

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**

FOR THE QUARTER ENDED DECEMBER 31, 2006



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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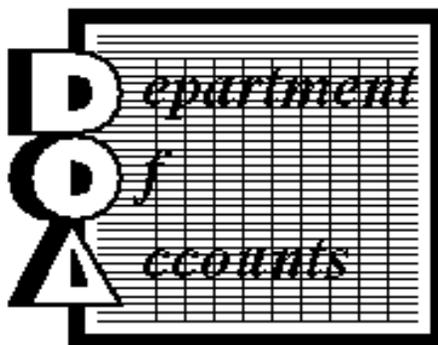
STATEMENT OF PURPOSE

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 December 31, 2006, and comparative FY 2005 data. Some information in the report is for the quarter ended September 30, 2006, 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 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 December 31, 2006

The APA issued 15 separate reports covering 33 agencies, offices, boards, commissions, colleges and universities for the Executive Branch agencies listed on the following table. All of the reports were for FY 2006. 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 | | | | |
| Secretary of Administration* | 0 | 0 | 0 | N/A |
| Division of Selected Agencies Support Services: | | | | |
| Secretary of the Commonwealth | 0 | 0 | 0 | N/A |
| Virginia – Israel Advisory Board | 0 | 0 | 0 | N/A |
| Interstate Organization Contributions | 0 | 0 | 0 | N/A |
| Office for Substance Abuse Prevention | 0 | 0 | 0 | N/A |
| Virginia Liaison Office | 0 | 0 | 0 | N/A |
| Citizens' Advisory Committee | 0 | 0 | 0 | N/A |
| Agriculture and Forestry | | | | |
| Secretary of Agriculture and Forestry* | 0 | 0 | 0 | N/A |
| Commerce and Trade | | | | |
| Secretary of Commerce and Trade* | 0 | 0 | 0 | N/A |
| Virginia Economic Development Partnership | 0 | 0 | 0 | N/A |
| Virginia Tourism Authority | 0 | 0 | 0 | N/A |
| Virginia Racing Commission | 2 | 0 | 2 | YES |

| | New Findings | Repeat Findings | Total Findings | CAW Received |
|---|---------------------|------------------------|-----------------------|---------------------|
| Tobacco Indemnification & Community Revitalization | 0 | 0 | 0 | N/A |
| Education | | | | |
| Secretary of Education* | 0 | 0 | 0 | N/A |
| Department of Education: | | | | |
| Central Office Operations | 2 | 0 | 2 | YES |
| Direct Aid to Public Education | 0 | 0 | 0 | N/A |
| Virginia School for the Deaf and the Blind at Staunton | 1 | 0 | 1 | YES |
| Virginia School for the Deaf, Blind and Multi-Disabled at Hampton | 2 | 0 | 2 | YES |
| Executive Offices | | | | |
| Office of the Attorney General and Department of Law, including the Division of Debt Collection | 2 | 0 | 2 | YES |
| Finance | | | | |
| Secretary of Finance* | 0 | 0 | 0 | N/A |
| Health and Human Resources | | | | |
| Secretary of Health and Human Services* | 0 | 0 | 0 | N/A |
| Virginia Tobacco Settlement Foundation | 0 | 0 | 0 | N/A |
| Comprehensive Services for At-Risk Youth and Families | 0 | 0 | 0 | N/A |
| Independent Agencies | | | | |
| State Lottery Department | 0 | 0 | 0 | N/A |
| Virginia Retirement System | 0 | 1 | 1 | YES |
| Natural Resources | | | | |
| Secretary of Natural Resources* | 0 | 0 | 0 | N/A |
| Public Safety | | | | |
| Secretary of Public Safety* | 0 | 0 | 0 | N/A |
| Department of Alcoholic Beverage Control | 2 | 0 | 2 | YES |
| Technology | | | | |
| Secretary of Technology* | 0 | 0 | 0 | N/A |
| Innovative Technology Authority, including the Center for Innovative Technology | 0 | 0 | 0 | N/A |
| Transportation | | | | |
| Secretary of Transportation* | 0 | 0 | 0 | N/A |
| Virginia Port Authority | 1 | 0 | 1 | YES |

* The audit of the Governor's Cabinet Secretaries was released in one report.

Agency Findings – Quarter Ended December 31, 2006

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.

Commerce and Trade

Virginia Racing Commission

1. Update and Document Information Security Program. The Commission has no information technology staff and relies on the Virginia Information Technologies Agency (VITA) to maintain its internal operating system. As the data owner, the Commission should ensure that VITA updates its information security to meet current security standards and best practices.
2. Improve Documentation of Revenue Reconciliations. The Commission should improve the documentation of reconciling items and include evidence of the supervisory review between the internal system and the Commonwealth Accounting and Reporting System (CARS).

Education

Department of Education

1. Enhance Documentation and Internal Controls Over Standards of Quality (SOQ) Model. The Department has a complex SOQ model and Direct Aid Budget Worksheets to calculate the amounts of financial assistance to localities. This process has lacked formal testing, documentation and verification.
2. Strengthen Internal Controls Over Oracle Financial Systems Access. Three individuals had program administration, systems access, financial, budget, and accounting duties. Systems administration functions should be separate from financial, budget, or accounting duties.

Virginia School for Deaf and Blind at Staunton

1. Strengthen Internal Controls over CARS Access. One employee had the ability to enter and approve the same batches in CARS. This lack of segregation of duties is a significant weakness.

Virginia School for Deaf, Blind and Multi-Disabled at Hampton

1. Non-Compliance Payroll Policies. Two employees exceeded the 1,500 hour annual limit before the School's Superintendent granted an extension.
2. Strengthen Internal Controls over CARS Access. One employee had the ability to enter and approve the same batches in CARS. This lack of segregation of duties is a significant weakness.

Independent Agencies

Attorney General and Department of Law

1. Complete an Information Security Program. The Office does not have a complete or current information security program. Procedures exist but are not written down; documentation needs to be completed.
2. Strengthen Controls Over Small Purchase Charge Card Program. Internal control practices over charge cards normally require written policies and procedures that set out supervisory oversight, purchasing limits and other criteria. The Office had not documented and distributed any policies and procedures to all users, cardholders, and supervisors. In addition, only designated, authorized individuals should possess purchase cards.

Virginia Retirement System

1. Update Business Impact Analysis and Risk Assessment. **As noted in our prior report,** the System does not have a current Business Impact Analysis and Risk Assessment. The last update was in December 2000. We understand the VRS is currently updating its Analysis and accompanying plans.

Public Safety

Department of Alcoholic Beverage Control

1. Increase Preventative Maintenance Measures Controls. The Department does not have a threat detection program, does not use audit-monitoring features for one of its critical systems, change administrative accounts passwords timely, or perform regularly scheduled tests of critical backups.
2. Establish and Implement an Incident Response Plan. The Department does not have an incident response plan as required by Commonwealth of Virginia Security Standard (COV SEC2001).

Transportation

Virginia Port Authority

1. Update Information Technology Policies and Procedures. The Authority has entered into a contract to outsource the information technology (IT) operations to its component unit, Virginia International Terminals. The Authority needs to provide clear direction regarding needed security controls, including change management controls and disaster recovery procedures, over its IT operations.

Status of Prior Audit Findings

The policy governing the Agency Response to APA Audits was recently revised to require follow-up reports on agency workplans every 90 days until control findings are certified by the agency head as corrected. Effective with the quarter ending June 30, 2006, the status of corrective action information reported by agencies under this policy is included in this report.

It is important to note that the status reported is self-reported by the agencies, and will be subject to subsequent review and audit.

Status Report on Resolution of APA Audit Findings

As of December 31, 2006

| Latest Audit Year | Finding Number | Title of APA Audit Finding | Current Status as Reported by Agency | Status Summary |
|--|-----------------------|--|--|-----------------------|
| <u>Department of Alcoholic Beverage Control</u> | | | | |
| 2006 | 06-01 | Increase preventative maintenance measures. | Corrective action underway. ABC now requires password changes every 60 days. Systems logon tracking was enabled October 16, 2006. Manpower and hardware requirements for backups are being assessed. VITA needs to address ABC's threat detection needs. | In progress |
| | 06-02 | Establish and implement an incident response plan. | Corrective action implemented. The revised plan was provided to APA on September 27, 2006. | Completed |
| <u>Department of Education</u> | | | | |
| 2006 | 06-01 | Enhance documentation and internal controls over SOQ model. | Corrective action underway. DOE is assessing the risk over the Standards of Quality application. | In progress |
| | 06-02 | Strengthen internal controls over Oracle financial systems access. | Corrective action underway. Initial segregation of duties has been undertaken and a risk analysis of the area is planned. | In progress |
| <u>Virginia School for the Deaf and the Blind at Staunton</u> | | | | |
| 2006 | 06-01 | Strengthen internal controls over CARS access. | Corrective action underway. Staff access to CARS is being reviewed to properly segregate duties for CARS transactions. | In progress |

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|---|----------------|--|--|----------------|
| <u>Virginia School for the Deaf, Blind and Multi-Disabled at Hampton</u> | | | | |
| 2006 | 06-01 | Non-compliance payroll policies. | Corrective action underway. Action is being taken to monitor annual time limits and approval of hour extensions. | In progress |
| | 06-02 | Strengthen internal controls over CARS access. | Corrective action underway. Batch entry and batch approval duties are being segregated. | In progress |
| <u>Department of Planning and Budget</u> | | | | |
| 2005 | 05-02 | Improve documentation for appropriation adjustments. | Corrective action underway. DPB is presently working to overcome system limitations that prevent the entering of multiple revenue source codes for FATS "G" type transactions. | In progress |
| <u>Virginia Port Authority</u> | | | | |
| 2006 | 06-01 | Update Information Technology Policies and Procedures. | The Authority has transferred its IT operations to Virginia International Terminals. VPA is providing VIT with guidance on what security controls are needed. | In progress |
| <u>Virginia Retirement System</u> | | | | |
| 2006 | 06-01 | Update Business Impact Analysis and Risk Assessment. | The System is currently updating its Impact Analysis and Risk Assessment. | In progress |
| <u>Virginia Commonwealth University</u> | | | | |
| 2005 | 05-01 | This is a repeated point. Resolve cash reconciling items timely. | Corrective action underway. Staff turnover in two key positions delayed completion. Further progress has not been reported. | In progress |

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|--|----------------|--|--|----------------|
| <u>Virginia Employment Commission</u> | | | | |
| 2005 | 05-01 | Complete the Information Systems Risk Assessment and Impact Analysis. | Corrective action underway. The Information Technology Services Center (ITSC) is analyzing the completed risk assessment of Unemployment Insurance (UI). When the ITSC impact analysis is finalized, the VEC will have completed the identification, ranking and documenting of the agency's business functions. | In progress |
| | 05-02 | Obtain assurance over the security of VITA's infrastructure from VITA. | Corrective action underway. VEC negotiated a MOU with VITA and now the agencies are clarifying changes in server systems and applications. | In progress |
| <u>Radford University</u> | | | | |
| 2005 | 05-01 | Revise policies and procedures covering cash collection points. | Corrective action underway. Cash collections policies and procedures were updated and distributed on April 7, 2006. Financial Services and Internal Audit staff have met with campus departments, and are writing internal office procedures. | In progress |
| | 05-02 | Develop Information Technology policies and procedures. | Corrective action underway. The Information Security Officer has reviewed the IT policies and procedures and is preparing updated standards. | In progress |
| | 05-03 | Create a business plan for the Machine Room. | Corrective action underway. The Executive Director of Information Technology is developing and reviewing a Business Continuity Plan. | In progress |

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|---|-------------------|---|---|-------------------|
| | 05-04 | Implement environmental controls over the Machine Room. | Corrective action underway. Construction began this summer to install a pre-action dry charge sprinkler system, a water detection system, and sump pumps, and to elevate the computer units to a safe height from the floor. | In progress |
| <u>Department of Health</u> | | | | |
| 2005 | 05-01 | This is a repeated point. Remove systems access timely and improve documentation. | Corrective action underway. New operational policies were implemented. Payroll provides a monthly list of separated employees to test against applications accounts. VDH requires all work units to certify monthly that all users with active accounts are authorized to have such access and are current employees. | In progress |
| | 05-02 | Obtain assurance over the security of VITA's infrastructure from VITA. | Corrective action underway. VDH has requested certification from VITA and is evaluating the VITA response. | In progress |
| <u>Department of Social Services</u> | | | | |
| 2005 | 05-01 | This is a repeated point. Properly manage access to information systems. | Corrective action underway. DSS sent a broadcast to local departments of social services to remind them of the requirement for verification of SSN reminders for receipt of services. | In progress |
| | 05-02 | This is a repeated point. Properly maintain and report TANF documentation. | Corrective action underway. TANF Transmittal #32, effective April 1, 2006, reiterated the need to verify and document all cases through SVES. Final training for the uniform monitoring procedures was conducted on April 13. | In progress |

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As of December 31, 2006

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|----------------------|-------------------|---|--|-------------------|
| | 05-03 | Maintain a tracking system for local employees. | Corrective action underway. The Divisions of Human Resource Management and Information Systems are continuing to implement corrective measures for this finding. | In progress |
| | 05-04 | Establish controls for foster care and adoption payments. | Corrective action underway. DSS is exploring options including a combination of certification by local agencies of OASIS data and the certifications for related payments sent to the Division of Finance on a monthly basis. | In progress |
| | 05-05 | Develop disaster recovery procedures for the in-house system. | Corrective action underway. DSS has developed a 10-phase migration plan to transfer DSS' servers and applications to VITA. | In progress |
| | 05-06 | Update client information timely. | Corrective action underway. A system request was submitted for the "legal presence" legislation that will identify all cases where an individual age 19 or older is in a case without a valid social security number (SSN) or birth certificate. | In progress |
| | 05-07 | Properly report TANF unspent balances. \$815,750 in costs are questioned. | Corrective action underway. Under TANF regulations, DSS had until September 30, 2006 to spend these funds on TANF basic assistance. Grant reporting procedures are being updated and reviewed. | In progress |

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|---|----------------|--|--|----------------|
| <u>Department of Medical Assistance Services</u> | | | | |
| | 05-02 | Implement system-wide strategy for Utilization Units. | Internal Audit is working with Program Integrity and Long Term Care in assessing their internal control processes. Program Integrity has developed a 2006 audit plan and reorganized staff and activities, including outsourcing some of the process to third parties. DMAS was selected for PERM project implementation which will aid in the identification and correction of claims payment errors. | In progress |
| <u>Department of Motor Vehicles</u> | | | | |
| | 05-03 | Improve information technology security standards and guidelines. | Corrective action underway. Phase One was completed in December 2005. Actual implementation activities are planned to be completed in August 2007. | In progress |
| <u>Department of Transportation</u> | | | | |
| 2005 | 05-01 | Timely delete employee access upon termination. | Corrective action underway. The Security and Emergency Management Division of VDOT developed a policy statement that was reviewed by the VDOT Information Security Advisory Committee (ISAC) and it is being updated. | In progress |
| | 05-02 | Obtain assurance over the security of VITA's infrastructure from VITA. | Corrective action underway. The Security policy is being updated by the Security and Emergency Management Division of VDOT. | In progress |

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|--|----------------|---|---|----------------|
| <u>Virginia Racing Commission</u> | | | | |
| 2006 | 06-01 | Update and document information security program. | The Commission has requested that VITA assure VRC that the standards used to operate the operating system meet current security standards. | In progress |
| | 06-02 | Improve documentation of revenue reconciliations. | VRC is reviewing the segregation of duties involved in handling revenues and will develop policies and procedures to formally document revenue reconciliations. | In progress |
| 2005 | 05-01 | Update operating policies and procedures. | Corrective action completed. Internal policies and procedures for the Commission's operation are in place. Draft documentation of policies and procedures was reviewed and is being finalized. | Complete |
| | 05-02 | Improve documentation of facility inspections. | Corrective action implemented. VITA contracted out the work that documents facility inspections via competitive negotiation. | Complete |
| <u>Gunston Hall</u> | | | | |
| 2005 | 05-01 | Strengthen controls over petty cash. | Corrective action underway. Guidelines are being drawn up. The account is being reconciled monthly. | In progress |
| <u>The Science Museum of Virginia</u> | | | | |
| 2005 | 05-01 | For the 4 th year SMV experienced material financial difficulties. | Corrective action underway. Funding concerns, including structural deficits, remain. The Museum invoices its Foundation once a quarter as specified by the budget, but can move the amount and date to meet cash flow requirements. | In progress |

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As of December 31, 2006

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|---|----------------|---|---|----------------|
| 2004 | 04-01 | Improve cash management. | Not corrected. See 05-01. | Not corrected |
| | 04-02 | Improve controls over fixed assets. | Corrective action underway. With DOA assistance, policies and procedures have been proposed and data input in FAACS. | In progress |
| <u>Jamestown - Yorktown Foundation</u> | | | | |
| 2005 | 05-01 | This is a repeated point. Strengthen controls over the Paciolan ticketing system. | Corrective action implemented. The installation of the Resort Technology ticketing system was completed in December 2006. | Complete |
| 2004 | 04-01 | Strengthen controls over the Paciolan ticketing system. | Not corrected. See 05-01. | Not corrected |
| 2005 | 05-02 | Develop written Policies & procedures for capitalizing project costs. | Corrective action implemented. Policies and procedures were written. | Complete |
| <u>Longwood University</u> | | | | |
| 2005 | 05-02 | Establish a security awareness training policy and program. | Corrective action underway. LU contracted for the training program "Awareity" recommended by VITA. The program is being beta tested and will be rolled out on campus in January 2007. | In progress |
| <u>Virginia State University</u> | | | | |
| 2005 | 05-01 | Test and update Disaster Recovery Plan. | Corrective action underway. IT has established a Disaster Recovery Team to update and test the Plan. | In progress |
| | 05-02 | This is a repeated point. Document Human Resource policies and procedures. | Corrective action underway. VSU has made substantial progress in preparing the documentation. | In progress |

