE exceeded the 60 day eligibility determination time limit. Of those, the APA reviewed 25 cases, all of which had no eligibility determination extension documented.

The APA recommends management develop a review process to enforce the eligibility determination policies outlined in the agency's policies. Management may also wish to provide additional training to counselors to increase awareness of the new policy.

2. <u>Improve System Application Controls</u>. Rehabilitative Services should strengthen procedures for monitoring access to the Commonwealth Integrated Payroll/Personnel System (CIPPS), and Multi-Agency Accounting System (MAAS). CIPPS supports the processing of all payroll transactions, and MAAS is Rehabilitative Services' internal accounting system which interfaces with the Commonwealth's Accounting and Reporting System (CARS). Access control is vital to ensure the integrity of payroll and accounting transactions submitted in the identified systems above.

The APA identified the following issues related to system access.

- Rehabilitative Services does not have a formal procedure for documenting who is responsible for monitoring and controlling access to these applications.

- The APA's test of 45 CIPPS users found two individuals with access that no longer need it to perform their job functions, and two individuals with CIPPS access who terminated employment more than 18 months ago.

- The APA's test of 25 Multi-Agency Accounting System users found 11 users have not logged into the application in over a year, leading the auditor to believe their access may not be necessary.

The APA recommends that Rehabilitative Services develop and implement policies addressing all aspects of system access including granting, removing, and ongoing monitoring of access. These policies should include who has authorization to grant access, the process for granting and removing access, how often management should complete system access reviews, including CIPPS and MAAS, and the persons responsible for the review.

3. <u>Improve Information System Security Program</u>. The APA's review found that Rehabilitative Services could not provide a current Business Impact Analysis, Risk Assessment, or Disaster Recovery Plan. The lack of adequate risk management and contingency plans results in the agency being unable to identify, analyze, prioritize, and mitigate risks that could compromise sensitive systems and data. Without IT contingency planning, Rehabilitative Services may

be unable to take the immediate steps necessary to continue operations and execute recovery and restoration for IT systems in the event those systems become unavailable.

The risk management and contingency plans serve as the foundation to developing a comprehensive Information Security Program. If these plans are inadequately completed, it is difficult for Rehabilitative Services to develop a security program that contains adequate controls.

The APA also found the Information Security Officer does not perform all of the reviews required by the COV SEC 501 standard, stated in section 2.2.5. The Security Officer did not complete a number of the required compliance reviews on significant IT program areas during the audit period.

Security Officer Reviews are essential in determining what areas of the IT Security Program need improvements. Without periodic reviews, the security program becomes obsolete, since the Security Officer is not monitoring whether existing security controls address new and evolving risks to systems since the last review. Further, Rehabilitative Services' internal auditors identified a number of these deficiencies during the audit period; however the Security Officer did not implement many of the corrective actions.

The APA recommends the Security Officer prioritize the completion of risk management and contingency plans that reflect the requirements of the COV SEC 501 standard. Risk Management plans should include a Business Impact Analysis, an IT System and Data Sensitivity Classification, a Sensitive IT System Inventory and Definitions, and a Risk Assessment. Contingency Planning should include the Continuity of Operations Plan and Disaster Recovery plan which define a manual work-around for agency operations and recovery steps to restore systems in the event they go down.

The APA also recommends that the Security Officer perform required security reviews, document the results, and retain evidence of those reviews for future reference. Further, when internal auditors inform the Security Officer of security vulnerabilities and noncompliance issues, the Security Officer should make every attempt to meet the deadlines set for remediation in their corrective action plan. While the APA understands that Rehabilitative Services is negotiating the scope of infrastructure security services provided by the state's IT Partnership, it is paramount that DRS assess the criticality of their business processes and supporting applications so that management obtains the appropriate level of security for their operations.

Department of Social Services (DSS)

1. <u>Establish Enforcement Mechanisms for Foster Care and Adoption Payments</u>. **This is a repeat finding and progress has been made.** The APA first reported in 2005 that Social Services did not have a mechanism for verifying that only individuals determined eligible were receiving foster care and adoption payments. Social Services now requires localities to reconcile and certify that children and caregivers receiving payments are in the system. However, the APA noted that half the localities did not respond to Social Services' request for supporting documentation of their certification.

Without being able to review the localities' support for their certification, Social Services is not able to assure itself that they have an active case for each Foster Care and Adoption payment. According to Social Services management, they are able to compel localities to provide the support for their certification but have not established an enforcement mechanism to hold localities accountable.

The APA recommends that Social Services develop an enforcement mechanism to compel localities to provide supporting documentation for foster care and adoption assistance payments. Before implementing the new policy, management should have it reviewed by the Secretary of Health and Human Resources to ensure its support.

2. <u>Use System Functionalities to Improve Financial Operations</u>. .There is an opportunity for the Department of Social Services (Social Services) to use functionalities within its financial system (FAAS) to improve fiscal operations. During fiscal 2010, Social Services processed approximately 38,000 transactions valued at approximately $2.1 billion. However, Social Services did not take advantage of some the automated features within FAAS and resorted to multiple manual processes.

As part of the APA's audit, they conducted a review of FAAS and have noted some opportunities which they believe can improve efficiencies, eliminate or reduce manual efforts, and potentially enhance Social Service's operations. These observations include, but are not limited to the following.

- Develop automated reports to reduce staff time spent in creating manual reports.

- Develop automated edit checks to ensure compliance with period of availability requirements for federal grants so that management does not rely solely on manual reviews.

- Develop automated edit checks to enforce the type of expenses charged to each grant. If payments are coded correctly, these edit checks could lower Social Services' risk of incorrectly allocating funds.

- Implement automated system workflows to govern the approval process for accounting adjustments. Automated workflows will reduce the time that Social Services now uses to record and track all approvals through hardcopy documentation.

The APA recommended that all employees within the Division of Finance should work together to strengthen automated processes and eliminate manual efforts. By doing such, Social Services will be able to improve efficiencies and potentially enhance Social Service's operations. In addition, Social Services will mitigate the risk of human error and provide further assurance that it is correctly allocating funds.

3. <u>Continue Improving System Access</u>. **This is a repeat finding and progress has been made**. Social Services made improvements for the specific access management issues identified in the prior year; however, there are still opportunities for Social Services to follow best practices across all of its systems. During the review of access management, the APA noted several areas in need of improvement.

- <u>Access Authorization</u>
Management has not developed a method of approving system access that provides sufficient evidence that managers considered an employee's level of access within the system. The APA noted authorization forms that were generic and did not allow the supervisor to know specifically what they were authorizing. The forms either only listed the system, without indicating the level of access, or the level of access indicated on the forms did not reflect the actual capabilities within the system. Additionally, the APA found long-term employees where management could not locate evidence of authorization of access.

  Management plans to move towards an email only process for granting access. Management should develop a standard method for requesting system access for all critical systems that adequately indicates an employee's level of access within the system. The Chief Information Security Officer should then evaluate the access request relative to the employee's responsibilities before granting access. Additionally, the Chief Information Security Officer should ensure that for all employees, even long-term employees, Social Services has evidence that their access is authorized.

- <u>Access Monitoring</u>
After Social Services performed a review of employee access to one of its systems, the APA found terminated employees who still had access to that system and went undiscovered by Social Services. The APA also noted instances of Social Services not regularly reviewing system access.

  Additionally, Social Services has not turned on the auditing feature for its accounting system. Social Services has several IT employees with super user capabilities including the ability to alter their own access levels and create new users. By not having the auditing feature turned on there are no logs to track these users' activity.

  The Chief Information Security Officer should develop a schedule for conducting access reviews to ensure terminated employees do not have access and that no user has inappropriate or unauthorized access. Management should communicate the responsibilities of such a review to the different groups within Social Services. Additionally, management should turn on the auditing feature for the accounting system and designate an individual without access to modify the logs the responsibility to review the logs on a routine basis.

- <u>Access Education</u>

Social Services has not documented what the different levels of access allow the user to do or see within the system. The APA found no documentation for the levels of access within the local reimbursement system and only partial documentation for the eligibility system. In addition when speaking with the individuals that grant access to these two systems, The APA found they were not able to explain what capabilities the levels of access have. This means that individuals could be granting access without fully understanding the capabilities they are giving the user.

Subsequent to the APA's review, management has created documentation for the local reimbursement system. The Chief Information Officer should document the system capabilities for all levels of access for Social Services' critical systems and ensure that individuals granting access understand what capabilities they are granting to users.

4. Improve and Comply with Information Security Program. **This is a repeat finding and progress has been made.** In the prior year audit, the APA identified certain weaknesses in Social Services' information security program. Social Services' has improved most of the weaknesses. However, Social Services has not addressed three out of the four recommendations relating to database management.

During the APA's review of one of Social Services' database systems that contain mission critical and confidential data, they found that Social Services still needs to improve the following security requirements.

- Password Management
- Account Management
- Activity Auditing and Monitoring

These controls contain descriptions of Social Services' security mechanisms. Therefore, the APA has communicated the details of these findings to management in a separate confidential document that is Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia.

The APA recommended that Social Services dedicate the necessary resources to develop policies and procedures that set forth management's expectations in securing information in its databases. In addition, management needs to provide training to its staff responsible for implementing these policies and procedures to ensure consistent implementation.

5. Finalize Responsibilities for Infrastructure Security. **This is a repeat finding that requires Partnership action.** The Commonwealth has moved the information technology infrastructure supporting Social Services' databases to the IT Infrastructure Partnership. In this environment, the IT Infrastructure Partnership and Social Services clearly share responsibility for the security of Social Services' information technology assets, systems, and information and must provide mutual assurance of this safeguarding.

Since the APA's finding last year, the IT Infrastructure Partnership still has not provided Social Services with a finalized memorandum of understanding and chart outlining the responsibilities of each entity. Without this information, Social Services' management

cannot ensure they properly perform their duties and what services the IT Infrastructure Partnership is providing. The APA brought this matter to the attention of Social Services' management, so that they can properly manage their risk.

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

1. <u>Develop Monitoring Procedures to Review Locality Statistics</u>. 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. <u>Improve Guidance and Background Provided to CPA Firms</u>. 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 similar to that found in Pittsylvania County.

   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.

Natural Resources

Virginia Museum of Natural History (VMNH)

1. <u>Properly Complete Inventory</u>. **This is a repeat finding.** The Virginia Museum of Natural History (Natural History) is not in compliance with the Commonwealth Accounting Policies and Procedures (CAPP) manual with regard to the inventory requirement. The CAPP manual states a full inventory should be completed at a minimum every two years. Natural History completed a partial inventory in March 2010, when the majority of their assets were inventoried; however, not all items had values associated with them, nor did the inventory include all locations. An incomplete inventory may result in an inaccurate accounting of assets, and does not allow for reliability of the system of accountability for acquisition, use, and disposal of those assets.

2. <u>Improve Internal Controls over Expenditures</u>. Natural History is not following the CAPP manual with regard to expenditure processing. The APA found instances where receipt of

services was not acknowledged prior to payment, an expenditure was improperly coded, and an inter-agency transaction was not properly approved. These issues could lead to improper payments and inaccurate classification.   It is recommended that Natural History review their expenditure processing procedures to ensure they are in compliance with the CAPP manual.

3. <u>Improve Information Security Program</u>.   Natural History has improved its Information Security Program since the prior audit and has put forth an active effort in developing policies and procedures. The APA encourages Natural History to continue developing its program, and to contact the Department of Accounts' Information Security Assistance Team to resolve the more technical aspects of its program.

Public Safety

Department of Emergency Management (DEM)

1. <u>Improve Controls over Small Purchase Charge Cards</u>. Emergency Management's Accounts Payable Supervisor, who is primarily responsible for processing payments, is currently serving as their small purchase charge card program administrator and is a small purchase charge cardholder. Program administrator's have responsibility for managing the agency's small purchase charge card program, reviewing and approving who has charge cards, and setting their purchasing limits. By allowing the Accounts Payable Supervisor to administer the small charge card program, have a charge card, and process transactions, Emergency Management has no separation of duties in the oversight of the program.

    Further, no one in management reviewed the Account Payable Supervisor's use of the card, including purchasing logs and charges, for over nine months. Also, upon request, no one could locate the file of monthly reconciliation logs for the month of May 2010.

    Although there is no indication of any improper transactions, Emergency Management is placing itself at risk that improper transactions could occur and go undetected. Separation of duties is a fundamental internal control that provides an independent review of transactions prior to payments.

    Having the Accounts Payable Supervisor also be the Small Charge Card Administrator does not violate the concept of a separation of duties. However, allowing this individual to have a card does negate this internal control and by not having a timely, complete, and independent review of the card usage makes the control useless.   Emergency Management should immediately address this issue by either removing the card, reassigning duties, or examining other alternatives.

2. <u>Properly Cross-Train Essential IT Responsibilities</u>. Emergency Management does not cross-train employees with essential Information Technology (IT) responsibilities. Emergency Management experienced employee turnover in key positions during this past year, which resulted in a lack of understanding of its IT emergency preparedness documents. This lack of understanding may result in inefficient coordination of the Commonwealth's emergency preparedness, response, and recovery efforts in the event of a disaster.

    Specifically, Emergency Management personnel could not locate its IT risk management and disaster recovery plans upon the auditor's initial request. Emergency Management redirected

the auditor to two different locations before Emergency Management presented the requested plans. Upon examination of the plans, the APA found that the disaster recovery plan did not mention two essential systems, the Financial Management System (FMS) and the Geographic Information System (VIPER). Further, FMS and VIPER are not included in the business impact analysis and continuity of operations plan, respectively. This inconsistency is the result of inadequate review and change management processes, and does not comply with the requirements of the Commonwealth's information security standard, SEC 501-01.

The APA recommends that Emergency Management dedicate the necessary resources to implement a cross-training program to ensure Emergency Management's personnel understand and know how to maintain continuity in case of a disaster. Cross training will ensure that personnel have the knowledge, skills, and abilities to maintain operations if essential employees leave the agency. It is further recommended that Emergency Management thoroughly review its change management policies and procedures to ensure that personnel update and maintain their emergency preparedness documentation on a consistent basis.

Department of Juvenile Justice (DJJ)
1. <u>Improve Internal Controls over Contract Administration</u>. During fiscal years 2009 and 2010, total payments to Anthem exceeded $3.3 million, and the Department of Juvenile Justice (Juvenile Justice) needs to improve controls over the administration of the Anthem health care contract. Anthem Blue Cross Blue Shield provides third party claims administration for health care services provided to youth restricted to confinement at facilities statewide. Juvenile Justice does not have a process to ensure that the reimbursement amounts requested by Anthem are for actual services provided to juveniles confined in state facilities.

