REPORT ON STATEWIDE FINANCIAL MANAGEMENT AND COMPLIANCE

FOR THE QUARTER ENDED MARCH 31, 2013

OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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REPORT ON STATEWIDE FINANCIAL MANAGEMENT AND COMPLIANCE

Quarter Ended March 31, 2013

STATEMENT OF PURPOSE

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

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

This *Quarterly Report* includes information for the quarter ended March 31, 2013, and comparative FY 2012 data. Some information in the report is for the quarter ended December 31, 2012, which is the most current data available.

David A. Von Moll, CPA, CGFM
Comptroller

DOA
Virginia Department of Accounts
Financial Accountability. Reporting Excellence.

SPECIAL REPORT
2012 Information Returns Reporting

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

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

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

In February 2013, a Statewide Information Returns compliance survey was conducted for the 2012 tax year. Based on the survey, 125 tax reporting entities (representing 258 agencies and institutions) filed $3.8 million information returns totaling $11.4 billion. The Commonwealth filed 99.96 percent of the information returns with the IRS using electronic media.

Information Returns

Filed for Calendar Year 2012

Number of Information Returns Filed	Number of Tax Reporting Entities
No Returns	3
1 to 50 Returns	70
51 to 250 Returns	22
Over 250 Returns	30
Total Reporting Entities	125

The agencies and institutions of the Commonwealth filed the following types of information returns for the tax year ended December 31, 2012. When the number of information returns filed for 2012 is compared with 2011, percent changes by category range from a negative 7.3 percent for Forms W-2G, *Certain Gambling Winnings*, to a positive 34.4 percent for Forms 1099-S, *Proceeds from Real Estate Transactions*. The decrease in number of Forms W-2G for lottery winners is due in large part to the type of games played and the fluctuations in jackpots for the games. The Department of Transportation attributed the increase in the number of Forms 1099-S to variations in the size of construction program activities.

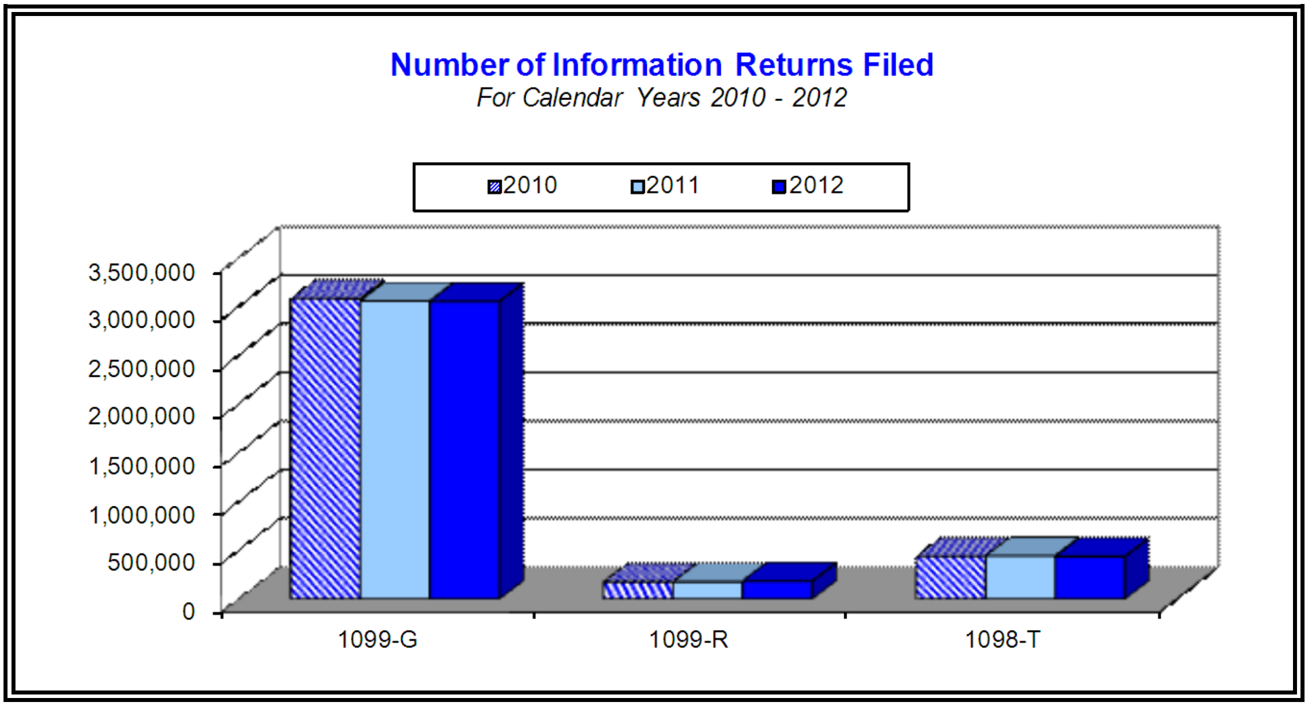
2012 Information Returns Reporting Results

