

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**

FOR THE QUARTER ENDED SEPTEMBER 30, 2003



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

This report is prepared using Spiral Binding
at a cost of 10 cents per copy, a savings of \$1.26
per copy from the CoverBind process.

Prepared and Published by
Department of Accounts
Commonwealth of Virginia
P. O. Box 1971
Richmond, VA 23218-1971

For additional copies, contact:
Electronic Publishing Manager
Administrative Services Division
Department of Accounts
☎ (804) 225-3051
✉ Michael.Rider@doa.virginia.gov

This report is available online at:
www.doa.virginia.gov

Text and graphics were produced using Microsoft Word for Windows in Arial and Times New Roman fonts. Printed November 2003 at the Department of Accounts on a Xerox 4890 highlight color printer.

TABLE OF CONTENTS

REPORT ON STATEWIDE FINANCIAL MANAGEMENT AND COMPLIANCE

Quarter Ended September 30, 2003

	Page
STATEMENT OF PURPOSE	1
COMPLIANCE.....	2
<u>Auditor of Public Accounts Reports - Executive Branch Agencies</u>	2
<i>Audit Reports – Quarter Ended September 30, 2003</i>	2
<i>Agency Findings – Quarter Ended September 30, 2003</i>	3
<i>Annual Summary of APA Audit Findings</i>	6
<u>Compliance Monitoring</u>	7
Exception Registers	7
Disbursement Processing.....	7
Paperwork Decentralization	8
<i>Decentralized Agencies</i>	9
<i>Non-Decentralized Agencies</i>	11
Prompt Payment Compliance	13
E-Commerce	15
<i>Financial Electronic Data Interchange (EDI)</i>	17
<i>Employee EDI</i>	18
<i>Direct Deposit</i>	22
<i>Payroll Earnings Notices</i>	26
<i>Small Purchase Charge Card (SPCC) and</i> <i>Increased Limit (GOLD) Card</i>	31
Payroll Controls	37
<i>PMIS/CIPPS Payroll Audit</i>	37
<i>PMIS/CIPPS Exceptions</i>	40
<i>Payroll Certification</i>	41
<i>Healthcare Reconciliations</i>	43
FINANCIAL MANAGEMENT ACTIVITY	44
Commonwealth Accounting and Reporting System (CARS).....	44
<i>CARS Edits</i>	45
Payroll	46
<i>Benefit Participation by CIPPS Agencies</i>	47
Accounts Receivable.....	48
<i>Comptroller’s Debt Setoff (CDS) Program</i>	51
Indirect Costs	53
Loans and Advances	55
Fixed Asset Accounting and Control System (FAACS)	57

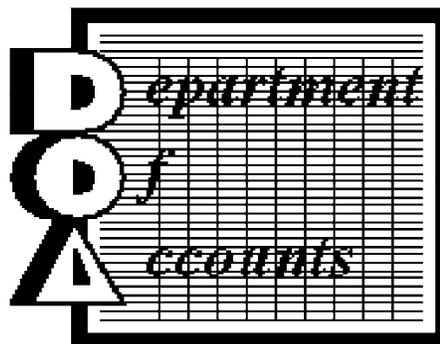
STATEMENT OF PURPOSE

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 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 September 30, 2003 and comparative FY 2003 data. Some information in the report is for the quarter ended June 30, 2003, which is the most current data available.

David A. Von Moll, CPA, CGFM
Comptroller



COMPLIANCE

Auditor of Public Accounts Reports - Executive Branch Agencies

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

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

Audit Reports – Quarter Ended September 30, 2003

The APA issued 8 separate reports covering 8 agencies, offices, boards, and commissions for the Executive Branch agencies listed on the following table. 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				
Governor's Cabinet Secretaries	0	0	0	N/A
Division of Selected Agency Support Services	0	0	0	N/A
Commerce and Trade				
Board of Accountancy	0	0	0	N/A

	New Findings	Repeat Findings	Total Findings	CAW Received
Education				
Norfolk State University	5	3	8	Yes
James Madison University	1	0	1	Yes
Virginia Community College System	4	0	4	Yes
Elected Officials				
Office of the Governor	0	0	0	N/A
Office of the Lieutenant Governor	0	0	0	N/A

No audit reports were received during the quarter for agencies and institutions that report to the Secretaries of Finance, Health and Human Resources, Natural Resources, Public Safety, Technology, and Transportation.

Agency Findings – Quarter Ended September 30, 2003

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

Education

Norfolk State University

1. Enhance Contract Administration over Cell Phones: ***As noted in prior audits***, Norfolk State University (NSU) departments pay higher charges than the state contract rate. Policies and procedures do not conform to the CAPP Manual. Further, NSU has not reviewed all users to justify cell phone usage.
2. Enhance Small Purchase Charge Card Controls: ***As noted in prior audits***, NSU has not followed its policies and procedures over the use of Small Purchase Charge Cards (SPCC). Specific control weaknesses included 17 of 40 cardholders could not provide receipts to verify over \$34,000 in purchases, 44 of 195 cardholders had not completed mandatory SPCC training, and NSU erroneously paid \$390 in sales tax for 12 cardholders.
3. Enforce Procedures to Reconcile Housing and Meal Charges and Maintain Adequate Documentation: ***As noted in prior audits***, invalid student housing and meal charges remain on the Student Information System.

Norfolk State University - continued

4. Update Information Technology Security and Contingency Plan: NSU has not updated certain components of its information technology security program to reflect its current operating environment. Neither has it updated its contingency plan. NSU has experienced several changes in its computer environment in recent years.
5. Develop and Implement Information Security Policies and Procedures over Network Environment: NSU has not developed formal information technology policies and procedures to provide security controls for its network environment in accordance with the Commonwealth's ITRM Standard SEC2001-01.1.
6. Develop Policies and Procedures for Maintaining Security Controls on AIX UNIX: NSU does not have written policies and procedures for maintaining security controls on its server. The UNIX server had certain services turned on that could allow for unauthorized access. Also, no user accountability exists for changes made to the UNIX system.
7. Adhere to Contract Administrator Responsibilities: The audit included a review of seven contracts for compliance with the contract's terms and conditions. Three contracts had instances of noncompliance, of which two involved over-billings and overpayments.
8. Obtain Proper Approval for Information Technology Contracts: NSU did not secure the required approval from the Department of Information Technology for technology procurements exceeding \$100,000.

James Madison University

1. Strengthen Controls over the Small Purchase Charge Card Program: The audit disclosed several internal control weaknesses. JMU did not perform required annual analyses of cardholder usage. Two cardholders split purchases to circumvent transaction limits, three cardholders paid sales taxes on purchases, one cardholder shared the card with another employee, and one cardholder did not have receipts for amounts charged.

Virginia Community College System

1. Update Information Security Plan: Since 1998, the System Office has not updated the Office's comprehensive information security plan to reflect its current operating environment.

Virginia Community College System - continued

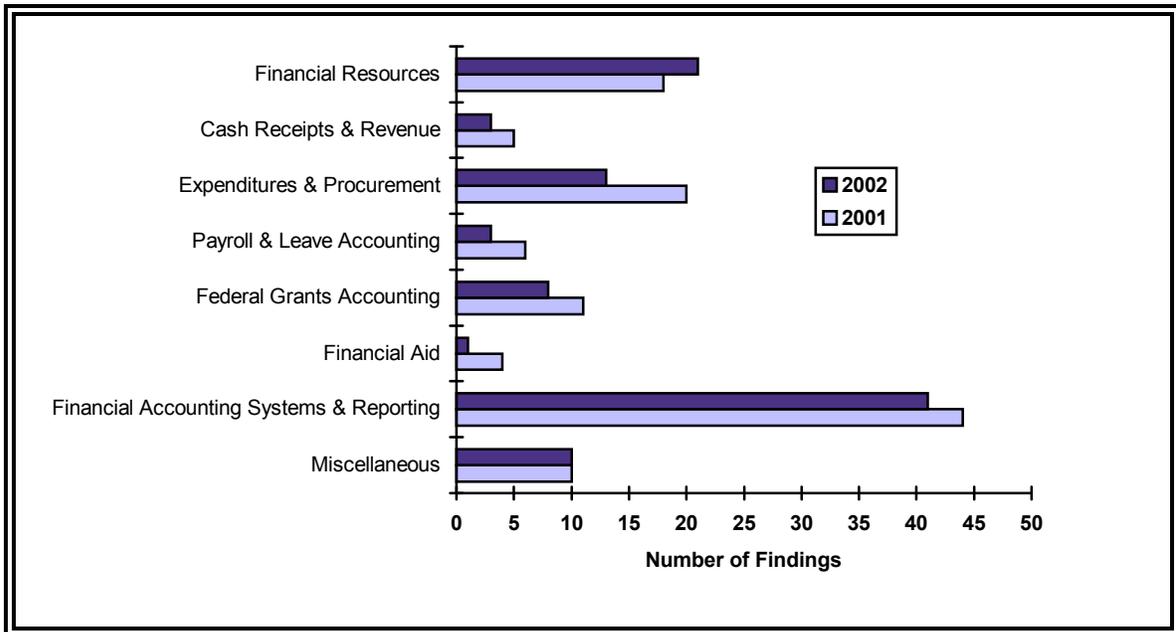
2. Enhance Fixed Asset Procedures: Individual colleges do not always properly record fixed asset changes in the Fixed Asset Inventory System and do not follow adequate fixed asset accounting and control procedures.
3. Properly Administer Return of Title IV Funds: Two colleges did not always record and post Title IV refunds in a timely manner. The two also failed to promptly return federal funds to the federal Department of Education. Additionally, one other college failed to properly calculate Title IV refunds.
4. Provide Campus Security Report to All Current and Prospective Students and Employees: One college did not completely prepare and directly provide to students and employees their annual campus security report. Two other colleges did not directly provide students and employees their annual security reports. The federal Department of Education in 34 CFR 668.41(e) requires that currently enrolled students and employees receive the institution's annual campus security report in its entirety.



Annual Summary of APA Audit Findings

As of September 30, 2003, the Auditor of Public Accounts has issued audit reports for 73 executive branch agencies for FY 2002. Thirty-three of these reports reflected no internal control weaknesses or compliance findings. The remaining 40 agencies' audit reports contained 100 audit findings citing internal control weaknesses and noncompliance. For FY 2001, 34 reports contained findings and 118 total findings were reported. About 41 percent of the FY 2002 audit findings were reported in the Financial Accounting Systems and reporting area compared to 37 percent for the previous year.

Statewide Findings by Category
FY 2001 – FY 2002 Comparison



<u>Category</u>	<u>New Findings</u>	<u>Repeat Findings</u>	<u>Total Findings</u>
Financial Accounting Systems & Reporting	30	11	41
Financial Resources	15	6	21
Expenditures & Procurement	10	3	13
Miscellaneous	7	3	10
Federal Grant Accounting	6	2	8
Cash Receipts & Revenue	1	2	3
Payroll & Leave Accounting	1	2	3
Financial Aid	0	1	1
Total	70	30	100

Compliance Monitoring

Exception Registers

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

DOA closely monitors exception register status, evaluates exceptions, and posts correcting entries in CARS. Exception registers for June, July and August were due 7/18/03, 8/26/03, and 9/25/03, respectively.

Exception Registers Late or Outstanding

As of October 20, 2003

	Jun	Jul	Aug
Christopher Newport University	-	O/S	O/S

KEY: O/S - Exception Register is Outstanding
DATE - The date received by DOA

Disbursement Processing

During the quarter ended September 30, 2003, DOA deleted, at the submitting agency's request, 74 payments that were awaiting disbursement from the vendor payment file. These included duplicate payments, payments with incorrect vendors or addresses, and payments with incorrect amounts. This type of transaction may point to areas where improved agency internal accounting controls should be evaluated.