   Currently, Juvenile Justice does not have a contract administrator assigned to oversee the Anthem contract. While the previous contract administrator retired in December 2010, the APA could not find documentation to determine the extent of his review of the charges and other contract terms for fiscal year 2009 or 2010.

   The contract administrator has responsibility for the day to day coordination of delivery of services, providing assurance that the services are delivered in accordance with contract terms, certifying the receipt of goods, completing periodic evaluations of contractor performance, providing assurance that the contract amount is not exceeded without proper authorization, and providing assurance that contract terms are not modified without action through the Contract Officer. Further, without a reconciliation process, neither the contract administrator nor management of Juvenile Justice can determine the adequacy of charges for services rendered.

   The complex nature of medical billing and third party reimbursement makes this process risky; therefore, Juvenile Justice should create and execute a process to ensure that the amounts submitted for reimbursement are for actual services received by juveniles in their custody. Juvenile Justice should also immediately assign a contract administrator to ensure adequate contract oversight.

2. <u>Improve Oracle Database Security</u>. Juvenile Justice needs to improve security controls and processes over the Juvenile Tracking System (JTS) Oracle Database. The JTS tracks the

lives of juveniles that have become part of the Juvenile Justice system. The tracking system contains confidential and mission critical personal, medical, and court data. Specifically, Juvenile Justice needs to improve the following controls and procedures.

- Change and Patch Management Procedures
- Backup and Restoration Procedures
- Account Reviews
- Database Administrator Audit Trail Monitoring

The APA has communicated the details of these weaknesses to management in a separate document marked Freedom of Information Act Exempts under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of the security system.

The APA recommends that Juvenile Justice develop the appropriate policies, procedures, and processes to improve the controls and safeguards over its Oracle databases that contain sensitive information. Additionally, Juvenile Justice should create minimum accepted configurations that include the controls mentioned above and provide necessary training to implement and operationalize these changes.

Transportation

Department of Motor Vehicles (DMV)
1. Enhance Information System Security Program. The Department of Motor Vehicles (Motor Vehicles) has not adequately implemented their information system security policies, including disaster recovery activities, security awareness training, and logical access controls to sensitive data. In some cases these weaknesses also reflect instances of non-compliance with Commonwealth IT security standards. Since the APA's recommendations include descriptions of security mechanisms, which are exempt from public disclosure by the Code of Virginia, management received a separate document containing a detailed description of the recommendation. The following is a public summary:

- Information Security Programs Motor Vehicles' security policies lack consistency across the organization and can vary by section or system. These inconsistencies can result in conflicting guidance to staff and impairs implementation and enforcement of a specific policy or procedure. The APA also noted that in one instance a policy has remained unapproved by management for over one year. The APA recommends that Motor Vehicles, to the extent possible, eliminate any redundant or conflicting security program policies across its organization. Further, as Motor Vehicles makes changes to its IT environment and the Commonwealth makes updates to its security standards, there should be an ongoing assessment process to update these documents. Finally, Motor Vehicles should ensure that management promptly and formally approves these policies to ensure their enforceability.

- Logical Access Motor Vehicles does not follow their established procedures for granting access to their systems. Further, certain aspects of their process are not in compliance with the Commonwealth's security standards. The APA recommends that Motor Vehicles review their logical access procedures, ensuring their compliance

with Commonwealth security standards; formally approve those procedures; and ensure staff execute the process in accordance with the approved procedures.

- Security Training Motor Vehicles does not actively monitor that all staff and contractors receive annual security awareness training and ensure that their training records track this training. Further, Motor Vehicles does not have role based IT security training programs for employees and contractors who design, manage, administer, and operate IT systems and applications. The Commonwealth's security standard requires that all employees and contractors undergo annual IT security and security awareness training to provide them with guidance on how to best protect sensitive data. The APA recommends that Motor Vehicles ensure that the Information Security Officer actively monitors whether all staff and contractors receive annual security awareness training. It is further recommended that Motor Vehicles develop and implement a role-based security awareness and training program that gives specialized training to agency resources responsible for key areas of the information security program including, such as those individuals, who have responsibility for the COOP and Disaster Recovery team, Incident Response team, and Application Design and Maintenance team.

- Disaster Recovery and Contingency Planning Motor Vehicles' Disaster Recovery and Contingency Planning documents do not adequately address the responses or responsibilities required for one of its mission critical systems. A third party service provider created the documentation provided to the APA and this documentation does not address the Commonwealth's standards for disaster recovery. Without well documented plans, recovery efforts may not meet business needs, thus negatively impacting the ability to carry out their mission, as well as citizens' confidence in their operations. The APA recommends that Motor Vehicles use their recently updated business impact analysis and risk assessments to drive a review, assessment, and update to their entire disaster recovery and continuity of operations plan.

Department of Transportation (VDOT)
1. Improve Contingency and Disaster Recovery Plan Compliance. To ensure that contingency plans consider all essential business functions, the Department of Emergency Management guidelines recommend, and the Commonwealth's security standards require, that agencies create their contingency plans based on the information within the business impact analysis, building up from this document. This approach prevents a departmental approach to evaluating risk in an agency, and encourages evaluating and prioritizing risks on an agency-wide basis.

Transportation does not consistently link essential business functions across its risk management and contingency documents. Additionally, Transportation does not have a disaster recovery plan that fully addresses the Department of Emergency Management guidelines or the Commonwealth's security standard. These risks may impair Transportation's ability to restore business operations to a normal state in a timely manner in the event of a disaster. Transportation's contingency plan for each division undergoes an annual review and update, and has a comprehensive list of essential business functions as well as sub-functions; however, Transportation does not use their business impact analysis to develop this list. This disconnect results from Transportation hiring a vendor to complete

their business impact analysis and a reluctance on the part of Transportation to change this document. Rather, when Transportation identifies the need for a change, those changes occur outside of the business impact analysis.

Further, the APA found several instances where the master recovery document contains placeholders instead of specific recovery procedures. These recovery procedures should describe IT activities, processes, procedures, and resources required to restore essential business functions. The APA recommends that Transportation ensure their new business impact analysis under development identifies all business functions across all divisions. After completion, Transportation should incorporate the essential business functions defined in the business impact analysis into the continuity of operations plan. Transportation should also reconsider the appropriateness of treating the business impact analysis as a static document given the requirements of the Emergency Management guidelines and the Commonwealth's security standard. Finally, Transportation should update its disaster recovery plan to include the proper processes and procedures that will allow essential IT system recovery in case of a disaster. As Transportation relies on the Virginia Information Technologies Agency (VITA) to provide, as well as, perform the majority of these restoration procedures and only retains responsibility for the final few steps that ensure system data was properly loaded, Transportation should ensure that their disaster recovery plan acknowledges the resources and responsibilities that fall within VITA.

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Additional Recommendations – Quarter Ended March 31, 2011

The APA issued two recommendations in the June 30, 2010 audit report, "Agencies of the Secretary of Finance", that were not considered internal control audit findings. Recommendations in this section may include risk alerts, efficiency issues, or general comments to management.

1. <u>Modernize Financial Systems and Processes</u>.
Department of Accounts (DOA) - Primary
Department of Transportation (VDOT)
Secretary of Finance (SFIN)
Secretary of Transportation (STO)
Virginia Information Technologies Agency (VITA)

2. <u>Financial Reporting Processes</u>.
Department of Accounts (DOA)

Special Reports – Quarter Ended March 31, 2011

The APA issued the following Special Reports that contained management recommendations:

Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2010 through December 31, 2010

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2010

Norfolk State University Financial System Implementation Project as of March 30, 2011

The APA issued the following Special Reports that did not contain management recommendations:

Commonwealth of Virginia Court Operations for the year ended June 30, 2009

Comparative Report of Local Government Revenue and Expenditures for the fiscal year ended June 30, 2010

Progress Report on Selected Systems Development Projects in the Commonwealth as of March 2011

Other Audit Reports Received – Quarter Ended March 31, 2011

The APA issued the following "Other Reports" that contained management recommendations:

Norfolk State University Intercollegiate Athletic Programs for the year ended June 30, 2010

Commonwealth Health Research Board for the years ended June 30, 2009 and June 30, 2010

Northern Virginia Community College Reaccreditation Review for the year ended June 30, 2010

The APA issued the following "Other Reports" that did not contain management recommendations:

George Mason University Intercollegiate Athletic Programs for the year ended June 30, 2010

James Madison University Intercollegiate Athletic Programs for the year ended June 30, 2010

Old Dominion University Intercollegiate Athletic Programs for the year ended June 30, 2010

Radford University Intercollegiate Athletic Programs for the year ended June 30, 2010

The College of William and Mary in Virginia Intercollegiate Athletic Programs for the year ended June 30, 2010

University of Virginia Intercollegiate Athletic Programs for the year ended June 30, 2010

Virginia Commonwealth University Intercollegiate Athletic Programs for the year ended June 30, 2010

Virginia Military Institute Intercollegiate Athletic Programs for the year ended June 30, 2010

Virginia Polytechnic Institute and State University Intercollegiate Athletic Programs for the year ended June 30, 2010

Virginia State University Intercollegiate Athletic Programs for the year ended June 30, 2010

Longwood University Intercollegiate Athletic Programs for the year ended June 30, 2010

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Summary of Prior Audit Findings

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

It is important to note that the finding status is self-reported by the agencies and may be subject to subsequent review and audit. Corrective action is considered to be delayed when it has not been completed by the original targeted date. Additional detail for the status of each finding is provided in the subsequent table.

	IN PROGRESS		COMPLETED	
	On Schedule	Delayed	On Schedule	Delayed
Administration				
Department of General Services	0	0	0	1
Agriculture and Forestry				
None				
Commerce and Trade				
Department of Business Assistance	1	0	1	0
Virginia Employment Commission	0	0	1	1
Education				
Eastern Shore Community College	0	1	0	0
Rappahannock Community College	0	0	0	1
Christopher Newport University	1	0	0	0
Norfolk State University	2	0	0	0
University of Mary Washington	0	0	0	2
Virginia State University	0	2	1	2
Frontier Culture Museum of Virginia	0	1	0	0
Executive Offices				
Office of the Attorney General	2	0	0	0
Finance				
Department of Taxation	2	0	0	0
Health and Human Resources				
Comprehensive Services for At-Risk Youth and Families	1	0	1	0
Department of Behavioral Health and Developmental Services	1	1	0	0
Department of Social Services	0	2	0	0
Natural Resources				
Department of Conservation and Recreation	1	0	0	0
Public Safety				
Department of Alcoholic Beverage Control	0	3	1	0
Department of Corrections	0	3	0	0
Department of Criminal Justice Services	0	1	0	0
Department of Fire Programs	0	0	0	1
Department of Forensic Science	0	1	0	0

	IN PROGRESS		COMPLETED	
	On Schedule	Delayed	On Schedule	Delayed
Department of Military Affairs	4	0	2	0
Department of State Police	2	0	0	0
Virginia War Memorial Foundation	0	0	1	0
Technology				
Virginia Information Technologies Agency	0	6	0	0
Wireless E-911 Services Board	0	0	1	0
Transportation				
Department of Motor Vehicles	0	0	0	1
Virginia Port Authority	1	0	0	0
TOTALS	18	21	9	9

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Status of Prior Audit Findings

The following agencies had one or more findings contained in an audit report that remained outstanding as of December 31, 2010. Short titles assigned by the Auditor of Public Accounts (APA) are used to describe the finding, along with a brief update on the status of the agency's corrective action. The first two digits of the finding number are the fiscal year audited in which the finding occurred. The next two digits are the sequence number of the findings that agency had in that audited year. The most recent year is used when audits cover more than one year. Multiple finding numbers for each finding listed each year represent references for repeat findings.

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
Department of General Services (DGS)				
2006	06-06	Finalize and distribute real estate policies and procedures.	Resolved per APA FY 2009 and 2010 Audit.	Completed (Delayed)
Department of Business Assistance (DBA)				
2010	10-01	Develop and Strengthen Business Assistance Agency Specific Policies.	All policies and procedures have been documented. They have been communicated to staff and are located in an accessible location. Training has also been provided.	Completed (On Schedule)
	10-02 08-03 07-06	Complete the Agency's Information Security Program. **This is a repeat finding.**	All policies and plans have been developed. The agency needs to implement (test) its Disaster Recovery Plan.	In Progress (On Schedule)
Virginia Employment Commission (VEC)				
2010	10-01 09-02	Strengthen controls over system access. **This is a repeat finding.**	The business and IT teams have identified and completed the appropriate changes to the Access Form and process.	Completed (Delayed)
	09-01	Review, approve, and disseminate information technology disaster recovery plan.	Disaster Recovery and COOP plans have been tested and updated.	Completed (On Schedule)
Eastern Shore Community College (ESCC)				
2009	09-01	Improve revenue contract management.	The cold beverage vending service will be procured through the competitive bid process.	In Progress (Delayed)
Rappahannock Community College (RCC)				
2009	09-02	Improve revenue contract management.	Services have been procured through the competitive bid process.	Completed (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
Christopher Newport University (CNU)				
2009	09-04	Improve information security management.	All actions complete except for the hiring of a full-time Banner DBA.	In Progress (On Schedule)
Norfolk State University (NSU)				
2009	09-01	Improve information security program.	OIT had deployed compensating controls and will further develop other controls to offset any additional system vulnerabilities. Weaknesses in the risk assessment plan will be included.	In Progress (On Schedule)
	09-02	Strengthen clearing procedures over separated employees.	The university will develop more effective policies and procedures to ensure prompt communication regarding separated employees.	In Progress (On Schedule)
University of Mary Washington (UMW)				
2009	09-01 08-01	Improve information systems security program. **This is a repeat finding and progress has been made.**	UMW filled the Information Security Officer position. Subsequent to filling the position, policies and procedures were formalized, approved, and implemented.	Completed (Delayed)
	09-02	Properly procure information technology software.	An internal review has been completed and presented to the Board of Visitors. The appropriate personnel are meeting regularly on matters of IT procurement. VITA training was completed on April 13, 2011. All corrective action has been completed.	Completed (Delayed)
Virginia State University (VSU)				
2009	09-01	Improve database management.	The University is preparing to implement Banner 8. Training will be provided on security roles and classes. In addition, the Oracle database will be hardened in accordance with VITA IT Security requirements (SEC-501) and best practices.	In Progress (Delayed)
	09-02	Improve firewall management.	The University installed a new firewall with hardening and new access control rules.	Completed (Delayed)
	09-03	Approve and implement updated information security program.	All corrective actions have been completed.	Completed (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	09-04 08-02	Strengthen controls over capital asset reporting. **This is a repeat finding and progress has been made.**	Corrective actions are substantially complete, but procedures are still being updated to reflect the current processes.	In Progress (Delayed)
	09-05	Strengthen access controls over Banner.	A review was performed of all Banner user accounts over the 18 months. Human Resources will provide monthly reports of separated employees to ensure that user accounts are disabled promptly. Policies and procedures have been updated.	Completed (On Schedule)