By Major Filing Category

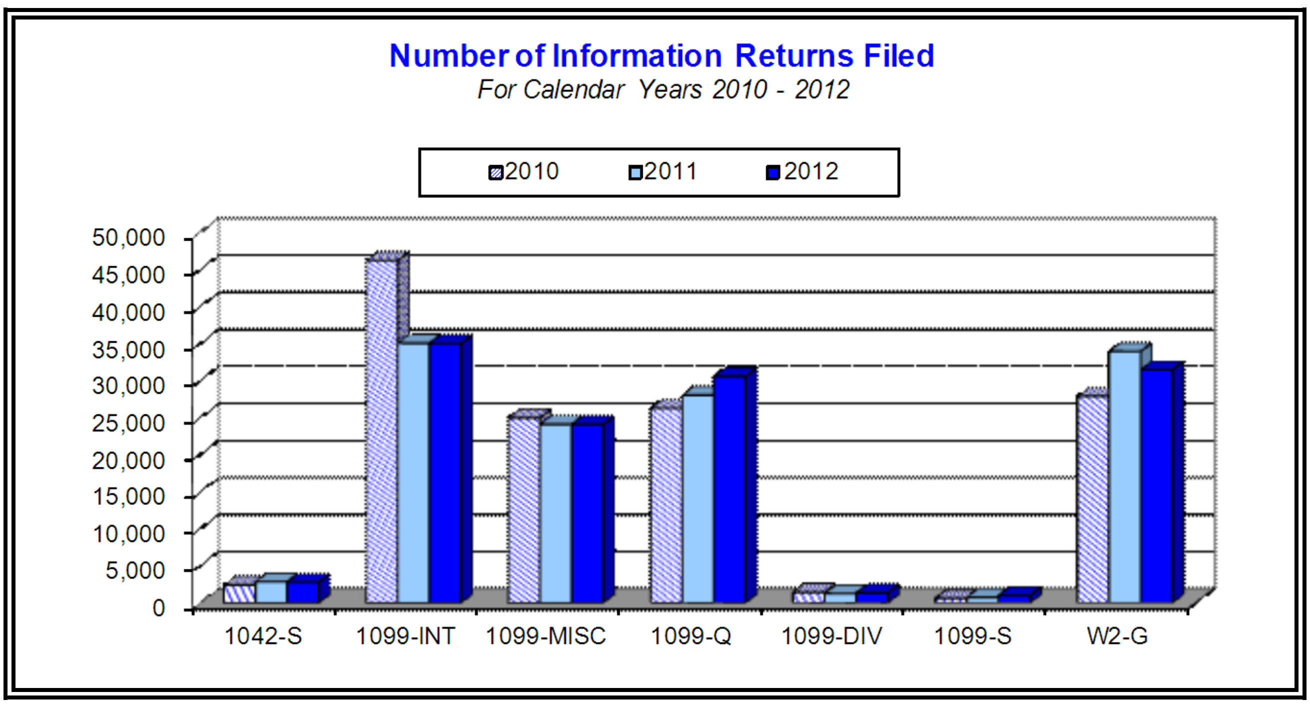
Form Type	Dollars Reported in 2012	Number of Payees in 2012	Electronic Media	Paper Media	% Change in Number of Filings from 2011
1099-G, Certain Government Payments	$ 3,021,167,315	3,053,173	3,053,169	4	-0.2%
1099-R, Retirement	3,547,454,254	183,105	183,019	86	3.7%
1098-T, Tuition Statement	2,962,456,106	435,838	435,838		-1.8%
1099-MISC, Miscellaneous Income (1)	1,378,026,557	24,097	22,973	1,124	-0.1%
W-2G, Certain Gambling Winnings	188,533,812	31,483	31,483		-7.3%
1099-Q, Qualified Education Programs	257,740,187	30,596	30,596		9.1%
1099-S, Proceeds from Real Estate Transactions	49,959,194	1,013	1,013		34.4%
1042-S, Foreign Persons	14,613,314	2,792	2,603	189	-2.4%
1099-INT, Interest Income	4,310,497	35,013	35,010	3	-0.2%
1099-K, Merchant Card and Third Party Network Payments	4,557,130	82	82		-2.4%
1099-B, Proceeds from Broker and Barter Exchange Transactions by Unclaimed Property Div. of the Treasury Department	2,942,640	725	725		7.7%
1099-DIV, Dividends and Distributions	392,103	1,359	1,359		7.6%
Total	**$ 11,432,153,109**	**3,799,276**	**3,797,870**	**1,406**	-0.2%