Thirty-three agencies requested deletes during the quarter. Agencies that requested more than four vendor payment deletes during the quarter are as follows:

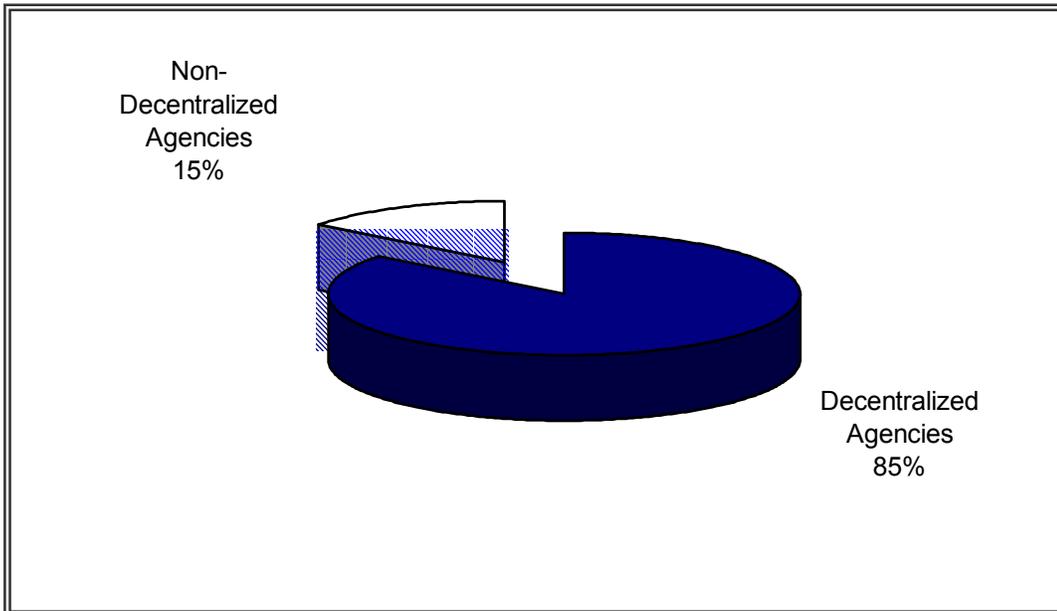
- ◆ Virginia Employment Commission
- ◆ Virginia Commonwealth University
- ◆ Department of Rehabilitative Services
- ◆ Department of Transportation
- ◆ Department of Corrections –
Division of Community Corrections

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 September 30, 2003



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

Decentralized Agencies

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

The Exception Rate is determined by dividing the number of compliance findings by the number of vouchers reviewed. The primary reasons for an Exception Rate exceeding 4 percent are provided below.

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

<u>Decentralized Agency</u>	<u>Vouchers Reviewed</u>	<u>Compliance Findings</u>	<u>Exception Rate</u>	<u>Performance Measurement</u>
<i>Education</i>				
Virginia Museum of Fine Arts	234	23	9.8%	Minimal
<i>Health and Human Resources</i>				
Department of Health	291	5	1.7%	Good
<i>Public Safety</i>				
Department of Criminal Justice Services/ Department of Fire Programs (1)	535	15	2.8%	Good

(1) Department of Criminal Justice Services provides fiscal services for the Department of Fire Programs. Therefore, the reviews were combined into one engagement and only one compliance rating is issued.

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

Agencies With Performance Ratings Lower Than “Good”

Virginia Museum of Fine Arts – Minimal Performance – The performance level is attributable to compliance findings for travel vouchers. Inadequate documentation accounted for the majority of the 22 travel voucher findings. Some of the more prevalent findings include the following:

Travel Vouchers

- ◆ Inadequate documentation and lack of original receipts (11)
- ◆ Meal costs exceed the guidelines (6)
- ◆ No overnight travel estimate sheet (4)



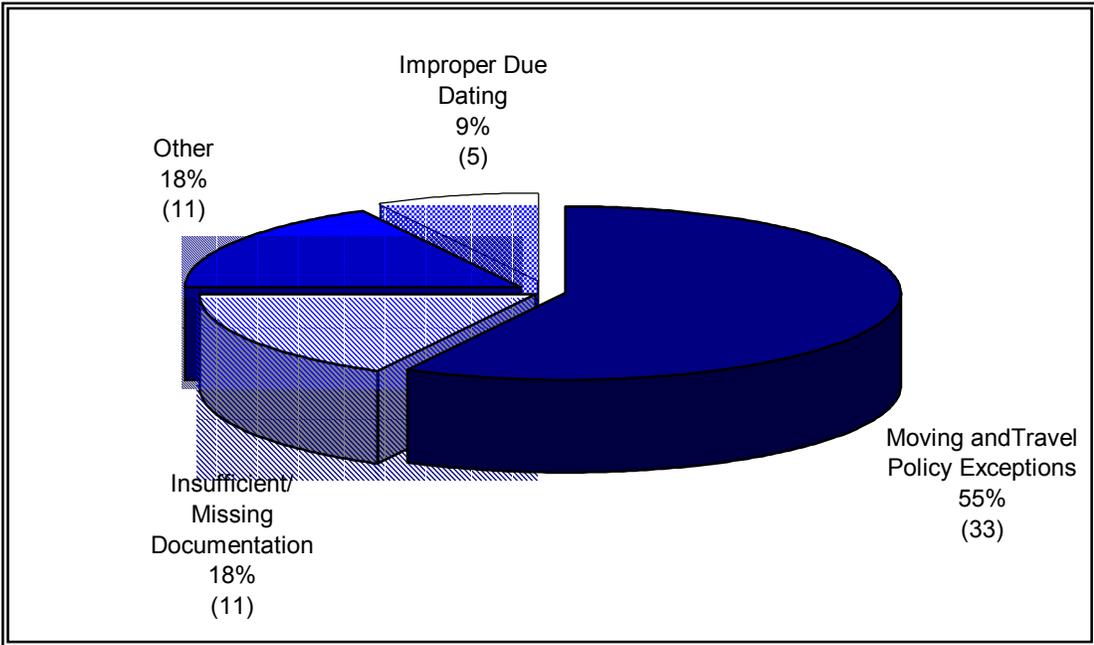
Non-Decentralized Agencies

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

officials and cabinet officers, for whom this additional safeguard is warranted.

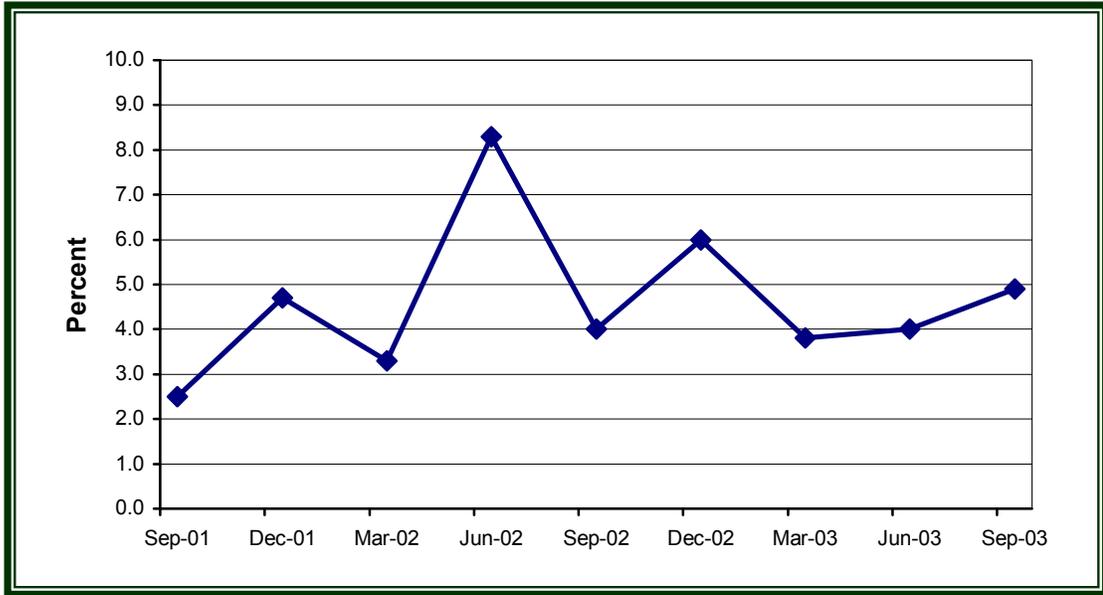
During the quarter, DOA reviewed 133 non-decentralized agencies. A total of 976 non-travel disbursement batches and 247 travel disbursement batches were reviewed, disclosing 60 exceptions that were resolved prior to releasing the transactions for payment.

**Disbursement Review and Compliance Findings
Non-Decentralized Agencies**
Quarter Ended September 30, 2003



The following chart compares compliance findings as a percentage of total batches reviewed among non-decentralized agencies, by quarter, for the past two years.

**Total Quarterly Disbursement
Review Exceptions**
September 2001 – September 2003



Prompt Payment Compliance

The Prompt Payment Act requires that State agencies and institutions pay for goods and services by the required payment due date. The reporting required by the Code of Virginia Section 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

	<i>Quarter Ended September 30, 2003</i>		Late
	Late	Total	
Number of Payments	7,228	621,194	9,306
Dollars (in thousands)	\$20,458	\$1,262,320	\$68,013
Interest Paid on Late Payments		\$1,401	
Percentage of Payments in Compliance		98.8%	



Prompt Payment Performance by Secretarial Area
Quarter Ended September 30, 2003

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.5%	99.5%
Commerce and Trade	99.0%	99.1%
Education*	98.9%	98.4%
Elected Officials	95.7%	96.1%
Finance	99.8%	99.8%
Health and Human Resources	98.5%	97.9%
Independent Agencies	99.2%	99.7%
Judicial	99.6%	99.9%
Legislative	99.5%	99.8%
Natural Resources	99.3%	99.4%
Public Safety	98.9%	98.8%
Technology	98.1%	96.9%
Transportation*	99.2%	97.9%
Statewide	98.8%	98.4%

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



For the quarter ended September 30, 2003, the following agencies and institutions that processed more than 50 vendor payments during the quarter were below the 95 percent prompt payment performance standard.

Prompt Payment Compliance Rate
Agencies Below 95%
Quarter Ended September 30, 2003

Agency	Late Payments	Total Payments	Payments in Compliance
<i>Education</i>			
Gunston Hall Plantation	6	105	94.3%
The Science Museum of Virginia	54	877	93.8%
<i>Elected Officials</i>			
Attorney General and Department of Law	37	460	92.0%
<i>Health and Human Resources</i>			
Southeastern Virginia Training Center	427	1,040	58.9%
<i>Public Safety</i>			
Central Region Correctional Field Units	98	838	88.3%

Prompt Payment Explanations

Explanations for low prompt payment compliance rates for the first quarter of FY 2004 were provided by the following agencies. Not all agencies elected to provide written explanations.

Gunston Hall Plantation has one employee to handle administration, accounting, human resources and purchasing functions. They continue to strive to meet prompt payment standards.