Frontier Culture Museum of Virginia (FCMV)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2009	09-01	Perform fixed asset reconciliations.	The agency continues to wait for an opportunity to record a fixed asset in order to test the new FAACS policy.	In Progress (Delayed)

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

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2010	10-01	Improve Policies and Procedures over Accounting Transactions.	Costs are now being keyed to their correct coding at the earliest possible date. Finance positions have been revised and coding classification documents have been prepared for the staff. The cost and benefit of changing the frequency of certain allocations is being evaluated.	In Progress (On Schedule)
	10-02	Improve Supporting Documentation for Legal Service Billings.	A process flow document was developed for legal billings in FY10 and desk procedures exist with the Financial Manager responsible for billings. An accounts receivable manager position was created to improve tracking and collection of receivables and maintenance of supporting documentation over hours charged and agreements.	In Progress (On Schedule)

Department of the Taxation (TAX)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2009	09-01	Improve database administrator access oversight.	The recent FY2010 APA report conveyed that this issue is ongoing.	In Progress (On Schedule)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	09-02	Improve efficiency of access management and change management procedures.	The recent FY2010 APA report conveyed that this issue is ongoing. TAX is still in the process of developing an application to improve system access management.	In Progress (On Schedule)

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

2010	10-01	Develop Monitoring Procedures to Review Locality Statistics.	To assist agency staff with monitoring locality expenditure trends and fluctuations, a web based locality "profile" has been developed. The monitoring system maintains real time information of agency expenses and provides local agency and state office staff evaluation and comments.	Completed (On Schedule)
	10-02	Improve Guidance and Background Provided to CPA Firms.	CSA plans to provide linkages from the APA audit specs document to specific sections in the CSA manual to elaborate on funding requirements. The agency also plans to coordinate with APA on audit training sessions to clarify CSA funding topics and on technical assistance documents.	In Progress (On Schedule)

Department of Behavioral Health and Developmental Services (DBHDS)

2009	09-04 08-05 07-04	Continue improving IT continuity of operations and disaster recovery plans. **This is a repeat finding.**	The recent FY2010 APA report conveyed that progress had been made, but that this issue is ongoing. DBHDS is continuing to make progress in resolving this finding.	In Progress (Delayed)
	09-07	Strengthen timekeeping operations.	Continues to work with VITA/NG to implement the new system.	In Progress (On Schedule)

Department of Social Services (DSS)

2009	09-02	Improve and comply with information security program.	The recent FY2010 APA report conveyed that progress had been made, but that this issue is ongoing. DSS is continuing to make progress in resolving this finding.	In Progress (Delayed)
	09-04	Continue Improving System Access.	The recent FY2010 APA report conveyed that progress had been made, but that this issue is ongoing. DSS is continuing to make progress in resolving this finding.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
Department of Conservation and Recreation (DCR)				
2009	09-01 FY07	Continue to improve technology security program. **This is a repeat finding.**	The department has fully completed IT transformation and can now devote full attention to correcting the issues of this audit point.	In Progress (On Schedule)
Department of Alcoholic Beverage Control (ABC)				
2010	10-01 09-01	Improve Systems Access Processes and Monitoring. **This is a repeat finding and progress has been made.**	A technical writer was hired to document processes for all critical systems and applications. Shared accounts have been eliminated and personal accounts created. Password configurations have been enhanced to include a 90 day expiration timeframe. Internal Audit will continue to review access rights.	In Progress (Delayed)
2010	10-02	Use Automated Workflow Process.	Completed workflows to enter and approve General Ledger transactions. The process of workflows has been implemented and tested. Additional control issues were noted during testing. As a result, corrective action and targeted date of completion have been extended.	In Progress (Delayed)
2010	10-03 09-03	Improve Information Technology Policies and Procedures. **This is a repeat finding and progress has been made.**	Draft completed. The updated policies (PCI and Information Security) clearly separate the credit card environment from the remaining systems. VA ABC will continue to work with the consultant, Assura, upon further review by VITA Purchasing.	Completed (On Schedule)
2010	10-04 09-02	Improve Database Security Monitoring. **This is a repeat finding and progress has been made.**	ABC currently follows best practices for database logging and monitoring, but it has not been formally documented. The DBA provided the ISO with best practice documentation, which will be further reviewed and included in the information security policies and guidelines being established by the consultant Assura.	In Progress (Delayed)
Department of Corrections (DOC/CA)				
2009	09-04	Improve procedures for monitoring vehicle and fuel card use.	DOC continues to develop policies and procedures.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	09-05	Improve procedures for tracking vehicle inventory.	DOC continues to develop polices and procedures.	In Progress (Delayed)
	09-06	Update IT risk management plans.	DOC has completed a BIA and continues to work with "The Partnership" on a disaster recovery plan.	In Progress (Delayed)

Department of Criminal Justice Services (DCJS)

2009	09-02	Improve communications practices.	The department is reviewing a draft external grant communication policy to clarify communication between the agency and grantees.	In Progress (Delayed)

Department of Fire Programs (DFP)

2009	09-01 08-01	Strengthen information systems security program. **This is a repeat finding and progress has been made.**	VITA has completed the agency's ISS transformation. All corrective action has been completed.	Completed (Delayed)

Department of Forensic Science (DFS)

2009	09-01	Evaluate risks related to aging hardware and non-participation in the IT partnership.	Risk evaluation and documentation are complete. The agency is still working towards transforming to VITA services.	In Progress (Delayed)

Department of Military Affairs (DMA)

2010	10-01	Improve Segregation of Duties over Challenge Accounts.	Account closed. Newly filled positions to be used in reconciliations after training.	In Progress (On Schedule)
	10-02	Improve Compliance with Eligibility Requirements in Challenge Program.	Will correct issue for the next entry class.	In Progress (On Schedule)
	10-03	Improve Internal Controls over Small Purchase Charge Cards.	Analysis and changes made. Responsibility re-assigned.	Completed (On Schedule)
	10-04	Improve Internal controls over Payroll Procedures and Recordkeeping.	Moved to Payroll Service Bureau and began using monthly report to monitor wage employee hours.	Completed (On Schedule)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	10-05	Improve Internal Controls over the I-9 Process.	Training provided to staff. Review process to be implemented.	In Progress (On Schedule)
	10-06	Strengthen Recording and Tagging of Equipment.	Vacancy filled. Employee is being trained.	In Progress (On Schedule)

Department of State Police (VSP)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2009	09-02 07-07 05-05	Improve fleet management process. **This is a repeat finding and progress has been made.**	A vendor is being solicited to implement the corrective action. Fuel management will not be automated in that the cost outweighs the benefit.	In Progress (On Schedule)
	09-03	Upgrade database system software.	The VSP has replaced 4 MAPPER programs. Three projects are underway and will result in the replacement of 7 additional programs. A consultant was procured to begin gathering requirements for asset tracking. STARS asset tracking requirements are almost complete and additional funding will be needed.	In Progress (On Schedule)

Virginia War Memorial Foundation (VWMF)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2009	09-02	Review donations of historical artifacts.	A letter of request asking for permission to accept historical artifacts was been submitted to the Governor and approved.	Completed (On Schedule)

Virginia Information Technologies Agency (VITA)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2008	08-02	Establish and document procedures for classifying assets in service option 5.	Polices and procedures have been drafted and are awaiting review by the Finance Partnership Expense Management & Recovery section.	In Progress (Delayed)
	08-04	Improve reporting to allow comparison of revenue versus allowable costs.	Workflow and process documentation is being drafted. Improvements, clarifying VITA's identification of imputed revenues, have been made to reports required by the DOA.	In Progress (Delayed)
	08-05	Establish and document procedures for the creation of rate structures.	The addition of rate profile information has been completed. VITA Finance is in the process of documenting the process and procedures used for rate development.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	08-09	Properly monitor system access.	Adjustments are underway to address appropriate restriction of access.	In Progress (Delayed)
	08-11	Adequately segregate system access responsibilities.	A review to ensure appropriate segregation of duties is still underway.	In Progress (Delayed)
	08-14	Adequate oversight over technology procurements.	SCM website updated to communicate how to order IT. eVA home page updated to include link for how to order IT. Non-compliance report and process developed. DGS to complete removal of default PO category. In process: Communicate non-compliance report process to CAMs.	In Progress (Delayed)

Wireless E-911 Services Board

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2009	09-01	Ensure completeness of revenue.	Senate Bill 1123 goes into effect in July 2011, which requires the Wireless E-911 surcharge to be remitted to the Department of Taxation rather than the Wireless E-911 Services Board.	Completed (On Schedule)

Department of Motor Vehicles (DMV)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2009	09-01	Improve information system security program.	All corrective action has been completed.	Completed (Delayed)

Virginia Port Authority (VPA)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2010	10-01	Improve IT Security Program.	IT Policies are being redrafted in conjunction with the work being performed at VIT. The formal Risk Assessment at VIT has been completed, a standard has been selected, and work has commenced to document in accordance with the standard. VPA will update its policies and procedures in accordance with the same standard. A SAS 70 review of VIT's IT systems is planned.	In Progress (On Schedule)

State Corporation Commission (SCC)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2009	09-03 07-01	Improve the information systems security program. **This is a repeat finding.**	The Commission has completed the workplans and will continue to build on the information security program, which includes system monitoring.	Completed (On Schedule)

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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 March 31, 2011, the following agencies were not in compliance with ARMICS:

Agency Name	Reason for Non-Compliance
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

Agency	September	October	November
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 March 31, 2011, DOA deleted, at the submitting agency's request, 45 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.

Seventeen agencies requested deletes during the quarter. For the quarter ended March 31, 2011, the agencies that requested more than four vendor payment deletions were:

- Department of Transportation
- Department of Health

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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.

Vouchers Processed
Quarter Ended March 31, 2011

Non-Decentralized Agencies 2%

Decentralized Agencies 98%
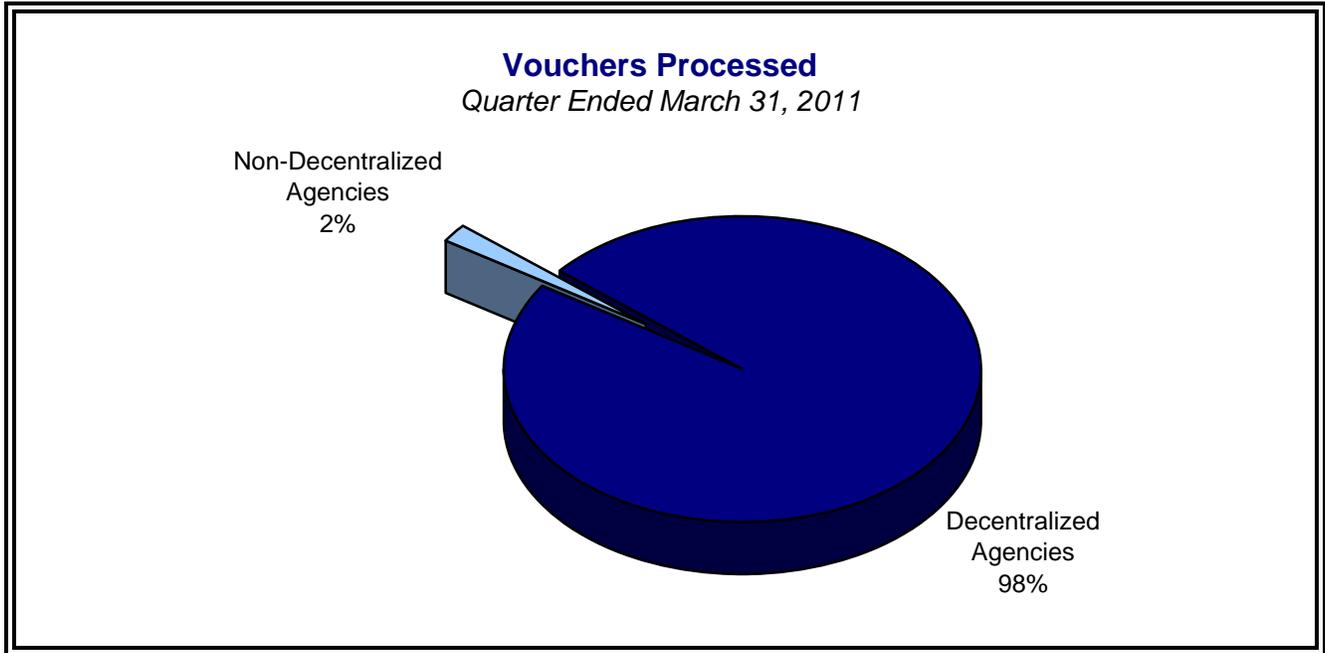
Note: Totals include vouchers processed by decentralized higher education institutions.

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

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

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

Compliant Agencies
Department of Alcoholic Beverage Control
Department of Employment Dispute Resolution
Department of General Services
Department of Motor Vehicles
Department of Professional and Occupational Regulation
Human Rights Council
Motor Vehicle Dealer Board
Virginia State Bar
Virginia State University (VSU)
VSU/Cooperative Extension and Agricultural Research Services

Note: There were no agencies required to prepare a formal corrective action plan for the current quarter.

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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 900 non-travel disbursement batches and 293 travel disbursement batches were reviewed, disclosing 9 exceptions that were resolved prior to releasing the transactions for payment.