(1) Does not include Medicaid payments to third party providers made by the DMAS fiscal agent.

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



Note: This chart does not include comparison information for Forms 1042-S, 1099-INT, 1099-MISC, 1099-Q, 1099-DIV, 1099-S, or the W2-G which are shown on the chart below.



Note: This chart does not include comparison information for Forms 1099-G, 1099-R and 1098-T which are shown in the chart at the top of this page. Less than 1,000 Forms 1099-K and 1009-B were filed. These forms are not shown above.

Discrepancy Notices

During 2012, two control agencies reported receiving IRS CP2100 Notices or other correspondence related to information returns filed for the previous tax years. These notices stated that the agencies (1) had filed information returns using taxpayer identification numbers that did not match a taxpayer record in either the IRS or Social Security Administration's databases, and (2) lacked the appropriate personnel to handle tax matters. Both agencies receiving notices complied. The IRS has waived the proposed penalty for one of two agencies notified. One agency reported receiving penalty notices of $3,725 for neglecting to have a tax matters employee designated with approved power of attorney available. This resulted in a tax levy for incorrect information on returns for tax years 2008 and 2009.

Agency Training

DOA's on-line 1099 training was accessed by 120 participants from 89 agencies/higher education institutions. Some agencies/higher education institutions requested additional training. The most frequently mentioned areas of interest were: (1) future tax year changes and IRS updates, (2) basic information returns reporting requirements, including forms and regulations, and (3) the ability to use ARS and FINDS capabilities in smaller agencies.

The chart below lists the reporting entities that filed more than 500 information returns for calendar year 2012.