E-Commerce

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

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

Statewide E-Commerce Performance Statistics

	<i>Quarter Ended September 30, 2003</i>			<i>Comparative Quarter Ended September 30, 2002</i>
	E-Commerce	Total	Percent	Percent
Number of Payments	562,281	1,002,975	56.1%	54.4%
Payment Amounts	\$4,509,455,826	\$5,381,872,945	83.8%	81.3%

Financial Electronic Data Interchange (EDI)

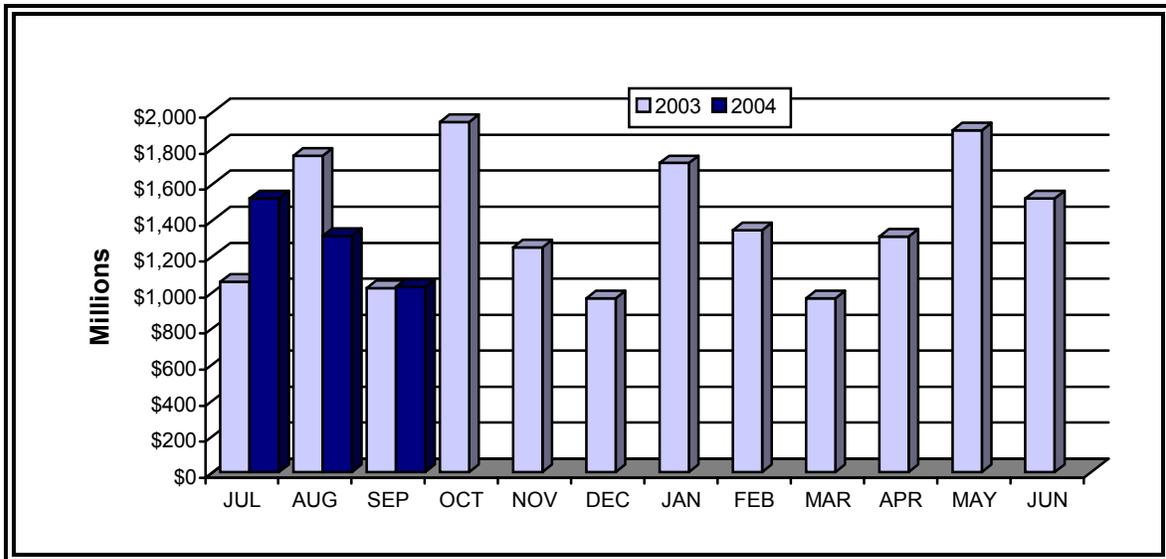
The dollar volume of Financial EDI payments for the first quarter of FY 2004 increased by \$24.1 million from the same quarter last year. The number of trading partner accounts increased by

162 percent from September 2002. The largest portion of this increase is due to efforts to convert state employee travel reimbursements from checks to electronic payments.

Financial EDI Activity

<i>Financial EDI Activity</i>	<i>Quarter Ended September 30, 2003</i>	<i>Comparative Quarter Ended September 30, 2002</i>
Number of Payments	28,916	19,901
Amount of Payments	\$3,859,490,391	\$3,835,424,792
Number of Invoices Paid	146,729	122,326
Estimated Number of Checks Avoided	55,872	43,326
Number of Trading Partner Accounts as of 9-30-03	13,220	5,039

EDI Payment Comparison
FY 2003 – FY 2004



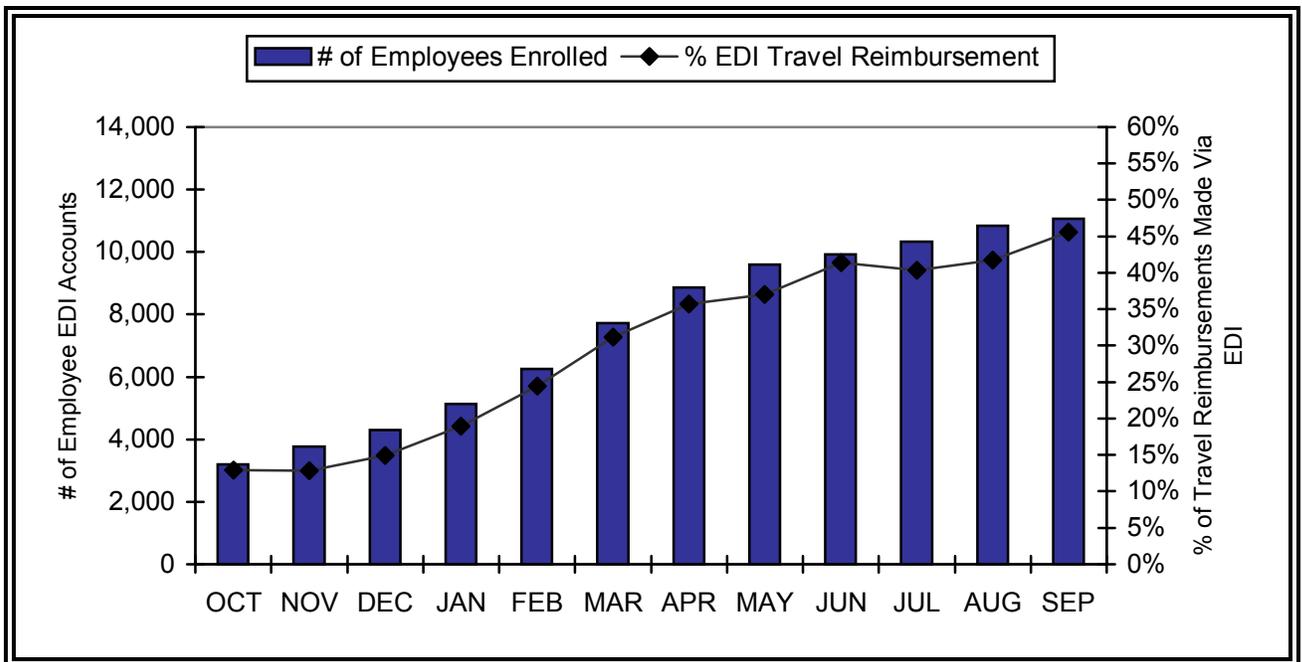
Employee EDI

Expansion of the Employee 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.

Although participation among certain agencies has increased, many agencies

have failed to enroll employees in EDI as required by law. In accordance with Section 4-5.06g of the Appropriation Act, the Comptroller will charge agencies \$1 for each travel reimbursement check issued in lieu of Employee EDI beginning with the second quarter of FY 2004. Agencies are expected to take action to enroll applicable employees in the EDI program and thus avoid the fees altogether.

Employee EDI Growth
October 2002 – September 2003



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 include all travel reimbursements, whether for state or non-state employees.*

**Travel Reimbursement
Employee EDI Performance
by Secretarial Area**

Quarter Ended September 30, 2003

Secretarial Area	Percent	Reimbursement Checks Issued
Administration	38.2%	162
Commerce and Trade	72.5%	805
Education*	28.8%	2,786
Elected Officials	18.8%	181
Finance	87.0%	85
Health and Human Resources	60.9%	2,905
Independent Agencies	70.5%	390
Judicial	6.3%	3,002
Legislative	45.7%	406
Natural Resources	43.0%	965
Public Safety	20.3%	4,430
Technology	5.7%	66
Transportation*	54.5%	213
Statewide	42.4%	16,396
<i>Comparative Quarter Ended September 30, 2002</i>		
Statewide	12.1%	27,624

* Statistics do not include agencies and institutions decentralized for vendor payment processing and the Department of Transportation, which currently processes travel reimbursements through petty cash.



The following table lists agencies with Employee EDI participation rates below 50 percent that issued more than 50 travel reimbursement checks during the quarter.

**Agency Employee* EDI Performance
Utilization Below 50 Percent**

Agency	Percent	Reimbursement Checks Issued
Administration		
Department of Veterans Services	0.0	57
Commerce and Trade		
Department of Professional and Occupational Regulation	16.9	177
Tobacco Indemnification and Revitalization Commission	0.0	70
Education		
Longwood University	48.7	138
Northern Virginia Community College	48.0	52
Virginia Community College System	42.6	113
Virginia State University	24.0	152
Norfolk State University	22.1	187
Department of Education	19.9	766
Danville Community College	5.1	56
Virginia Military Institute	1.5	68
Tidewater Community College	1.2	165
J. Sargeant Reynolds Community College	0.0	102
Thomas Nelson Community College	0.0	94
Southwest Virginia Community College	0.0	76
Southside Virginia Community College	0.0	61
Elected Officials		
Attorney General and Department of Law	0.0	158
Health and Human Resources		
Department of Social Services	46.4	495
Department of Medical Assistance Services	43.4	82
Independent		
State Lottery Department	49.3	136
Virginia Workers' Compensation Commission	16.4	107
Virginia Office for Protection and Advocacy	0.0	70

Agency	Percent	Reimbursement Checks Issued
Judicial		
Virginia State Bar	19.9	177
Circuit Courts	0.0	824
Supreme Court	0.0	727
General District Courts	0.0	314
Juvenile and Domestic Relations District Courts	0.0	302
Combined District Courts	0.0	286
Magistrate System	0.0	258
Legislative		
Senate	42.9	52
House of Delegates	12.7	124
Natural Resources		
Department of Game and Inland Fisheries	0.0	801
Public Safety		
Department of Criminal Justice Services	34.2	331
Department of Corrections – Central Administration	28.3	99
Department of Corrections - Division of Community Corrections	15.9	506
Virginia Correctional Enterprises	13.0	121
Department of Corrections – Division of Institutions	7.9	105
Department of Fire Programs	0.8	120
Department of State Police	0.0	1,411
Department of Juvenile Justice	0.0	851
Department of Military Affairs	0.0	92
Technology		
Virginia Information Technologies Agency	0.0	56
Transportation		
Department of Motor Vehicles	47.8	179

* Current statistics include all travel reimbursements, whether for state or non-state employees. Several of the agencies listed process reimbursements to non-state employees.



Direct Deposit

During the first quarter of FY 2004, 361,371 checks were avoided using direct deposit. Agencies are expected to

take proactive steps to improve participation rates, particularly for wage employees.

Direct Deposit Performance by Secretarial Area

Quarter Ended September 30, 2003

Secretarial Area	Direct Deposit % of Salary Employees	Direct Deposit % of Wage Employees
Administration	87.4%	78.3%
Commerce and Trade	93.3%	82.2%
Education	90.3%	34.3%
Elected Officials	90.3%	46.0%
Finance	94.1%	62.4%
Health and Human Resources	82.0%	65.3%
Independent Agencies	95.0%	77.2%
Judicial	94.9%	32.0%
Legislative	93.8%	66.7%
Natural Resources	95.6%	43.6%
Public Safety	85.8%	70.0%
Technology	92.7%	88.2%
Transportation	81.0%	61.0%
Statewide	86.2%	46.2%

Comparative

Quarter Ended September 30, 2002

Statewide	84.9%	45.5%
------------------	--------------	--------------



Statewide Salaried Direct Deposit Performance
Quarter Ended September 30, 2003

Salaried Direct Deposit Participation	86.2%
--	--------------

Salaried Direct Deposit Below 80 Percent

Agency	Percent	Number of Employees
Education		
Tidewater Community College	68.8%	1,460
Health and Human Resources		
Southwestern Virginia Training Center	79.5%	450
Southwestern Virginia Mental Health Institute	78.1%	521
Southern Virginia Mental Health Institute	74.8%	163
Hiram W. Davis Medical Center	73.3%	180
Central State Hospital	71.6%	737
Piedmont Geriatric Hospital	66.1%	322
Southside Virginia Training Center	64.1%	1,365
Central Virginia Training Center	59.5%	1,507
Public Safety		
Central Region Correctional Field Units	79.3%	160
Eastern Region Correctional Field Units	78.1%	211
Augusta Correctional Center	77.2%	417
Greensville Correctional Center	76.4%	835
Fluvanna Women's Correctional Center	75.7%	347
Southampton Reception and Classification Center	75.0%	248
Bland Correctional Center	74.3%	285
Brunswick Correctional Center	73.3%	386
Mecklenburg Correctional Center	73.2%	310
Dillwyn Correctional Center	68.9%	261
Buckingham Correctional Center	65.3%	343
Nottoway Correctional Center	62.0%	422
Virginia Center for Behavioral Rehabilitation	60.0%	45
Transportation		
Department of Transportation – Fredericksburg District	79.2%	655
Department of Transportation – Richmond District	77.5%	1,208
Department of Transportation – Staunton District	76.7%	835
Department of Transportation – Lynchburg District	70.7%	773
Department of Transportation – Salem District	70.2%	959
Department of Transportation – Culpeper District	68.9%	660
Department of Transportation – Bristol District	67.6%	1,054