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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 March 31, 2011		Fiscal Year 2011 To-Date		Comparative Quarter Ended March 31, 2010	
	Late	Total	Late	Total	Late	Total
Number of Payments	5,980	613,420	16,701	1,826,875	5,999	535,800
Dollars (in thousands)	$ 34,088	1,608,318	101,222	4,722,871	$ 48,539	$ 1,520,252
Interest Paid on Late Payments				$28,998		
Current Quarter Percentage of Payments in Compliance				99.0%		
Fiscal Year-to-Date Percentage of Payments in Compliance				99.1%		
Comparative Fiscal Year 2010 Percentage of Payments in Compliance				98.9%		

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Prompt Payment Performance by Secretarial Area
Quarter Ended March 31, 2011

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.6%	98.4%
Agriculture and Forestry	99.6%	99.3%
Commerce and Trade	99.0%	98.5%
Education*	99.1%	98.4%
Executive Offices	99.3%	95.4%
Finance	99.9%	99.4%
Health and Human Resources	98.8%	97.1%
Independent Agencies	98.5%	97.4%
Judicial	100.0%	100.0%
Legislative	99.8%	99.4%
Natural Resources	99.5%	99.4%
Public Safety	99.5%	99.0%
Technology	99.7%	99.8%
Transportation*	98.0%	95.5%
Statewide	**99.0%**	**97.9%**

Prompt Payment Performance by Secretarial Area
Fiscal Year 2011

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.7%	98.5%
Agriculture and Forestry	99.5%	99.4%
Commerce and Trade	98.7%	99.1%
Education *	99.1%	98.2%
Executive Offices	99.0%	96.5%
Finance	99.8%	92.4%
Health and Human Resources	99.1%	98.0%
Independent Agencies	98.7%	97.9%
Judicial	99.9%	99.9%
Legislative	99.9%	99.7%
Natural Resources	98.7%	95.2%
Public Safety	99.5%	98.9%
Technology	99.7%	99.7%
Transportation*	98.6%	94.5%
Statewide	**99.1%**	**97.9%**

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

For the quarter ended March 31, 2011, 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 March 31, 2011

Agency	Late Payments	Total Payments	Payments in Compliance
HEALTH AND HUMAN RESOURCES			
Southeastern Virginia Training Center	282	747	62.2%
INDEPENDENT AGENCIES			
Virginia College Savings Plan	28	492	94.3%

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

Agency	Late Payments	Total Payments	Payments in Compliance
HEALTH AND HUMAN RESOURCES			
Southeastern Virginia Training Center	446	2,220	79.9%

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 March 31, 2011			Comparative Quarter Ended March 31, 2010
	E-Commerce	Total	Percent	Percent
Number of Payments	2,302,329	2,745,658	83.9%	86.5%
Payment Amounts	$ 8,563,815,694	$ 9,713,076,421	88.2%	85.1%

Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the third quarter of FY 2011 was $700 million (10.7 percent) more than the same quarter last year. The number of trading partner accounts increased by 6.7 percent from March 2010. 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 March 31, 2011	Fiscal Year 2011 To-Date	Comparative FY2010 To-Date
Number of Payments	55,676	173,273	145,944
Amount of Payments	$ 7,151,955,751	$ 21,163,818,060	$ 19,855,270,293
Number of Invoices Paid	217,815	617,583	535,865
Estimated Number of Checks Avoided	86,310	252,178	224,078
Number of Trading Partner Accounts as of 03/31/11		56,154	52,646

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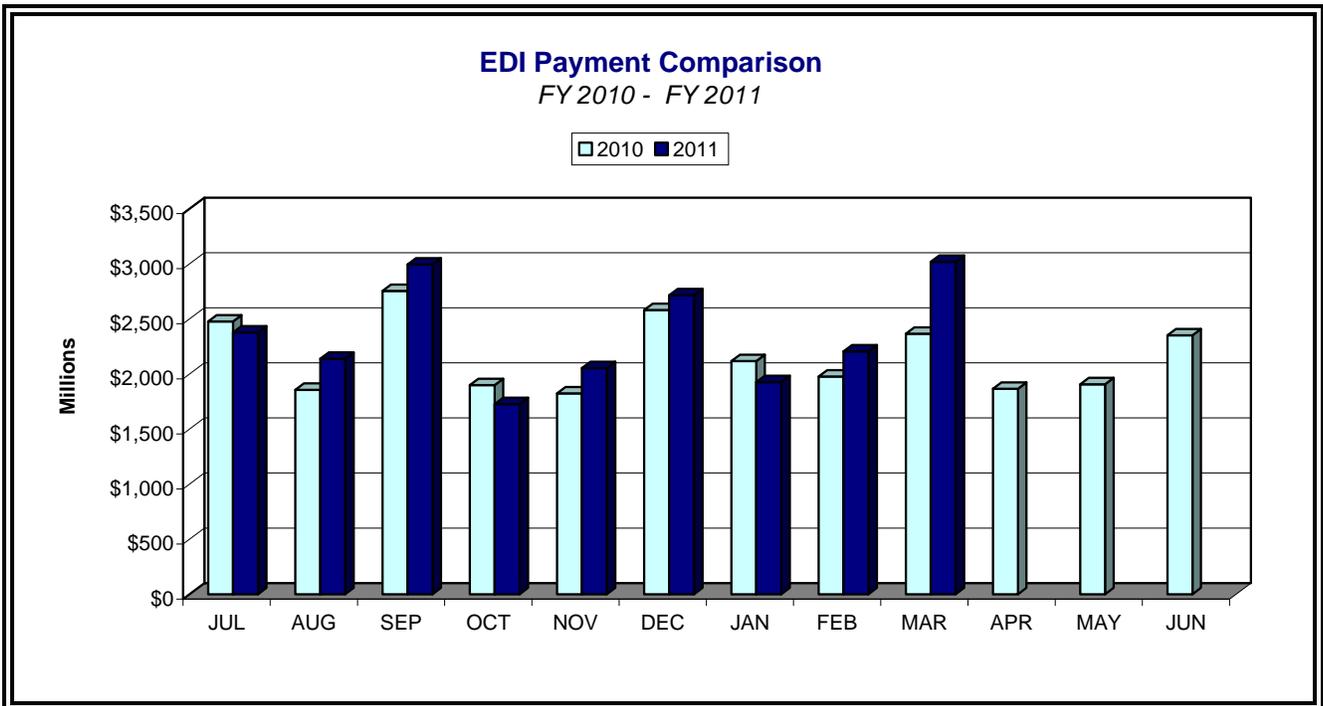
Expansion of the Travel EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI. DOA notified agencies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

Travel EDI Growth
Apr 2010 - Mar 2011
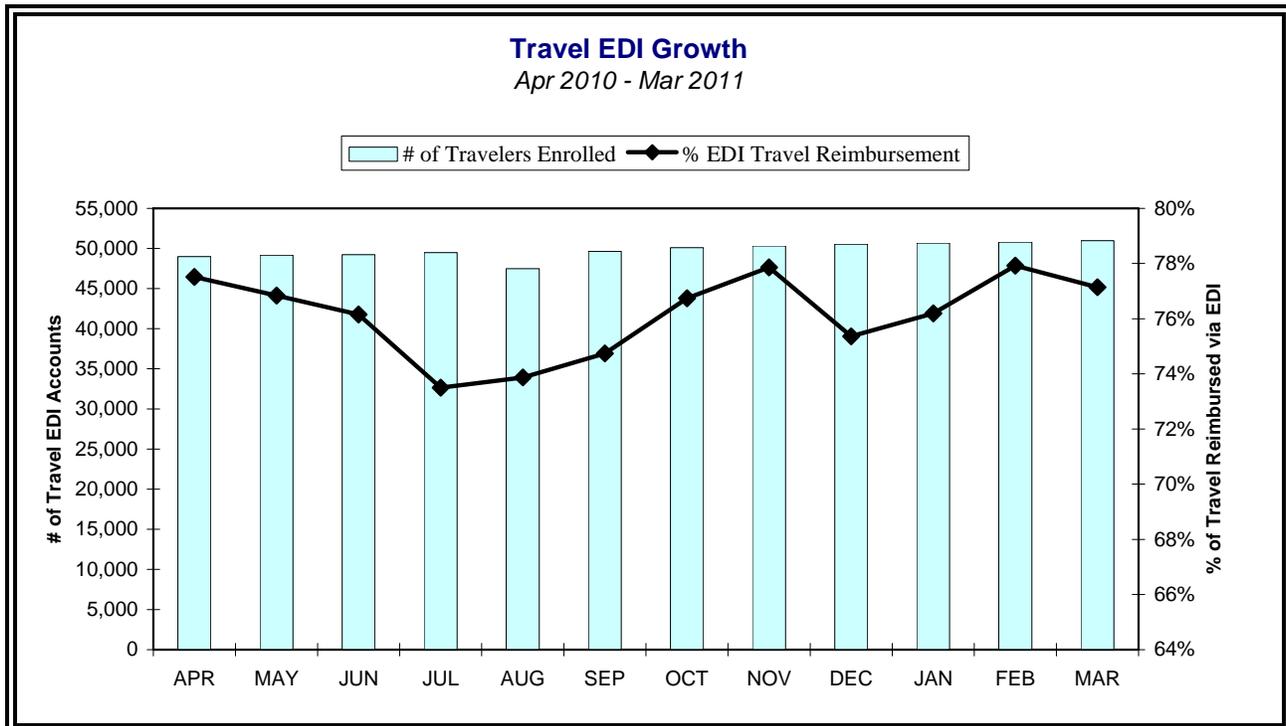
The following table lists by secretarial area the percentage of travel reimbursements that were made via EDI versus the number of checks that were written for travel reimbursements during the quarter. *The statistics are shown for employees and non-employees.* These statistics do not necessarily show non-compliance with the Appropriation Act requirements.

Travel Reimbursement
Travel EDI Performance by Secretarial Area
Quarter Ended March 31, 2011

Secretarial Area	Employee Percent	Non-Employee Percent	Reimbursement Checks Issued
Administration	87.6%	0.0%	19
Agriculture and Forestry	98.2%	9.0%	81
Commerce and Trade	95.8%	64.5%	142
Education (1)	87.3%	35.2%	924
Executive Offices	99.2%	0.0%	3
Finance	98.6%	0.0%	12
Health and Human Resources	94.8%	36.2%	676
Independent Agencies	96.6%	30.3%	56
Judicial	30.2%	7.1%	2,550
Legislative	96.6%	15.0%	29
Natural Resources	94.6%	58.6%	83
Public Safety	87.7%	29.2%	566
Technology	98.0%	0.0%	5
Transportation (1)	75.9%	15.9%	469
Statewide for Quarter	**83.3%**	**29.4%**	**5,615**

Fiscal Year 2011 To-Date

Statewide	**82.8%**	**26.5%**	**18,954**

Comparative
Fiscal Year 2010 To-Date

Statewide	**79.5%**	**26.1%**	**20,956**

(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	76.0%	43
Southside Virginia Community College	66.1%	41
Norfolk State University	46.0%	109
Judicial		
Supreme Court	26.5%	200
Juvenile and Domestic Relations District Courts	14.3%	408
General District Courts	13.8%	355
Combined District Courts	9.9%	200
Circuit Courts	5.0%	664
Natural Resources		
Department of Conservation and Recreation	82.9%	29
Public Safety		
Department of Emergency Management	76.8%	38
Department of Military Affairs	32.7%	136
Marion Treatment Center	29.2%	46
Transportation		
Department of Transportation	69.4%	342

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	2.9%	67
Education		
Christopher Newport University	0.0%	30
Longwood University	0.0%	73
Health and Human Resources		
Department of Social Services	4.4%	43
Department of Health	3.8%	177
Virginia Board for People with Disabilities	0.0%	33
Judicial		
Circuit Courts	7.6%	353
Virginia State Bar	0.0%	159
Public Safety		
Department of Forensic Science	1.7%	114

The following table lists agencies that have accumulated more than $200 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		
Southside Virginia Community College	75.3%	$ 210
Norfolk State University	55.8%	775
Judicial		
Magistrate System	70.9%	355
Supreme Court	29.2%	775
General District Courts	12.8%	3,610
Juvenile and Domestic Relations District Courts	12.2%	4,205
Combined District Courts	8.0%	2,070
Circuit Courts	5.8%	8,055
Transportation		
Department of Transportation	58.3%	590

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Direct Deposit

During the second quarter of FY 2011, 505,993 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 March 31, 2011

Secretarial Area	Direct Deposit % of Salaried Employees	Direct Deposit % of Wage Employees
Administration	99.6%	100.0%
Agriculture and Forestry	98.5%	95.3%
Commerce and Trade	99.7%	99.5%
Education	99.7%	94.9%
Executive Offices	99.5%	88.9%
Finance	99.4%	98.8%
Health and Human Resources	99.6%	98.9%
Independent Agencies	99.1%	100.0%
Judicial	99.4%	80.8%
Legislative	99.4%	99.8%
Natural Resources	99.7%	98.5%
Public Safety	99.4%	98.2%
Technology	100.0%	100.0%
Transportation	99.7%	99.0%
Statewide	**99.6%**	**95.7%**

Comparative		
Quarter Ended March 31, 2010		
Statewide	**99.4%**	**92.3%**

Statewide Salaried Direct Deposit Performance
Quarter Ended March 31, 2011

Salaried Direct Deposit Participation	99.6%

Salaried Direct Deposit Below 98 Percent

Agency	Percent	Number of Employees
Administration		
Department of Employment Dispute Resolution	87.5%	8
Judicial		
Circuit Courts	97.2%	144
Transportation		
Motor Vehicle Dealer Board	95.0%	20

Statewide Wage Direct Deposit Performance

Quarter Ended March 31, 2011

| Wage Direct Deposit Participation	95.7%

Wage Direct Deposit Below 90 Percent

Agency	Percent	Number of Employees
Education		
New River Community College	88.5%	312
Mountain Empire Community College	88.5%	243
Radford University	88.1%	1,495
Southwest Virginia Community College	81.9%	331
Norfolk State University	81.2%	955
Virginia State University	79.9%	536
Paul D. Camp Community College	77.5%	200
Virginia Highlands Community College	73.1%	242
Judicial		
General District Courts	71.3%	209
Combined District Courts	68.4%	19

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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 6,645,466 earnings notices.

