

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**

FOR THE QUARTER ENDED SEPTEMBER 30, 2005



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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

For additional copies, contact:
Administrative Services Division
Department of Accounts
(804) 225-3051
Michael.Rider@DOA.Virginia.gov

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

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STATEMENT OF PURPOSE

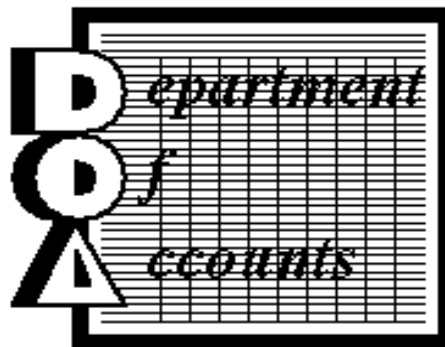
The *Code of Virginia* requires that the Department of Accounts (DOA) monitor and account for all transactions involving public funds. In order to carry out this mandate, the Department uses a variety of measures, including automated controls, statistical analyses, pre-audits and post-audits, staff studies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

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

This *Quarterly Report* includes information for the quarter ended September 30, 2005 and comparative FY 2005 data. Some information in the report is for the quarter ended June 30, 2005, 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 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 Work Plan (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. Work Plans 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 work plan.

Audit Reports – Quarter Ended September 30, 2005

The APA issued nine separate reports covering 15 agencies, offices, boards, commissions, colleges and universities for the Executive Branch agencies listed on the following table. Five reports covering six agencies were for FY2005; and four reports covering nine agencies were for FY2004. 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
Agriculture and Forestry				
Department of Agriculture and Consumer Services	0	0	0	N/A
Commerce and Trade				
Department of Mines, Minerals, and Energy	0	0	0	N/A
Education				
The Science Museum of Virginia (1)	2	0	2	Yes
Virginia Museum of Fine Arts (1)	1	0	1	Yes
<i>9/30/05 Quarterly Report</i>	2			Department of Accounts

3. Document Policies and Procedures. The University should document fully the policies and procedures needed by the new system and those needed to maintain current operations.
4. Provide Management Oversight. LU should determine what necessitates their oversight, at what level, and the intensity.
5. Improve Controls Over Payroll. The University has not maintained adequate policies and procedures, inconsistent support for changes, and a lack of documentation supporting overtime pay.
6. Improve Fixed Assets Systems. The University does not maintain an accurate fixed asset listing in its internal system. It performs annual inventories but does not resolve differences between its physical inventory and its asset listing in a timely manner.