Reporting Entities Filing More Than 500 Information Returns for 2012

Reporting Entity	Number of Agencies	Number of Returns	Dollars	Automated System (s)
Department of Taxation	1	2,831,145	$ 1,879,468,479	In-House System
Virginia Employment Commission	1	255,299	1,007,414,027	AMS
Virginia Community College System (VCCS) (1)	24	188,607	334,876,356	PeopleSoft Oracle Database System
Virginia Retirement System	1	183,086	3,622,339,080	Adams 2012 Tax Form Helper, Version 10.0
George Mason University	1	46,099	401,491,007	Ellucian (Former: SunGard Banner)
Virginia Commonwealth University	1	40,816	416,297,335	Banner System
Virginia Polytechnic Institute and State University	2	33,950	440,393,280	Banner System
State Lottery Department	1	32,775	239,948,396	JD Edwards Enterprise One
Virginia College Savings Plan	1	30,621	259,430,704	AMS
University of Virginia	4	29,341	522,495,260	In-House System
Old Dominion University	1	24,961	161,081,951	Banner and Secure 32 Software
James Madison University	1	23,748	237,621,723	Winfiler Software
Radford University	1	12,201	91,715,500	AMS
The College of William and Mary in Virginia	3	11,704	175,670,359	Banner System
Norfolk State University	1	9,434	109,116,468	Colleague Datatel
Virginia State University	2	9,052	101,233,308	Express Enterprise 2012
University of Mary Washington	1	6,711	62,524,014	Banner System
Christopher Newport University	1	6,347	70,336,151	Evisions
Longwood University	1	6,224	45,827,486	Banner System
Supreme Court	9	2,811	103,735,131	IDSS Oracle Database
Department of Transportation	1	2,635	665,683,955	PeopleSoft (Cardinal)
Department of the Treasury, Division of Unclaimed Property	1	2,577	3,604,004	In-House System
Virginia Military Institute	1	1,940	37,852,270	Colleague Datatel
Department for Aging and Rehabilitative Services	7	1,200	17,525,920	Powerhouse
Department of Forestry	1	1,095	1,948,525	AMS
Total	**69**	**3,794,379**	**$ 11,009,630,689**	

(1) The number of returns filed by VCCS includes 188,563 Forms 1098-T filed on behalf of the 23 community colleges.

SPECIAL REPORT
2012 Year-End Payroll Processing

At the end of calendar year 2012, DOA working with 214 state agencies and institutions, verified and printed 121,076 W-2s. This was a slight increase from the number of W-2s printed in 2011.

	CY 2011	CY 2012
W-2s Printed	119,574	121,076
W-2Cs Printed	61*	164
Agencies Making Adjustments	50	59
Employee Records Requiring Year-End Adjustments	158	768

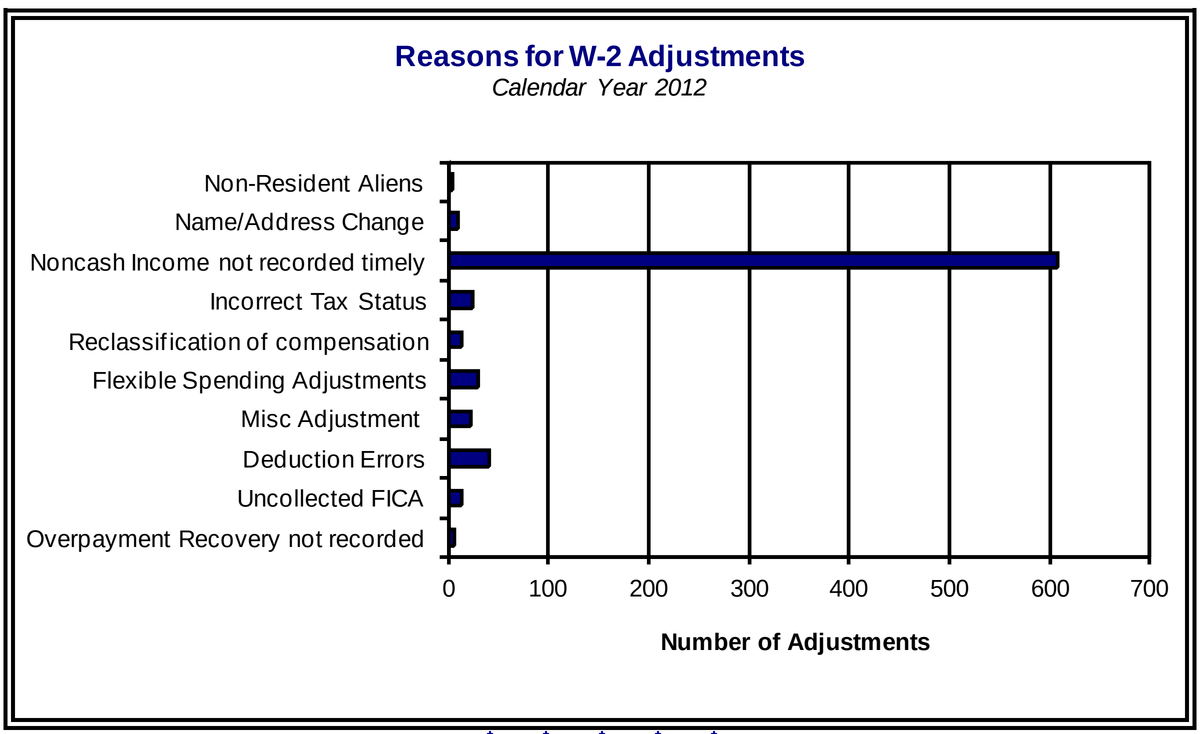
*# of W-2C's printed as of the date of this report.