Quarterly Payline & Earnings Notice Opt-Out Participation

April 2010 - March 2011
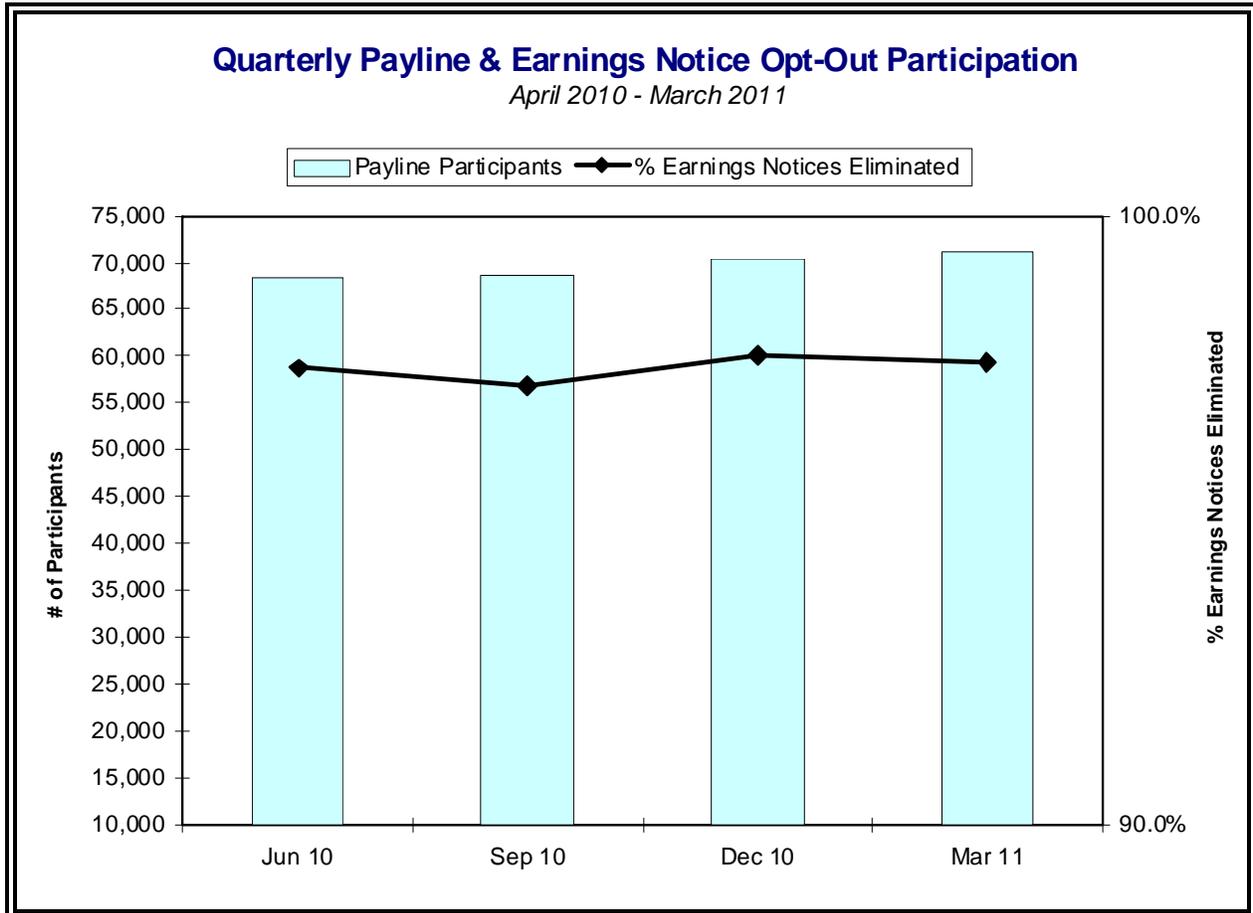
The following table lists participation among all statewide employees in both the Payline and the Opt-Out initiatives by secretarial area.

Payline and Earnings Notice Opt-Out Participation by Secretarial Area
Quarter Ended March 31, 2011

Secretarial Area	Percent Payline Participation	Percent Earnings Notices Eliminated*
Administration	97.2%	100.0%
Agriculture and Forestry	74.8%	75.2%
Commerce and Trade	96.5%	100.0%
Education	68.2%	98.6%
Executive Offices	87.7%	100.0%
Finance	97.8%	100.0%
Health and Human Resources	86.8%	98.0%
Independent Agencies	91.6%	100.0%
Judicial	84.9%	93.5%
Legislative	68.8%	73.8%
Natural Resources	77.6%	80.0%
Public Safety	87.0%	98.9%
Technology	96.8%	100.0%
Transportation	95.3%	100.0%
Statewide	**83.2%**	**97.6%**

Comparative Quarter Ended Marchr 31, 2010		
Statewide	**79.7%**	**97.5%**

* 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 March 31, 2011, the following agencies have not met their established thresholds for eliminating earnings notice print.

Earnings Notice Elimination

Agency	Percent Earnings Notices Eliminated QE 03/31/2011	Percent Earnings Notices Eliminated QE 12/31/2010
Agriculture and Forestry		
Department of Forestry	58.3%	72.9%
Education		
Frontier Culture Museum	70.0%	58.8%
Judicial		
General District Courts	89.3%	90.0%
Circuit Courts	74.5%	73.8%

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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 third quarter of FY 2011 increased by $12.9 million or 15.6 percent from the same quarter last year.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended March 31, 2011	Fiscal Year 2011 To-Date	Comparative Fiscal Year 2010 To-Date
Amount of Charges	$ 95,148,393	$ 282,448,012	$ 254,574,680
Estimated Number of Checks Avoided	168,322	520,272	470,752
Total Number of Participating Agencies		217	227
Total Number of Cards Outstanding		17,863	18,023

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

Charge Amount Comparison
FY 2010 - FY 2011
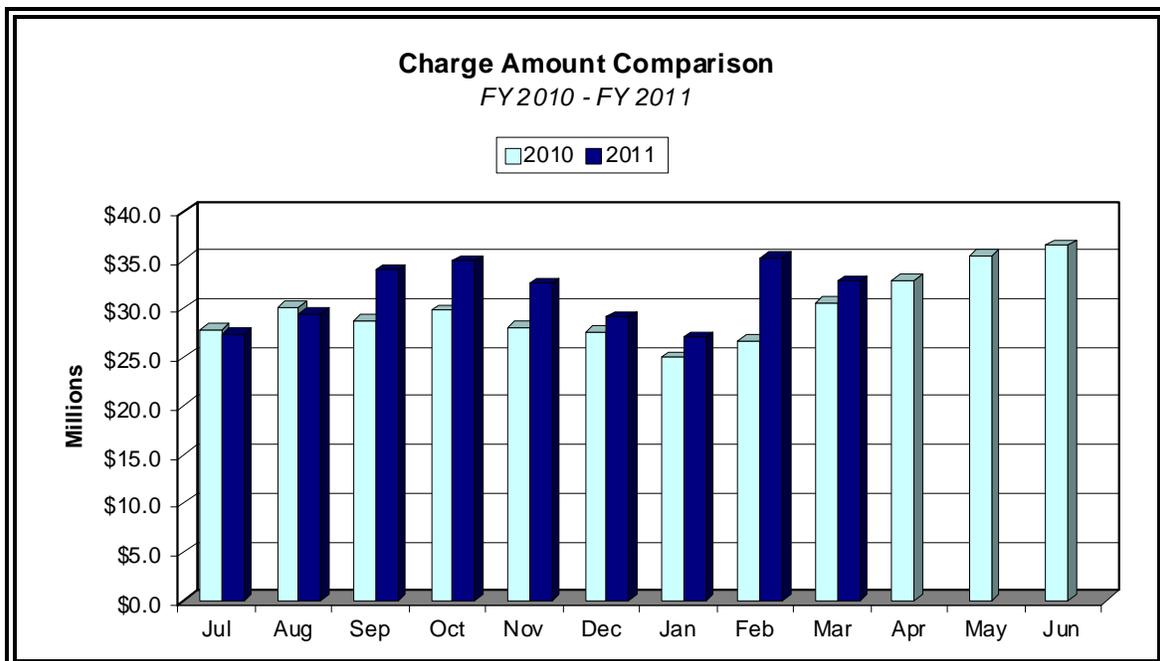
Maximum use of the SPCC program, in conjunction with other e-commerce initiatives, is essential to the statewide effort to reduce the costs associated with paying for goods and services for the Commonwealth.

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 3nd 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 March 31, 2011

Percentage Utilization for Eligible Transactions **82%**

SPCC Utilization by Secretarial Area
Quarter Ended March 31, 2011

Secretarial Area	Payments in Compliance [1]	Non-Compliant Transactions [2]
Administration	81%	738
Agriculture and Forestry	89%	369
Commerce and Trade	80%	697
Education*	87%	4,972
Executive Offices	91%	75
Finance	92%	80
Health and Human Resources**	82%	6,363
Independent Agencies	69%	925
Judicial	34%	2,300
Legislative	94%	89
Natural Resources	90%	951
Public Safety	92%	3,012
Technology	91%	43
Transportation*	67%	9,796
Statewide	**82%**	**30,410**

*   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.

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Agency SPCC Performance
Utilization Below 75 Percent

Agency	Payments in Compliance	Non-Compliant Transactions
Administration		
Department of Minority Business Enterprise	63%	34
Commerce and Trade		
Virginia Employment Commission	48%	601
Education		
New College Institute	64%	15
Health and Human Resources		
Department of Behavioral Health and Developmental Services	68%	107
Central Virginia Training Center	56%	483
Independent Agencies		
Virginia Retirement System	73%	108
State Corporation Commission	3%	562
Judicial		
Supreme Court	67%	171
Board of Bar Examiners	0%	29
Circuit Courts	0%	154
Combined District Courts	0%	245
General District Courts	0%	997
Juvenile and Domestic Relations District Courts	0%	438
Magistrate System	0%	111
Virginia Criminal Sentencing Commission	0%	33
Public Safety		
Sitter-Barfoot Veterans Care Center	49%	395
Transportation		
Department of Motor Vehicles	73%	664
Department of Transportation	66%	9,093

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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 January, this represents the bill date of January 14, 2011, with the payment due no later than February 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.

Agency	**Jan**	**Feb**	**Mar**
Purchase Card Program:			
Education			
University of Virginia Medical Center	X	X	X
Airline Travel Card Program:			
Education			
New River Community College			X
Health and Human Resources			
Department of Medical Assistance Services			X

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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 March 31, 2011 and the total amounts past due.

Travel Charge Card Program
As of March 31, 2011

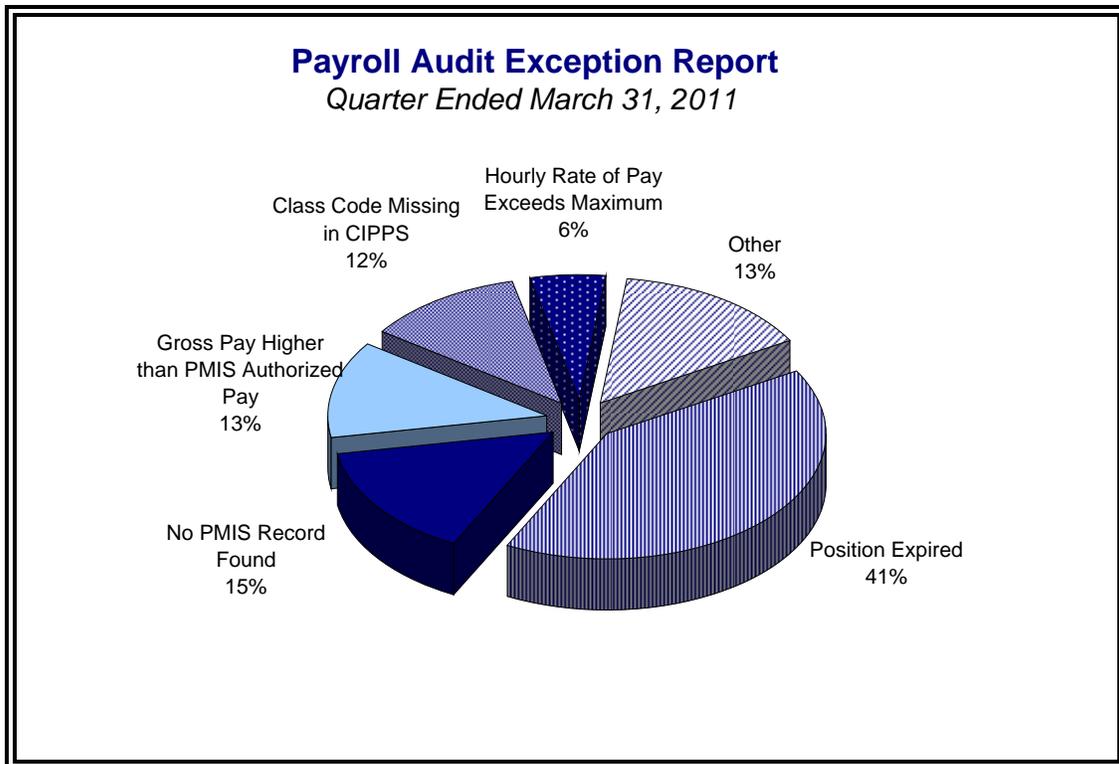| Agency	Total Delinquent Accounts	Amounts 60 Days Past Due	Amounts 90-120 Days Past Due	Amounts >150 Days Past Due
Commerce and Trade				
Virginia Economic Development Partnership	1	$ 161	$ 730	$ 0
Education				
Old Dominion University	5	1,520	0	0
State Council of Higher Education for Virginia	1	0	29	0
University of Virginia	5	1,886	331	0
University of Virginia Medical Center	1	0	35	0
Virginia Commonwealth University	1	0	1,076	0
Virginia State University	1	0	193	0
Virginia Western Community College	1	0	192	0
Health and Human Resources				
Department of Health	1	45	0	0
Department of Social Services	1	130	0	0
Public Safety				
Department of Emergency Management	1	0	0	44
Department of Military Affairs	1	382	0	0
Transportation				
Department of Transportation	1	0	236	0

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Payroll Controls

PMIS/CIPPS Payroll Audit

During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 408,378 salaried pay transactions and 105,234 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 5,740 new exceptions noted statewide during the quarter, with an overall exception rate of 1.04 percent.

The statewide salaried payroll exception rate was 1.03 percent and the wage payroll exception rate was 1.10 percent. During this quarter, 29 employee paychecks were reduced to recover $7,092.59 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.