Statewide Wage Direct Deposit Performance

Quarter Ended September 30, 2003

Wage Direct Deposit Participation

46.2%

Wage Direct Deposit Below 40 Percent

<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
<i>Education</i>		
Lord Fairfax Community College	37.1%	97
Virginia Museum of Fine Arts	36.5%	52
Richard Bland College	35.0%	20
Piedmont Virginia Community College	33.6%	116
Dabney S Lancaster Community College	30.2%	76
Paul D Camp Community College	29.8%	87
Norfolk State University	28.9%	546
Southwest Virginia Community College	27.1%	247
John Tyler Community College	26.6%	221
Central Virginia Community College	26.2%	141
New River Community College	21.3%	281
Radford University	18.8%	858
Eastern Shore Community College	17.7%	62
Blue Ridge Community College	17.1%	157
Thomas Nelson Community College	16.6%	499
Northern Virginia Community College	13.5%	805
Wytheville Community College	11.1%	134
Rappahannock Community College	10.2%	166
Mountain Empire Community College	9.8%	244
Danville Community College	9.7%	216
Virginia Western Community College	9.1%	317
Longwood University	7.7%	528
Southside Virginia Community College	6.0%	132
Virginia Highlands Community College	4.3%	186
<i>Health and Human Resources</i>		
Southside Virginia Training Center	32.6%	95
Central Virginia Training Center	0.0%	72
<i>Independent Agencies</i>		
State Corporation Commission	30.0%	10

Agency	Percent	Number of Employees
Judicial		
Combined District Courts	29.0%	31
General District Courts	24.4%	245
Natural Resources		
Department of Conservation and Recreation	38.6%	764
Public Safety		
Department of Fire Programs	31.5%	38
Virginia Correctional Enterprises	13.3%	15

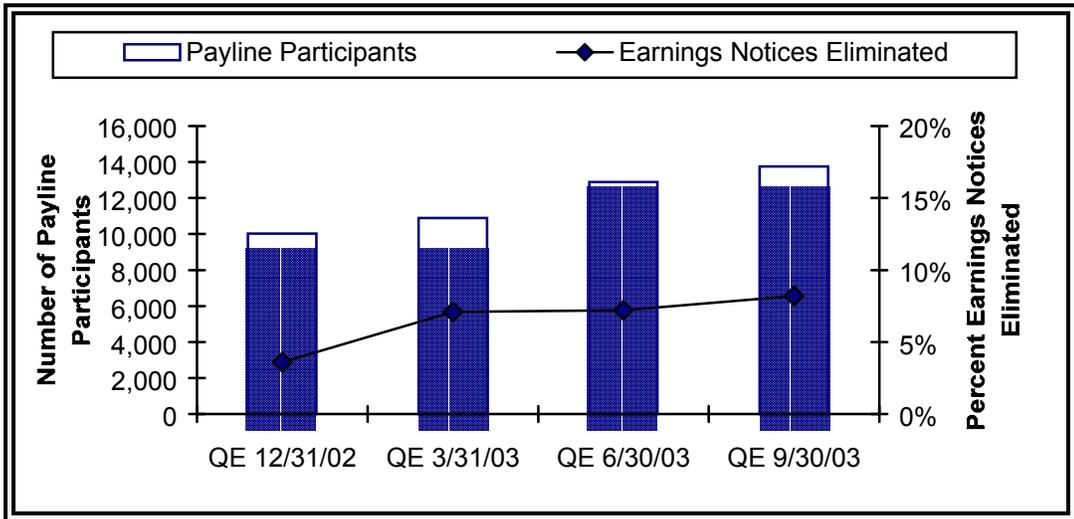


Payroll Earnings Notices

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 87,000 earnings notices. However, statewide participation rates remain low.

Quarterly Payline and Earnings Notice Opt Out Participation
December 2002 – September 2003



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

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

Quarter Ended September 30, 2003

Secretarial Area	Percent Payline Participation	Percent Earnings Notices Eliminated*
Administration	41.3%	26.2%
Commerce and Trade	38.0%	20.6%
Education	10.8%	6.3%
Elected Officials	25.1%	18.8%
Finance	62.3%	34.4%
Health and Human Resources	19.0%	8.2%
Independent Agencies	36.0%	18.5%
Judicial	3.5%	1.0%
Legislative	29.0%	25.3%
Natural Resources	35.5%	24.5%
Public Safety	11.8%	4.5%
Technology	36.6%	27.3%
Transportation	13.6%	4.3%
Statewide	16.9%	8.2%

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

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

Listed below are agencies where less than two percent of earnings notices have been eliminated by employees participating in the Opt-Out program. Only agencies and institutions with 25 or more employees are included in this report.

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 9/30/03 Payday
Education		
Longwood University	1.7%	469
Danville Community College	1.7%	129
Norfolk State University	1.5%	879
Christopher Newport University	1.4%	995
Virginia School for the Deaf and the Blind at Staunton	1.3%	152
Wytheville Community College	1.2%	119
Central Virginia Community College	1.2%	154
Radford University	1.1%	1,120
Virginia School for the Deaf, Blind and Multi-Disabled at Hampton	1.1%	125
Eastern Shore Community College	1.0%	58
Tidewater Community College	1.0%	1,356
New River Community College	0.8%	175
Rappahannock Community College	0.8%	102
Northern Virginia Community College	0.8%	1,247
Piedmont Virginia Community College	0.8%	165
John Tyler Community College	0.8%	243
Southside Virginia Community College	0.4%	159
Frontier Culture Museum of Virginia	0.0%	50
Paul D. Camp Community College	0.0%	97
Thomas Nelson Community College	0.0%	344
Virginia Highlands Community College	0.0%	116
Elected Officials		
Attorney General and Department of Law	1.7%	221
Health and Human Resources		
Southside Virginia Training Center	1.8%	869
Virginia Center for Behavioral Rehabilitation	0.0%	25

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 9/30/03 Payday
Judicial		
Public Defender Commission	1.9%	343
Juvenile and Domestic Relations District Courts	0.6%	559
Combined District Courts	0.5%	180
General District Courts	0.1%	892
Magistrate System	0.0%	400
Circuit Courts	0.0%	161
Virginia State Bar	0.0%	82
Court of Appeals of Virginia	0.0%	66
Legislative		
Division of Capitol Police	1.1%	82
Public Safety		
Augusta Correctional Center	1.9%	314
Haynesville Correctional Center	1.9%	266
Virginia Correctional Enterprises	1.8%	141
Deerfield Correctional Center	1.6%	158
Fluvanna Women's Correctional Center	1.2%	258
Deep Meadow Correctional Center	1.2%	279
Department of Corrections/Adult Community Services	1.2%	1,119
Wallens Ridge Correctional Center	1.0%	352
Buckingham Correctional Center	0.9%	220
Eastern Region Correctional Field Units	0.9%	163
Southampton Correctional Center	0.8%	185
Western Region Correctional Field Units	0.8%	390
Greensville Correctional Center	0.8%	618
Dillwyn Correctional Center	0.8%	175
Bland Correctional Center	0.7%	208
Central Region Correctional Field Units	0.6%	127
Brunswick Correctional Center	0.5%	278
Red Onion Correctional Center	0.5%	374
James River Correctional Center	0.4%	215
Mecklenburg Correctional Center	0.3%	226
Nottoway Correctional Center	0.2%	255
Powhatan Correctional Center	0.0%	274
Virginia Correctional Center for Women	0.0%	163
Powhatan Reception and Classification Center	0.0%	99
Southampton Reception and Classification Center	0.0%	62
Lunenburg Correctional Center	0.0%	222

Agency	Percent Earnings Notices Eliminated	Earnings Notices Printed for 9/30/03 Payday
<i>Transportation</i>		
Department of Transportation – Richmond District	1.8%	910
Department of Transportation – Bristol District	1.6%	694
Department of Transportation – Northern Virginia District	1.5%	912
Department of Transportation – Culpeper District	0.9%	445
Department of Transportation – Hourly	0.7%	186



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

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

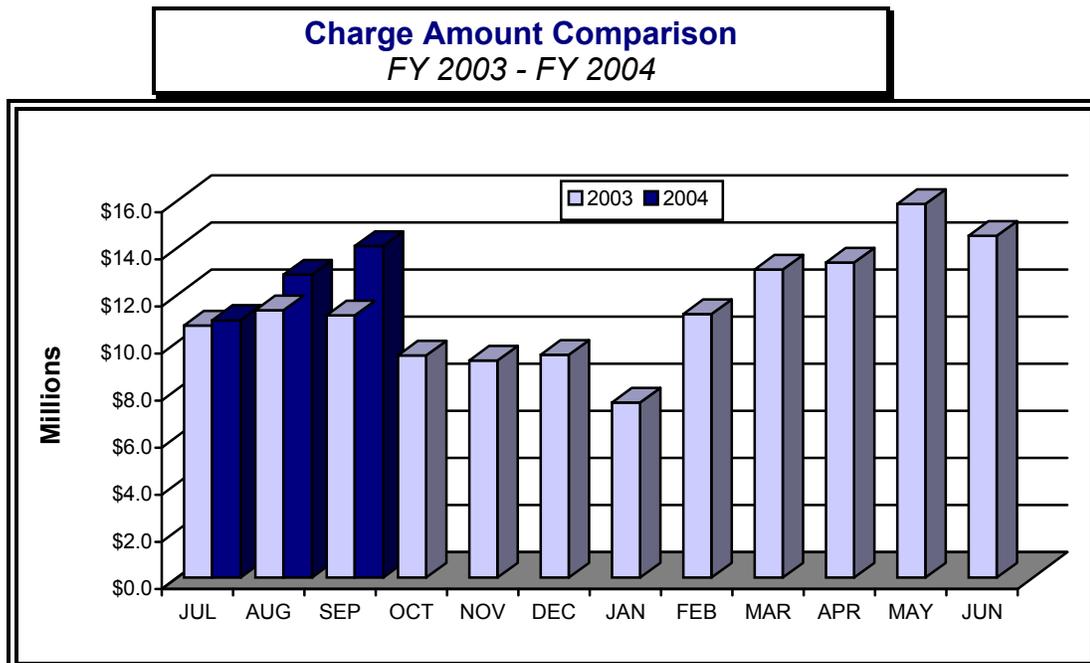
The Small Purchase Charge Card continues to be used for purchases under \$5,000. Agencies are strongly encouraged to obtain a Gold Card for use by a procurement professional for purchases in the \$5,000 to \$50,000 range.

The total amount charged on SPCC and Gold cards during the first quarter of FY 2004 increased by \$4.7 million or 14.1 percent from the same quarter last year.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended September 30, 2003	Comparative Quarter Ended September 30, 2003
Amount of Charges	\$37,950,329	\$33,246,613
Estimated Number of Checks Avoided	107,518	99,983
Total Number of Participating Agencies	191	192
Total Number of Cards Outstanding	10,661	10,561

The following chart compares charge activity for FY 2004 to activity for FY 2003.