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|--|----------------|--|--|----------------|
| | 04-02 | Document Human Resource policies and procedures. | Not corrected. See 05-02. | Not corrected |
| | 05-04 | Improve compliance with Small Purchase Charge Card policies. | Corrective action underway. The SPCC administrator is reviewing purchases to ensure compliance. | In progress |
| <u>Norfolk State University</u> | | | | |
| 2005 | 05-01 | This is a repeated point. Collect and correct accounts receivable. | Corrective action underway. NSU has not fully implemented previously adopted policies and procedures. | In progress |
| | 04-01 | This is a repeated point. Collect and correct accounts receivable. | Not corrected. See 05-01. | Not corrected |
| | 03-01 | Collect and correct accounts receivable. | Not corrected. See 05-01. | Not corrected |
| | 05-02 | Improve the continuity of operations disaster recovery plan. | Corrective action underway. The data center was relocated. NSU hired a VITA recommended vendor who is developing an improved recovery plan. | In progress |
| <u>Attorney General and the Department of Law</u> | | | | |
| 2006 | 06-01 | Complete an Information Security Program. | The Office hired a Chief Information Officer on November 1, 2006. The Office has started a program to achieve compliance with ITRM SEC 501-01 and will appoint a Chief Security Officer. | In progress |
| | 06-02 | Strengthen Controls Over Small Purchase Charge Card Program. | The Director of Finance continues to stress the importance of proper documentation and continues to educate staff about procurement laws and policies. | In progress |

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|--|----------------|--|--|----------------|
| 2005 | 05-01 | Strengthen controls over voucher processing. | Corrective action implemented. The agency instituted a review system on all transaction activity. A new Procurement Procedures Desk Reference has been developed. The audit point was not repeated. | Complete |
| | 05-03 | Document Secretaries' approvals of exemptions made to allocations. | Corrective action implemented. The agency has documented and filed for audit confirmation of federal funds sources and worked with DMAS to clarify procedures to identify federal funds percentages. The audit point was not repeated. | Complete |
| | 05-07 | Improve CollectMax implementation and security issues. | Corrective action implemented. DDC had vendor JST install a user access matrix. The audit point was not repeated. | Complete |
| <u>Department of Minority Business Enterprise</u> | | | | |
| July 1, 2004 through January 31, 2006 | 06-01 | This is a repeated point. Enhance the Housing Agreement. | Corrective action underway. The Department of Housing and Community Development (DHCD) took over the fiscal, budgetary, and procurement functions effective July 1, 2005. The Payroll Service Bureau is used for payroll maintenance. The Memorandum should be updated to enhance internal controls over transactions approvals and transmissions. | In progress |
| | 04-01 | Enhance the Housing Agreement. | Not corrected. See 06-01. | Not corrected |
| | 06-02 | This is a repeated point. Update memorandum of understanding and funding plan with VDOT. | Corrective action underway. DHCD prepares the budget and monitors performance for DMBE, including transportation funds. | In progress |

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|---|-------------------|--|---|-------------------|
| | 04-03 | Update memorandum of understanding and funding plan with VDOT. | Not corrected. See 06-02. | Not corrected |
| | 06-03 | This is a repeated point. Improve controls over cell phone usage. | Corrective action underway. DMBE is responsible for timely reviewing wireless charges. | In progress |
| | 04-04 | Improve controls over cell phone usage. | Not corrected. See 06-03. | Not corrected |
| <u>Virginia Office for Protection and Advocacy</u> | | | | |
| 2005 | 05-01 | Clarify duties and responsibilities of the Board and Executive Director. | Corrective action underway. The Executive Director states that the Board is studying the issues and will address them. | In progress |
| | 05-02 | Implement Board training and operations. | Corrective action underway. See 05-01. | In progress |
| | 05-03 | Develop operational policies and procedures. | Corrective action underway. The Office has begun centralizing and formalizing the financial functions. Accounting staff have been hired. | In progress |
| | 05-04 | Procurement of services. | Corrective action underway. See 05-03. | In progress |
| | 05-05 | Indirect Cost Recoveries. | Corrective action underway. See 05-03. | In progress |
| <u>State Corporation Commission</u> | | | | |
| 2005 | 05-01 | Install a complete and current information security system. | Corrective action underway. The Commission hired Accenture, a consulting firm, to identify what the installation required. The original study was completed and additional analysis was requested by the Information Technology Director. | In progress |

Status Report on Resolution of APA Audit Findings

As of December 31, 2006

| Latest Audit Year | Finding Number | Title of APA Audit Finding | Current Status as Reported by Agency | Status Summary |
|---|----------------|---|---|----------------|
| <u>Department of Conservation and Recreation</u> | | | | |
| 2005 | 05-01 | Follow small purchase charge card procedures. | Corrective action underway. DCR trained employees in proper use of the card. The Internal Auditor is testing compliance in the state parks. | In progress |
| <u>Department of Juvenile Justice</u> | | | | |
| 2005 | 05-01 | Improve controls over procurement records and contract administration. | Corrective action underway. Contracts have been listed and assigned in writing to Procurement Officers. Meeting among staff are scheduled before new contracts are bid. | In progress |
| | 05-02 | Improve controls over Anthem Contract. | Corrective action implemented. A contract administrator was assigned. The award was made in December 2006. | Completed |
| <u>Department of Game and Inland Fisheries</u> | | | | |
| Nov. 1, 2005 through March 31, 2006 | N/A | There were no internal control or compliance findings issued; however, APA issued seven recommendations to further tighten implemented corrective actions | Corrective action in progress. The Board is developing a new member orientation program, setting the Game Director's performance expectations, drafting rules on loaning Game equipment, and drafting regulations to cover Game vehicles. Game administration is developing a list of standard equipment by position, considering adding an internal audit function, and requiring Media Services to report quarterly to the Board. | In progress |
| <u>Department of Veterans Services</u> | | | | |
| January 1, 2005 through March 31, 2006 | 06-01 | This is a repeated point. Ensure accurate time and leave reporting. | Corrective action underway. Changes to time sheets have been made and are now being reviewed monthly by supervisors. New leave slip policies have been implemented and are monitored. | In progress |

Status Report on Resolution of APA Audit Findings

As of December 31, 2006

| Latest Audit Year | Finding Number | Title of APA Audit Finding | Current Status as Reported by Agency | Status Summary |
|----------------------|-------------------|--|--|-------------------|
| | 06-02 | This is a repeated point. Strengthen controls over the small purchase charge card program. | Corrective action underway. New policies and procedures have been put into place. Monthly purchases activity is monitored by the finance office. DGS made a Procurement Review in August. | In progress |
| | 05-03 | Strengthen controls over the small purchase charge card program. | Not Corrected. See 06-02. | Not corrected |
| | 06-03 | Improve petty cash controls. | Corrective action underway. New procedures have been developed. Reconciliations are done monthly by the Director of Accounting and reviewed and signed off on by the Director of Finance and Administration. | In progress |
| | 06-04 | Properly report construction in progress. | Corrective action underway. Financial reports for FY 2006 included all construction in progress. | In progress |
| | 06-05 | Establish and implement adequate policies and procedures over the Veterans Foundation. | Corrective action underway. The Director states that DVS has begun implementing new policies and procedures and expects full corrective action to be complete prior to the next APA audit. | In progress |
| | 06-06 | Establish process for determining negotiated rates. | Corrective action underway. Procedures have been developed to determine negotiated room and board rates based on the ability to pay. | In progress |
| | 06-07 | Appropriately allocate administrative costs. | Corrective action underway. Changes have been identified for allocating administrative costs for FY 2007. | In progress |

Status Report on Resolution of APA Audit Findings

As of December 31, 2006

| Latest Audit Year | Finding Number | Title of APA Audit Finding | Current Status as Reported by Agency | Status Summary |
|-------------------|----------------|---|---|----------------|
| | 06-08 | Information systems security assurance. | Corrective action underway. DVS has published policies regarding use of personal laptops and controlling veterans' information. DVS will obtain assistance from VITA to assess security around the newly installed Financial Management System (FMS), also the FY 2007 VITA contract is now modified to provide additional system security. | In progress |
| | 06-09 | Improve voucher documentation and compliance with procurement and payment policies. | Corrective action underway. The Director states that DVS has begun implementing new policies and procedures and expects full corrective action to be complete prior to the next APA audit. | In progress |
| | 05-02 | Ensure accurate time and leave reporting. | Not Corrected. See 06-01. | Not corrected |
| | 06-10 | Improve petty cash records and compliance with requirements. | Corrective action underway. New procedures have been developed. Reconciliations are done monthly by the Director of Accounting and reviewed and signed off on by the Director of Finance and Administration. | In progress |
| | 06-11 | Comply with Commonwealth Human Resources overtime standards. | Corrective action underway. Changes in procedures and employee practices have been implemented. Fair Labor Standards Act training was conducted in August. | In progress |
| | 06-12 | This is a repeated point. Implement and monitor procedures to ensure proper use of funds. | Corrective action underway. DVS has corrected the accounting classification of the federal VA subsidy funds. The use of the funds at the Care Center is being reviewed. The review is intended to result in a utilization plan for the funds. | In progress |

Status Report on Resolution of APA Audit Findings

As of December 31, 2006

| Latest Audit Year | Finding Number | Title of APA Audit Finding | Current Status as Reported by Agency | Status Summary |
|----------------------|-------------------|---|--|-------------------|
| | 05-04 | Implement and monitor procedures to ensure proper use of funds. | Not corrected. See 06-12. | Not corrected |
| | 06-13 | This is a repeated point. Improve debt collection efforts and account write-offs. | Corrective action underway. New collection procedures are being formulated. Accounts receivable are reviewed at least quarterly. | In progress |
| | 05-05 | Improve debt collection efforts and account write-offs. | Not corrected. See 06-13. | Not corrected |
| | 06-14 | Establish a memorandum of understanding with DGS. | Corrective action underway. A MOU for DGS support for capital construction and procurement will be developed upon completion of the Procurement Review being conducted by DGS. | In progress |
| | 06-15 | Properly manage fixed assets. | Corrective action underway. Financial reports for FY 2006 included all construction in progress. Further policies and procedures are being developed. | In progress |



Compliance Monitoring

Confirmation of Agency Reconciliation to CARS Reports

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

DOA closely monitors confirmation status, evaluates exceptions, and posts correcting entries in CARS. Confirmations for September, October and November¹ were due 10/31/06, 11/30/06 and 1/04/07¹, respectively.

A web site was developed to facilitate the monitoring of confirmation status and to make the relevant information available to agency fiscal officers.

Confirmations Late or Outstanding

As of January 11, 2007

| | <u>Sep</u> | <u>Oct</u> |
|---|------------|------------|
| Virginia Commonwealth University | O/S | O/S |
| Commission on the Virginia Alcohol Safety Action Program | 12/1/06 | - |
| New College Institute | - | 1/8/07 |

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

¹ The November due date was extended due to a late CARS monthly close and the December holiday schedule. The status of November confirmations will be reported next quarter.

Response to Inquiries

DOA regularly communicates with agencies regarding petty cash and invoice analyses, financial reporting information, and the FAACS/LAS systems. In many instances, agencies respond in a timely manner.

However, in other instances, agencies do not respond timely or simply fail to respond. For the quarter ended December 31, 2006, all responses have been received within an acceptable timeframe.

Trial Balance Review

As an integral part of the monthly reconciliation process, each agency should review their monthly trial balance for any 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, make corrective action and/or provide additional information.

Trial Balance Review *As of January 17, 2007*

| | <u>Sep</u> ¹ | <u>Oct</u> | <u>Nov</u> |
|-------------------------|-------------------------|------------|------------|
| Old Dominion University | - | X | - |

¹ No Trial Balance Memorandums were sent in September.

Analysis of Appropriation, Allotments and Expenditures, and Cash Balances

The Appropriation Act prohibits agencies from incurring unauthorized deficits. Therefore, credit cash balances and instances in which expenditures exceed appropriation and allotment require prompt investigation and resolution.

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

Credit Cash, Excess Expenditures, and Expenditure Credits As of January 17, 2007

| | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> |
|---|------------|------------|------------|
| Virginia State Police | - | - | X |
| Virginia Office for Protection and Advocacy | - | - | X |
| Old Dominion University | X | - | - |
| Virginia Commonwealth University | - | X | - |
| Department of Forestry | X | - | X |

Disbursement Processing

During the quarter ended December 31, 2006, DOA deleted, at the submitting agency's request, 46 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.

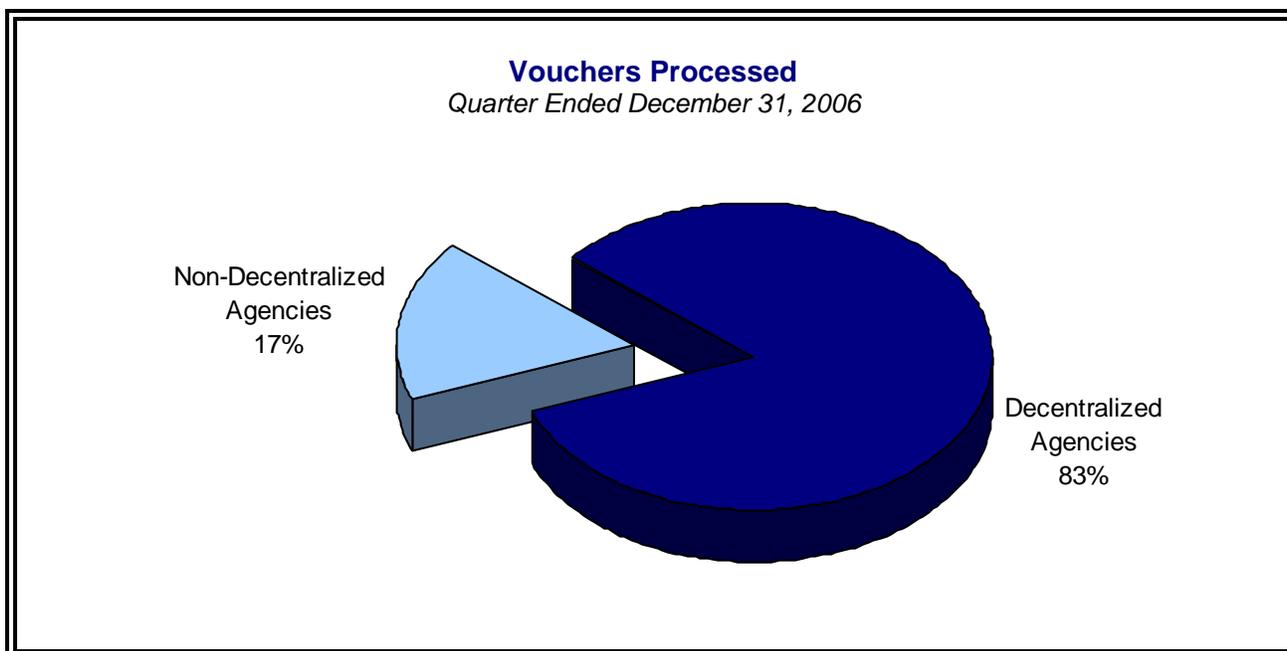
Thirty agencies requested deletes during the quarter. No agency requested more than four vendor payment deletes during the quarter.



Paperwork Decentralization

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

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



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

Decentralized Agencies

Compliance reviews were conducted for 12 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 vouchers with compliance findings by the number of vouchers reviewed. For agencies receiving a performance rating lower than “Good”, the primary reasons for an Exception Rate exceeding 3.9 percent are provided on the next page.

| 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 |

| Decentralized Agency | Vouchers Reviewed | Vouchers with Compliance Findings | Exception Rate | Performance Measurement |
|---|--------------------------|--|-----------------------|--------------------------------|
| Commerce and Trade | | | | |
| Department of Housing and Community Development (1) | 344 | 3 | 0.9% | Exceptional |
| Education | | | | |
| The Library of Virginia | 222 | 3 | 1.4% | Good |
| Tidewater Community College | 273 | 9 | 3.3% | Good |
| Northern Virginia Community College | 236 | 8 | 3.4% | Good |
| Rappahannock Community College | 280 | 11 | 3.9% | Good |
| University of Virginia Medical Center | 289 | 20 | 6.9% | Satisfactory |
| The College of William and Mary in Virginia (2) | 365 | 28 | 7.7% | Minimal |
| Virginia Institute of Marine Science (2) | 321 | 28 | 8.7% | Minimal |
| Independent | | | | |
| State Lottery Department | 230 | 3 | 1.3% | Good |
| State Corporation Commission | 209 | 3 | 1.4% | Good |
| Virginia Retirement System | 302 | 6 | 2.0% | Good |
| Administration | | | | |
| Department of Minority Business Enterprise (1) | 103 | 1 | 1.0% | Good |

Note: No reviews were performed during the quarter for agencies that report to the Secretaries of Agriculture and Forestry, Finance, Health and Human Resources, Natural Resources, Public Safety, Technology, and Transportation.

Note (1) – During the review period, the Department of Housing and Community Development was the fiscal agent for the Department of Minority Business Enterprise

Note (2) – The College of William and Mary in Virginia (CWM) and the Virginia Institute of Marine Science (VIMS) report the immediate correction of several compliance issues. CWM and VIMS plan to submit a single detailed Corrective Action Plan to the Department of Accounts by February 26, 2007, to address the remaining compliance issues in both organizations. DOA will perform a follow-up decentralization review during the third quarter of FY 2008.