Elected Officials

Office of the Attorney General and the Department of Law

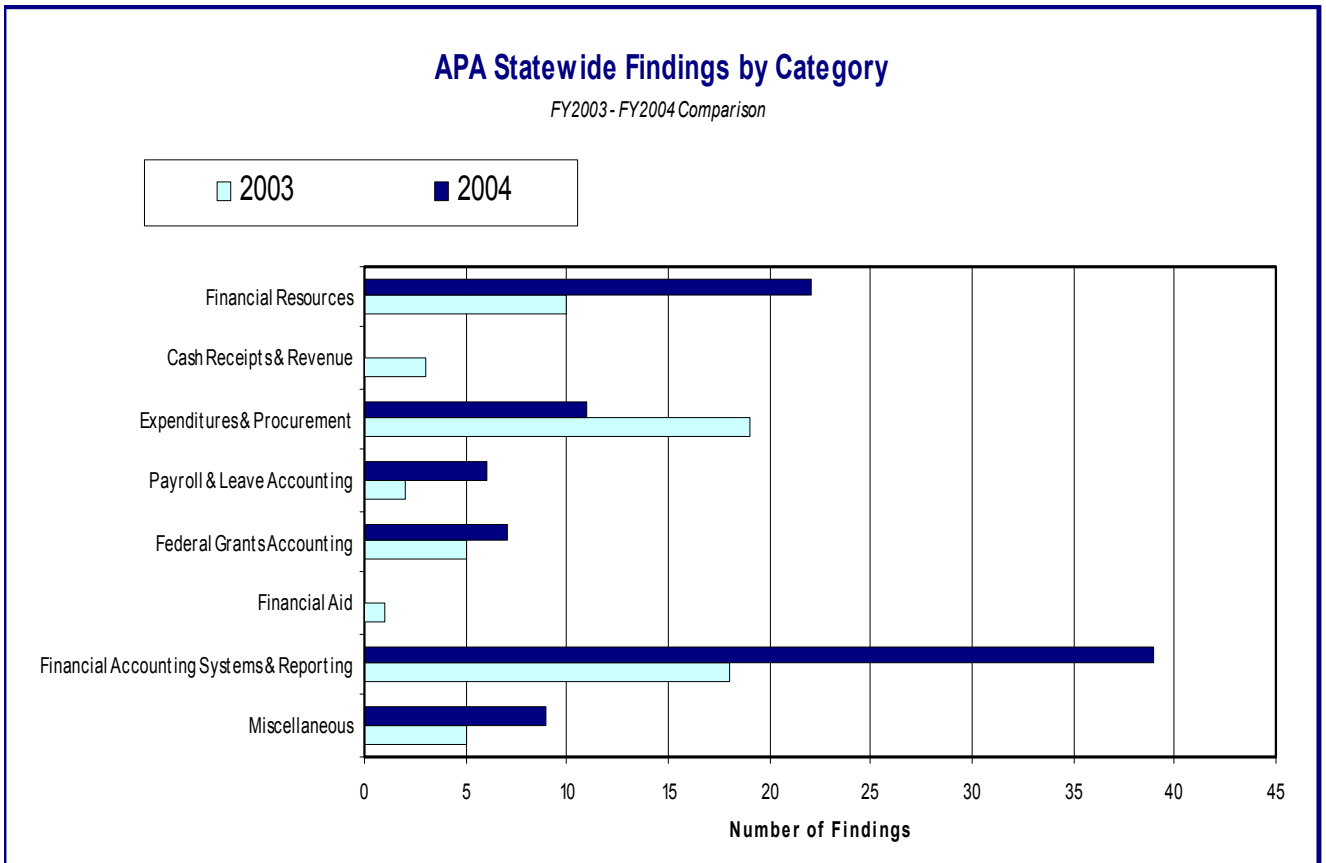
1. Strengthen Controls Over Voucher Preparation. The Office needs to strengthen its oversight of vendor payment processing. This includes maintaining adequate documentation and improving coding of vendor payments.
2. Review Buildup of Excessive Balance in Operating Fund. The Division has retained fees in excess of their operating expenses aggregating \$2.6 million.
3. Document Alternative Allocations. The Division should document fully the Secretary's approval of exemptions made to the standard allocation of collections.
4. Transfer Collections to Agencies Timely. The Division did not transfer the agency share of collections back to agencies in a timely manner. In addition, as of September 2005, shares of June 2005 collections have not been transferred to agencies.
5. Provide Account Information for Agencies. The Division does not provide periodic account summaries to creditor agencies to reconcile against their own records.
6. Monitor Information on Overall Workload. The Division does not maintain the number, dollar values, and ages of outstanding accounts. Division management does use this type of information to manage operations.
7. Improve CollectMax Implementation and Security Issues. The Division's System Administrator does not have a clear definition of job duties. Further, the Office Chief Information Officer has provided only limited assistance to the Division in implementing CollectMax and its ongoing operations.



Annual Summary of APA Audit Findings

As of September 30, 2005, the Auditor of Public Accounts had issued 70 audit reports for 127 Executive Branch agencies for FY2004. Forty-six of these reports reflected no internal control weaknesses or compliance findings. The remaining 24 audit reports, covering 43 agencies contained 94 audit findings that cited internal control weaknesses and instances of noncompliance. For FY2003, 22 of 54 reports contained findings and 63 total findings were reported. About 41 percent of the FY2004 audit findings were reported in the Financial Accounting Systems and Reporting area compared to 27 percent for the previous year.

Category	New Findings	Repeat Findings	Total Findings
Financial Accounting Systems & Reporting	35	4	39
Financial Resources	12	10	22
Expenditures & Procurement	9	2	11
Miscellaneous	7	2	9
Federal Grants Accounting	7	-	7
Cash Receipts & Revenue	-	-	-
Payroll & Leave Accounting	6	-	6
Financial Aid	-	-	-
Total	76	18	94



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 July and August were due

8/31/05 and 9/30/05, respectively. No exception registers were submitted late and none are outstanding.

A web site was developed to facilitate the monitoring of exception register status and to make the relevant information available to agency fiscal officers. The web site was introduced in February 2005. The paper version is no longer accepted. Agencies that do not report using the Confirmation web site will be listed in the quarterly report as outstanding.