SPCC Utilization Compliance

Maximum use of the SPCC program, in conjunction with other e-commerce initiatives, is essential to the statewide effort to reduce the costs associated with paying for goods and services for the Commonwealth. The tables on the following pages list SPCC participation by secretarial area and identify those agencies that are not maximizing charge card use and the associated cost savings. Agencies that are not utilizing the Gold card to the fullest extent will also be identified in future issues of this *Quarterly Report*.

The statewide SPCC utilization rate has increased only slightly over the past year. Several efforts are underway to increase utilization and to coordinate SPCC and eVA usage. In a joint effort by DOA, DGS, and American Express, vendors currently registered on eVA are being encouraged to accept the card as payment and vendors who currently accept the card are being encouraged to register with eVA. In addition, the Comptroller will begin assessing the \$1 charge to agencies in accordance with Section 4-5.06g of the Appropriation Act based on underutilization during the second quarter of FY 2004. Agencies are expected to use purchasing cards for transactions with all participating vendors (i.e., vendors who accept the American Express card) and thus avoid the fee altogether.

Statewide SPCC Performance

Quarter Ended September 30, 2003

Percentage Utilization for Eligible Transactions	75%
<i>Comparative</i> <i>Quarter Ended September 30, 2002</i>	
Percentage Utilization for Eligible Transactions	72%



SPCC Utilization by Secretarial Area

Quarter Ended September 30, 2003

Secretarial Area	Payments in Compliance ⁽¹⁾	Non-Compliant Transactions ⁽²⁾
Administration	72%	926
Commerce and Trade	75%	1,316
Education*	82%	5,390
Elected Officials	33%	248
Finance	65%	274
Health and Human Resources	60%	9,697
Independent Agencies	48%	754
Judicial	47%	1,656
Legislative	71%	182
Natural Resources	93%	629
Public Safety	71%	6,685
Technology	52%	199
Transportation*	82%	7,910
Statewide	75%	35,866

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

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

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



**Agency SPCC Performance
Utilization Below 70 Percent**

Agency	Payments in Compliance	Non-Compliant Transactions
Administration		
Department of Veterans Services	68%	87
Commerce and Trade		
Virginia Employment Commission	48%	601
Education		
Thomas Nelson Community College	69%	149
Rappahannock Community College	62%	101
Norfolk State University	50%	498
Virginia School for the Deaf and the Blind at Staunton	50%	170
New River Community College	48%	165
Christopher Newport University	37%	757
Virginia State University/Cooperative Extension and Agricultural Research Services	7%	642
Elected Officials		
Attorney General and Department of Law	44%	128
Finance		
Department of Taxation	66%	161
Health and Human Resources		
Southwestern Virginia Training Center	66%	77
Central Virginia Training Center	64%	264
Department of Medical Assistance Services	60%	84
Department of Health	59%	3,022
Department of Social Services	57%	1,113
Southeastern Virginia Training Center	52%	244
Hiram W. Davis Medical Center	40%	129
Eastern State Hospital	34%	553
Northern Virginia Mental Health Institute	34%	189
Northern Virginia Training Center	19%	255
Independent Agencies		
State Lottery Department	44%	199
State Corporation Commission	0%	414
Judicial		
Public Defender Commission	61%	134
Legislative		
House of Delegates	51%	70

Agency	Payments in Compliance	Non-Compliant Transactions
Natural Resources		
Marine Resources Commission	58%	98
Public Safety		
Department of Alcoholic Beverage Control	69%	380
Department of Fire Programs	68%	67
Dillwyn Correctional Center	68%	77
Southampton Correctional Center	67%	120
Department of Corrections – Central Administration	65%	152
Coffeewood Correctional Center	65%	87
Department of State Police	64%	411
Virginia Correctional Enterprises	59%	696
Brunswick Correctional Center	58%	185
Wallens Ridge Correctional Center	57%	128
Powhatan Correctional Center	57%	134
Deep Meadow Correctional Center	54%	102
Nottoway Correctional Center	51%	80
Department of Military Affairs	48%	695
Sussex I Correctional Center	46%	75
Red Onion Correctional Center	41%	122
Virginia Correctional Center for Women	31%	131
Keen Mountain Correctional Center	19%	128
Department of Corrections – Division of Institutions	0%	292
Marion Correctional Treatment Center	0%	115
Technology		
Virginia Information Technologies Agency	53%	191
Transportation		
Department of Motor Vehicles	67%	871

SPCC Payment Compliance

Agencies and institutions participating in the SPCC program are required to submit payments via EDI to the SPCC vendor by the 14th of each month. Failure to pay the correct amount when due jeopardizes the Commonwealth's

contractual relationship with the purchasing card vendor and may result in suspension of an agency's charge card program. The following chart lists agencies more than three days late in submitting their payments.

Agency Name	Jul	Aug	Sep
Administration			
Department of Human Resource Management		X	X
Department of Veterans Services			X
Education			
Dabney S Lancaster Community College		X	X
J Sargeant Reynolds Community College	X		
Elected Officials			
Attorney General and Department of Law		X	X
Health and Human Resources			
Piedmont Geriatric Hospital		X	
Southeastern Virginia Training Center		X	
Public Safety			
Department of Corrections	X	X	X
Virginia Correctional Center for Women		X	
Technology			
Virginia Information Technologies Agency			X
Transportation			
Department of Rail and Public Transportation	X	X	



Payroll Controls

PMIS/CIPPS Payroll Audit

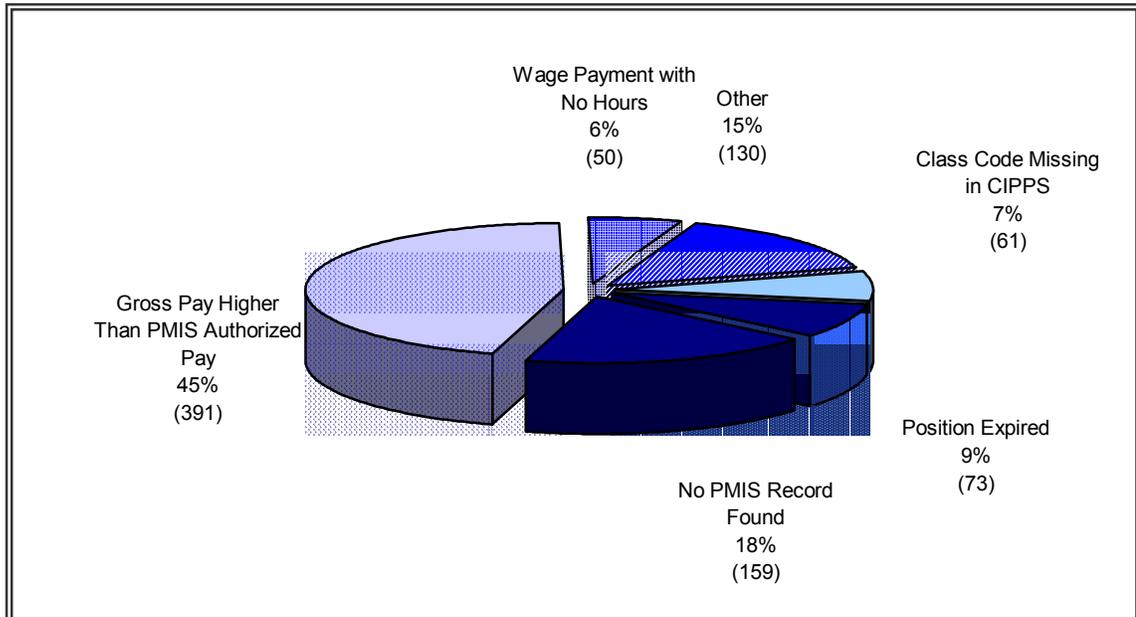
During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 421,416 salaried pay transactions and 233,148 wage pay transactions. The comparison is performed following each payday and is designed to identify discrepancies between authorized salary/wage amounts in PMIS and amounts paid in CIPPS. There were 2,390 new exceptions noted statewide during the quarter, with an overall exception rate of 0.39 percent.

The statewide salaried payroll exception rate was 0.56 percent and the wage payroll exception rate was 0.09 percent. During this quarter, 36 employee paychecks were reduced to recover \$13,995.45 in overpayments.

The largest causes of exceptions are agency failure to complete the salary increase authorization process by updating PMIS salary amounts *prior* to paying the increased salary amount in CIPPS and retroactive payments that exceed normal pay period salaries. 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 September 30, 2003



Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Effective with the quarter ending June 30, 2003, the number of reported salaried exceptions increased due to refinements in audit procedures. The increase was not due to significant changes in agency performance. The refinements are designed to improve accuracy in payroll and benefit calculations by increasing agency awareness of the importance of timely personnel system updates and proper payroll payment classification. Agencies are reported below if the percentage of payroll exceptions to salaried or wage payments exceeds twice the statewide average for the quarter.

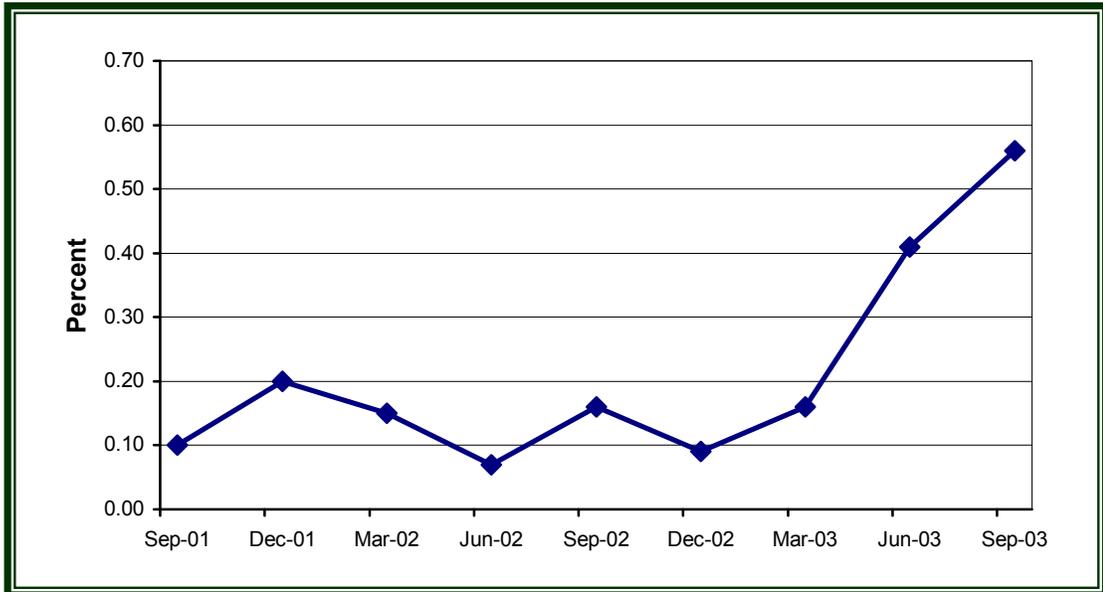
Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Salaried Payments

Quarter Ended September 30, 2003

<u>Agency</u>	Exceptions as a % of Salaried Payments
Southside Virginia Community College	2.82%
Total Salaried Payroll Exceptions for the Quarter	
	0.56%