Payroll Audit Exception Report
Quarter Ended March 31, 2011

- Class Code Missing in CIPPS 12%
- Hourly Rate of Pay Exceeds Maximum 6%
- Other 13%
- Gross Pay Higher than PMIS Authorized Pay 13%
- No PMIS Record Found 15%
- Position Expired 41%

Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Agencies are reported below if the percentage of payroll exceptions to salaried or wage payments exceeds three times the statewide average for the quarter.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Salaried Payments
Quarter Ended March 31, 2011

Total Salaried Payroll Exceptions for the Quarter	1.03%

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

Total Quarterly Salaried Exceptions
March 2009 - March 2011

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended March 31, 2011

Wage Payroll Exceptions for the Quarter	1.10%

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

Total Quarterly Wage Exceptions
March 2009 - March 2011*

*The sharp increase in percentage of exceptions for Mar-11 is the result of a change in the methodology used to count payments implemented during the quarter ending March 31, 2011.

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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
Education	
Virginia State University	2
VSU Cooperative Extension and	
Agricultural Research Services	1
Piedmont Virginia Community College	8
Tidewater Community College	2
Natural Resources	
Department of Conservation & Recreation	4
Transportation	
VDOT - Central Office	1

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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				
J. Sargeant Reynolds Community College	$ 114,493			
University of Mary Washington	113,815			
Virginia Highlands Community College		1		
Health and Human Resources				
Central Virginia Training Center		2		
Legislative				
House of Delegates	24,057			
Public Safety				
Red Onion State Prison	521,000			

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.

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 December, January and February were due 1/31/2011, 2/28/2011 and 3/31/2011, respectively.

2

Schedule of Health Care Reconciliations
Received Late

Agency	Dec	Jan	Feb
Dept of Medical Assistance Services*			X
James River Correctional Center		X	
Southeastern Va. Training Center		X	

*Health Care Reconciliations performed by DOA Payroll Service Bureau

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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.
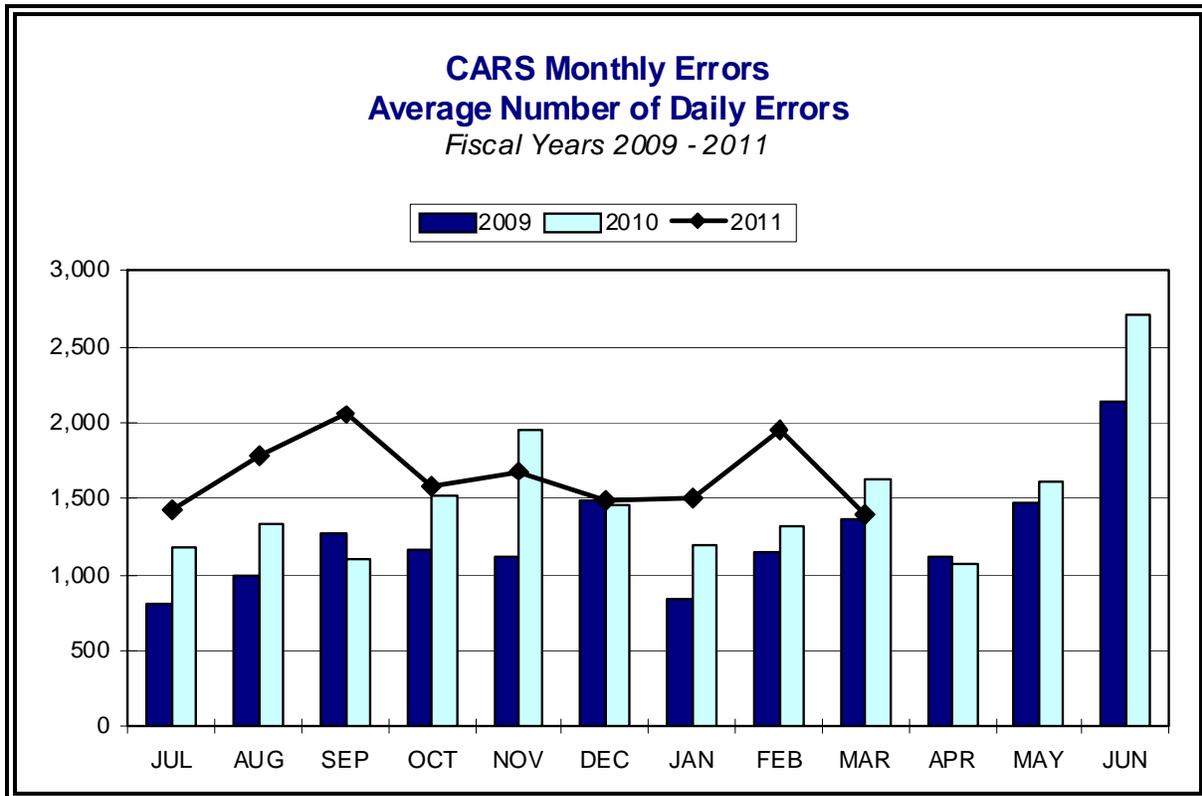

CARS Transactions
Fiscal Years 2009 - 2011
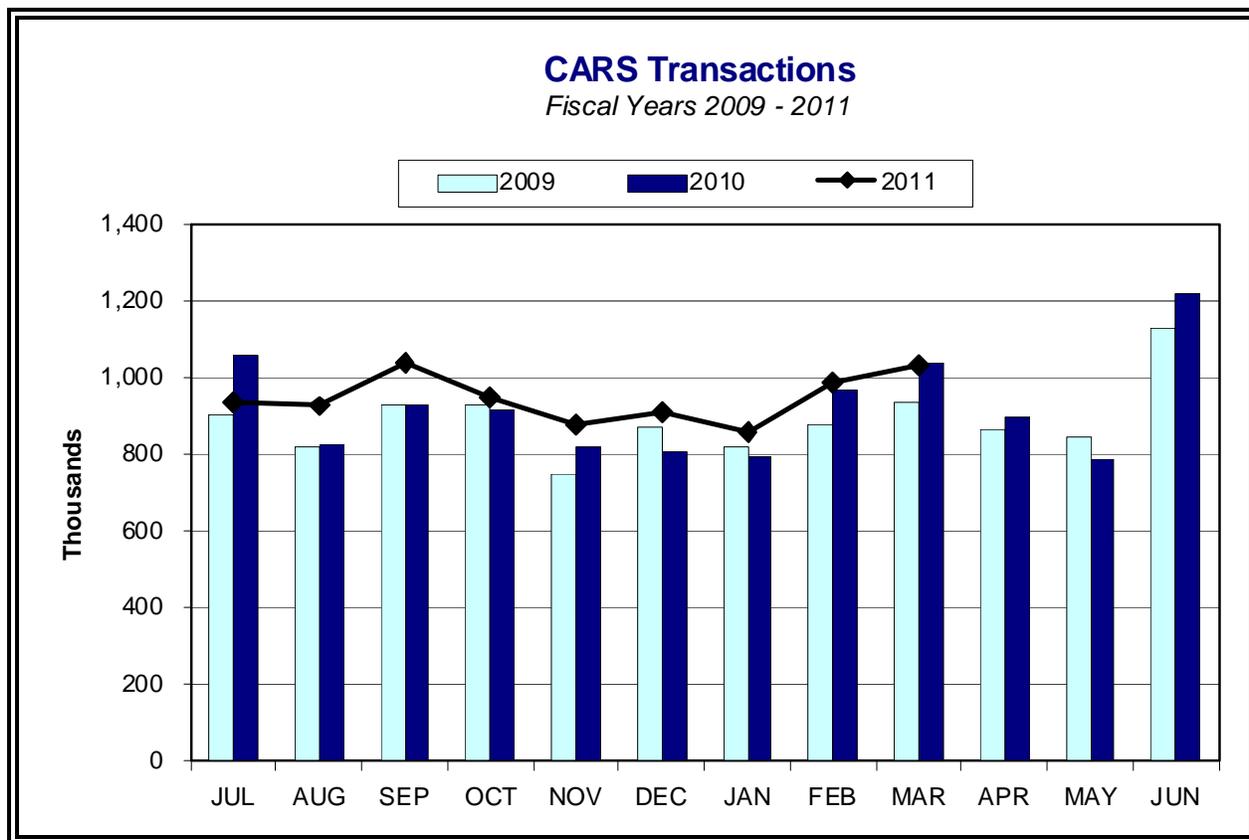
One of the most important management tools used by DOA is the monitoring of CARS errors generated by standard system edits. Batches remain on the error file until problems are resolved, which, for disbursement transactions, can lead to noncompliance with prompt payment standards and poor vendor relations. During the second quarter of FY 2011, the most frequent reasons cited for transactions processing to the error file were:

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

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

CARS Monthly Errors
Average Number of Daily Errors
*Fiscal Years 2009 - 2011*

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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 105,988 employees. Payroll services are also provided through eight decentralized higher education institutions.

On average, 90,132 employees were paid each month, of which 68,696 were salaried employees.

Commonwealth Integrated Payroll / Personnel System (CIPPS) Statistics
April *2010 - March 2011*

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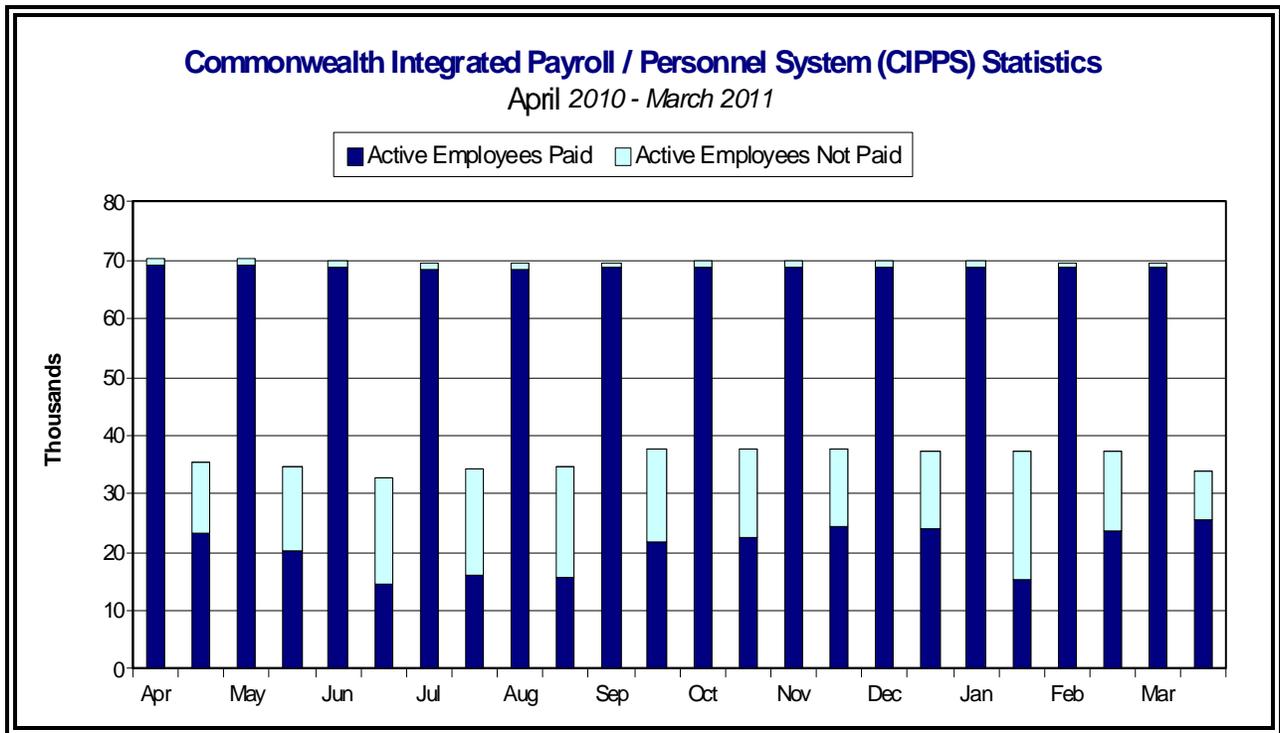
Note: The first bar for each month represents salaried employees, and the next bar represents wage employees. Not all active employees are paid on a current basis. Examples would include employees on extended leave without pay and adjunct faculty not teaching during the current semester.

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

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 3/31/2011	Comparative	
		As of 3/31/2010	As of 3/31/2009
Health Care			
COVA Care	73,922	74,865	83,957
COVA Connect	7,540	7,611	N/A
Kaiser	2,138	2,081	2,029
Optional Retirement Plans*			
Fidelity Investments	578	565	571
TIAA/CREF	1,616	1,599	1,619
Political Appointee - ORP	91	73	87
Deferred Compensation*	40,908	40,154	38,680
Flexible Reimbursement*			
Dependent Care	788	790	817
Medical Care	7,481	7,395	7,745

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

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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 $2.58

billion at December 31, 2010, with $2.16 billion considered collectible. Receivables over 60 days past due as of December 31, 2010, totaled $400.6 million. Of that amount, $19.1 million was placed with private collection agencies, $35.9 million was placed with the Division of Debt Collection and $345.6 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.

Gross, Past Due, and Collectible Receivables
December 2009 - December 2010
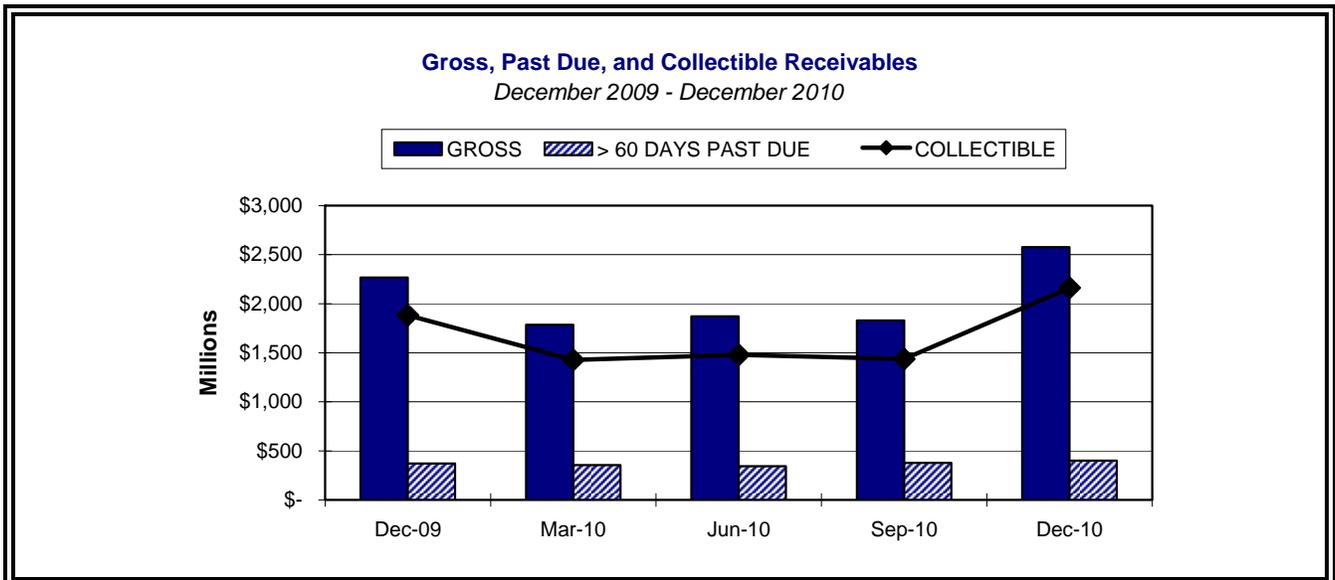
As of December 31, 2010, agencies expected to collect $2.16 billion (84 percent) of the $2.58 billion adjusted gross receivables. About 1 percent is due to the General Fund, primarily for benefit recoveries and sales of permits. The balance, which contains Medicaid penalties that are no longer revertible, is due to several nongeneral funds.