Exception Registers Late or Outstanding

As of September 30, 2005

	Jul	Aug
None		

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

Trial Balance Review

As an integral part of the monthly reconciliation process, each agency should review their monthly trial balance for any unusual balances and investigate and correct unusual balances immediately. If the unusual balances cannot be corrected at the agency level, the problem should be noted on the

exception register. DOA monitors selected key general ledger balances and contacts agencies in writing about certain unusual balances. The following agencies failed to respond timely with corrective action and/or additional information.

Trial Balance Review Outstanding and Unresolved

As of September 30, 2005

	<u>Jul</u>	<u>Aug</u>
Science Museum of Virginia	X	X
Virginia Retirement System	X	X
Old Dominion University		X

Analysis of Appropriations, 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.

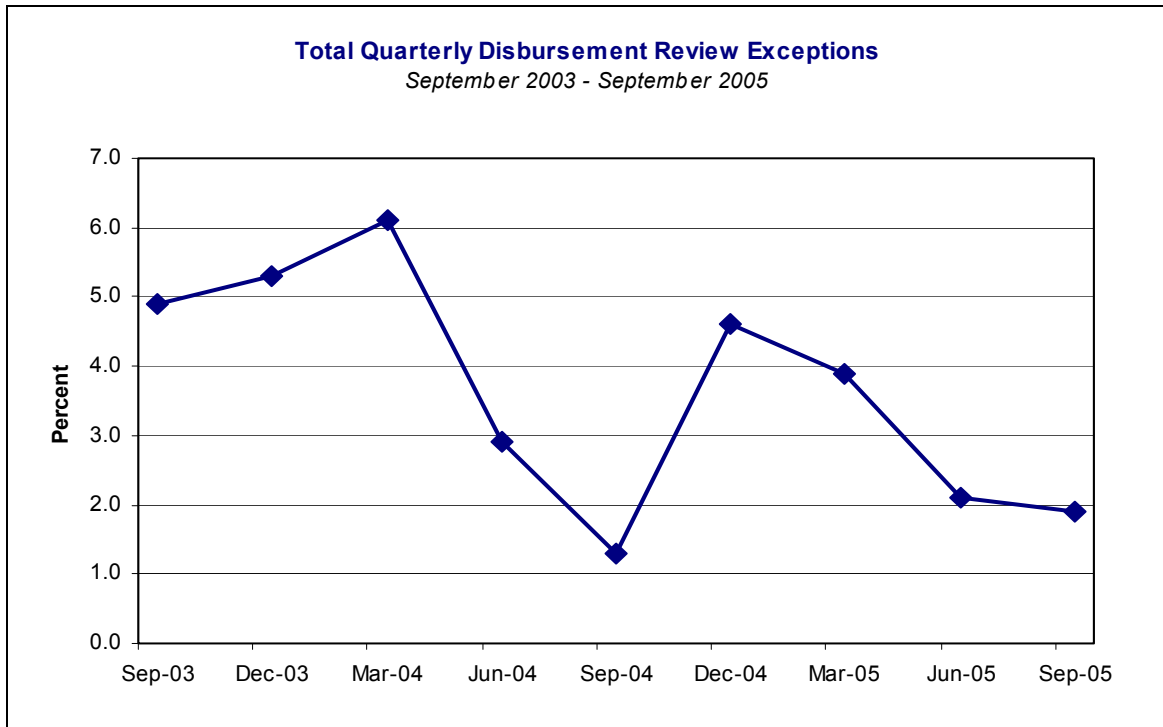
DOA contacts agencies in writing about credit cash balances and appropriations vs. expenditure anomalies. The following agencies failed to respond timely with corrective action and/or additional information.