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

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

Agencies adjusted 768 employee records. Late notification of non-cash awards resulting in additional taxable income contributed to seventy-nine percent of all correcting entries.

W-2s are printed at the Commonwealth Enterprise Solutions Center and subsequently distributed to a third party vendor for folding and envelope stuffing. Upon return from the vendor, agencies are notified that the W-2s are ready for pickup. All CIPPS W-2s were available in Payline by January 17, and all paper copies were picked up by January 24th for subsequent delivery to employees.



COMPLIANCE

Auditor of Public Accounts Reports - Executive Branch Agencies

Agency audit reports issued by the Auditor of Public Accounts (APA) may contain findings because of noncompliance with state laws and regulations. Agencies may also have internal control findings considered to be control deficiencies. Control deficiencies occur when the design or operation of internal control does not allow management or employees to prevent or detect errors that, in the Auditor's judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions of management.

Each agency must provide a written response that includes a Corrective Action Workplan (CAW) to the Department of Planning and Budget, the Department of Accounts, and the agency's Cabinet Secretary when its audit report contains one or more audit findings. Workplans must be submitted within 30 days of receiving the audit report. Commonwealth Accounting Policies and Procedures (CAPP) manual, Topic No. 10205, *Agency Response to APA Audit,* contains instructions and guidance on preparing the workplan.

The APA also reports additional recommendations that can include risk alerts, efficiency issues, or any other improvements that can be made within agency operations. Risk alerts address issues that are beyond the capacity of agency management to implement effective corrective actions. Efficiency issue report items provide management with recommendations to enhance agency practices, processes or procedures. Additional recommendations are provided following the Audit Findings section.

The APA also issued several Special and Other Reports during the quarter. These reports are listed following the Additional Recommendations section. The full text of these reports is available at www.apa.virginia.gov.

Audit Reports – Quarter Ended March 31, 2013

The APA issued 14 reports covering 33 State Agencies for the Executive Branch. The last column indicates whether the CAW has been received as of the date of this publication for each agency with audit findings. Note that in some cases, the CAW may not have been received because it is not yet due.

	New Findings	Repeat Findings	Total Findings	CAW Received
Administration				
Department of General Services	1	1	2	YES
State Board of Elections	1	0	1	YES
Agriculture and Forestry				
None				