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

Total Quarterly Salaried Exceptions
September 2001 – September 2003



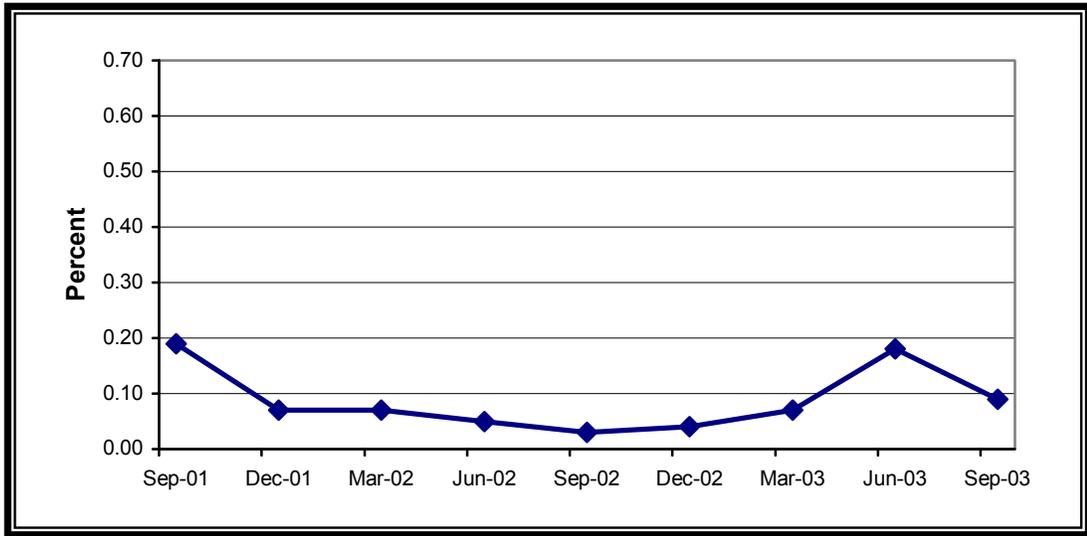
Note: Increases since the last quarter of FY 2003 were caused by refinements in audit procedures. See narrative explanation, above.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended September 30, 2003

Agency	Exceptions as a % of Wage Payments
Richard Bland College	0.91%
Department of Veterans Services	16.25%
Wage Payroll Exceptions for the Quarter	
	0.09%

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

Total Quarterly Wage Exceptions
September 2001 – September 2003



PMIS/CIPPS Exceptions

Agencies are required to submit explanations and/or reconciliations for the differences identified on the CIPPS/PMIS Unresolved Exceptions Report, within 6 weeks of notification. The following table lists those agencies having exceptions that remain unresolved six weeks after receipt of the report.

<u>Agency</u>	<u>Unresolved Exceptions</u>
<i>Education</i>	
Christopher Newport University	32
Norfolk State University	2
<i>Finance</i>	
Department of Taxation	5
<i>Natural Resources</i>	
Virginia Museum of Natural History	1
<i>Transportation</i>	
Department of Transportation – Northern Virginia District	1



Payroll Certification

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

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

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

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

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

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

Payroll Certification Compliance

Agency	Variance Amount (a)	Performed by DOA (b)	Submitted Late (c)	Corrected by DOA (d)
Administration				
Department of Veterans Services		2		
Education				
Northern Virginia Community College	\$ 1,181,204			
Virginia State University	135,215			
Central Virginia Community College			3	
Frontier Culture Museum of Virginia			2	
Judicial				
Juvenile and Domestic Relations District Courts	\$ 20,326			
Health and Human Resources				
Hiram W. Davis Medical Center	\$ 240,798			
Department of Rehabilitative Services	88,148			
Southeastern Virginia Training Center	52,539			
Southside Virginia Training Center	45,698			
Central State Hospital	22,731			
Natural Resources				
Virginia Museum of Natural History		2		
Public Safety				
Powhatan Correctional Center	\$ 55,271			
Western Region Correctional Field Units	23,384			
Transportation				
Department of Transportation – Salem District	\$ 42,425			

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.

Healthcare Reconciliations

Employee healthcare 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 healthcare eligibility records (BES) and healthcare premium payments collected through payroll deduction. The following table

lists those agencies that were late in submitting their certification or had problems requiring additional adjustments. Such problems may include incomplete or incorrect documents or required IAT's not submitted to DOA. Healthcare reconciliations for the months of June, July and August were due 7/31/03, 8/29/03, and 9/30/03, respectively.

Schedule of Late Health Care Reconciliations

	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>
Education			
George Mason University*	X	X	X
Piedmont Virginia Community College		X	X
Southside Virginia Community College		X	
The Science Museum of Virginia	X		
Tidewater Community College		X	X
Virginia State University	X		
Elected Officials			
Attorney General and Department of Law	X	X	
Attorney General/Division of Debt Collection	X	X	
Public Safety			
Department of Corrections –			
Division of Institutions		X	
Department of Juvenile Justice		X	
Fluvanna Women’s Correctional Center		X	
Lunenburg Correctional Center		X	
Red Onion Correctional Center	X		
Transportation			
Department of Transportation	X	X	X

* George Mason University is decentralized but is required to submit healthcare reconciliations to the Department of Human Resource Management by the end of the month following each quarter.



FINANCIAL MANAGEMENT ACTIVITY

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

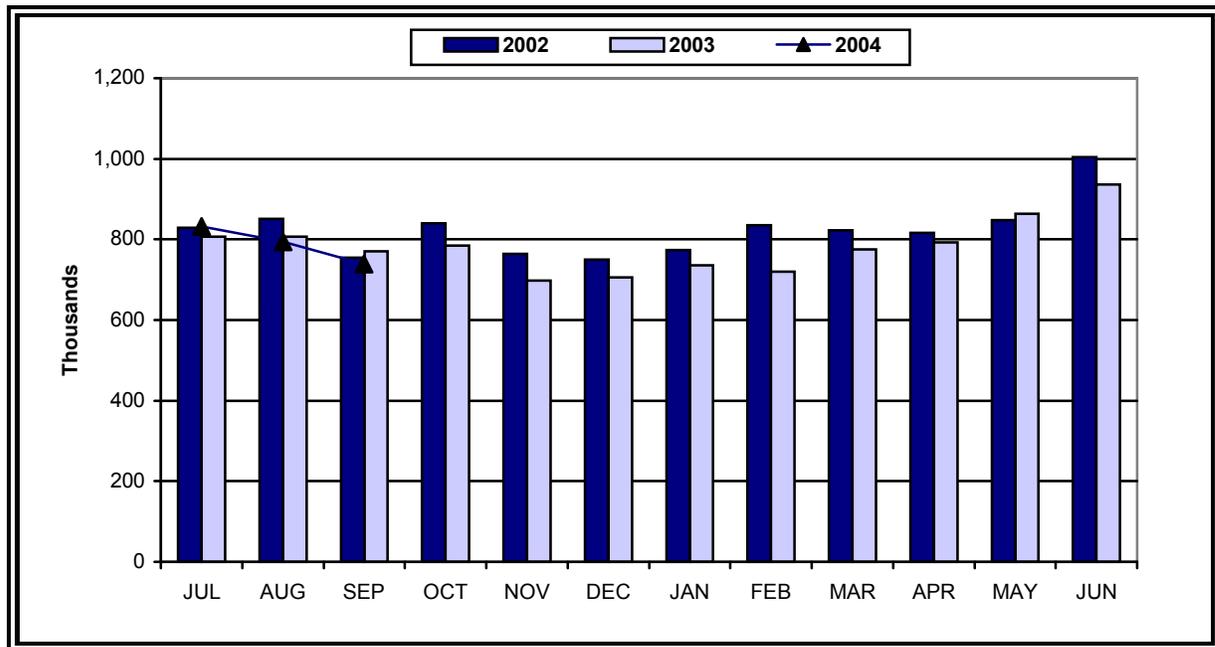
accounts receivable, indirect cost recoveries, treasury loans, and Fixed Asset Accounting and Control System (FAACS).

Commonwealth Accounting and Reporting System (CARS)

CARS activity trends provide important information about Statewide accounting. Currently, measures are used to track CARS transactions and error counts. A marked increase or decrease in the

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

CARS Transactions
Fiscal Years 2002 - 2004



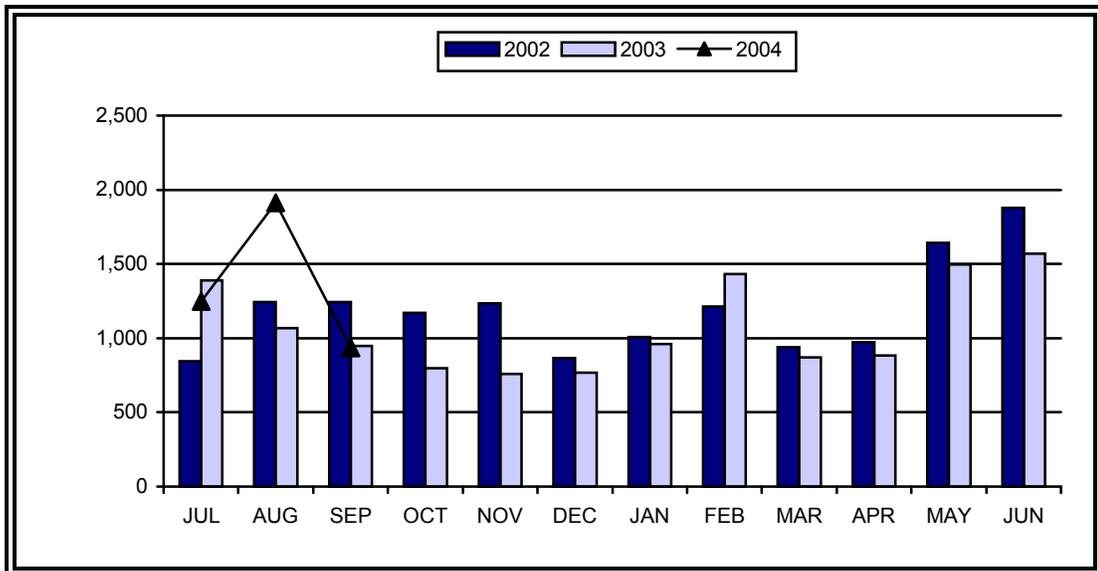
CARS Edits

One of the most important management tools used by DOA is the monitoring of CARS errors generated by standard system edits. Batches remain on the error file until problems are resolved, which, for disbursement transactions, can lead to noncompliance with prompt payment standards and poor vendor relations. During the first quarter of FY 2004, the most frequent reasons cited for batches being sent to the error file were:

- ◆ Available Cash Negative
- ◆ Expenditures Exceed Allotments
- ◆ Certified Amount Not Balanced

The marked increase during the month of August was attributable to cash flow problems in several agencies and institutions. Agencies may avoid such errors by more closely monitoring cash and allotment balances. Sound agency cash management practices should be developed to ensure transactions are not submitted to CARS when funding is not available.