Credit Cash, Excess Appropriation, and Expenditure Credits Outstanding and Unresolved

As of September 30, 2005

	<u>Jul</u>	<u>Aug</u>
Office of the Attorney General – Dept. of Law	X	X
Science Museum of Virginia	X	X
Department of General Services	X	

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



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 § 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 Ending September 30, 2005</i>		<i>Fiscal Year 2006 To Date</i>		<i>Comparative Quarter Ended September 30, 2004</i>	
	<i>Late</i>	<i>Total</i>	<i>Late</i>	<i>Total</i>	<i>Late</i>	<i>Total</i>
Number of Payments	6,751	631,097	6,751	631,097	9,717	688,070
Dollars (in thousands)	\$ 29,544	\$ 1,393,388	\$ 29,544	\$ 1,393,388	\$ 41,010	\$ 1,400,005
Interest Paid on Late Payments				\$ 6,323		
Current Quarter Percentage of Payments in Compliance				98.9%		
Fiscal Year-to-Date Percentage of Payments in Compliance				98.9%		
Comparative Fiscal Year 2005 Percentage of Payments in Compliance						98.8%



For the quarter ended September 30, 2005, 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, 2005

Agency	Late Payments	Total Payments	Payments in Compliance
<i>Education</i>			
The Science Museum of Virginia	131	884	85.2%
VA School for the Deaf, Blind and Multi-Disabled, Hampton	31	438	92.9%
Southern Virginia Higher Education Center	7	81	91.4%
<i>Health and Human Resources</i>			
Southwestern Virginia Mental Health Institute	181	1,497	87.9%
Southeastern Virginia Training Center	56	910	93.9%
<i>Commerce and Trade</i>			
Department of Minority Business Enterprise	3	52	94.2%

Prompt Payment Explanations

Explanations for low prompt payment compliance rates for the first quarter of FY 2006 and year to date were provided by the following agencies. Not all agencies elected to provide written explanations.

The Science Museum of Virginia reports they did not meet prompt pay due to a cash shortfall at the end of fiscal year 2005. Expenditures were deferred from fiscal year 2005 to fiscal year 2006 causing the Museum to process those expenditures past their due date.

The Southeastern Virginia Training Center reports that on June 30, 2005 the DMHMRSAS Central Office posted a payment from Southeastern Virginia Training Center's 0200 cash for a loan repayment. A compounding factor was a deposit error on 7/28/05. The deposit file was not transferred from the server in order to post to CARS. The file was

transferred to CARS on August 11, 2005 placing it in the error file due to an invalid period. In addition, several large vendors are not sending their invoices to our accounts payable desk. The vendors are directly invoicing the recipient of the delivered goods. The invoices are then redirected by staff to our accounts payable desk. Vendors will be contacted and directed to remit their invoices to our accounts payable desk.

The Southern Virginia Higher Education Center reports that its acting fiscal agent changed from Longwood University to Southside Virginia Community College. There was a problem getting some of the accounts changed over. Almost all accounts have been switched over. There was a delay in processing by the fiscal agent due to confusion over the invoices.



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, 2005</i>			Comparative Quarter Ended September 30, 2004 Percent
	E-Commerce	Total	Percent	
Number of Payments	621,239	1,015,601	61.2%	56.1%
Payment Amounts	\$ 6,103,278,280	\$ 7,043,173,332	86.7%	83.8%