Collectible Receivables by Fund
Not Including Circuit Courts, District Courts, or Department of Taxation
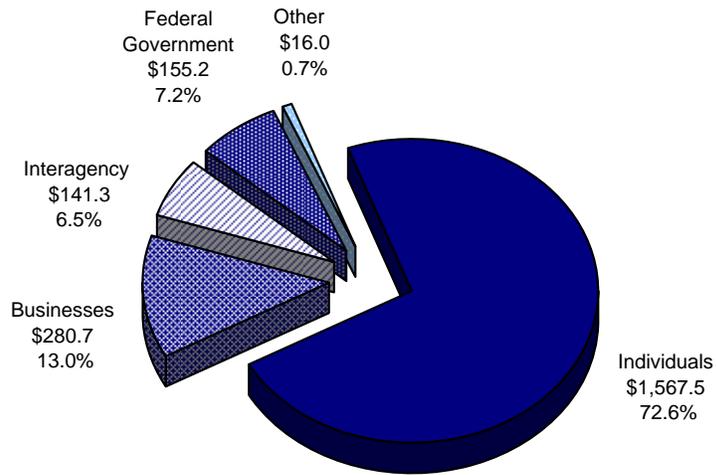*As of December 31, 2010*

Fund	Source	Amount	Percent
General Fund **1%**	Medicaid - Current Recoveries	$ 13,213,240	51%
	Social Services	3,292,244	13%
	Labor and Industry Inspections	1,129,352	4%
	State Police Permits	1,804,533	7%
	Corrections	1,409,421	5%
	Other	1,865,567	7%
	Subtotal	22,714,357	87%
	Interagency Receivables	3,284,357	13%
	Total General Fund Collectible	**$ 25,998,714**	**100%**
Nongeneral Funds **99%**	Medicaid - Dedicated Penalty Fees	$ 59,815,611	3%
	Medicaid - Federal Reimbursements	14,800,008	1%
	Unemployment Taxes *	77,776,600	3%
	Transportation	39,705,967	2%
	Child Support Enforcement	147,922,861	7%
	Federal Government	32,306,236	2%
	DBHDS Patient Services	27,118,159	1%
	Hospital	268,311,804	13%
	Enterprise	74,148,002	3%
	Higher Education	1,221,972,116	57%
	Other	32,785,712	2%
	Subtotal	1,996,663,076	94%
	Interagency Receivables	138,029,676	6%
	Total Nongeneral Fund Collectible	**$ 2,134,692,752**	**100%**
All Funds	**Grand Total**	**$ 2,160,691,466**	**100%**

* Note: The Virginia Employment Commission provides Unemployment Taxes Information.
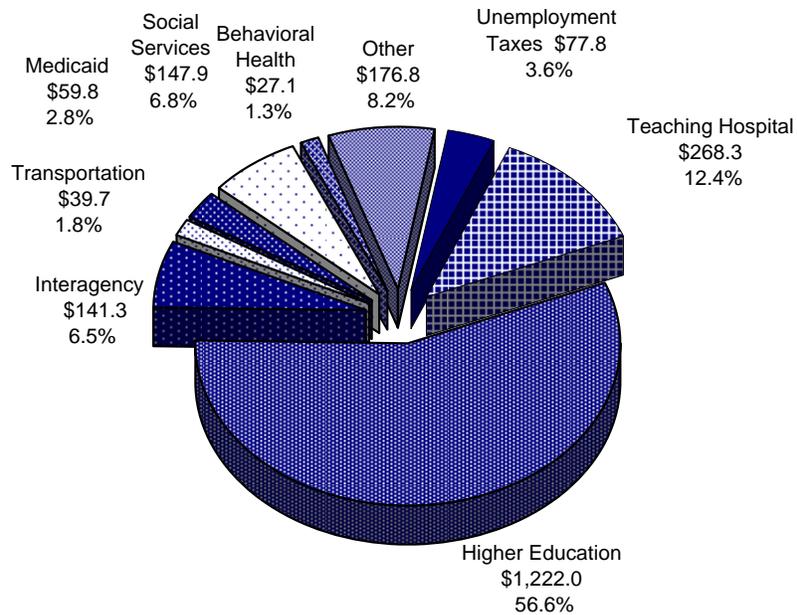
Summary of Receivables by Source

Sources of Collectible Receivables by Debtor
(dollars in millions)
As of December 31, 2010

Federal Government $155.2 7.2%

Other $16.0 0.7%

Interagency $141.3 6.5%

Businesses $280.7 13.0%

Individuals $1,567.5 72.6%

Sources of Collectible Receivables by Type
(dollars in millions)
As of December 31, 2010

Medicaid $59.8 2.8%

Social Services $147.9 6.8%

Behavioral Health $27.1 1.3%

Other $176.8 8.2%

Unemployment Taxes $77.8 3.6%

Teaching Hospital $268.3 12.4%

Transportation $39.7 1.8%

Interagency $141.3 6.5%

Higher Education $1,222.0 56.6%

Not counting Taxation and the Courts, ten agencies account for 79 percent of the Commonwealth's adjusted gross and 76 percent of the adjusted collectible accounts receivable balances.

Accounts Receivable Summary
Not Including Circuit Courts, District Courts, or Department of Taxation
Quarter Ended December 31, 2010

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
University of Virginia Medical Center	$ 326,760,274	$ 18,948,912	$ 307,811,362
University of Virginia - Academic Division	254,420,204	212,998	254,207,206
Virginia Polytechnic Institute & State University	253,222,264	2,695,859	250,526,405
Virginia Commonwealth University	190,113,960	4,761,294	185,352,666
Department of Social Services	440,021,817	263,784,069	176,237,748
James Madison University	118,755,825	2,339,627	116,416,198
The College of William and Mary in Virginia	95,569,573	3,494	95,566,079
Old Dominion University	94,150,762	1,242,437	92,908,325
Department of Medical Assistance Services	117,141,883	29,285,470	87,856,413
Virginia Employment Commission	137,078,687	54,627,609	82,451,078
Total	**$ 2,027,235,249**	**$ 377,901,769**	**$ 1,649,333,480**
All Other Agencies	548,275,024	36,917,038	511,357,986
Grand Total	**$ 2,575,510,273**	**$ 414,818,807**	**$ 2,160,691,466**

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.
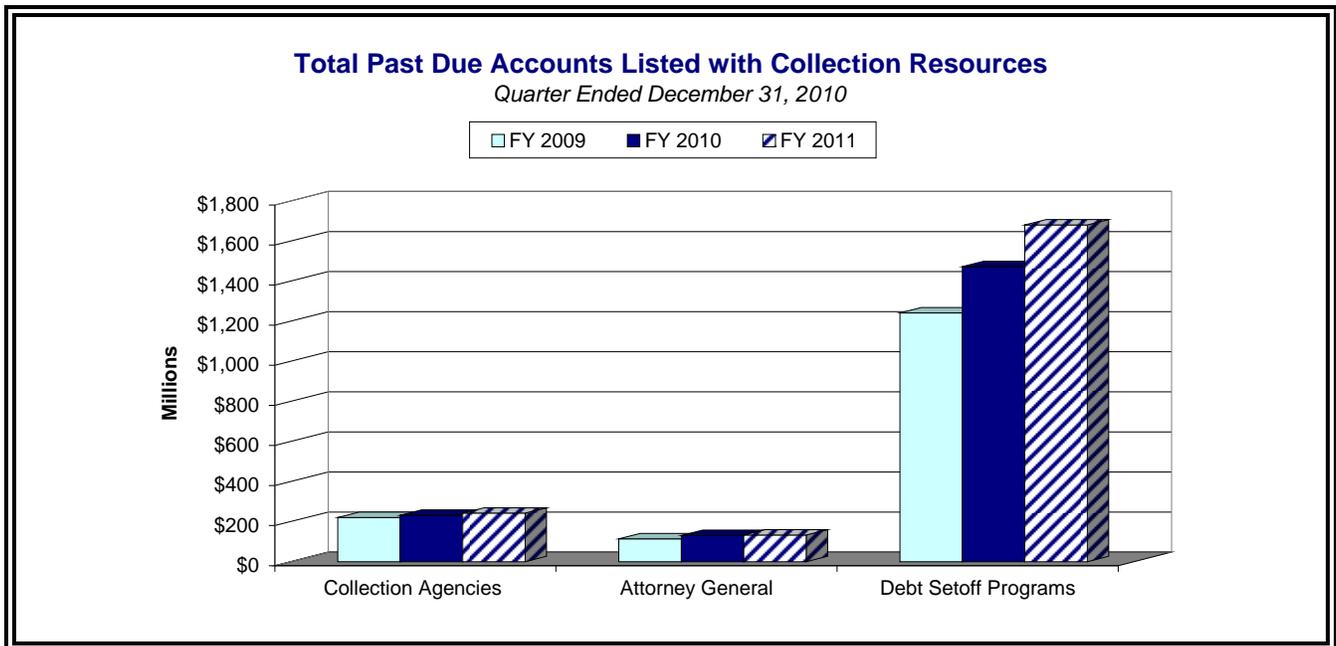
These additional collection tools recovered $6.7 million during the quarter ended December 31, 2010. The Division of Debt Collection contributed $1.7 million. Private collection agencies collected $2.0 million, and the debt setoff programs (Tax, Comptroller's and Lottery) collected $3.0 million.

Private collection agencies returned $7.4 million of accounts to agencies, and the Division of Debt Collection discharged $2.8 million of accounts and returned $1.4 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 December 31, 2010

Agency	Total Over 60 Days	With Collection Agency	With Attorney General	Retained by State Agency
Department of Social Services	$ 152,725,845	$ 2,610	$ -	$ 152,723,235
Virginia Employment Commission	62,969,202	7,738,474	13,964,345	41,266,383
Department of Medical Assistance Services	43,852,573	356,910	240,795	43,254,868
University of Virginia Medical Center	41,392,740	-	-	41,392,740
Department of Transportation	14,427,445	1,672,066	12,101,489	653,890
Department of Behavioral Health and Developmental Services	11,194,139	-	-	11,194,139
University of Virginia - Academic Division	9,986,108	433,673	44,247	9,508,188
Department of General Services	7,697,560	-	133,621	7,563,939
Virginia Community College System	6,055,401	3,529,233	-	2,526,168
Virginia Commonwealth University	5,556,450	217,579	15,240	5,323,631
TOTAL	**$ 355,857,463**	**$ 13,950,545**	**$ 26,499,737**	**$ 315,407,181**
All Other Agencies	44,737,358	5,159,202	9,393,966	30,184,190
TOTAL OVER 60 DAYS	**$ 400,594,821**	**$ 19,109,747**	**$ 35,893,703**	**$ 345,591,371**
Uncollectible Amounts Placed for Collection, Including Accounts Written Off	1,654,189,938	223,006,654	96,960,663	1,334,222,621
TOTAL COLLECTION EFFORTS	**$ 2,054,784,759**	**$ 242,116,401**	**$ 132,854,366**	**$ 1,679,813,992**

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

Total Past Due Accounts Listed with Collection Resources
Quarter Ended December 31, 2010

FY 2009   FY 2010   FY 2011

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 $11.3 million through the third 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 12/31/10	Comparative	
		Percent 9/30/10	Percent at 6/30/10
Department of General Services	54%	17%	29%
Virginia Employment Commission	46%	43%	35%
Department of Transportation	44%	19%	10%
Department of Medical Assistance Services	37%	39%	35%
Department of Social Services	35%	36%	33%
Department of Behavioral Health and Developmental Services	25%	22%	20%
Virginia Community College System	18%	14%	15%
University of Virginia Medical Center	13%	12%	12%
University of Virginia - Academic Division	4%	13%	14%
Virginia Commonwealth University	3%	7%	15%
Statewide Average - All Agencies	**16%**	**21%**	**18%**

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 76 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 69 percent indicates that for every $1 billed during the quarter ended December 31, 2010, the state collected 69 cents. This rate is the same as last year, and one percent less than the December 31, 2008 quarter.

Collections as a Percentage of Billings

| | | Comparative | |
Agency	Percent 12/31/2010	Percent 12/31/2009	Percent 12/31/2008
Virginia Employment Commission	100%	101%	100%
Department of Social Services	91%	94%	107%
Department of Medical Assistance Services	56%	56%	58%
Virginia Polytechnic Institute and State University	47%	52%	51%
University of Virginia - Academic Division	46%	57%	78%
Virginia Commonwealth University	44%	42%	44%
Old Dominion University	30%	31%	34%
University of Virginia Medical Center	29%	32%	34%
The College of William and Mary in Virginia	27%	27%	30%
James Madison University	19%	23%	28%
Statewide Average - All Agencies	**69%**	**69%**	**70%**

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 $87.9 million at December 31, 2010, is a $26.4 million increase over the $61.5 million reported at December 31, 2009. Over the same period, total past due receivables of $53.9 million have increased by $20.2 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 $307.8 million at December 31, 2010, were a $35.5 million increase from the $272.3 million reported the previous year. Past due receivables increased by $7.7 million to $124.8 million at December 31, 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 $82.5 million at December 31, 2010, an increase of $27.2 million from the previous year. Total past due receivables were $68.5 million, a $19.9 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 December 31, 2010, of $48.3 million, which is an increase of $4.8 million reported in the previous year. Most of these receivables are due from other state agencies. As of December 31, 2010, $5.5 million was over 60 days past due, a decrease of $4.7 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 four multi-state games, Mega Millions, Powerball, Win for Life and Decades of Dollars. 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 December 31, 2010, the State Lottery reported net receivables of $56.5 million, an $8.6 million increase from the previous year. Billings increased by $23.5 million and collections increased by $4.2 million during the December 31, 2010 quarter when compared to the December 31, 2009 quarter. At December 31, 2010, the State Lottery had $187,640 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 December 31, 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 December 31, 2010, the University reported net collectible receivables of $250.5 million, a $28.8 million increase over the prior year. At the same time, total past due receivables of $7.9 million decreased by $795,447 over the prior year.