	New Findings	Repeat Findings	Total Findings	CAW Received
Commerce and Trade				
Department of Housing and Community Development	1	0	1	YES
Department of Labor and Industry	0	0	0	N/A
Virginia Board of Accountancy	0	0	0	N/A
Virginia Tourism Authority	0	0	0	N/A
Education				
Department of Education, Central Office Operations (1)	2	0	2	YES
Virginia Commission for the Arts	1	0	1	YES
Executive Offices				
Attorney General and Department of Law (2)	1	0	1	YES
Finance (3)				
Department of Accounts	2	0	2	YES
Department of Planning and Budget	0	0	0	N/A
Department of Taxation	1	0	1	YES
Department of the Treasury (4)	1	0	1	YES
Health and Human Resources (5)				
Department for Aging and Rehabilitative Services	1	1	2	YES
Department of Behavioral Health and Developmental Services	1	0	1	YES
Department for the Blind and Vision Impaired	0	0	0	N/A
Department of the Deaf and Hard-of-Hearing	0	0	0	N/A
Department of Health	4	0	4	YES
Department of Health Professionals	0	0	0	N/A
Department of Medical Assistance Services	1	1	2	YES
Office of Comprehensive Services for At-Risk Youth and Families	0	0	0	N/A
Department of Social Services	12	1	13	YES
Virginia Board for People with Disabilities	0	0	0	N/A
Virginia Industries for the Blind	0	0	0	N/A
Virginia Rehabilitative Center for the Blind and Vision Impaired	0	0	0	N/A
Woodrow Wilson Rehabilitation Center	0	0	0	N/A
Natural Resources				
Marine Resource Commission	0	0	0	N/A
Public Safety				
None				
Technology				
None				
Transportation (6)				
Department of Aviation	0	0	0	N/A
Department of Motor Vehicles	3	1	4	YES
Department of Rail and Public Transportation	1	0	1	YES
Department of Transportation	3	0	3	YES
Motor Vehicle Dealer Board	0	0	0	N/A

	New Findings	Repeat Findings	Total Findings	CAW Received
Veterans Affairs and Homeland Security				
Department of Veterans Services [7]	0	0	0	N/A

(1) The Department of Education audit included Direct Aid to Public Education.
(2) The Attorney General and Department of Law audit included the Division of Debt Collection.
(3) All of the following agencies were included under one report titled, "Agencies of the Secretary of Finance, Report on Audit for the Year Ended June 30, 2012"
(4) The Department of the Treasury Audit included Treasury Board operations.
(5) All of the following agencies were included under one report titled, "Agencies of the Secretary of Health and Human Resources, June 30, 2012"
(6) All of the following agencies were included under one report titled, "Agencies of the Secretary of Transportation, Report on Audit for the Year Ended June 30, 2012"
(7) The Department of Veterans Services audit included Veterans Services Foundation and The Virginia War Memorial.

Audit Findings - Quarter Ended March 31, 2013

The following agencies had one or more findings contained in their audit report.

Administration

Department of General Services (DGS)

1. Improve Application Controls. **This is a Repeat Finding.** As noted in the fiscal year 2007/2008 and fiscal year 2009/2010 audits, DGS continues to exhibit weaknesses surrounding information system application controls. Specifically, DGS does not adequately monitor application access for its critical applications to evaluate user access and prevent or detect unauthorized or unnecessary access to those systems timely. The APA reviewed access controls for the PeopleSoft, CARS, and eVA applications to ensure adequate segregation of duties, timely termination of user access, and that user privileges are reasonable based on responsibilities. The APA review found the following deficiencies:

    - Three employees continue to maintain "ALLPAGES" access within PeopleSoft. This access is extremely high risk, as it allows individuals total control of all functions within the PeopleSoft system. Two employees also continue to have access to both voucher entry and voucher approval. Five employees have access to update receivable balances and enter and approve entries to the general ledger. The lack of adequate segregation of duties significantly increases the risk of unauthorized transactions in PeopleSoft.

    - One terminated employee maintained access to PeopleSoft and still had access to the system for an extended period of time after leaving employment. Although the risks associated with the untimely removal were minimized, due to the timely termination of this employee's network access, some risks associated with untimely deletion still exist.

    - Sixteen terminated employees maintained access to the purchasing system, eVA, beyond the 24-hour period after their separation date allowed by the "eVA Electronic Procurement System Security Standard." Of these 16 exceptions noted, 5 occurred after the June 30, 2011, corrective action implementation date included in DGS's response to the fiscal year 2009/2010 audit report.