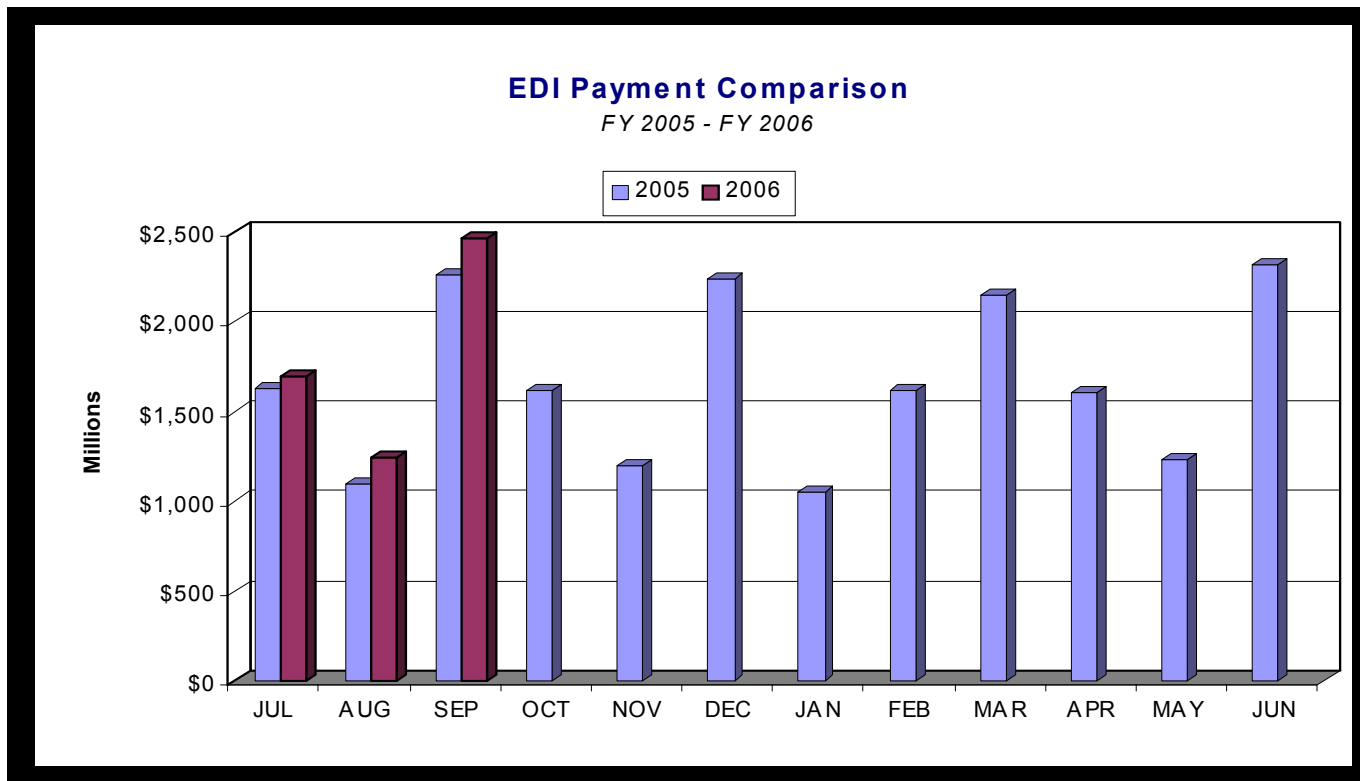
Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the first quarter of FY 2006 was \$421.6 million (8.4 percent) more than the same quarter last year. The number of trading partner accounts

increased by 26 percent from September 2004. 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, 2005</i>	<i>Comparative Quarter Ended September 30, 2004</i>
Number of Payments	44,745	40,957
Amount of Payments	\$ 5,413,668,854	\$ 4,992,031,448
Number of Invoices Paid	188,894	178,493
Estimated Number of Checks Avoided	74,864	71,064
Number of Trading Partner Accounts as of 9/30/05	32,118	25,457



The following table lists agencies that issued more than 25 travel reimbursement checks during the quarter and had a Non-employee EDI participation rate below 10 percent. **These statistics are informational only.** The expansion of EDI for Non-employees is a cost savings opportunity for the Commonwealth.

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

Agency	Percent	Reimbursement Checks Issued
Agriculture and Forestry		
Department of Agriculture	5.8%	49
Commerce and Trade		
Virginia Employment Commission	0.0%	28
Education		
Department of Education	0.0%	943
Longwood University	0.0%	52
The Library of Virginia	0.0%	38
Virginia Military Institute	0.0%	37
Norfolk State University	0.0%	33
Virginia State University	0.0%	32
Christopher Newport University	0.0%	27
Health and Human Resources		
Department of Rehabilitative Services	9.7%	56
Virginia Board for People with Disabilities	9.3%	39
Judicial		
Supreme Court	7.2%	77
Circuit Courts	5.1%	357
General District Courts	2.1%	46
Virginia State Bar	0.0%	261
Juvenile and Domestic Relations Courts	0.0%	47
Legislative		
House of Delegates	0.0%	27
Natural Resources		
Department of Environmental Quality	2.5%	39
Department of Marine Resources	0.0%	33
Public Safety		
Department of Criminal Justice Services	1.2%	82
Department of Forensic Science	0.0%	169
Department of Fire Programs	0.0%	50
Department of Emergency Management	0.0%	37

Direct Deposit

During the first quarter of FY 2006, 351,371 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, 2005

<u>Secretarial Area</u>	<u>Direct Deposit % of Salary Employees</u>	<u>Direct Deposit % of Wage Employees</u>
Administration	90.6%	71.9%
Agriculture and Forestry	92.6%	48.0%
Commerce and Trade	96.9%	92.4%
Education	95.8%	48.8%
Elected Officials	97.4%	46.7%
Finance	95.1%	75.4%
Health and Human Resources	87.1%	74.1%
Independent Agencies	95.7%	76.9%
Judicial	95.0%	45.4%
Legislative	95.1%	76.9%
Natural Resources	96.4%	44.7%
Public Safety	86.9%	74.8%
Technology	95.8%	89.8%
Transportation	88.4%	69.8%
Statewide	90.2%	56.9%
<i>Comparative</i>		
<i>Quarter Ended September 30, 2004</i>		
Statewide	88.3%	48.3%