CARS Monthly Errors
Average Number of Daily Errors
Fiscal Years 2002 - 2004



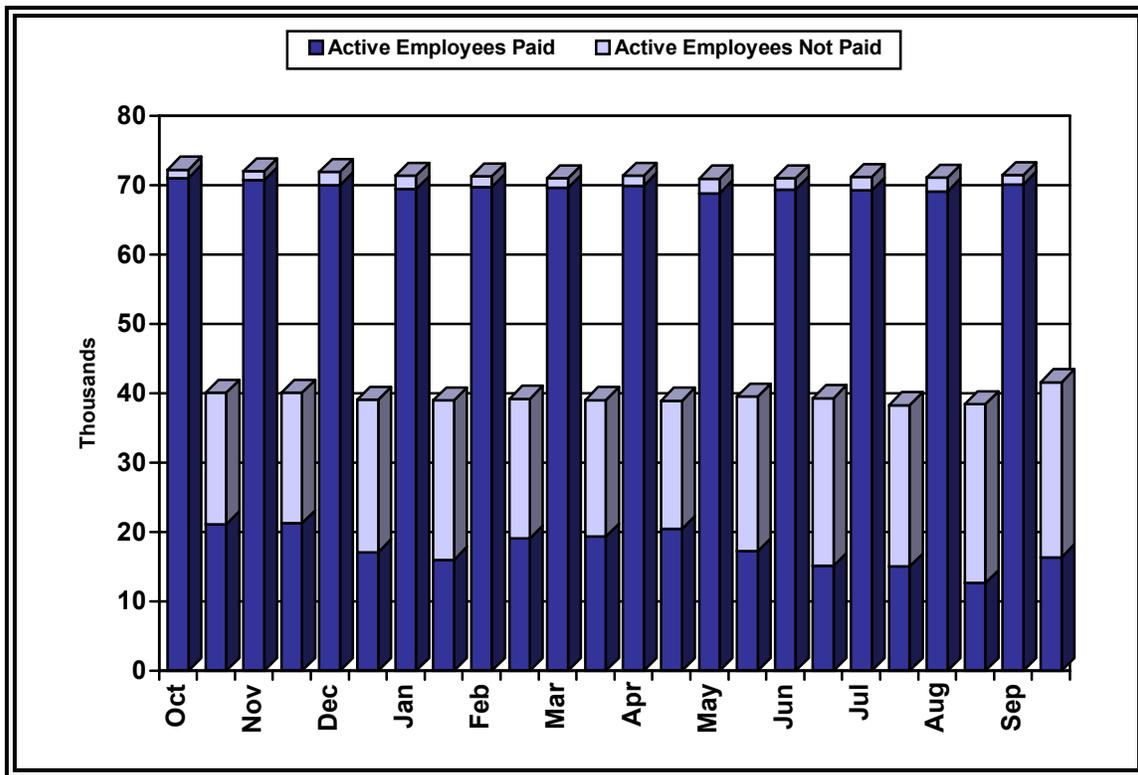
Payroll

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 110,672 employees. Payroll services are also provided through eight decentralized higher education institutions.

Total gross payrolls for the Commonwealth were approximately \$378 million each month of the quarter. On average, 84,277 employees were paid each month, of which 69,501 were salary employees.

Commonwealth Integrated Payroll / Personnel System (CIPPS) Statistics

October 2002 – September 2003



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

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

Benefit Participation by CIPPS Agencies

The Commonwealth offers a variety of benefits to State employees, including health care, optional retirement plans, deferred compensation, and flexible reimbursement programs. During the quarter, state employees purchased 15,935 savings bonds with a face value of over \$2.0 million.

**Benefit Participation
Number of Participating Employees**

	As of 9/30/03	Comparative	
		As of 9/30/02	As of 9/30/01
Health Care			
COVA Care	79,494	N/A	N/A
Key Advantage	N/A	63,430	66,778
Cost Alliance	N/A	16,696	12,226
Aetna – PS	N/A	173	40
Aetna – HMO	N/A	1,204	215
Optimum Choice – Std	N/A	N/A	33
Optimum Choice - High	N/A	N/A	129
Kaiser	1,845	1,794	1,771
Cigna	N/A	N/A	2,716
Piedmont	N/A	134	116
Optional Retirement Plans *			
Fidelity Investments	261	284	286
Great West Life	14	16	18
TIAA/CREF	1,293	1,285	1,227
T. Rowe Price	61	65	65
VALIC	242	234	251
Political Appointee - ORP	82	77	95
Deferred Compensation *			
Great West Life	26,605	25,538	23,371
Flexible Reimbursement *			
Dependent Care	637	634	601
Medical Care	3,487	3,130	2,710

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

Accounts Receivable

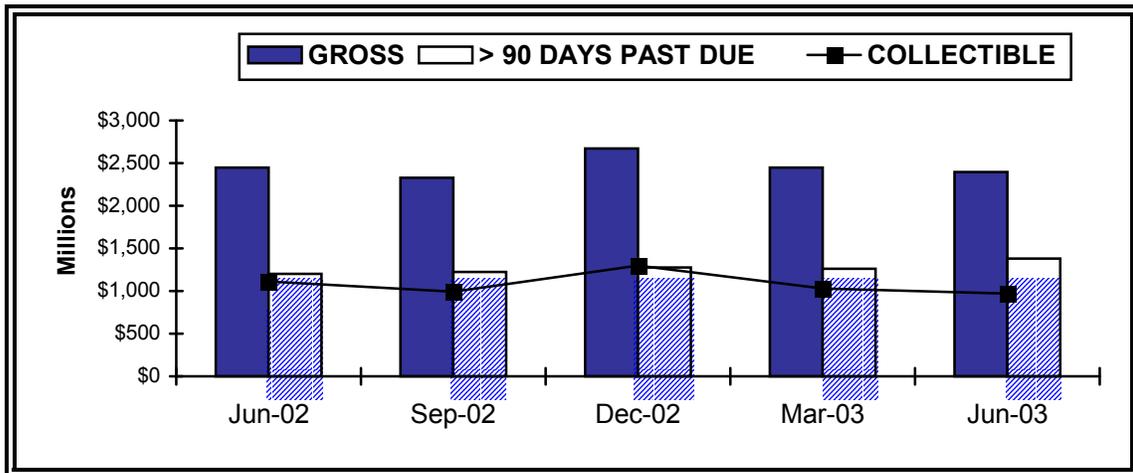
Chapter 48 of the *Code of Virginia* requires the Department of Accounts, along with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. In order to carry out this responsibility, DOA has issued policies and procedures on accounting, collecting, reporting, and writing off accounts receivable. In addition, DOA provides technical assistance to agencies and institutions and uses statistical analyses and audit reports to monitor the ongoing effectiveness of agencies in managing their accounts receivable. Commonwealth agencies and institutions reported total gross receivables of \$2.4 billion at June 30, 2003, with \$974

million considered collectible. Receivables over 90 days past due as of June 30, 2003 totaled \$1.4 billion. Of that amount, \$686 million (49%) was placed with collection agencies or attorneys for additional collection efforts.

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

Gross, Past Due, and Collectible Receivables

June 2002 – June 2003



As of June 30, 2003, agencies expected to collect \$974 million (41%) of all receivables. About 24 percent of these receivables are due to the General Fund,

primarily for tax assessments. The balance (\$744 million) consists of amounts due to various nongeneral funds' activities.

Collectible Receivables by Fund

As of June 30, 2003

Fund	Source	Amount	Percent
General Fund (24%)	Medicaid	\$ 27,835,376	12
	Individual Taxes	106,669,765	47
	Business Taxes	65,378,243	28
	Courts of Justice	21,384,715	9
	Other	<u>7,009,749</u>	<u>3</u>
	Subtotal	228,277,848	99
	Interagency Receivables	712,716	1
Total General Fund Collectible		\$228,990,564	100
Nongeneral Funds (76%)	Medicaid	4,062,001	1
	Unemployment Taxes	62,623,794	8
	Transportation	136,605,698	18
	Child Support Enforcement	13,385,416	2
	Federal Government	54,658,714	7
	MHMR Patient Services	35,762,076	5
	Hospital	138,277,994	19
	Enterprise	51,075,934	7
	Higher Education	96,300,011	13
	Courts of Justice	23,428,183	3
	Other	<u>30,809,495</u>	<u>4</u>
	Subtotal	646,989,316	87
Interagency Receivables	97,504,567	13	
Total Nongeneral Fund Collectible		\$744,493,883	100
All Funds	Grand Total	\$ 973,484,447	100

Ten agencies account for 91 percent of the Commonwealth's gross accounts receivable and 79 percent of the collectible accounts receivable balances.

In addition, these ten agencies comprise 96 percent of the \$1.7 billion in past due receivables and 98 percent of the \$1.4 billion over 90 days past due.

Accounts Receivable Summary

Quarter Ended June 30, 2003

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
Department of Taxation	\$1,022,247,694	\$ 842,205,793	\$ 180,041,901
University of Virginia Medical Center	151,684,156	8,935,061	142,749,095
Department of Transportation	131,923,596	1,277,640	130,645,956
Virginia Employment Commission	89,582,107	24,402,758	65,179,349
Department of Social Services	155,662,870	93,937,332	61,725,538
State Lottery Department	45,614,361	0	45,614,361
Courts of Justice	429,514,803	384,701,905	44,812,898
Department of Mental Health, Mental Retardation and Substance Abuse Services	56,322,002	20,559,926	35,762,076
Department of Medical Assistance Services	65,963,275	33,966,955	31,996,320
Department of Human Resources Management	26,823,640	0	26,823,640
Total	\$2,175,338,504	\$1,409,987,370	\$ 765,351,134
All Others	222,946,047	14,812,734	208,133,313
Grand Total	\$2,398,284,551	\$1,424,800,104	\$ 973,484,447

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 90 days or more past

due that are not sent to the Attorney General's Division of Debt Collection. The Office of the Attorney General requires state agencies and institutions to send accounts of \$3,000 or more and 90 days or more past due to the Division of Debt Collection.

These additional collection tools recovered \$11.6 million during the quarter ended June 30, 2003. The largest contributor was the private collection agencies, with collections of \$7.4 million. The debt setoff programs (Tax, Comptroller's and Lottery) collected \$3.1 million and the Division of Debt Collection contributed \$1.1 million.

RECEIVABLES OVER 90 DAYS PAST DUE

As of June 30, 2003

AGENCY	Total Over 90 Days	With Collection Agency (1)	With Attorney General	Retained by State Agency
Department of Taxation	\$ 808,759,913	\$ 327,427,759	\$ 0	\$ 481,332,154
Courts of Justice	338,642,419	338,642,419	0	0
Department of Social Services	106,315,825	0	0	106,315,825
Department of Medical Assistance Services	37,529,028	733,328	3,398	36,792,302
Virginia Employment Commission	24,857,121	4,505,037	1,110,145	19,241,939
University of Virginia Medical Center	21,572,120	0	0	21,572,120
Department of Transportation	9,377,973	0	5,224,082	4,153,891
Department of Mental Health, Mental Retardation and Substance Abuse Services	3,744,044	0	0	3,744,044
Workers' Compensation Commission	3,641,349	155,275	1,277,943	2,208,131
Department of State Police	2,750,023	0	197,346	2,552,677
Total	\$1,357,189,815	\$671,463,818	\$ 7,812,914	\$ 677,913,083
<i>All Other Agencies</i>	20,991,137	4,801,499	1,864,144	14,325,494
GRAND TOTAL	\$1,378,180,952	\$676,265,317	\$9,677,058	\$ 692,238,577

(1) Amounts include accounts in the hands of Commonwealth's Attorneys functioning as private collectors, as well as the courts' debt and tax debt collection operation, which functions as a private collection agency.