Agencies with Performance Ratings Lower than “Good”

University of Virginia Medical Center (UVAH) – Satisfactory Performance – Of the 20 vouchers with findings, 10 were related to Moving and Relocation Vouchers, 9 were related to Travel Vouchers, and 1 was related to a Petty Cash Voucher. Vouchers frequently have more than one finding and the following represents all compliance findings:

Moving and Relocation Vouchers

- Improper Disbursement of State Funds (6)
- Absence of Proper Supporting Documentation (6)
- Inadequate Supporting Documentation (4)
- Lodging Cost Exceeds the Allowable Guidelines (3)

Travel Vouchers

- Inadequate Supporting Documentation (7)
- Absence of Proper Supporting Documentation (4)
- Lodging Cost Exceeds the Allowable Guidelines (4)

Petty Cash Vouchers

- Improper Disbursement of State Funds (1)

The College of William and Mary in Virginia (CWM) / Virginia Institute of Marine Science (VIMS) – Minimal Performance – for CWM - Of the 28 vouchers with findings, 17 were related to Travel Vouchers, 8 were related to Moving and Relocation Vouchers, 2 were related to Small Purchase Charge Card Vouchers and 1 was related to Regular Vouchers. For VIMS – Of the 28 vouchers with findings, 14 were related to Petty Cash Vouchers, 10 were related to Travel Vouchers, 2 were related to Regular Vouchers, and 2 were related to Small Purchase Charge Card Vouchers. Vouchers frequently have more than one finding and the following represents all compliance findings:

AGENCY 204 - CWM

Travel Vouchers

- Inadequate Supporting Documentation (17)
- Improper Disbursement of State Funds (5)
- Absence of Proper Supporting Documentation (4)

Moving and Relocation Vouchers

- Inadequate Supporting Documentation (7)
- Lodging Cost Exceeds the Allowable Guidelines (1)
- Meals and Incidental Expense Cost Exceeds the Allowable Guidelines (1)
- Absence of Proper Supporting Documentation (1)

Regular Vouchers

- Incorrect due date (1)
- Inadequate Supporting Documentation (1)

Small Purchase Charge Card Vouchers

- Inadequate Supporting Documentation (1)
- Unallowable Split Transaction (1)

Agency 268 – VIMS

Travel Vouchers

- Inadequate Supporting Documentation (9)
- Absence of Proper Supporting Documentation (4)
- Lodging Cost Exceeds the Allowable Guidelines (3)

Petty Cash Vouchers

- Absence of Proper Supporting Documentation (14)
- Inadequate Supporting Documentation (6)
- Improper Disbursement of State Funds (1)

Regular Vouchers

- Absence of Proper Supporting Documentation (2)

Small Purchase Charge Card Vouchers

- Absence of Proper Supporting Documentation (2)
- Inadequate Supporting Documentation (1)



Non-Decentralized Agencies

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

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

During the quarter, DOA reviewed all non-decentralized agencies. A total of 1,337 non-travel disbursement batches and 541 travel disbursement batches were reviewed, disclosing 67 exceptions that were resolved prior to releasing the transactions for payment.



Prompt Payment Compliance

The *Code of Virginia* requires that State agencies and institutions pay for goods and services by the required payment due date. The reporting required by the *Code of Virginia* §2.2-4356 is being met by the information presented here. This section details the number and dollar amounts of late payments by secretarial area, institutions

and agencies, and the total amount of interest paid. Agencies and institutions that process 50 or more vendor payments during a quarter are reported as not meeting Prompt Pay requirements if fewer than 95 percent of their payments are processed by the required due date.

Statewide Prompt Payment Performance Statistics

| | Quarter Ending December 31, 2006 | | Fiscal Year 2007 To-Date | | Comparative Quarter Ended December 31, 2005 | |
|--|-------------------------------------|--------------|-----------------------------|--------------|---|--------------|
| | Late | Total | Late | Total | Late | Total |
| Number of Payments | 7,424 | 598,315 | 15,873 | 1,198,238 | 7,210 | 584,680 |
| Dollars (in thousands) | \$ 32,922 | \$ 1,334,837 | \$ 95,120 | \$ 2,736,625 | \$ 27,850 | \$ 1,215,357 |
| Interest Paid on Late Payments | | | | \$ 59,245 | | |
| Current Quarter Percentage of Payments in Compliance | | | | 98.8% | | |
| Fiscal Year-to-Date Percentage of Payments in Compliance | | | | 98.7% | | |
| Comparative Fiscal Year 2006 Percentage of Payments in Compliance | | | | | | 98.9% |



Prompt Payment Performance by Secretarial Area

Quarter Ended December 31, 2006

| Secretarial Area | Payments in Compliance | Dollars in Compliance |
|----------------------------|-------------------------------|------------------------------|
| Administration | 99.4% | 99.4% |
| Agriculture and Forestry | 98.9% | 98.9% |
| Commerce and Trade | 98.7% | 98.9% |
| Education* | 98.6% | 97.1% |
| Executive Offices | 96.8% | 76.1% |
| Finance | 99.9% | 99.9% |
| Health and Human Resources | 98.9% | 97.5% |
| Independent Agencies | 98.4% | 98.8% |
| Judicial | 99.7% | 100.0% |
| Legislative | 100.0% | 100.0% |
| Natural Resources | 99.5% | 98.7% |
| Public Safety | 99.0% | 98.3% |
| Technology | 94.4% | 98.4% |
| Transportation* | 99.5% | 96.9% |
| Statewide | 98.8% | 97.5% |

Prompt Payment Performance by Secretarial Area

Fiscal Year 2007

| Secretarial Area | Payments in Compliance | Dollars in Compliance |
|----------------------------|-------------------------------|------------------------------|
| Administration | 99.4% | 98.3% |
| Agriculture and Forestry | 99.2% | 99.1% |
| Commerce and Trade | 98.6% | 99.2% |
| Education * | 98.5% | 95.8% |
| Executive Offices | 96.9% | 82.0% |
| Finance | 99.9% | 100.0% |
| Health and Human Resources | 98.8% | 96.2% |
| Independent Agencies | 98.2% | 98.7% |
| Judicial | 99.5% | 99.6% |
| Legislative | 99.9% | 100.0% |
| Natural Resources | 98.9% | 98.3% |
| Public Safety | 99.1% | 98.4% |
| Technology | 96.1% | 98.7% |
| Transportation* | 99.3% | 94.9% |
| Statewide | 98.7% | 96.5% |

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

For the quarter ended December 31, 2006, 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 Percent
Quarter Ended December 31, 2006**

| <u>Agency</u> | <u>Late Payments</u> | <u>Total Payments</u> | <u>Payments in Compliance</u> |
|--|----------------------|-----------------------|-------------------------------|
| Education | | | |
| New College Institute | 20 | 113 | 82.3% |
| Eastern Shore Community College | 81 | 293 | 72.4% |
| Health and Human Resources | | | |
| DMHMRSAS - Grants to Localities | 9 | 172 | 94.8% |
| Department for the Blind & Vision Impaired | 247 | 4,562 | 94.6% |
| Public Safety | | | |
| Department of Military Affairs | 168 | 3,173 | 94.7% |
| Technology | | | |
| Virginia Information Technologies Agency | 170 | 3,046 | 94.4% |

For FY 2007, the following agencies and institutions that processed more than 200 vendor payments during the year were

below the 95 percent prompt payment performance standard.

**Prompt Payment Compliance Rate
Agencies Below 95 Percent
Fiscal Year 2007**

| <u>Agency</u> | <u>Late Payments</u> | <u>Total Payments</u> | <u>Payments in Compliance</u> |
|---|----------------------|-----------------------|-------------------------------|
| Education | | | |
| Eastern Shore Community College | 81 | 572 | 85.8% |
| Independent Agencies | | | |
| Virginia Office for Protection and Advocacy | 19 | 315 | 94.0% |

Prompt Payment Explanations

Explanations for low prompt payment compliance rates for the second quarter of FY 2007 and year-to-date were provided by the following agencies.

The DMHMRSAS – Grants to Localities reports a deposit for federal funds was not released to CARS in time to cover the payments, causing them to be placed on the error file and not paid on time. The supervisor caught the error upon her return from training. These payments involved federal Part C, Early Intervention Funds. The payments were received only one day late at the localities involved.

The Department for the Blind and Vision Impaired reports two late payments were due to a bookkeeping error and five others originated in the regional offices. The majority of the late payments were due to unprocessed bills found after an office worker had vacated their position.

The Department of Military Affairs reports they had a federal cash shortfall during the quarter due to a change in the method of federal reimbursements.

The Virginia Department of Information Technologies Agency reports that due to federal and other issues, they have several customer agencies that have either not paid or have short paid their VITA comprehensive services bills. This has been an ongoing problem since the beginning of the fiscal year. VITA's cash balances have been depleted and therefore they have no cash reserves. In December, cash collections fell behind schedule and as a result, the December 2006 prompt payment percentage dropped. Ultimately, all vendor payments for the month were processed. VITA is working with the Department of Accounts to obtain a Treasury loan to cover their cash shortfall in order to meet prompt payment. The loan is a temporary measure, as VITA expects to resolve the federal issues in the next few months and therefore be able to collect the majority of the outstanding balances due to them.

The Virginia Office for Protection and Advocacy reports that their first quarter noncompliance caused the agency to fall below the compliance percentage for the fiscal year.



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

| | Quarter Ended December 31, 2006 | | | Comparative Quarter Ended December 31, 2005 |
|--------------------|---------------------------------|------------------|---------|---|
| | E-Commerce | Total | Percent | Percent |
| Number of Payments | 720,137 | 1,064,928 | 67.6% | 64.7% |
| Payment Amounts | \$ 6,733,653,331 | \$ 7,602,917,688 | 88.6% | 88.4% |

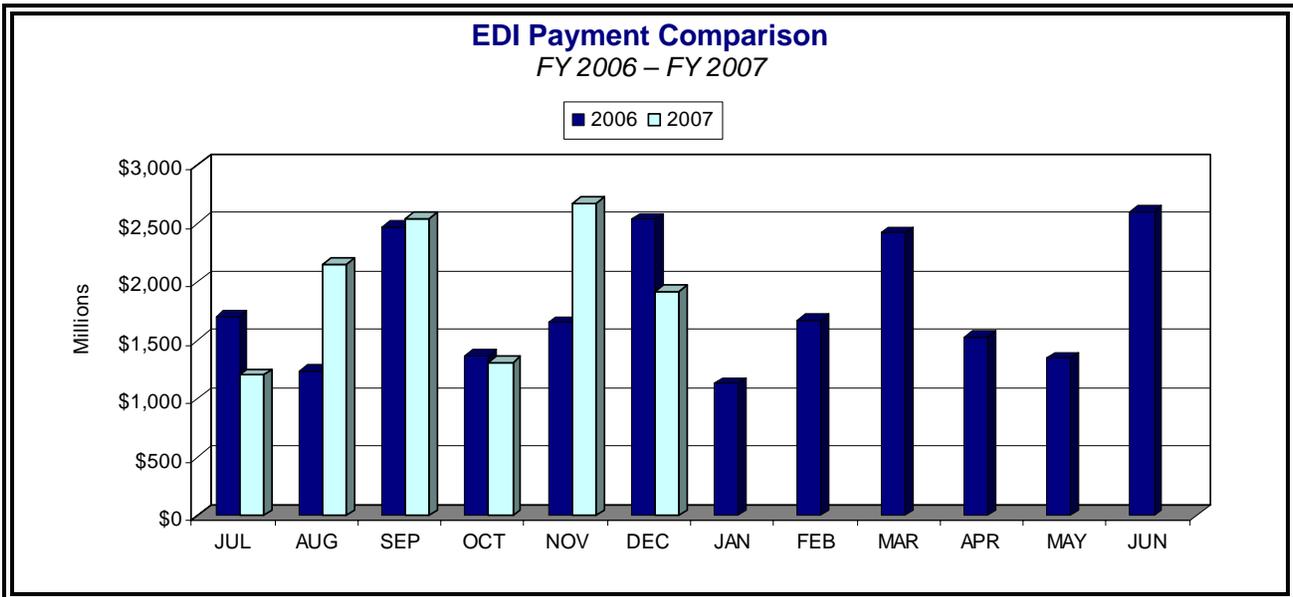
Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the second quarter of FY 2007 was \$349.5 million (6.3 percent) more than the same quarter last year. The number of trading partner accounts increased by 19

percent from December 2005. The largest portion of this increase is due to efforts to convert state employee travel reimbursements from checks to electronic payments.

Financial EDI Activity

| Financial EDI Activity | Quarter Ended December 31, 2006 | Fiscal Year 2007 To-Date | Comparative FY 2006 To-Date |
|--|--|-------------------------------------|--|
| Number of Payments | 50,714 | 96,678 | 93,581 |
| Amount of Payments | \$ 5,908,899,658 | \$ 11,802,646,097 | \$ 10,973,061,887 |
| Number of Invoices Paid | 186,942 | 372,643 | 379,291 |
| Estimated Number of Checks Avoided | 77,678 | 152,045 | 153,239 |
| Number of Trading Partner Accounts as of 12/31/06 | | 39,815 | 33,380 |



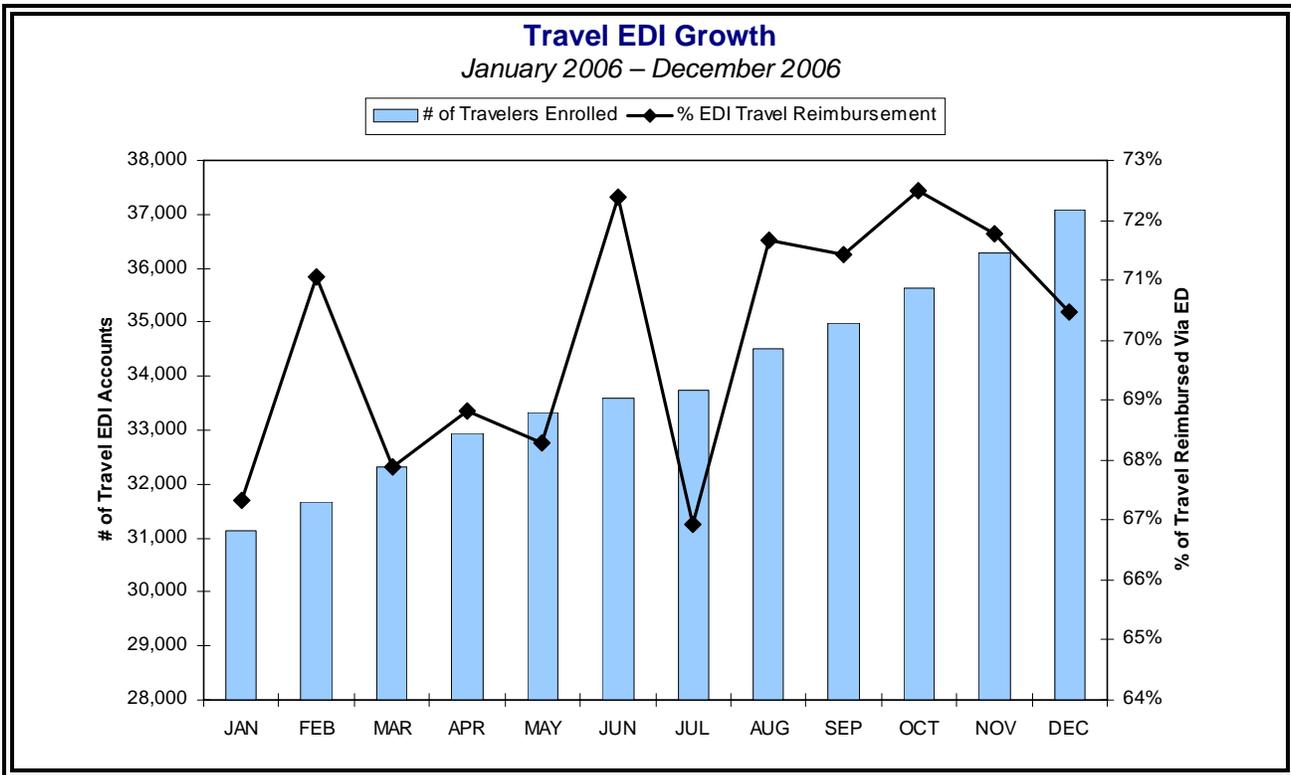
Travel EDI

Expansion of the Travel EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI. DOA notified agencies of the requirement through a CARS broadcast screen and calls to the agencies that produce the largest number of travel reimbursement checks. Quarterly utilization statistics are provided to the EDI coordinators of each agency in an effort to increase the number of employees enrolled.

Although participation among certain agencies has increased, many agencies have failed to enroll employees in EDI as required by law.

In accordance with Section 4-5.04g of the Appropriation Act, the Comptroller began charging agencies \$1 for each travel reimbursement check issued in lieu of Travel 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. Beginning in FY 2007, this fee is \$5 per travel reimbursement check. DOA will implement the increase \$1 per quarter so that by the 4th quarter of FY 2007 the fee will be \$5.

Agencies are highly encouraged to sign up board and commission members and other non-employees that receive travel reimbursements on a recurring basis.



The following table lists by secretarial area the percentage of travel reimbursements that were made via EDI versus the number of checks that were written for travel reimbursements during the quarter. *The*

statistics are shown for employees and non-employees. These statistics do not necessarily show non-compliance with the Appropriation Act requirements.

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

Quarter Ended December 31, 2006

| <u>Secretarial Area</u> | <u>Employee Percent</u> | <u>Non-Employee Percent</u> | <u>Reimbursement Checks Issued</u> |
|---|-----------------------------|---------------------------------|--|
| Administration | 74.2% | 2.3% | 138 |
| Agriculture and Forestry | 95.8% | 10.2% | 83 |
| Commerce and Trade | 92.4% | 62.9% | 267 |
| Education ¹ | 80.4% | 6.8% | 2,423 |
| Executive Offices | 90.9% | 56.3% | 42 |
| Finance | 93.7% | 10.0% | 57 |
| Health and Human Resources | 88.3% | 35.8% | 1,684 |
| Independent Agencies | 90.8% | 0.0% | 160 |
| Judicial | 13.1% | 1.9% | 3,893 |
| Legislative | 92.6% | 20.5% | 167 |
| Natural Resources | 94.1% | 5.8% | 233 |
| Public Safety | 82.5% | 6.9% | 1,680 |
| Technology | 70.2% | 8.3% | 59 |
| Transportation ^{1, 2} | 67.1% | 37.5% | 786 |
| Statewide for Quarter | 78.8% | 16.8% | 11,672 |
| <i>Fiscal Year 2007 To-Date</i> | | | |
| Statewide | 78.1% | 16.8% | 21,782 |
| <i>Comparative Fiscal Year 2006 To-Date</i> | | | |
| Statewide | 75.7% | 16.6% | 23,602 |

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

² The Department of Transportation began processing Travel Reimbursements through CARS in FY 2006. Previously, the reimbursements were processed through petty cash.