Statewide Salaried Direct Deposit Performance

Quarter Ended September 30, 2005

Salaried Direct Deposit Participation

90.2%

Salaried Direct Deposit Below 80 Percent

Agency	Percent	Number of Employees
Health and Human Resources		
Southside Virginia Training Center	79.5%	1,401
Piedmont Geriatric Hospital	68.4%	314
Central Virginia Training Center	64.7%	1,489
Public Safety		
Greensville Correctional Center	79.0%	831
Mecklenburg Correctional Center	78.0%	397
Powhatan Correctional Center	77.8%	356
Bland Correctional Center	76.0%	301
Brunswick Correctional Center	73.8%	386
Buckingham Correctional Center	72.0%	351
Nottoway Correctional Center	70.2%	471
Dillwyn Correctional Center	69.8%	269
Transportation		
Department of Transportation - Culpeper District	79.0%	587

Statewide Wage Direct Deposit Performance

Quarter Ended September 30, 2005

Wage Direct Deposit Participation

56.9%

Wage Direct Deposit Below 40 Percent

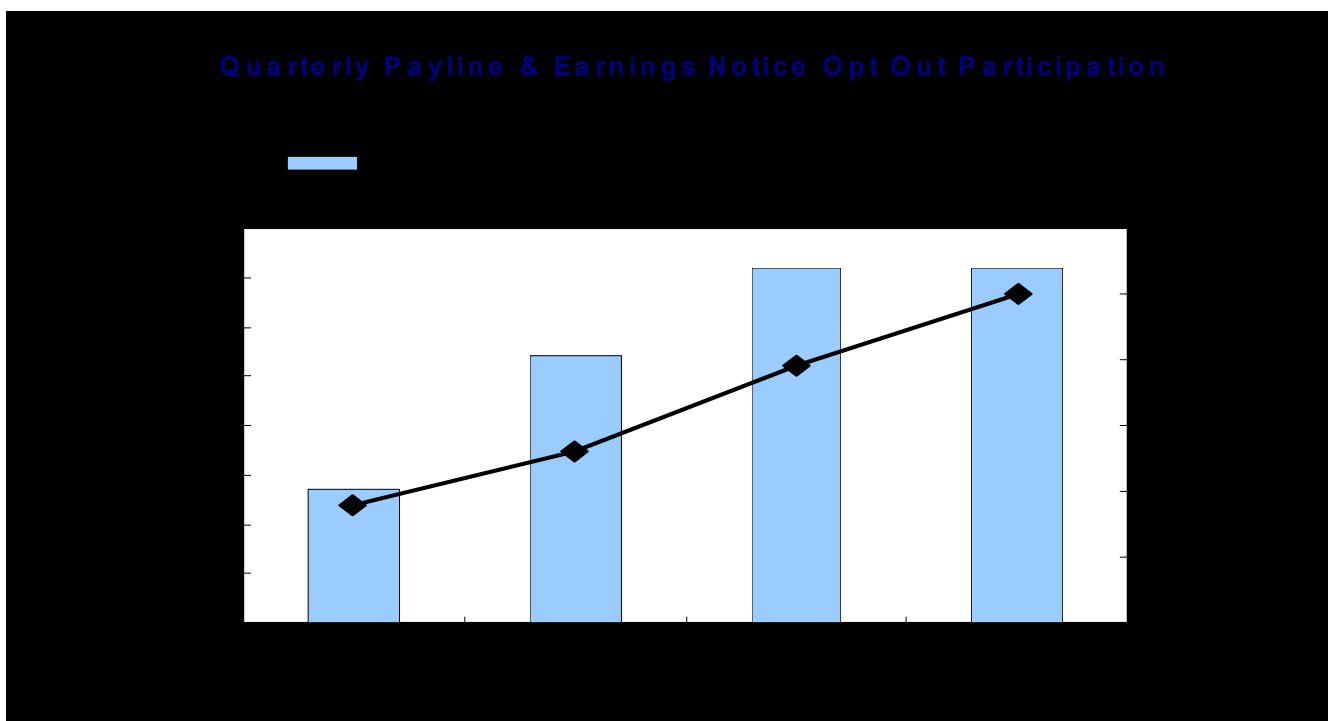
<u>Agency</u>	<u>Percent</u>	<u>Number of Employees</u>
Education		
Lord Fairfax Community College	38.9%	149
Eastern Shore Community College	37.5%	40
New River Community College	35.6%	244
Richard Bland College	33.3%	21
Gunston Hall Plantation	33.3%	21
Wytheville Community College	31.4%	140
Central Virginia Community College	31.1%	106
Piedmont Virginia Community College	31.1%	93
Danville Community College	31.0%	238
Dabney S. Lancaster Community College	30.6%	75
Southside Virginia Community College	30.0%	120
Paul D. Camp Community College	26.5%	166
Mountain Empire Community College	19.7%	203
Rappahannock Community College	12.0%	91
Virginia Highlands Community college	9.8%	204
Radford University	9.6%	1,750
Longwood University	9.6%	464
Health and Human Resources		
Central Virginia Training Center	26.7%	101
Judicial		
Combined District Courts	38.7%	31
Indigent Defense Commission	25.0%	12
Magistrate System	18.1%	11
Natural Resources		
Department of Conservation and Recreation	38.4%	822
Public Safety		
Department of Military Affairs	36.7%	223
Various		
Selected Agency Support	15.3%	13