Comptroller's Debt Setoff (CDS) Program

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

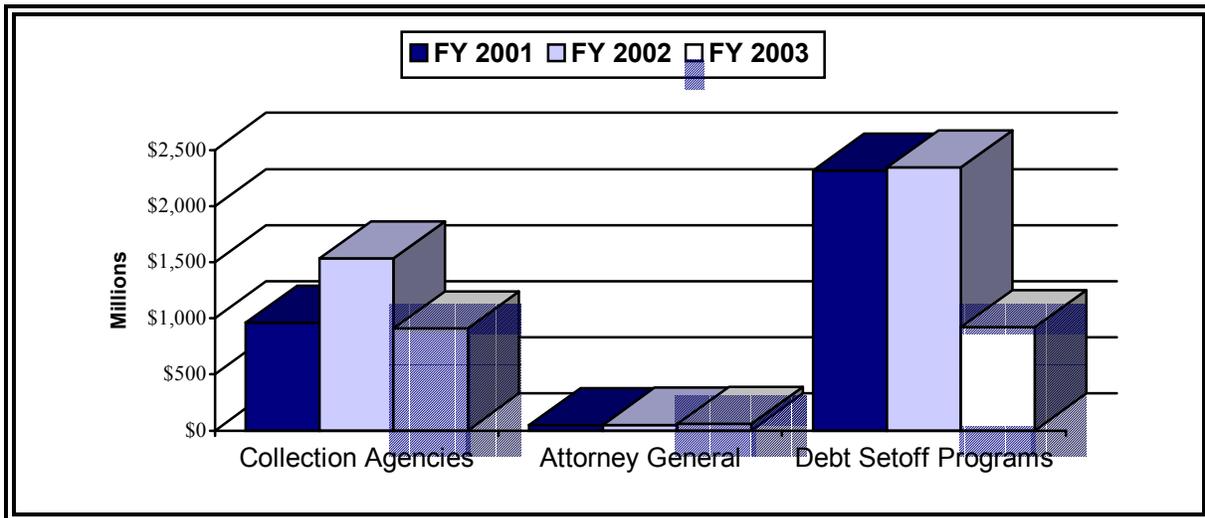
CDS, a payment made by the State to the debtor may be withheld, in full or in part, to satisfy the debt owed the State. CDS collected \$1.2 million during the first quarter of FY 2004.

One way to measure an agency's effectiveness at managing its accounts receivable is to look at how efficient and effective collection procedures are on accounts that become delinquent. The table below looks at trend percentages of receivables over 90 days past due as a percentage of gross receivables for the ten agencies with the largest amounts of receivables over 90 days past due.

Percentage of Gross Receivables Over 90 Days Past Due

Agency	Percent at 6/30/03	Percent at 6/30/02	Percent at 6/30/01
Workers' Compensation Commission	80%	79%	84%
Department of Taxation	79%	75%	78%
Courts of Justice	79%	79%	80%
Department of Social Services	68%	15%	24%
Department of Medical Assistance Services	57%	46%	50%
Department of State Police	47%	32%	17%
Virginia Employment Commission	28%	30%	26%
University of Virginia Medical Center	14%	19%	20%
Department of Transportation	7%	5%	21%
Department of Mental Health, Mental Retardation and Substance Abuse Services	7%	3%	6%

Total Past Due Accounts Listed With Collection Resources
Quarter Ended June 30, 2003



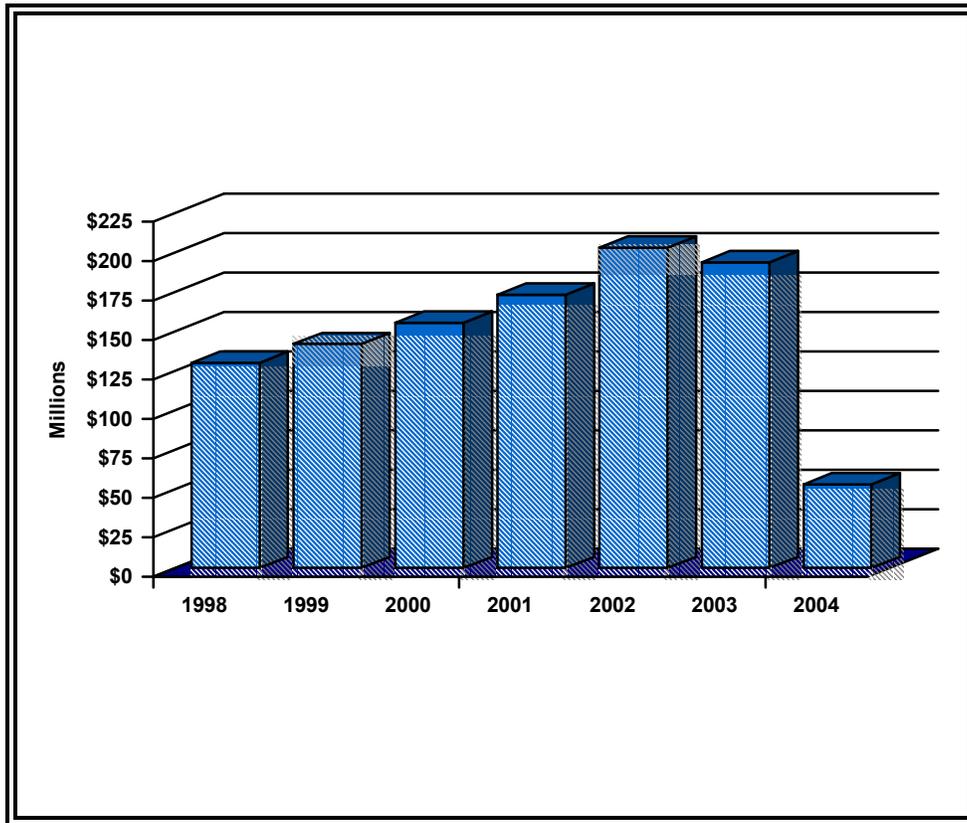
The Department of Social Services did not provide FY 2003 year-end data on accounts listed with collection resources. This accounts for nearly all of the decrease from FY 2002 in figures for both Collection Agencies and Debt Setoff Programs.

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*
For Fiscal Years Ended 1998-2004



*FY 2004 reflects indirect cost recoveries through September 2003.

Indirect Cost Recoveries From Grants and Contracts

Fiscal Year 2004

Funds	Year to Date		
	Higher Ed	Non-Higher Ed	Total
Nongeneral:			
Agency / Institution ⁽¹⁾	\$ 38,391,777	\$ 14,359,314	\$ 52,751,091
Statewide ⁽²⁾	194,786	82,643	277,429
Total Nongeneral	38,586,563	14,441,957	53,028,520
General:			
Agency (Cash Transfers)	0	0	0
Statewide ⁽³⁾	0	199,038	199,038
Statewide (Cash Transfers)	0	0	0
Total General	0	199,038	199,038
Total	\$ 38,586,563	\$ 14,640,995	\$ 53,227,558

- (1) The Department of Social Services records all federal monies received in CARS. However, it does not separately classify such receipts between direct and indirect. Included in the agency (non-higher ed) nongeneral fund category is \$10,581,985, representing the Department of Social Services' estimate of indirect cost recoveries received.
- (2) Statewide indirect cost recoveries that are appropriated back to an agency (non-higher ed) are recorded in the Nongeneral Fund category.
- (3) Statewide indirect cost recoveries that are not appropriated back to an agency (non-higher ed) are placed in the General Fund.

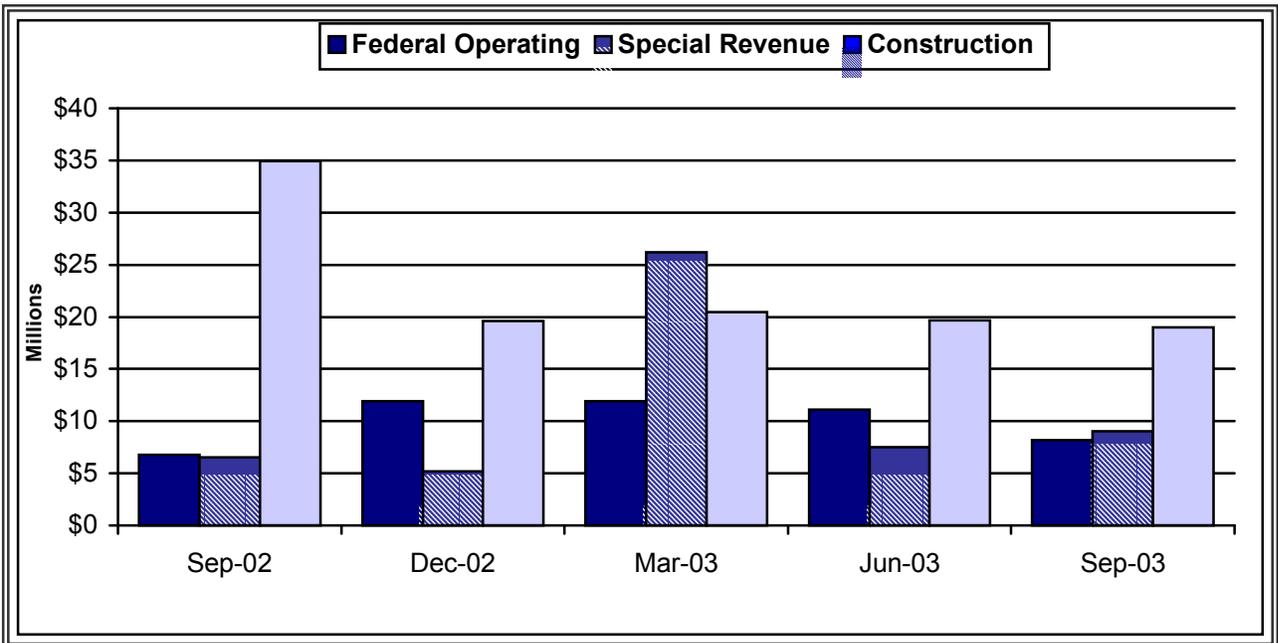


Loans and Advances

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

institution has sufficient operating cash, within its appropriation, prior to collection of revenues. The total of all types of treasury loans and advances as of September 30, 2003, was \$58.6 million.

Treasury Loans
Quarter Ended September 30, 2003



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

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

◆ **Anticipation of Special Revenue Funds** supports the operations of non-general funded activities when collections are spread unevenly throughout the year while expenses require steady funding.

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

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

◆ **Authorized Appropriation Deficit**, which provides funding, when authorized by the Governor, under emergency conditions as described in §4-3.01 and §4-3.02 of the Appropriation Act. There were no deficit loans outstanding at September 30, 2003.

◆ **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.

Significant New Loans/Drawdowns

<i>Virginia Commonwealth University</i>	\$3,515,733
To provide cash prior to the sale of revenue bonds for payment of obligations relating to the Academic Campus Parking Deck IV project.	
<i>Virginia Commonwealth University</i>	\$2,756,701
To provide cash prior to the sale of revenue bonds for payment of obligations relating to the Academic Housing III project.	
<i>Department of General Services</i>	\$2,500,000
Drawdown to cover operating costs of the state's electronic procurement system (eVA).	

Significant Loan Repayments

<i>Tidewater Community College</i>	\$1,312,829
Repayment of outstanding balance due to receipt of federal reimbursements.	
<i>Virginia Institute of Marine Science</i>	\$1,000,000
Repayment of outstanding balance due to receipt of federal reimbursements.	
<i>Department of Motor Vehicles</i>	\$1,000,000
Two partial loan repayments due to receipt of revenues.	

Fixed Asset Accounting and Control System (FAACS)

FAACS is the Commonwealth's fixed asset accounting system. State agencies are required to enter capitalized assets (cost \$5,000 or greater) into FAACS. This system produces reports that help agencies track and generally manage their assets. It also provides financial information for the Comprehensive Annual Financial Report (CAFR) of the Commonwealth.

For the first quarter of FY 2004, the agencies and institutions of the Commonwealth that are central users of

FAACS processed 8,970 FAACS transactions. This volume of FAACS transactions represents a 49.1 percent decrease from the last quarter of FY 2003 (17,638 transactions). Fourth quarter volume is always heaviest, so the decrease from fourth quarter to first quarter is normal.

First quarter FY 2004 volume is 32.2 percent lower than that of the first quarter of FY 2003 (13,232 transactions). This decrease is likely due to continuing tight budget conditions.

Number of Fixed Asset Transactions
Fiscal Years 2002 - 2004