The following table lists agencies with Employee EDI participation rates below 75 percent that issued more than 25 travel reimbursement checks during the quarter.

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

**Agency Employee EDI Performance
Utilization Below 75 Percent**

| Agency | Percent | Reimbursement Checks Issued |
|--|----------------|--|
| Administration | | |
| Department of General Services | 69.4% | 56 |
| Education | | |
| Lord Fairfax Community College | 72.3% | 49 |
| Piedmont Virginia Community College | 66.7% | 29 |
| Virginia Western Community College | 63.4% | 68 |
| The Library of Virginia | 59.8% | 35 |
| Southside Virginia Community College | 59.6% | 78 |
| Norfolk State University | 45.2% | 195 |
| Health and Human Resources | | |
| Department of Social Services | 71.2% | 258 |
| Independent Agencies | | |
| State Lottery Department | 73.2% | 48 |
| Judicial | | |
| Magistrate System | 4.3% | 225 |
| Combined District Courts | 3.4% | 230 |
| Supreme Court | 3.1% | 906 |
| General District Courts | 2.1% | 325 |
| Circuit Courts | 1.5% | 539 |
| Juvenile & Domestic Relations District Courts | 1.2% | 325 |
| Court of Appeals of Virginia | 0.0% | 81 |
| Public Safety | | |
| Department of Corrections-Central Administration | 70.1% | 59 |
| Department of Fire Programs | 66.1% | 131 |
| Western Regional Corrections Unit | 36.7% | 38 |
| Greensville Correctional Center | 31.7% | 28 |
| Haynesville Correctional Center | 6.5% | 29 |
| Commonwealth's Attorney's Services Council | 0.0% | 71 |
| Technology | | |
| Virginia Information Technologies Agency | 71.4% | 44 |
| Transportation | | |
| Department of Transportation* | 59.1% | 547 |

* The Department of Transportation began processing Travel Reimbursements through CARS on July 1, 2005. Prior to FY 2006, VDOT processed travel reimbursements through petty cash.

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 and Consumer Services | 2.9% | 34 |
| Commerce and Trade | | |
| Department of Labor and Industry | 0.0% | 28 |
| Education | | |
| Department of Education | 4.2% | 684 |
| Norfolk State University | 0.0% | 27 |
| The Library of Virginia | 0.0% | 26 |
| Longwood University | 0.0% | 152 |
| Virginia Military Institute | 0.0% | 52 |
| Virginia Commission for the Arts | 0.0% | 36 |
| Health and Human Resources | | |
| Department of Rehabilitative Services | 7.9% | 58 |
| Virginia Board for People with Disabilities | 5.4% | 53 |
| Judicial | | |
| Circuit Courts | 5.1% | 376 |
| Juvenile and Domestic Relations District Courts | 2.1% | 46 |
| General District Courts | 2.0% | 48 |
| Supreme Court | 0.3% | 387 |
| Virginia State Bar | 0.0% | 288 |
| Natural Resources | | |
| Department of Conservation and Recreation | 0.0% | 37 |
| Marine Resources Commission | 0.0% | 33 |
| Public Safety | | |
| Department of Fire Programs | 7.3% | 38 |
| Department of Emergency Management | 3.7% | 155 |
| Department of Forensic Science | 0.0% | 125 |
| Department of Criminal Justice Services | 0.0% | 84 |

The following table lists agencies that have accumulated more than \$100 in employee EDI check charges for the fiscal year and have a utilization rate below 80 percent. Agencies are charged for each travel reimbursement check issued to an employee after their second check of the fiscal year. For the second quarter of FY 2007 the

charge is \$3 per check. This will increase \$1 per quarter until it reaches \$5 per check. These statistics indicate noncompliance with §4-5.04.f.5 of the Appropriation Act which requires that all employees likely to travel more than twice per year be reimbursed for travel costs using electronic data interchange.

**Agency Noncompliance Travel Check Charges
Utilization Below 80 Percent**

| Agency | Percent | Year-to-date Charges |
|---|----------------|---------------------------------|
| Education | | |
| Norfolk State University | 45.2% | \$ 199 |
| Health and Human Resources | | |
| Department of Social Services | 71.2% | 331 |
| Judicial | | |
| Circuit Courts | 1.5% | 2,140 |
| Juvenile & Domestic Relations District Courts | 1.2% | 942 |
| General District Courts | 2.1% | 826 |
| Supreme Court | 3.1% | 789 |
| Magistrate System | 4.3% | 625 |
| Combined District Courts | 3.4% | 608 |
| Court of Appeals | 0.0% | 173 |
| Public Safety | | |
| Department of Fire Programs | 66.1% | 163 |
| Transportation | | |
| Department of Transportation | 59.1% | 751 |
| Department of Motor Vehicles | 77.1% | 142 |



Direct Deposit

During the second quarter of FY 2007, 366,674 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 December 31, 2006

| <u>Secretarial Area</u> | <u>Direct Deposit % of Salaried Employees</u> | <u>Direct Deposit % of Wage Employees</u> |
|--|---|---|
| Administration | 89.5% | 85.2% |
| Agriculture and Forestry | 93.7% | 37.9% |
| Commerce and Trade | 97.6% | 93.7% |
| Education | 97.3% | 73.2% |
| Executive Offices | 97.5% | 45.5% |
| Finance | 97.7% | 87.5% |
| Health and Human Resources | 89.5% | 80.9% |
| Independent Agencies | 96.1% | 82.0% |
| Judicial | 96.9% | 54.8% |
| Legislative | 96.9% | 70.6% |
| Natural Resources | 97.6% | 64.0% |
| Public Safety | 89.7% | 81.5% |
| Technology | 96.6% | 100.0% |
| Transportation | 91.0% | 77.1% |
| Statewide | 92.4% | 74.8% |
| <i>Comparative</i> | | |
| <i>Quarter Ended December 31, 2005</i> | | |
| Statewide | 90.9% | 63.0% |

Statewide Salaried Direct Deposit Performance
Quarter Ended December 31, 2006

| | |
|--|--------------|
| Salaried Direct Deposit Participation | 92.4% |
|--|--------------|

Salaried Direct Deposit Below 85 Percent

| <u>Agency</u> | <u>Percent</u> | <u>Number of Employees</u> |
|--|----------------|----------------------------|
| Health and Human Resources | | |
| Western State Hospital | 84.9% | 730 |
| Southern Virginia Mental Health Institute | 83.9% | 161 |
| Piedmont Geriatric Hospital | 72.0% | 321 |
| Central Virginia Training Center | 65.3% | 1,439 |
| Public Safety | | |
| Deerfield Correctional Center | 84.8% | 310 |
| Mecklenburg Correctional Center | 84.8% | 394 |
| Bland Correctional Center | 84.7% | 295 |
| Nottoway Correctional Center | 83.8% | 438 |
| Greensville Correctional Center | 83.3% | 789 |
| Fluvanna Women's Correctional Center | 83.2% | 310 |
| Augusta Correctional Center | 82.6% | 380 |
| Powhatan Correctional Center | 82.4% | 375 |
| Powhatan Reception and Classification Center | 81.0% | 126 |
| Brunswick Correctional Center | 80.8% | 391 |
| Dillwyn Correctional Center | 68.5% | 251 |

Statewide Wage Direct Deposit Performance
Quarter Ended December 31, 2006

| | |
|--|--------------|
| Wage Direct Deposit Participation | 74.8% |
|--|--------------|

Wage Direct Deposit Below 40 Percent**

| <u>Agency</u> | <u>Percent</u> | <u>Number of Employees</u> |
|--------------------------------------|----------------|----------------------------|
| Agriculture and Forestry | | |
| Department of Forestry | 24.8% | 101 |
| Education | | |
| Central Virginia Community College | 38.3% | 240 |
| Lord Fairfax Community College | 30.3% | 297 |
| Southside Virginia Community College | 26.8% | 179 |
| Judicial | | |
| Combined District Courts | 37.0% | 27 |

** The reporting threshold for wage employees will increase to 50% effective for the quarter ending March 31, 2007.

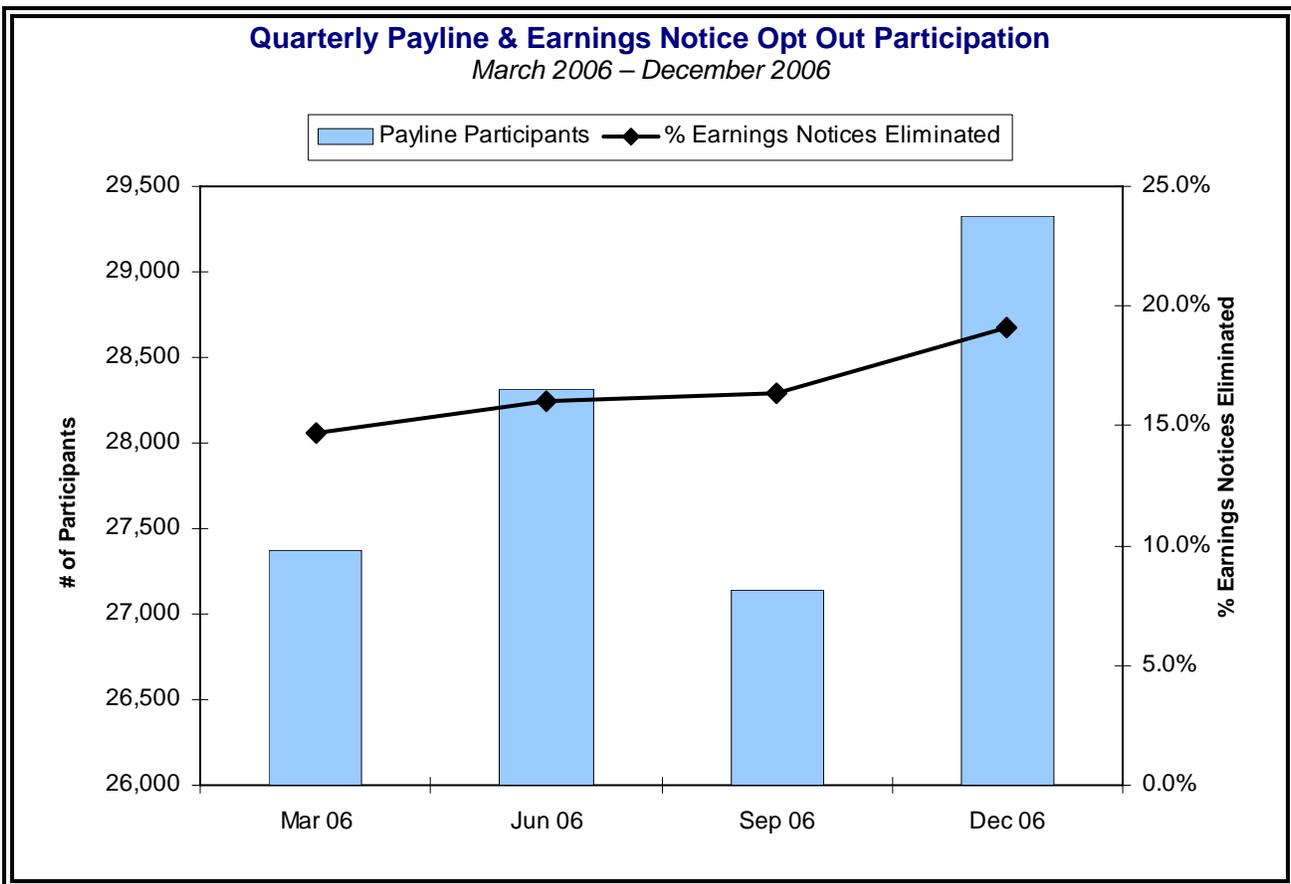


Payroll Earnings Notices

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 974,993 earnings notices. However, statewide participation rates remain low.



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 December 31, 2006

| Secretarial Area | Percent Payline Participation | Percent Earnings Notices Eliminated* |
|--|--------------------------------------|---|
| Administration | 59.2% | 40.5% |
| Agriculture and Forestry | 25.7% | 15.0% |
| Commerce and Trade | 78.6% | 53.4% |
| Education | 26.8% | 21.7% |
| Executive Offices | 61.8% | 55.2% |
| Finance | 84.5% | 65.3% |
| Health and Human Resources | 33.7% | 16.0% |
| Independent Agencies | 44.7% | 30.7% |
| Judicial | 8.3% | 3.2% |
| Legislative | 52.1% | 44.6% |
| Natural Resources | 49.3% | 38.0% |
| Public Safety | 26.9% | 11.7% |
| Technology | 83.1% | 60.1% |
| Transportation | 32.9% | 14.2% |
| Statewide | 32.1% | 19.1% |
| <i>Comparative</i> | | |
| <i>Quarter Ended December 31, 2005</i> | | |
| Statewide | 27.5% | 13.9% |

* 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 four percent of earnings notices have been eliminated by employees on direct deposit.

Only agencies and institutions with more than 25 employees are included in this report.

**Payline Earnings Notice Elimination
Under 4 Percent****

Quarter Ended December 31, 2006

| Agency | Percent Earnings Notices Eliminated | Earnings Notices Printed for 12/31/06 Payday |
|--|--|---|
| Education | | |
| Danville Community College | 3.7% | 298 |
| Radford University | 3.6% | 1,234 |
| Central Virginia Community College | 2.8% | 266 |
| Rappahannock Community College | 2.2% | 154 |
| Virginia School for the Deaf, Blind & Multi-Disabled at Hampton | 2.0% | 119 |
| Christopher Newport University | 1.8% | 1,389 |
| Northern Virginia Community College | 1.1% | 3,662 |
| Health and Human Resources | | |
| Piedmont Geriatric Hospital | 2.9% | 254 |
| Central Virginia Training Center | 2.3% | 954 |
| Judicial | | |
| Indigent Defense Commission | 2.1% | 500 |
| Magistrate System | 1.6% | 391 |
| Combined District Courts | 1.4% | 194 |
| Court of Appeals of Virginia | 1.3% | 75 |
| General District Courts | 1.1% | 985 |
| Juvenile and Domestic Relations District Courts | 0.9% | 617 |
| Circuit Courts | 0.0% | 181 |
| Legislative | | |
| Division of Capitol Police | 3.4% | 83 |
| Public Safety | | |
| Southampton Correctional Center | 3.9% | 275 |
| Haynesville Correctional Center | 3.5% | 309 |
| Nottoway Correctional Center | 2.9% | 362 |
| Greensville Correctional Center | 2.1% | 645 |
| Brunswick Correctional Center | 1.8% | 305 |
| Deerfield Correctional Center | 0.6% | 269 |

** The reporting threshold for the quarter ending March 31, 2007, will be increased to 6 percent.



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

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

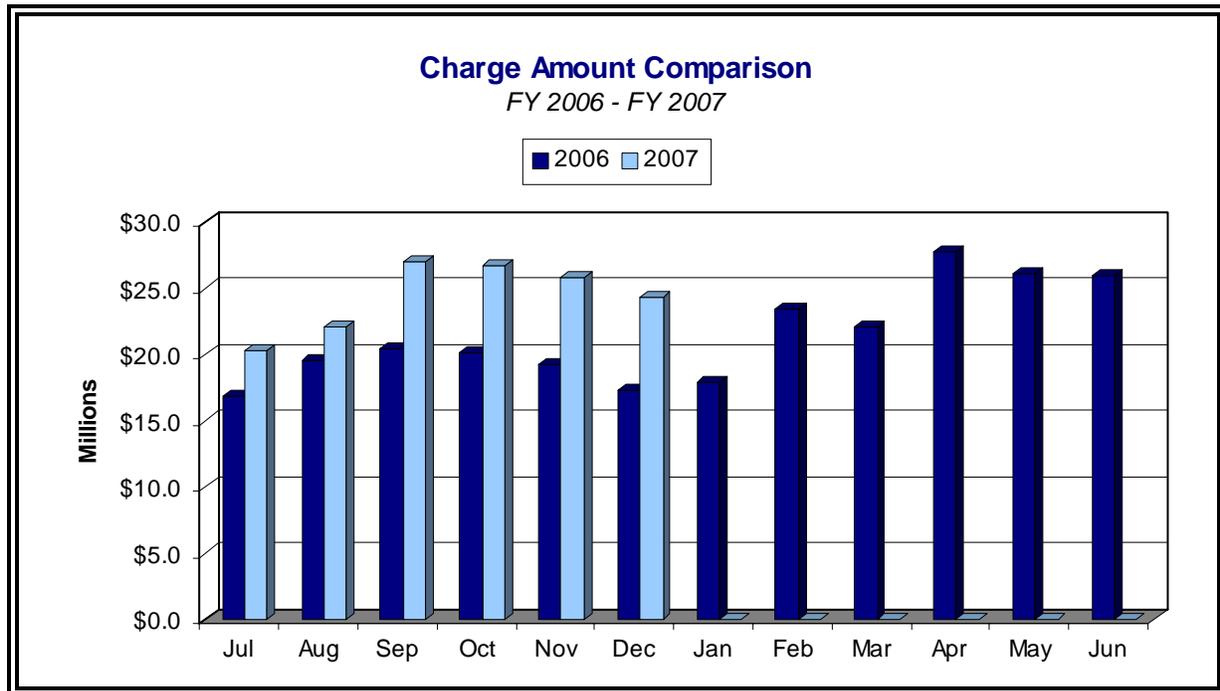
The Small Purchase Charge Card continues to be used for purchases under \$5,000. Agencies are strongly encouraged to obtain a Gold Card for use for purchases up to \$50,000.

The total amount charged on SPCC and Gold cards during the second quarter of FY 2007 increased by \$20.1 million or 35 percent from the same quarter last year.