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 523,389 earnings notices. However, statewide participation rates remain low.



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 have a Gold card and are not utilizing the Gold card to the fullest extent will also be identified in future issues of this *Quarterly Report*.

For purposes of computing the \$1 underutilization charge imposed in accordance with § 4-5.04.g of the Appropriation Act, 70% utilization is the threshold. Each agency can request a report identifying payments to participating suppliers which should have been paid by the SPCC, by emailing cca@doa.virginia.gov.

Underutilization charges will not be imposed during the 2nd quarter of FY 2006 due to the transition from American Express to GE MasterCard. Agencies should use this time to identify vendors who accept MasterCard as these charges will resume in the 3rd quarter.

Statewide SPCC Performance

Quarter Ended September 30, 2005

Percentage Utilization for Eligible Transactions **80%**



**Agency SPCC Performance
Utilization Below 70 Percent**

Agency	Payments in Compliance	Non-Compliant Transactions
Administration		
State Board of Elections	64%	35
Commerce and Trade		
Virginia Employment Commission	47%	643
Department of Labor and Industry	5%	165
Education		
Tidewater Community College	68%	465
Norfolk State University	65%	657
Thomas Nelson Community College	64%	238
Virginia State University – Cooperative Extension and Agricultural Research Services	50%	626
Southern Virginia Higher Education Center	0%	37
Health and Human Resources		
Hiram W Davis Medical Center	68%	62
Department for the Blind & Vision Impaired	65%	578
Department of Rehabilitative Services	62%	730
Independent Agencies		
State Lottery Department	63%	203
Virginia Office for Protection and Advocacy	59%	56
State Corporation Commission	1%	472
Judicial		
Virginia Indigent Defense Commission	66%	202
Board of Bar Examiners	0%	21
Circuit Courts	0%	347
Combined District Courts	0%	267
Court of Appeals	0%	13
General District Courts	0%	581
Judicial Inquiry and Review Commission	0%	6
Juvenile and Domestic Relations District Court	0%	682
Magistrate System	0%	79
Virginia Criminal Sentencing Commission	0%	11
Legislative		
Commission on Virginia Alcohol Safety Action Program	0%	18
Public Safety		
Department of Fire Programs	59%	169
Virginia Correctional Enterprises	17%	1,893
Virginia Parole Board	0%	6
Technology		
Virginia Information Technologies Agency	28%	1,512

SPCC Payment Compliance

Agencies and institutions participating in the SPCC program are required to submit payments via EDI to the SPCC vendor no later than 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.

The criteria for Payment Compliance will change effective October 1, 2005. Effective October 1st, any agency who pays their bill late by more than two (2) days will be reported.

Agency Name	July	Aug	Sept
Education			
Gunston Hall			X
Science Museum of Virginia	X		
Public Safety			
St Brides Correctional Center	X		
Transportation			
VDOT Central Office		X	