The University uses a variety of collection methods to encourage payments. At December 31, 2010, VPISU had $5.0 million of accounts over 60 days past due. $1.4 million was placed with the Attorney General's Division of Debt Collection, another $924,637 was placed with private collection agencies and $3.3 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 December 31, 2010, the Department reported collectible receivables of $27.1 million, a $2.1 million decrease over the previous year. $19.7 million was past due, with $11.2 million being over 60 days past due. Total past due receivables increased by $2.1 million over the year, and accounts over 60 days past due decreased by $90,624. At December 31, 2010, the Department had a total of $5.3 million of accounts placed with the Attorney General and $640,176 listed in Taxation's Debt Setoff Programs.

Department of Transportation (VDOT)

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

At December 31, 2010, VDOT reported $31.3 million of collectible receivables, a decrease of $14.2 million from the prior year. VDOT also reported $17.3 million total past due and $14.4 million being over 60 days past due. Past due receivables decreased by $11.8 million over the year, while receivables over 60 days past due decreased by $10.5 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 $12.1 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 December 31, 2010, DSS reported gross receivables of $440.0 million, an allowance for doubtful accounts of $263.8 million and collectible receivables of $176.2 million. Past due receivables totaled $155.1 million, of which $152.7 million was over 60 days past due.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for $388.3 million (88 percent) of the gross receivables, $240.4 million (91 percent) of the allowance for doubtful accounts and $147.9 million (84 percent) of the collectible receivables.

From December 31, 2009, to December 31, 2010, gross receivables increased $36.4 million and collectible receivables increased by $18.5 million. Total past due receivables increased by $10.5 million and receivables over 60 days past due increased by $10.3 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 December 31, 2010, DRPT had gross and net receivables of $8.3 million. The majority of this money is due via an interagency transfer from VDOT. DRPT had reported $25,757 of past due receivables at December 31, 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 December 31, 2010, VCU had $185.4 million of collectible receivables, a $21.6 million increase from December 31, 2009. Total past due accounts were $13.6 million, a $1.7 million increase from December 31, 2009. Accounts over 60 days past due ($5.6 million) increased by $401,864 from the prior year. Billings increased by $6.6 million to $199.9 million and collections increased by $6.4 million to $88.4 million for the December 31, 2010 quarter, when compared to the December 31, 2009 quarter.

The following table is prepared to present the December 31, 2010, aging information in conformity with the provisions of the *Code of Virginia* § 2.2-603.E.(ii).

Taxation and the Circuit and District Courts accounted for 79 percent ($2.22 billion) of the Commonwealth's total $2.80 billion past due accounts receivable at December 31, 2010. Another 18 agencies accounted for 20 percent ($551.5 million), leaving 71 other agencies to comprise the last one percent at $27.7 million.

Agencies with the Largest Volume of Past Due Receivables
As of December 31, 2010

Agency	Total Past Due	1 to 180 Days Past Due	181 to 360 Days Past Due	Over One Year
Department of Taxation	$ 1,733,324,365	$ 252,413,960	$ 122,189,812	$ 1,358,720,593
Localities' Circuit and District Courts	484,438,113	40,031,231	64,193,378	380,213,504
Total - Taxation Assessments and Court Fines and Fees	**$ 2,217,762,478**	**$ 292,445,191**	**$ 186,383,190**	**$ 1,738,934,097**
All Other Large Dollar Agencies:				
Department of Social Services	155,123,704	7,403,400	7,376,586	140,343,718
University of Virginia Medical Center	124,759,614	111,370,564	7,476,292	5,912,758
Virginia Employment Commission	68,501,855	19,990,633	18,504,750	30,006,472
Department of Medical Assistance Services	53,890,702	19,313,967	13,253,542	21,323,193
Department of Behavioral Health and Developmental Services	19,721,712	17,028,310	(38,465)	2,731,867
University of Mary Washington	19,363,123	18,742,465	169,037	451,621
Department of Transportation	17,292,913	3,426,737	5,174,980	8,691,196
University of Virginia - Academic Division	16,498,617	13,523,710	1,826,411	1,148,496
Virginia Commonwealth University	13,583,587	8,622,159	1,201,913	3,759,515
Virginia Community College System	13,255,310	11,151,102	1,305,454	798,754
Virginia Information Technologies Agency	9,883,382	8,372,991	665,108	845,283
Department of General Services	8,732,668	6,608,026	338,888	1,785,754
Virginia Polytechnic Institute & State University	7,856,019	5,124,493	681,716	2,049,810
Department of State Police	6,013,603	3,917,589	490,174	1,605,840
George Mason University	5,453,579	4,489,782	913,353	50,444
Department of Health	4,283,244	2,783,840	239,252	1,260,152
Old Dominion University	3,725,378	3,630,798	80,845	13,735
Virginia Workers' Compensation Commission	3,520,374	708,699	1,176,799	1,634,876
Total - Largest Dollar Volume Agencies	**$ 551,459,384**	**$ 266,209,265**	**$ 60,836,635**	**$ 224,413,484**
All Other Agencies	27,694,896	18,609,595	4,249,091	4,836,210
Grand Total Past Due Receivables	**$ 2,796,916,758**	**$ 577,264,051**	**$ 251,468,916**	**$ 1,968,183,791**

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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.

Total Indirect Cost Recoveries*
Fiscal Years Ended 2004 - 2011
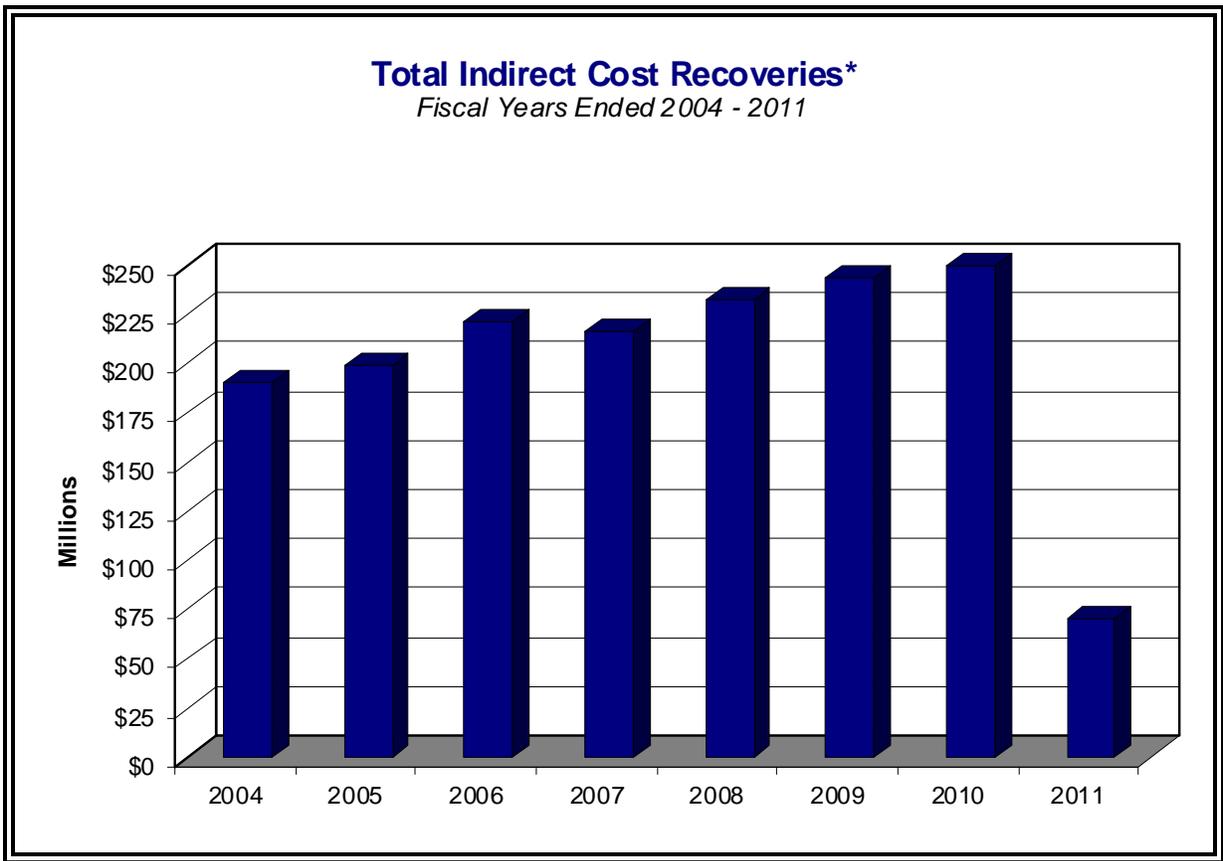
* FY 2011 reflects indirect cost recoveries through March 31, 2011.

Indirect Cost Recoveries from Grants and Contracts
Fiscal Year 2011

Fund	Higher Ed	Non-Higher Ed	Total
		Year-to-Date	
Nongeneral:			
Agency / Institution (1)	$ 16,281,857	$ 50,921,279	$ 67,203,136
Statewide	108,067	800,332	908,399
Agency / Institution ARRA	1,066,337	617,632	1,683,969
Statewide ARRA	343	43,588	43,931
Total Nongeneral	**$ 17,456,604**	**$ 52,382,831**	**$ 69,839,435**
General:			
Agency (Cash Transfers)	-	124,086	124,086
Statewide	-	587,156	587,156
Statewide (Cash Transfers)	-	2,739	2,739
Total General	**$ -**	**$ 713,981**	**$ 713,981**
Total All Funds	**$ 17,456,604**	**$ 53,096,812**	**$ 70,553,416**

(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 $32,928,657 representing the Department of Social Services' estimate of indirect cost recoveries received. This does not include covered higher education institutions.

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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 March 31, 2011, was $75.4 million.

Treasury Loans
Quarter Ended March 31, 2011
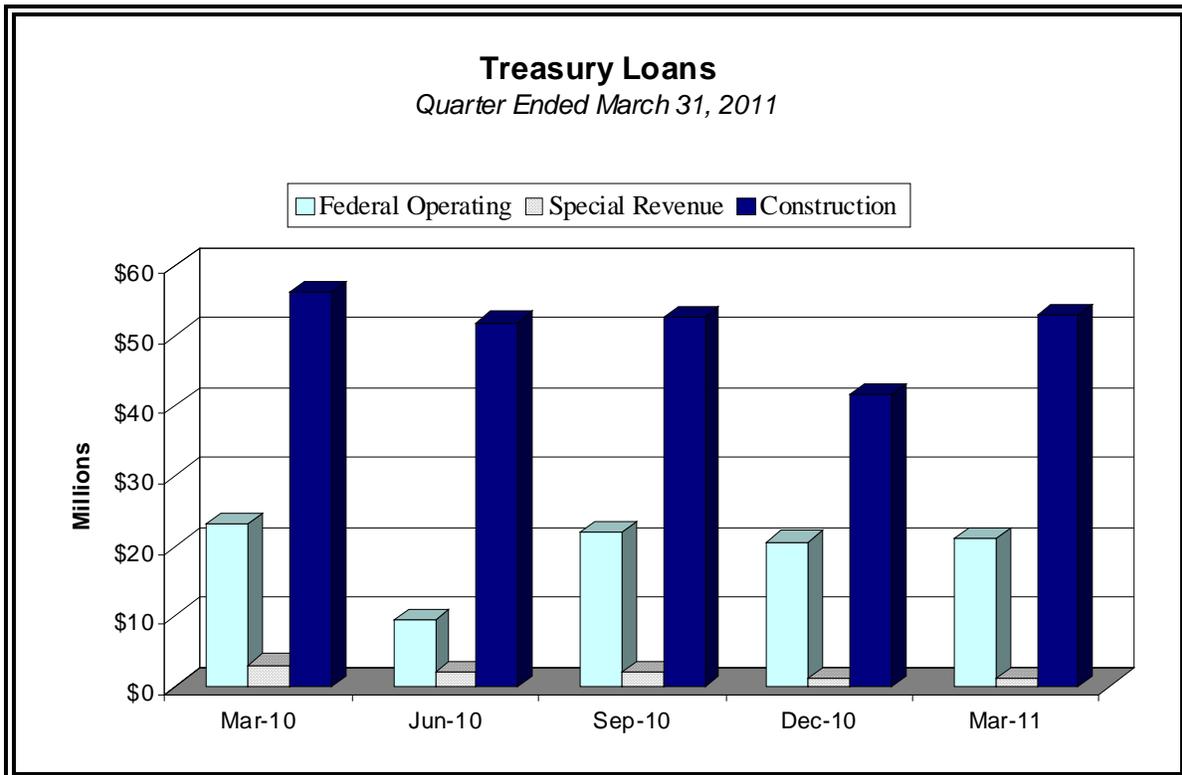
Significant New Loans / Drawdowns	New Balance

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.

$ 1,500,000.00

Virginia Commonwealth University (VCU)
Drawdown on a $22.7 million loan used for the construction of the New School of Medicine.

$ 5,653,130.52

Virginia Port Authority (VPA)
Drawdown on a $23.9 million loan used for the construction of the Craney Island Marine Terminal.

$ 6,543,301.00

Significant Loan Repayments	Prior Balance

Department of Military Affairs (DMA)
Payment on a $5 million loan used to pay expenditures incurred in anticipation of reimbursement from the National Guard Bureau.

$ 1,500,000.00

Other methods not charted but used to ensure an agency or institution has sufficient operating cash incl
ude 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 March 31, 2011, 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 March 31, 2011, was $82.1 million.