Small Purchase Charge Card Program

| Charge Card Activity | Quarter Ended December 31, 2006 | Fiscal Year 2007 To-Date | Comparative Fiscal Year 2006 To-Date |
|--|--|-------------------------------------|---|
| Amount of Charges | \$ 76,951,393 | \$ 146,262,266 | \$ 113,660,462 |
| Estimated Number of Checks Avoided | 174,254 | 349,164 | 258,357 |
| Total Number of Participating Agencies | | 218 | 197 |
| Total Number of Cards Outstanding | | 13,048 | 9,854 |

The following chart compares charge activity for FY 2007 to activity for FY 2006:



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.

| | |
|--------------------------------|--------|
| FY2007 1 st Quarter | \$2.00 |
| FY2007 2 nd Quarter | \$3.00 |
| FY2007 3 rd Quarter | \$4.00 |
| FY2007 4 th Quarter | \$5.00 |

For purposes of computing the \$3 underutilization charge imposed in accordance with § 4-5.04g. of the Appropriation Act, the threshold has been set at 70%. Beginning in the second quarter of FY 2007, all local governments have been exempted from the utilization process.

All payments under \$5,000 processed through CARS and not placed on the purchase card will be matched against GE MasterCard's vendor base in excess of 25 million merchants based on Tax Identification number.

Beginning with FY 2007, in accordance with § 4-5.04 of the Appropriation Act, the underutilization charge imposed for agencies under the 70% threshold will be as follows:

Each agency will receive a report of payments to participating suppliers which should have been paid by the SPCC by DOA. Questions regarding the data can be emailed to cca@doa.virginia.gov.

Statewide SPCC Performance

Quarter Ended December 31, 2006

Percentage Utilization for Eligible Transactions

77%

SPCC Utilization by Secretarial Area

Quarter Ended December 31, 2006

| Secretarial Area | Payments in Compliance ⁽¹⁾ | Non-Compliant Transactions ⁽²⁾ |
|------------------------------|---------------------------------------|---|
| Administration | 73% | 879 |
| Agriculture and Forestry | 77% | 840 |
| Commerce and Trade | 72% | 934 |
| Education* | 86% | 5,522 |
| Executive Offices | 98% | 17 |
| Finance | 96% | 98 |
| Health and Human Resources** | 66% | 10,493 |
| Independent Agencies | 57% | 962 |
| Judicial | 42% | 2,028 |
| Legislative | 95% | 60 |
| Natural Resources | 88% | 841 |
| Public Safety | 89% | 3,459 |
| Technology | 77% | 264 |
| Transportation* | 63% | 9,047 |
| Statewide | 77% | 35,444 |

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

** Department of Rehabilitative Services division of DDS payments not included in the above statistics.

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

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



**Agency SPCC Performance
Utilization Below 70 Percent**

| Agency | Payments in Compliance | Non-Compliant Transactions |
|---|-----------------------------------|---------------------------------------|
| Administration | | |
| Department of Minority Business Enterprise | 33% | 26 |
| Commerce and Trade | | |
| Virginia Employment Commission | 41% | 775 |
| Department of Labor and Industry | 38% | 99 |
| Education | | |
| Christopher Newport University | 69% | 575 |
| Norfolk State University | 49% | 1,237 |
| Health and Human Resources | | |
| Department of Health | 68% | 2,778 |
| Central Virginia Training Center | 63% | 447 |
| Northern Virginia Training Center | 60% | 266 |
| Department of Social Services | 59% | 938 |
| Department for the Blind and Vision Impaired | 45% | 1,584 |
| Department of Rehabilitative Services | 40% | 2,962 |
| Independent Agencies | | |
| State Lottery Department | 68% | 193 |
| Virginia Office for Protection and Advocacy | 67% | 37 |
| Virginia Retirement System | 65% | 148 |
| State Corporation Commission | 1% | 537 |
| Judicial | | |
| Indigent Defense Commission | 65% | 190 |
| Board of Bar Examiners | 0% | 25 |
| Circuit Courts | 0% | 188 |
| Combined District Courts | 0% | 226 |
| General District Courts | 0% | 570 |
| Judicial Inquiry and Review Commission | 0% | 6 |
| Juvenile and Domestic Relations District Courts | 0% | 382 |
| Magistrate System | 0% | 103 |
| Virginia Criminal Sentencing Commission | 0% | 40 |

**Agency SPCC Performance
Utilization Below 70 Percent**
(continued)

| Agency | Payments in Compliance | Non-Compliant Transactions |
|---|-----------------------------------|---------------------------------------|
| Legislative | | |
| Commission on the Virginia Alcohol Safety Action Program | 0% | 22 |
| Public Safety | | |
| Department of Corrections | 69% | 107 |
| Commonwealth Attorneys' Services Council | 56% | 12 |
| Virginia Parole Board | 0% | 4 |
| Transportation | | |
| Department of Transportation | 61% | 7,966 |



SPCC Payment Compliance

Agencies and institutions participating in the SPCC program are required to submit GE MasterCard payments via EDI no later than the 8th 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. Any agency that pays their bill late by more than two (2) days is reported. For the month of October, this represents the bill date of October 16, 2006, with the payment due no later than November 8, 2006.

Agencies are credited under prompt payment reporting for timely payment of each purchasing charge card transaction. **Effective July 1, 2006, if an agency is late paying its purchase card bill, agency prompt payment statistics may be adjusted downward to reflect each charge card transaction paid in the consolidated monthly bill as a late payment.**

The following chart lists agencies more than two days late in submitting their payments.

| <u>Agency Name</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> |
|---|------------|------------|------------|
| Education | | | |
| The College of William and Mary in Virginia | X | | |
| Eastern Shore Community College | | | X |
| Gunston Hall | X | | |
| Science Museum of Virginia | X | | |
| University of Virginia Medical Center | | | X |
| Independent | | | |
| Virginia Office for Protection and Advocacy | | | X |
| Public Safety | | | |
| Commonwealth's Attorneys' Services Council | X | | |



Travel Charge Card

The Commonwealth of Virginia has contracted with GE to provide employees with a means of charging reimbursable travel and related expenses while conducting official state business. Unlike the SPCC program, in which the agency directly receives and pays a summarized bill for all cardholders, each cardholder is personally responsible for all charges placed on the travel card and for paying the bill on time.

- 30 days past due – noted on statement, letter sent to the cardholder.
- 31 - 60 days past due – charging privileges are temporarily suspended until balance is paid.
- 61 - 90 days past due – the account is permanently closed. Cardholder is no longer eligible to participate in the program.

One of the major concerns under this program is the timely payment of card statements. Delinquent accounts result in higher costs to the contractor and ultimately threaten the viability of the Commonwealth's travel charge card program. The contract provides for the following actions on delinquent accounts:

The following table identifies the number of delinquent card accounts with GE MasterCard by agency during the quarter ended December 31, 2006, and the total amounts past due.

Travel Charge Card Program

As of December 31, 2006

| <u>Agency</u> | <u>Total Delinquent Accounts</u> | <u>Amounts 60 Days Past Due</u> | <u>Amounts 90-120 Days Past Due</u> | <u>Amounts >150 Days Past Due</u> |
|---------------------------------|--|---|---|--|
| Education | | | | |
| George Mason University | 2 | \$ 562 | \$ 2,396 | \$ 0 |
| Longwood University | 2 | 100 | 0 | 854 |
| Norfolk State University | 7 | 232 | 785 | 6,855 |
| Old Dominion University | 2 | 1,153 | 3,229 | 0 |
| Patrick Henry Community College | 1 | 0 | 394 | 0 |
| Thomas Nelson Community College | 1 | 155 | 0 | 0 |
| University of Mary Washington | 1 | 0 | 32 | 1,198 |
| University of Virginia | 3 | 60 | 1,035 | 1,369 |

Travel Charge Card Program

As of December 31, 2006

(continued)

| <u>Agency</u> | <u>Total Delinquent Accounts</u> | <u>Amounts 60 Days Past Due</u> | <u>Amounts 90-120 Days Past Due</u> | <u>Amounts >150 Days Past Due</u> |
|--|--|---|---|--|
| Education | | | | |
| Virginia Commonwealth University | 3 | \$ 1,727 | \$ 934 | \$ 425 |
| Virginia Military Institute | 2 | 1,091 | 1,848 | 241 |
| Virginia Polytechnic Institute and State University | 9 | 3,787 | 7,158 | 2,251 |
| Virginia State University | 4 | 904 | 0 | 0 |
| Health and Human Resources | | | | |
| Central Virginia Training Center | 1 | 221 | 0 | 0 |
| Department of Social Services | 1 | 384 | 0 | 0 |
| Public Safety | | | | |
| Department of Military Affairs | 1 | 242 | 0 | 0 |
| Department of Veterans Services | 1 | 0 | 0 | 49 |
| Technology | | | | |
| Virginia Information Technologies Agency | 1 | 14 | 0 | 0 |
| Transportation | | | | |
| Department of Motor Vehicles | 1 | 297 | 0 | 0 |



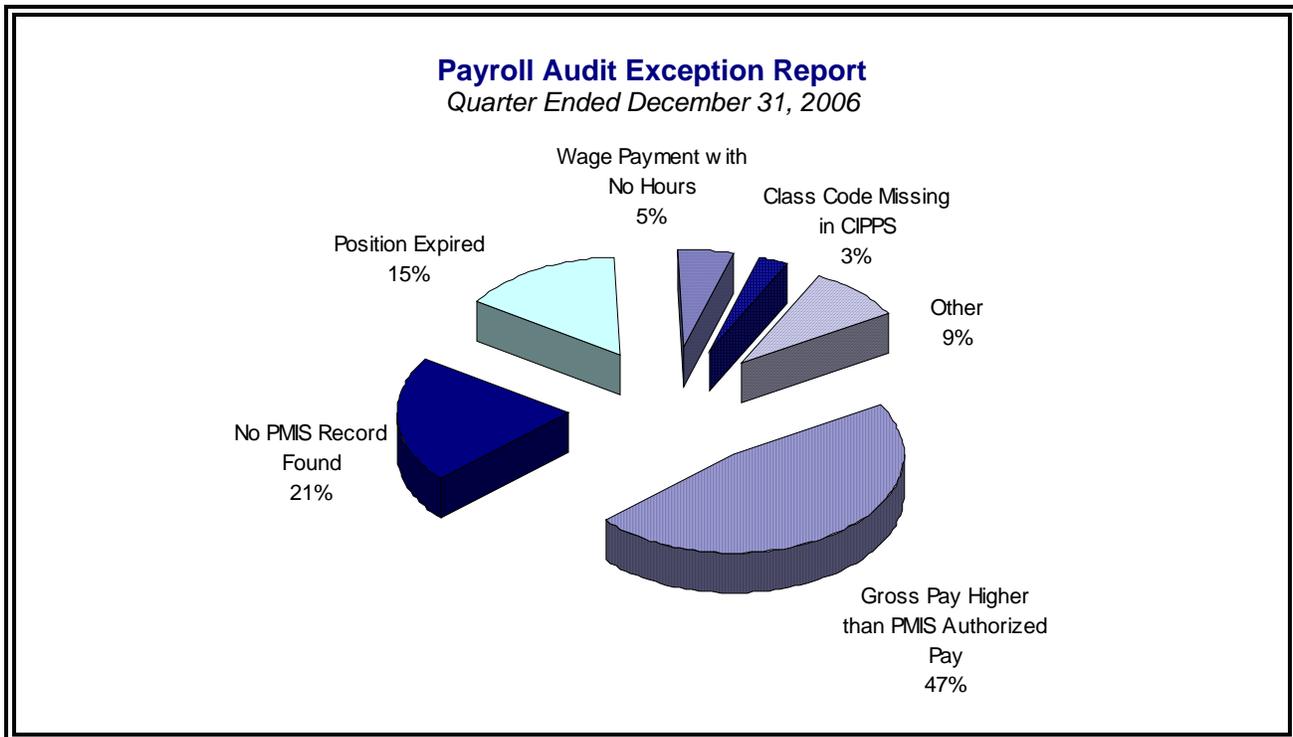
Payroll Controls

PMIS/CIPPS Payroll Audit

During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 426,892 salaried pay transactions and 213,678 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 2,424 new exceptions noted statewide during the quarter, with an overall exception rate of 0.41 percent.

The statewide salaried payroll exception rate was 0.58 percent and the wage payroll exception rate was 0.07 percent. During this quarter, 53 employee paychecks were reduced to recover \$25,047.48 in overpayments.

While the largest cause of exceptions is the result of agency failure to complete the salary increase authorization process by updating PMIS salary amounts *prior* to paying the increased salary amount in CIPPS, the second largest cause of exceptions is related to timing differences in payroll and PMIS processing due to transfers. The PMIS authorization is an important internal control over payroll processing. Such exceptions can largely be avoided through timely PMIS data entry by agency Human Resource staff. Although segregation of these Human Resource and Payroll functions is an effective internal control, coordination and communication between agency Human Resource and Payroll staffs is essential.



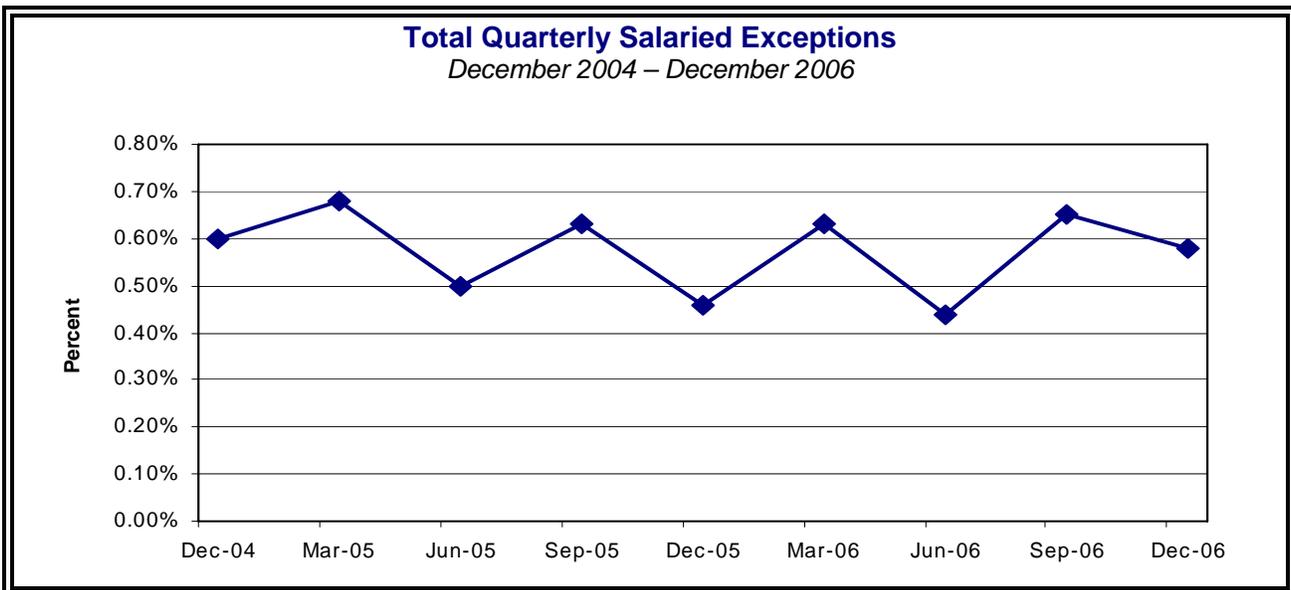
Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Agencies are reported below if the

percentage of payroll exceptions to salaried or wage payments exceeds three times the statewide average for the quarter.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Salaried Payments
Quarter Ended December 31, 2006

| Agency | Exceptions as a % of Salaried Payments |
|--|---|
| Virginia Rehabilitation Center for the Blind and Vision Impaired | 2.53% |
| Office of Workforce Development & Workforce Council Support | 3.85% |
| Total Salaried Payroll Exceptions for the Quarter | 0.58% |

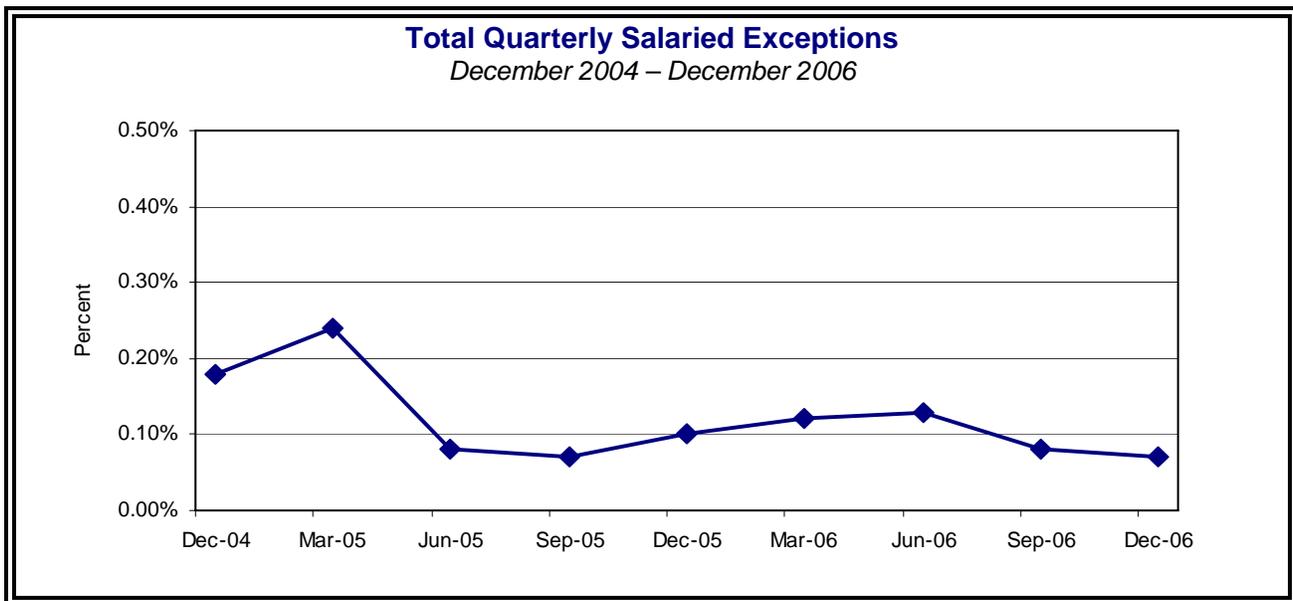
The following chart compares payroll exceptions as a percentage of salaried payments by quarter for the past two years.



Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended December 31, 2006

| <u>Agency</u> | <u>Exceptions as a % of Wage Payments</u> |
|--|---|
| Central State Hospital | 1.26% |
| Department of Juvenile Justice | 0.96% |
| Wage Payroll Exceptions for the Quarter | 0.07% |

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



Note: Increase in third quarter of FY 2005 resulted from change in class codes in PMIS, but not in CIPPS.



PMIS/CIPPS Exceptions

Agencies are required to submit explanations and/or reconciliations for the differences identified on the CIPPS/PMIS Unresolved Exceptions Report, within six

weeks of notification. The following table lists those agencies having exceptions that remain unresolved six weeks after receipt of the report.

| Agency | Unresolved Exceptions |
|--|------------------------------|
| <i>Health & Human Resources</i> | |
| Central State Hospital | 1 |
| Southwestern Virginia Training Center | 1 |
| Western State Hospital | 4 |
| <i>Natural Resources</i> | |
| Department of Conservation & Recreation | 2 |
| Department of Game & Inland Fisheries | 1 |
| <i>Public Safety</i> | |
| Augusta Correctional Center | 1 |
| <i>Transportation</i> | |
| Department of Motor Vehicles | 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 General Services | \$ 22,791 | | | |
| Education | | | | |
| Longwood University | | 1 | | |
| Southside Virginia Community College | 20,473 | 1 | | |
| Southwest Virginia Community College | | 1 | | |
| Virginia Museum of Fine Arts | | 2 | | |
| Virginia School for the Deaf and the Blind at Staunton | | 1 | | |
| Virginia Western Community College | 107,592 | | | |
| Health and Human Resources | | | | |
| Department of Mental Health, Mental Retardation and Substance Abuse Services | | | 2 | |
| Western State Hospital | 21,653 | | | |
| Independent Agencies | | | | |
| Virginia Retirement System | 49,668 | | | |
| Virginia Workers' Compensation Commission | | 1 | | |
| Judicial | | | | |
| Virginia Indigent Defense Commission | 8,361,000 | | | |
| Natural Resources | | | | |
| Virginia Museum of Natural History | | | 2 | |
| Transportation | | | | |
| Department of Motor Vehicles | 143,175 | | | |

Columns show the following:

- (a) Variance in dollars for agencies whose certified amounts varied from actual computed amounts by more than \$20,000 for any payrolls processed during the quarter.
- (b) The number of times DOA had to perform the certification function for the agency due to inadequate agency back-up.
- (c) The number of certifications that were submitted or altered later than the daily deadline.
- (d) The number of times DOA made corrections to agency certifications during the quarter.

Health Care Reconciliations

Employee health care fringe benefits costs are covered by a combination of agency paid and employee-paid premiums. Agencies are required to return a *Certification of Automated Health Care Reconciliations* form to DOA by the close of the month following the month of coverage. This reconciliation annotates differences between health care eligibility records (BES) and health care premium payments collected through payroll deduction.

The following table lists those agencies that were late in submitting their certification or had problems requiring additional adjustments. Such problems may include incomplete or incorrect documents or required IAT's not submitted to DOA. Health care reconciliations for the months of September, October and November were due 10/31/06, 11/30/06 and 12/29/06, respectively.

Schedule of Health Care Reconciliations Received Late or With Problems

| | Sept | Oct | Nov |
|---|-------------|------------|------------|
| Education | | | |
| Southside Virginia Community College | | X | |
| Wytheville Community College | | X | |
| Lord Fairfax Community College | X | | |
| Health and Human Resources | | | |
| Department of Social Services | | P | P |
| Independent | | | |
| Virginia Workers' Compensation Commission | P | P | |
| Public Safety | | | |
| Keen Mountain Correctional Center | P | P | |

X = Late
P = Problems



FINANCIAL MANAGEMENT ACTIVITY

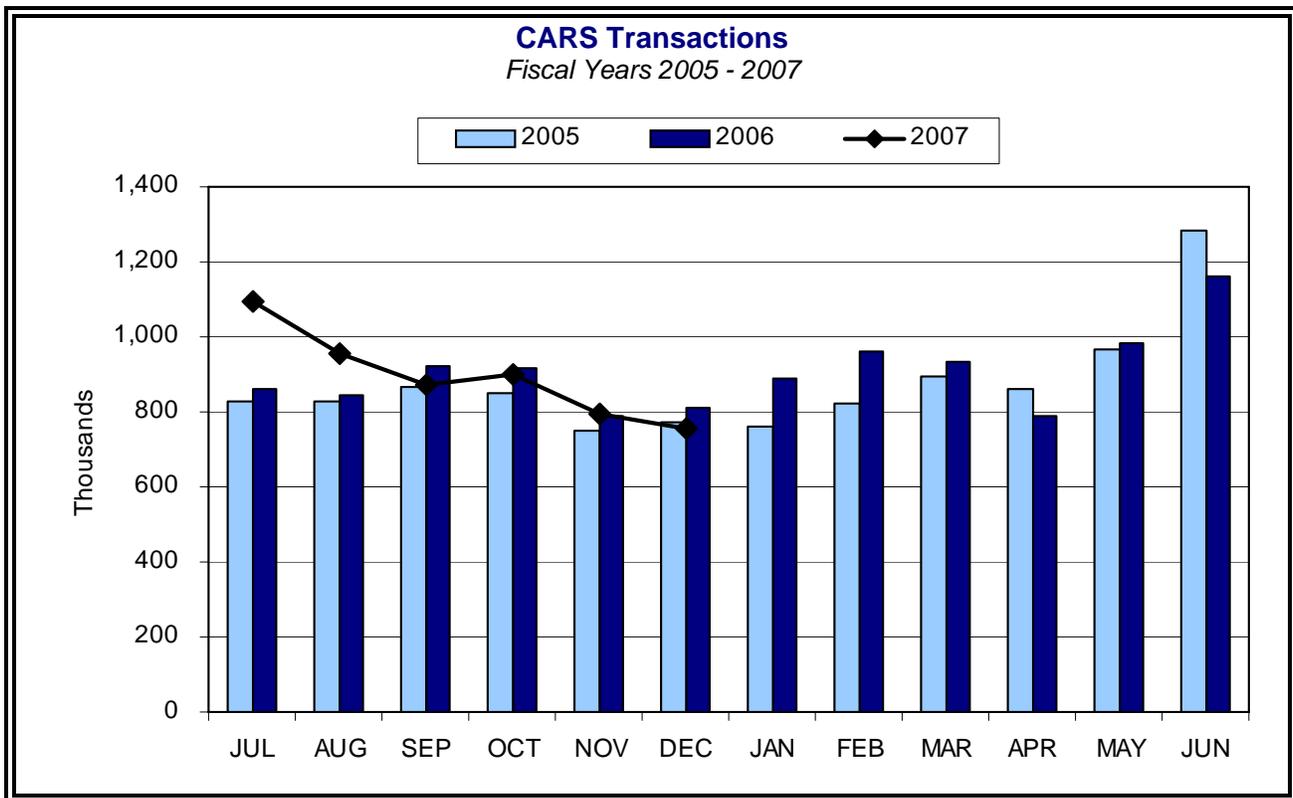
DOA monitors several types of financial activity. Various measures are used to track activities for CARS, payroll, accounts

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.

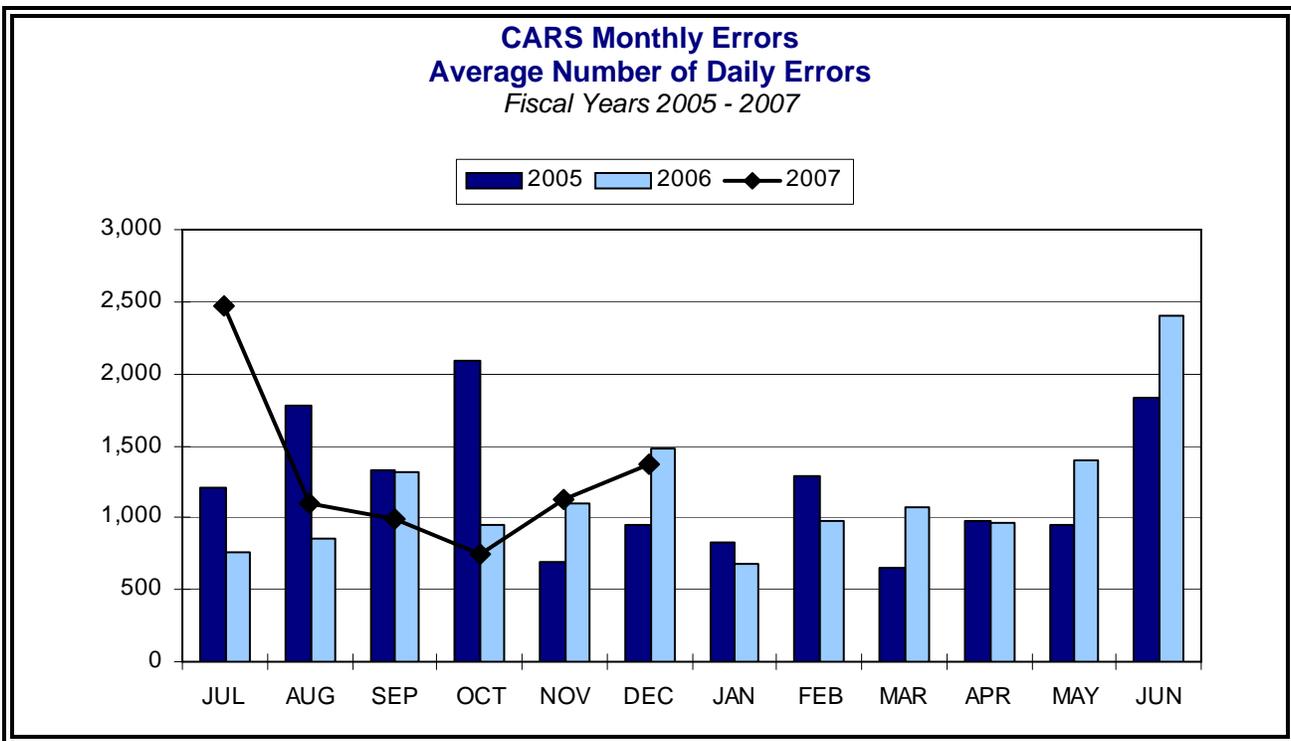


CARS Edits

One of the most important management tools used by DOA is the monitoring of CARS errors generated by standard system edits. Batches remain on the error file until problems are resolved, which, for disbursement transactions, can lead to noncompliance with prompt payment standards and poor vendor relations. During the second quarter of FY 2007, the most frequent reasons cited for transactions processing to the error file were:

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

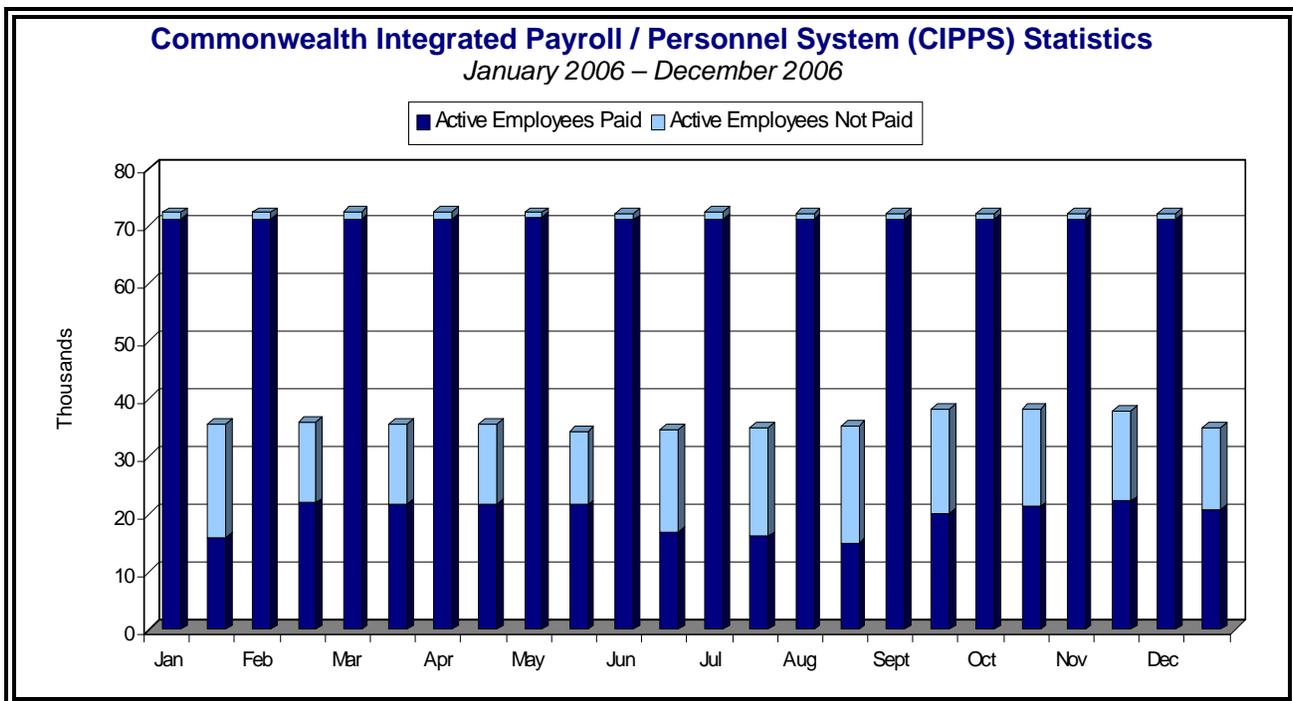
- Available Cash Negative
- Certified Amounts Not Balanced
- Prior Fiscal Month Not Open



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 109,068 employees. Payroll services are also provided through eight decentralized higher education institutions.

Total gross payrolls for the Commonwealth were approximately \$469 million each month of the quarter. On average, 92,505 employees were paid each month, of which 71,071 are salary employees.



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

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

Benefit Participation by CIPPS Agencies

The Commonwealth offers a variety of benefits to state employees, including health care, optional retirement plans, deferred compensation, and flexible reimbursement

programs. During the quarter, state employees purchased 10,978 savings bonds with a face value of over \$1.4 million.

Benefit Participation Number of Participating Employees

| Benefit | As of 12/31/2006 | Comparative | |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | As of 12/31/2005 | As of 12/31/2004 |
| Health Care | | | |
| COVA Care | 82,475 | 82,038 | 80,301 |
| Kaiser | 2,004 | 1,924 | 1,857 |
| Optional Retirement Plans* | | | |
| Fidelity Investments | 549 | 538 | 529 |
| TIAA/CREF | 1,624 | 1,584 | 1,511 |
| Political Appointee - ORP | 104 | 78 | 85 |
| Deferred Compensation* | | | |
| Great West Life | 33,355 | 32,249 | 29,617 |
| Flexible Reimbursement* | | | |
| Dependent Care | 712 | 661 | 695 |
| Medical Care | 5,941 | 5,073 | 4,896 |

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

Note: TIAA-CREF and Fidelity are the only ORP's offered to higher education after June 30, 2004.



Accounts Receivable

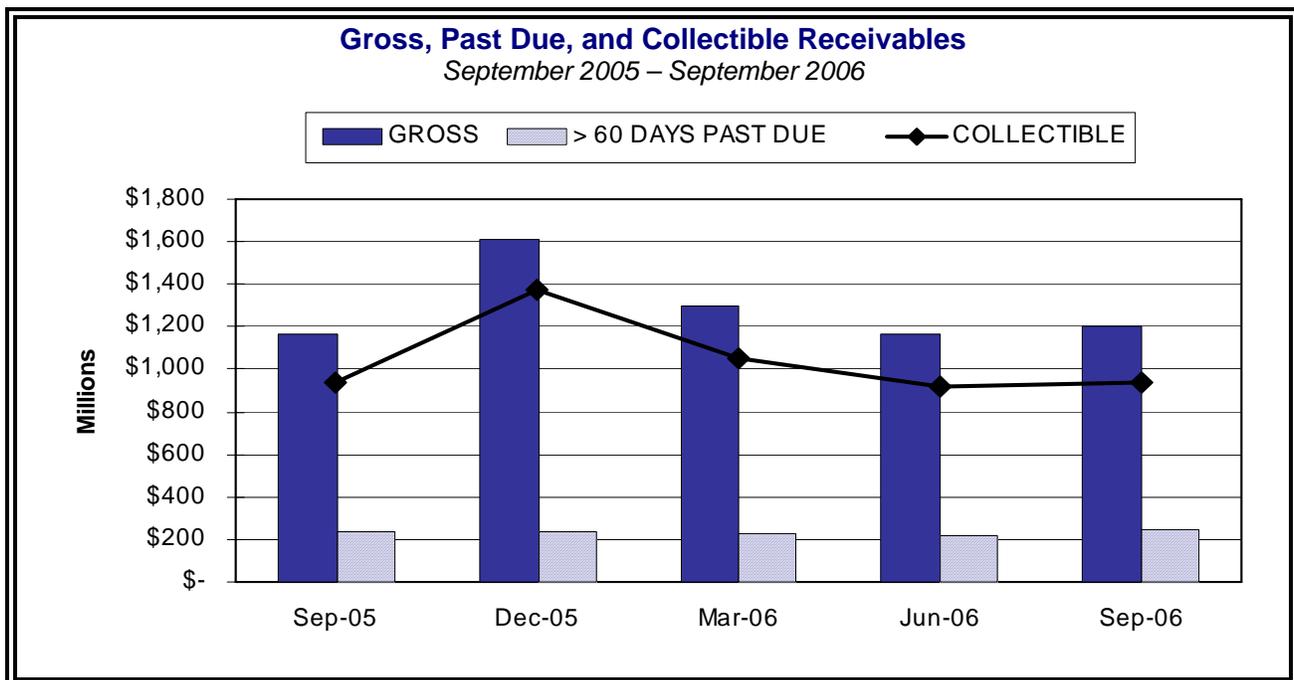
Executive Summary

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.

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

Commonwealth agencies and institutions reported adjusted gross receivables of \$1.2 billion at September 30, 2006, with \$936.0 million considered collectible. Receivables over 60 days past due as of September 30, 2006, totaled \$242.5 million. Of that amount, \$16.1 million was placed with private collection agencies, \$17.8 million was placed with the Division of Debt Collection and \$208.5 million was retained in-house for additional collection efforts.

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



As of September 30, 2006, agencies expected to collect \$936.0 million (78 percent) of the \$1.2 billion adjusted gross receivables. About 4 percent are due to the

General Fund, primarily for Medicaid penalties. The balance (approximately \$895.2 million) is due to several non-general funds.

Collectible Receivables by Fund

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

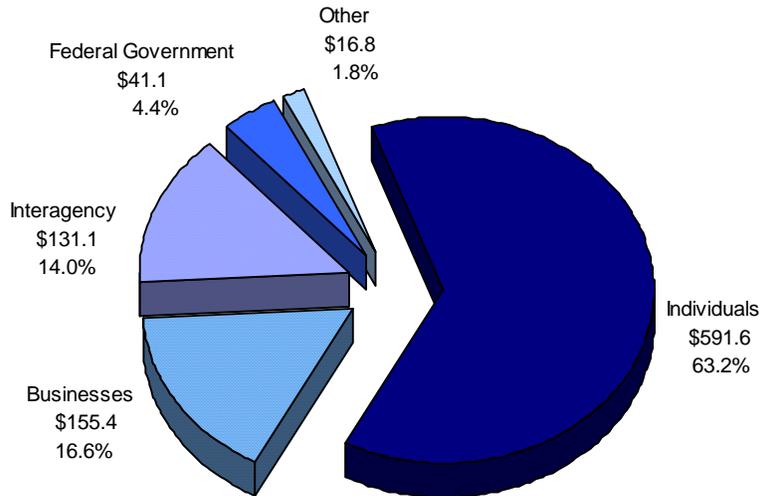
As of September 30, 2006

| Fund | Source | Amount | Percent |
|--|---------------------------------------|-----------------------|----------------------|
| General Fund 4% | Medicaid | \$ 32,385,747 | 80% |
| | Social Services | 3,282,447 | 8% |
| | State Police Permits | 2,852,780 | 7% |
| | Labor and Industry Inspections | 785,234 | 2% |
| | Other | 964,544 | 2% |
| | Subtotal | 40,270,752 | 99% |
| | Interagency Receivables | 579,921 | 1% |
| | Total General Fund Collectible | | \$ 40,850,673 |
| Nongeneral Funds 96% | Medicaid | \$ 10,882,126 | 1% |
| | Unemployment Taxes | 71,726,435 | 8% |
| | Transportation | 26,504,632 | 3% |
| | Child Support Enforcement | 79,750,390 | 9% |
| | Federal Government | 30,213,498 | 3% |
| | MHMR Patient Services | 29,484,775 | 3% |
| | Hospital | 153,181,056 | 17% |
| | Enterprise | 60,361,390 | 7% |
| | Higher Education | 279,069,934 | 31% |
| | Other | 23,474,595 | 3% |
| | Subtotal | 764,648,831 | 85% |
| Interagency Receivables | 130,505,287 | 15% | |
| Total Nongeneral Fund Collectible | | \$ 895,154,118 | 100% |
| All Funds | Grand Total | \$ 936,004,791 | 100% |

Summary of Receivables by Source

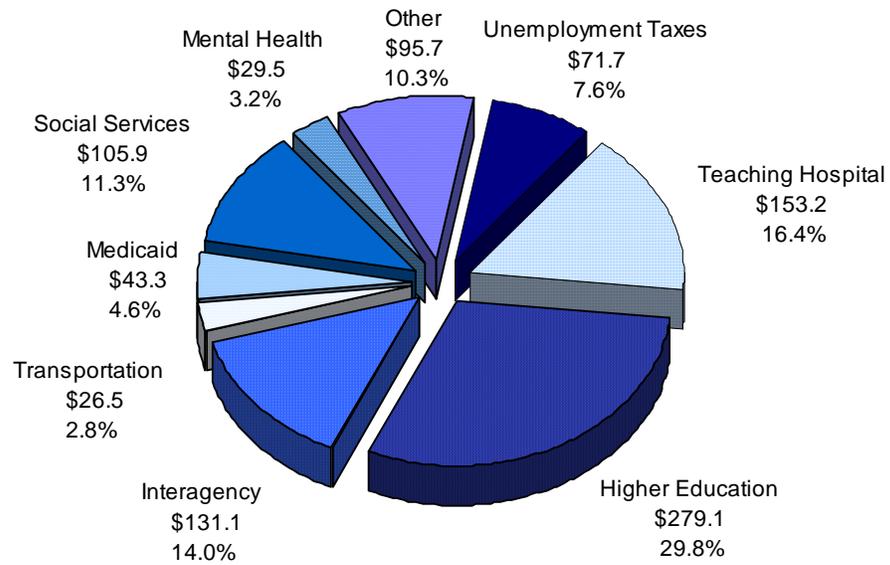
Sources of Collectible Receivables by Debtor

(dollars in millions)
As of September 30, 2006



Sources of Collectible Receivables by Type

(dollars in millions)
As of September 30, 2006



Not counting Taxation and the Courts, 10 agencies account for 75 percent of the Commonwealth's adjusted gross and 72

percent of the adjusted collectible accounts receivable balances.

Accounts Receivable Summary
Not Including Circuit Courts, District Courts, and Department of Taxation
Quarter Ended September 30, 2006

| Agency | Gross | Allowance for Uncollectible Accounts | Collectible |
|---|-------------------------|--|-----------------------|
| University of Virginia Medical Center | \$ 207,698,670 | \$ 21,493,853 | \$ 186,204,817 |
| Department of Social Services | 254,562,439 | 148,686,853 | 105,875,586 |
| Virginia Employment Commission | 101,243,248 | 26,436,278 | 74,806,970 |
| Virginia Polytechnic Institute and State University | 68,992,711 | 1,207,901 | 67,784,810 |
| State Lottery Department | 45,256,664 | - | 45,256,664 |
| Department of Medical Assistance Services | 76,708,780 | 33,227,719 | 43,481,061 |
| Virginia Information Technologies Agency | 37,694,527 | - | 37,694,527 |
| Virginia Commonwealth University | 39,005,788 | 1,583,256 | 37,422,532 |
| Virginia Community College System | 36,524,785 | 618,595 | 35,906,190 |
| University of Virginia Academic Division | 36,448,495 | 1,348,000 | 35,100,495 |
| Total | 904,136,107 | 234,602,455 | 669,533,652 |
| All Other Agencies | 300,569,648 | 34,098,509 | 266,471,139 |
| Grand Total | \$ 1,204,705,755 | \$ 268,700,964 | \$ 936,004,791 |

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.

\$3,000 or more and 60 days or more past due to the Division of Debt Collection.

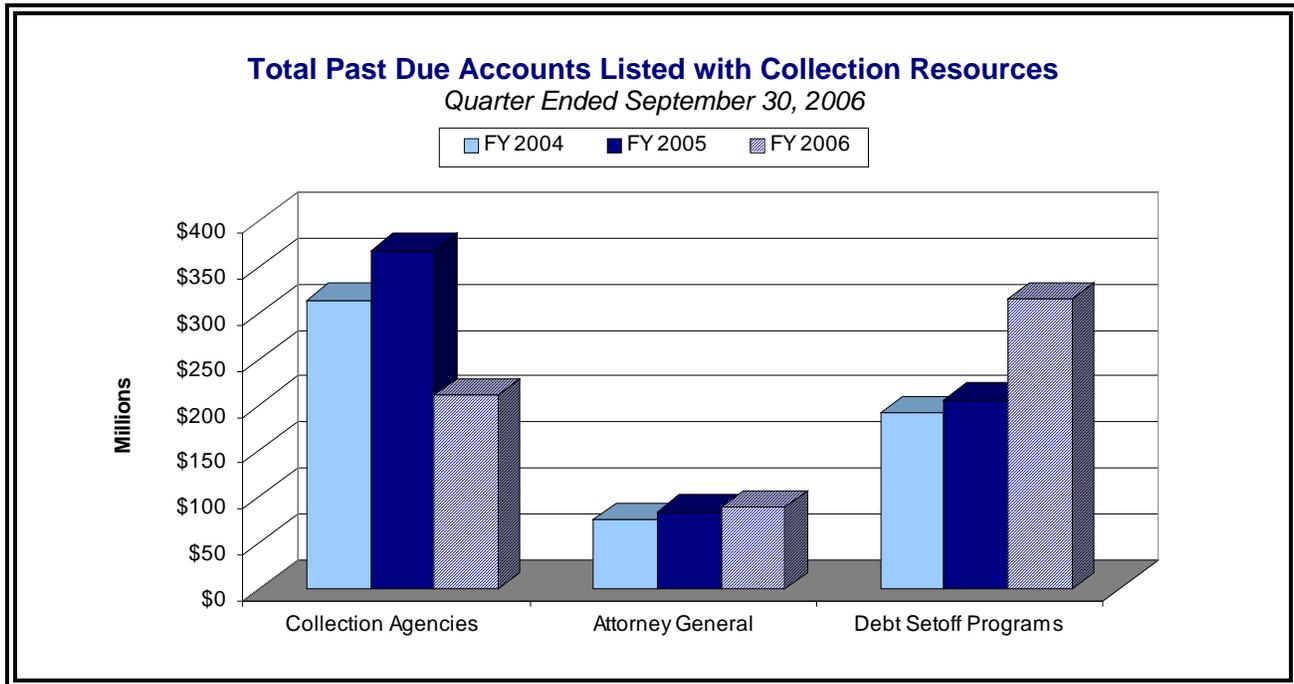
DOA requires state agencies and institutions to use the computerized matching and debt setoff programs for receivables that are 30 days or more past due. DOA also requires the use of private collection agencies on delinquent accounts that are 60 days or more past due that are not sent to the Attorney General's Division of Debt Collection. The Office of the Attorney General requires state agencies and institutions to send accounts of

These additional collection tools recovered \$4.4 million during the quarter ended September 30, 2006. The Division of Debt Collection contributed \$1.4 million. Private collection agencies collected \$1.9 million, and the debt setoff programs (Tax, Comptroller's and Lottery) collected \$1.1 million.

Collectible Receivables Over 60 Days Past Due
Not Including Circuit and District Courts, or the Department of Taxation
As of September 30, 2006

| Agency | Total Over 60 Days | With Collection Agency | With Attorney General | Retained by State Agency |
|--|-----------------------|------------------------------|--------------------------|-----------------------------|
| Department of Social Services | \$ 84,694,898 | \$ - | \$ - | \$ 84,694,898 |
| Virginia Employment Commission | 35,886,746 | 7,454,633 | 6,523,742 | 21,908,371 |
| Department of Medical Assistance Services | 28,547,831 | 1,710,578 | 1,881,168 | 24,956,085 |
| University of Virginia Medical Center | 17,658,998 | - | - | 17,658,998 |
| Department of Transportation | 14,591,833 | 754,262 | 4,173,499 | 9,664,072 |
| Department of Mental Health, Mental Retardation & Substance Abuse Services | 11,205,636 | - | - | 11,205,636 |
| University of Virginia - Academic Division | 3,867,847 | 707,170 | - | 3,160,677 |
| Virginia Information Technologies Agency | 3,755,483 | - | - | 3,755,483 |
| Virginia State University | 3,677,947 | - | - | 3,677,947 |
| Virginia Commonwealth University | 3,463,431 | 283,257 | 8,345 | 3,171,829 |
| TOTAL | \$ 207,350,650 | \$ 10,909,900 | \$ 12,586,754 | \$ 183,853,996 |
| <i>All Other Agencies</i> | 35,126,949 | 5,229,256 | 5,217,567 | 24,680,126 |
| TOTAL OVER 60 DAYS | \$ 242,477,599 | \$ 16,139,156 | \$ 17,804,321 | \$ 208,534,122 |
| Uncollectable Amounts Placed for Collection, Including Accounts Written Off | 372,154,521 | 194,448,601 | 71,586,115 | 106,119,805 |
| TOTAL COLLECTION EFFORTS | \$ 614,632,120 | \$ 210,587,757 | \$ 89,390,436 | \$ 314,653,927 |

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



Comptroller's Debt Setoff (CDS) Program

CDS is one of the debt setoff programs used by agencies to collect past due accounts receivable owed 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 \$7.3 million through the second quarter of FY 2007. Please note the amount reported is before any refunds.

Receivable Trend Data

One way to measure an agency's effectiveness at collecting its accounts receivable is to look at how efficient collection procedures are on accounts that are more than 60 days past due. The

following table looks at trend percentages of receivables over 60 days past due as a percentage of gross receivables for the agencies with the largest amounts over 60 days past due.

Percentage of Gross Receivables Over 60 Days Past Due

| Agency | Percent at 9/30/06 | Comparative | |
|---|-------------------------------|-------------------------------|-------------------------------|
| | | Percent at 6/30/06 | Percent at 3/31/06 |
| Department of Social Services | 33% | 32% | 29% |
| Virginia Employment Commission | 35% | 31% | 10% |
| Department of Medical Assistance Services | 37% | 32% | 32% |
| University of Virginia Medical Center | 9% | 13% | 11% |
| Department of Transportation | 52% | 14% | 81% |
| Department of Mental Health, Mental Retardation & Substance Abuse Services | 25% | 19% | 21% |
| University of Virginia - Academic Division | 11% | 15% | 15% |
| Virginia Information Technologies Agency | 10% | 1% | 2% |
| Virginia State University | 32% | 7% | 51% |
| Virginia Commonwealth University | 9% | 12% | 14% |
| Statewide Average - All Agencies | 20% | 19% | 18% |

Another way to measure agency debt collection effectiveness is to compare amounts collected to amounts billed. The table below presents trend percentages for the ten agencies with the highest collectible accounts receivable balances. In total, these ten agencies are responsible for 72 percent of the Commonwealth's collectible receivables balances, as adjusted to exclude the Department of Taxation and the circuit and district courts. Percentages over 100% indicate the collection of prior balances as well as current billings.

In evaluating these percentages it is important to understand that the percentages may fluctuate based on how the different agencies conduct their business and the cycles that those businesses typically follow.

The statewide average of 89% indicates that for every \$1 billed during the quarter ended September 30, 2006, the state collected 89 cents. This rate is 2 percent more than last year, and the same as the September 30, 2004 quarter.

Collections as a Percentage of Billings

| Agency | Percent at 9/30/06 | Comparative | |
|---|-----------------------|-----------------------|-----------------------|
| | | Percent at 9/30/05 | Percent at 9/30/04 |
| University of Virginia Medical Center | 33% | 37% | 51% |
| Department of Social Services | 100% | 87% | 91% |
| Virginia Employment Commission | 123% | 118% | 129% |
| Virginia Polytechnic Institute and State University | 89% | 85% | 87% |
| State Lottery Department | 97% | 101% | 95% |
| Department of Medical Assistance Services | 41% | 31% | 76% |
| Virginia Information Technologies Agency | 97% | 102% | 100% |
| Virginia Commonwealth University | 88% | 88% | 87% |
| Virginia Community College System | 78% | 61% | 77% |
| University of Virginia Academic Division | 95% | 95% | 97% |
| Statewide Average - All Agencies | 89% | 87% | 89% |

Commonwealth Receivables Analysis

The following individual accounts receivables narratives describe agency collection programs and related trend information:

Department of Medical Assistance Services (DMAS)

DMAS is responsible for overseeing service delivery to eligible recipients and reviewing and auditing the providers of a variety of federally and State funded health care programs. These programs include Medicaid, Family Access to Medical Insurance Security (FAMIS), and State and Local Hospitalization (SLH) programs.

DMAS' collectible accounts receivable of \$43.5 million at September 30, 2006, is the same as that reported at September 30, 2005. Over the same period, total past due receivables have increased by \$5.4 million, to \$32.3 million.

University of Virginia Medical Center (UVAH)

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

The Hospital's collectible receivables of \$186.2 million at September 30, 2006, were a \$36.0 million increase from the \$150.2 million reported the previous year. Past due receivables increased by \$11.5 million to \$88.2 million at September 30, 2006.

Virginia Employment Commission (VEC)

VEC is responsible for paying unemployment insurance benefits to workers who have become unemployed. VEC also provides employment assistance for job seekers and analyzes and reports on a variety of labor market information.

VEC collectible receivables were \$74.8 million at September 30, 2006, a decrease of \$6.9 million from the previous year. Past due receivables of \$40.9 million decreased by \$10.2 million from the previous year. VEC collects employer tax receivables in-house. The Attorney General's Office is involved in contested cases. Unemployment benefit overpayments to individuals are referred to private collections agencies after in-house efforts have produced no results and when debtors have left the state.

Virginia Information Technologies Agency (VITA)

VITA is the state's central information technologies provider. VITA operates the information technology infrastructure for much of State government, providing both hardware and services. VITA also procures hardware and software for agencies and institutions of higher education.

VITA reported collectible receivables at September 30, 2006, of \$37.7 million, a \$6.8 million increase from the previous year's \$30.9 million. Most of these dollars are owed by other state agencies. As of September 30, 2006, \$3.8 million was over 60 days past due, a \$3.2 million increase over the previous year.

State Lottery Department (SLD)

The State Lottery Department is an independent agency which is responsible for operating the State's on-line lottery and scratch-off games and actively participates in two multi-state games, Mega Millions and Win for Life. Retail merchants who sell the Virginia Lottery games are covered by surety bonds and deposit Lottery receipts into bank accounts approved by the State Treasurer.

At September 30, 2006, the Virginia Lottery reported net receivables of \$45.3 million, a \$593,917 decrease from the previous year's net of \$45.9 million. Billings during the September 30, 2006 quarter decreased \$17.7 million and collections decreased by \$24.3 million when compared to the September 30, 2005 quarter. At September 30, 2006, the Virginia Lottery had \$414,050 that was over 60 days past due. The total amount is covered by surety bond and involves approximately 20 retailers.

Department of Education (DOE)

Education acts as the pass-through agency for state and federal education funds and determines the allocation of funds to local school divisions under the Direct Aid to Public Education Program. Localities file expenditure reimbursement requests with the Department who then reviews the claims for accuracy and correctness. Eligible expenditures under federal grants are paid by DOE, which then draws down the money from the U. S. Department of Education.

At September 30, 2006, DOE had no accounts receivable due from the Federal government under Direct Aid. This is consistent with the prior year.

Virginia Polytechnic Institute and State University (VPISU)

VPISU is one of the Commonwealth's largest universities and one of two land grant institutions in the state. At September 30, 2006, the University reported net collectible receivables of \$67.8 million, a \$58,099 increase over the prior year. At the same time, past due receivables decreased by \$758,818 from last year.

The University uses a variety of collection methods to encourage payments. At September 30, 2006, VPISU had \$2.5 million of accounts over 60 days past due. \$589,625 of that was placed with the Attorney General's Division of Debt Collection, another \$617,252 placed with private collection agencies and \$1.3 million listed for Taxation's Debt Setoff Programs and additional in-house efforts.

Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS)

DMHMRSAS operates 16 facilities around the State to treat patients. These facilities account for nearly all of the department's receivables, consisting primarily of fees due for patient care. DMHMRSAS bills third party insurers and patient assistance programs such as Medicare and Medicaid whenever they are available. In other cases, the Department looks to responsible family members and tangible real and personal property for payment. When property is located, liens are filed in the local courts so that when estates are liquidated, DMHMRSAS can recover some of the costs involved in a patient's care.

At September 30, 2006, the Department reported net receivables of \$29.5 million, unchanged from the previous year. \$20.8 million was past due, with \$11.2 million

being over 60 days past due. Total past due receivables increased by \$4.6 million over the year, and accounts over 60 days past due increased by \$556,409. At September 30, 2006, the Department had \$6.6 million of accounts placed with the Attorney General and \$1.4 million listed in Taxation's Debt Setoff Programs.

Department of Transportation (VDOT)

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

At September 30, 2006, VDOT reported \$24.8 million of collectible receivables, a decrease of \$28.6 million from the prior year. VDOT also reported \$17.3 million total past due and \$14.6 million being over 60 days past due. Past due receivables decreased by \$4.0 million over the year, while receivables over 60 days past due increased by \$2.2 million. VDOT reports that the large majority of the accounts over 60 days past due continue to be amounts owed by cities, counties and towns that are participating on long-term construction projects with the department and where the local fund shares are provided by local debt financing.

VDOT reported placing \$8.8 million of their unpaid accounts with the Attorney General's Division of Debt Collection, \$1.1 million with private collection agencies and \$1.3 million with Taxation's Debt Setoff Programs.

Department of Social Services (DSS)

Social Services provide financial assistance to eligible individuals and families through 121 local departments of social services. The assistance programs include the Temporary Assistance for Needy Families (TANF), Medicaid, Food Stamps, and Community Services Block Grants. In addition to the assistance programs, DSS is the federally-mandated state agency to provide child support enforcement assistance. Child support paid for children receiving money from an assistance program is required to be paid to the federal and state funds which provide the assistance. Overpayments of assistance benefits from ineligible participants must also be repaid to the originating funds. Receivables due from the Federal government usually are the Federal share of assistance payments and allowable cost recoveries made through the local offices during the preceding month.

At September 30, 2006, DSS reported gross receivables of \$254.6 million, an allowance for doubtful accounts of \$148.7 million and collectible receivables of \$105.9 million. Past due receivables totaled \$86.2 million, of which \$84.7 million was over 60 days past due.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for \$208.6 million (82%) of the gross receivables, \$128.8 million (87%) of the allowance for doubtful accounts and \$79.8 million (75%) of the collectible receivables.

From September 30, 2005, to September 30, 2006, gross receivables increased \$18.5 million and collectible receivables decreased by \$12.9 million. Write offs for the quarter totaled \$747,212. Total past due receivables increased by \$19.1 million and receivables over 60 days past due increased by \$18.9 million.

***Department of Rail and Public
Transportation (DRPT)***

DRPT is responsible for overseeing Virginia's railroads, providing funding and project resources for public transportation, and researching feasible alternatives for commuters. DRPT works closely with VDOT, the railroads, local governments, the Washington Metropolitan Area Transit Authority, and the Federal Transit Authority.

At September 30, 2006, DRPT had gross and net receivables of \$13.9 million. The majority of this money is due via an interagency transfer from VDOT. \$2.1 million was past due at September 30, 2006. Of this amount, \$1.0 million was over 60 days past due.

Virginia Commonwealth University (VCU)

VCU, based in Richmond, offers 140 degree programs to over 28,500 students in a variety of fields ranging from accounting to pharmacy at both undergraduate and graduate levels.

At September 30, 2006, VCU had \$37.4 million of collectible receivables, a \$2.9 million increase over September 30, 2005. Total past due accounts were \$5.6 million, a \$684,716 increase over September 30, 2005. Accounts over 60 days past due of \$3.5 million increased by \$398,897 over the prior year. Billings decreased by \$7.0 million to \$151.5 million and collections decreased by \$5.9 million to \$133.4 million for the September 30, 2006, quarter as compared to the September 30, 2005, quarter.



The following table is prepared to present the September 30, 2006, aging information in conformity with the provisions of Section 2.2-603.E.(ii) of the *Code of Virginia*.

Taxation and the Circuit and District Courts accounted for 78% (\$1.59 billion) of the

Commonwealth's total \$2.04 billion past due accounts receivable at September 30, 2006. Another eighteen agencies accounted for 20% (\$407.9 million), leaving 70 other agencies to comprise the last two percent at \$44.9 million.

Agencies with the Largest Volume of Past Due Receivables

As of September 30, 2006

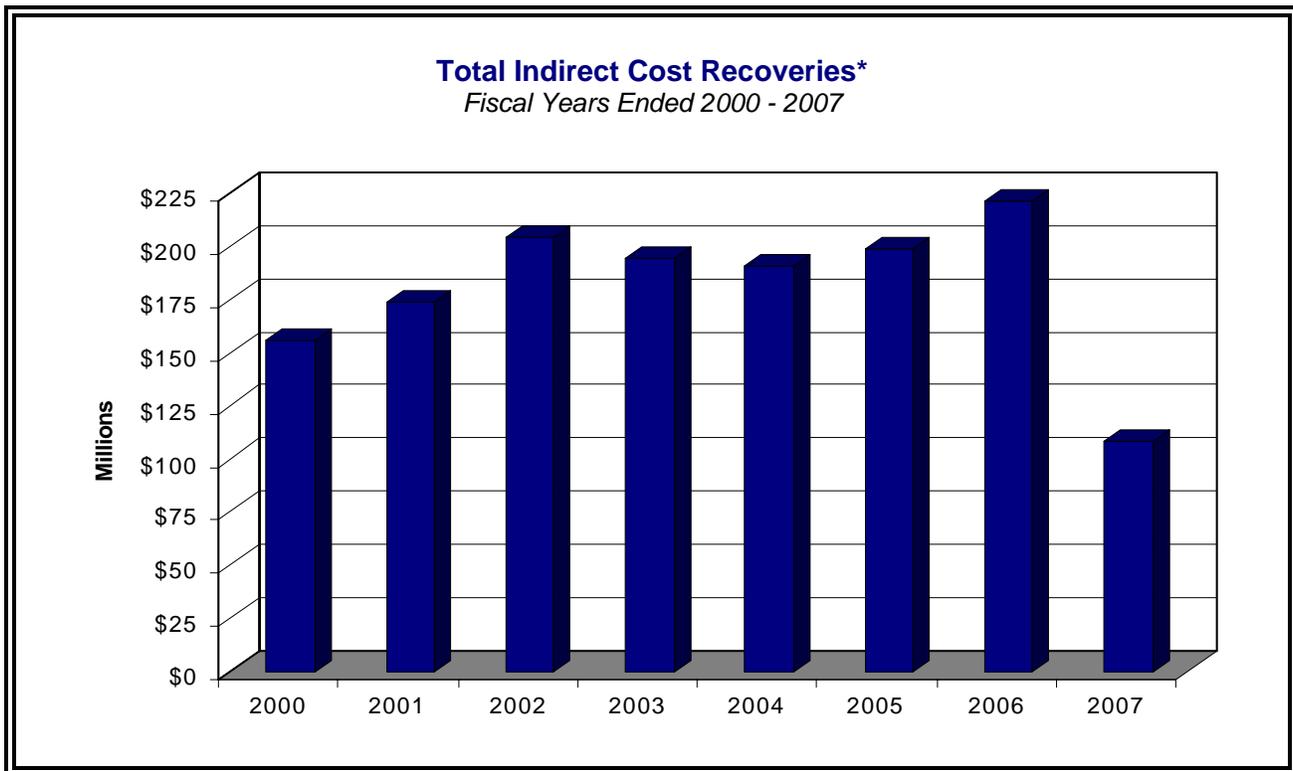
| Agency | Total Past Due | 1 to 180 Days Past Due | 181 to 360 Days Past Due | Over One Year |
|--|-------------------------|---------------------------|-----------------------------|-------------------------|
| Department of Taxation | \$ 1,156,713,699 | \$ 141,820,625 | \$ 30,231,286 | \$ 984,661,788 |
| Localities' Circuit and District Courts | 434,608,282 | 36,258,104 | 55,475,726 | 342,874,452 |
| Total - Taxation Assessments and Court Fines and Fees | 1,591,321,981 | 178,078,729 | 85,707,012 | 1,327,536,240 |
| All Other Large Dollar Agencies: | | | | |
| University of Virginia Medical Center | 88,216,999 | 83,356,056 | 4,627,607 | 233,336 |
| Department of Social Services | 86,194,685 | 4,387,309 | 4,361,451 | 77,445,925 |
| Virginia Employment Commission | 40,863,245 | 10,869,710 | 5,356,538 | 24,636,997 |
| Department of Medical Assistance Services | 32,307,959 | 11,361,434 | 4,816,162 | 16,130,363 |
| George Mason University | 23,918,875 | 22,785,985 | 520,186 | 612,704 |
| Department of Mental Health, Mental Retardation and Substance Abuse Services | 20,814,782 | 18,914,599 | 1,900,183 | - |
| Virginia Information Technologies Agency | 19,982,715 | 19,749,470 | 195,001 | 38,244 |
| Department of Transportation | 17,346,311 | 5,727,508 | 1,898,798 | 9,720,005 |
| University of Virginia - Academic Division | 14,815,852 | 13,725,363 | 493,095 | 597,394 |
| Virginia Polytechnic Institute & State University | 11,227,480 | 9,558,394 | 816,644 | 852,442 |
| Norfolk State University | 9,179,164 | 9,022,139 | 39,873 | 117,152 |
| James Madison University | 8,425,049 | 8,032,738 | 138,547 | 253,764 |
| Department of General Services | 7,105,079 | 7,105,079 | - | - |
| Virginia State University | 6,560,670 | 6,483,452 | 68,049 | 9,169 |
| Old Dominion University | 5,891,746 | 5,818,264 | 64,573 | 8,909 |
| Virginia Commonwealth University | 5,568,307 | 3,418,416 | 955,619 | 1,194,272 |
| The College of William and Mary in Virginia | 5,200,132 | 4,856,718 | 126,257 | 217,157 |
| Virginia Community College System | 4,254,088 | 3,508,976 | 492,488 | 252,624 |
| Total - Largest Dollar Volume Agencies | 407,873,138 | 248,681,610 | 26,871,071 | 132,320,457 |
| All Other Agencies | 44,890,251 | 30,309,819 | 6,135,895 | 8,444,537 |
| Grand Total Past Due Receivables | \$ 2,044,085,370 | \$ 457,070,158 | \$ 118,713,978 | \$ 1,468,301,234 |



Indirect Costs

The Department of Accounts prepares a Federal Statewide Indirect Cost Allocation Plan (SICAP) annually that identifies the central service agency General Fund support provided to all State agencies. Agencies receiving Federal grants or contracts prepare indirect cost rate proposals or cost allocation plans that include both the agency (agency

specific overhead expenditures) and Statewide (overhead expenditures incurred by the State's central service agencies for support provided to other State agencies) indirect costs associated with the administration and management of federal, State, or private grant and contract activity.



* FY 2007 reflects indirect cost recoveries through December 31, 2006.

Indirect Cost Recoveries from Grants and Contracts
Fiscal Year 2007

| Fund | Year-to-Date | | |
|----------------------------|----------------------|----------------------|-----------------------|
| | Higher Ed | Non-Higher Ed | Total |
| Nongeneral: | | | |
| Agency / Institution (1) | \$ 73,472,302 | 32,515,908 | \$ 105,988,210 |
| Statewide | 1,517,978 | 259,862 | 1,777,840 |
| Total Nongeneral | 74,990,280 | 32,775,770 | 107,766,050 |
| General: | | | |
| Agency (Cash Transfers) | - | 21,377 | 21,377 |
| Statewide | - | 473,316 | 473,316 |
| Statewide (Cash Transfers) | - | 92 | 92 |
| Total General | - | 494,785 | 494,785 |
| Total All Funds | \$ 74,990,280 | \$ 33,270,555 | \$ 108,260,835 |

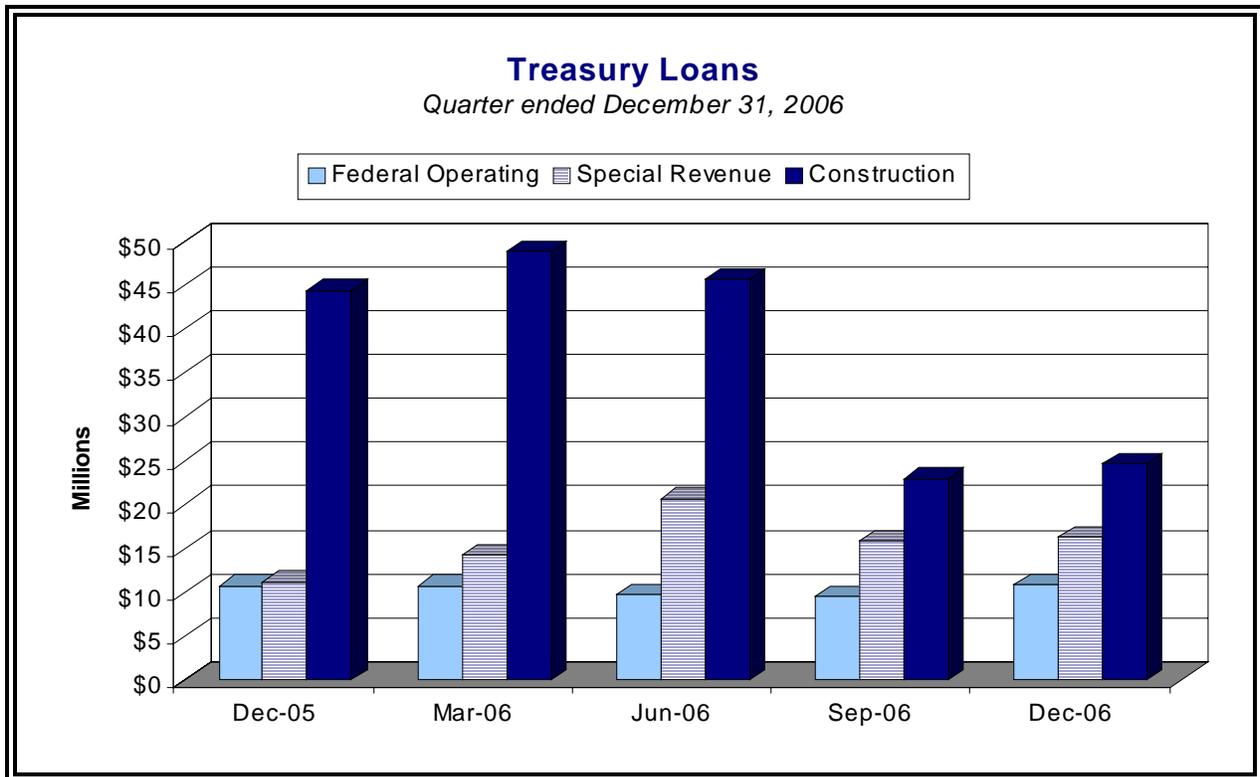
(1) The Department of Social Services records all federal monies received in CARS. However, they do not separately classify such receipts between direct and indirect. Included in the agency nongeneral fund category is \$23,590,050 representing the Department of Social Services' estimate of indirect cost recoveries received.



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 December 31, 2006, was \$51.8 million.



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 December 31, 2006.
- **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. There were no outstanding working capital advances at December 31, 2006.

| Significant New Loans / Drawdowns | New Balance |
|---|--------------|
| Virginia Commonwealth University (VCU) | |
| Additional drawdowns on an authorized \$2,786,374 loan for construction of the Medical Sciences Building II. Prior loan balance was \$777,495. | \$ 2,236,235 |
| Department of Veterans Services (DVS) | |
| Additional drawdown and two repayments on an authorized \$14,750,000 loan for completion of a new Veterans Care Center in Richmond. Prior loan balance was \$2,264,389. | \$ 4,690,524 |

| Significant Loan Repayments | Prior Balance |
|-----------------------------|---------------|
| <i>None this quarter</i> | |