    - Additionally, PeopleSoft administrators are not maintaining adequate documentation of periodic reviews of user access. DGS leaves itself prone to the risk of errors or fraud by not performing these reviews. The exceptions noted above illustrate that the current annual reviews, if completed, are not adequate.

    The APA recommends that DGS strengthen its policies and procedures governing system access controls and also remove the high risk user access noted above. DGS should also perform and maintain documentation for all periodic reviews to ensure access is in agreement with the user responsibilities and terminated employees are removed in a timely manner. User account reviews allow system administrators to better monitor users' responsibilities, ensure the appropriate assignment of roles, and prompt removal of terminated employees' access.

Continuous monitoring of access to information systems that are critical to the agencies' financial operations also helps to mitigate the risk of errors and fraud.

2. Create Written Policies and Procedures for IREMS Access. The Division of Real Estate Services (DRES) does not have formal written policies and procedures in place governing access to the Integrated Real Estate Management System (IREMS) including:

   - Granting, monitoring, and terminating access to DGS employees.
   - Granting, monitoring, and terminating access to agency users that are not DGS employees (agency users).

   Currently, DRES does not identify or assign an Information Security Officer (ISO) at each agency that is responsible for IREMS access within the agency.

   IREMS is a web-based system that is accessible from any computer with internet connectivity. There are 338 agency users at 40 different state agencies. Any user that has access can obtain confidential information. If an individual is not properly authorized to have access to the system, no longer a state employee, or not in a position that requires IREMS access, they should be deleted from the system timely.

   The APA recommends DRES create and implement policies and procedures addressing IREMS system access including granting, monitoring, and terminating access. This will ensure that user access is consistent with management's expectation. These policies should dictate those individuals with authorization to grant access, individuals with authorization to approve access for agencies, the process required for granting and removing access, and the frequency of system access reviews. Creating IREMS system access policies and procedures will reduce the risk of unauthorized access or changes to IREMS.

State Board of Elections (SBE)

1. Improve Information Systems Security Program. SBE has made some progress on its information security program since the last APA audit; however, management still needs to address several key components to comply with the Commonwealth's Information Security Standards.

   Specifically, while SBE completed its Business Impact Analysis (BIA) in April 2011, key items are missing, including:

   - Information technology (IT) system sensitivity classification (Sensitive, Non-sensitive)
   - IT system boundaries
   - Data types stored, processed, and transmitted by each IT system (social security numbers, credit-card numbers, etc.)
   - Data and system owners, data custodians, and system administrators for each IT system

Identification of this information is critical to ensure SBE adequately designs its security program to ensure secure continuity of operations by prioritizing where security and recovery efforts should be focused.

Further, SBE has still not completed a Risk Assessment (RA) of its current IT environment. RAs allow an agency to assess vulnerabilities and loss impact potential to IT systems and is essential for the identification of potential threats and likelihood of occurrence to the IT environment. The Commonwealth Security Standards state management must complete a full RA once every three years and review it annually. The timing of this review and update should be closely linked to the review and update of the BIA to ensure both documents remain relevant.

SBE should dedicate the necessary resources to complete its BIA and RA to ensure they have sufficiently identified their information technology security and continuity risks. Since the Department of Accounts no longer has its Information Security Officer Services Program to support small agencies, this may require the use of external security experts due to SBE's limited internal resources in this area. Once the analysis and assessments are complete, SBE will need to address the results to ensure they are properly mitigating the identified risks.

Commerce and Trade

Department of Housing and Community Development (DHCD)

1. The APA found that DHCD did not issue monitoring reports as required by the Virginia Weatherization Assistance Program Operations Manual (manual). Per the manual, DHCD is required to monitor each sub-recipient annually and issue a report to the sub-recipient 30 days after completing its review. DHCD completed all 22 of its required reviews in fiscal year 2012; however, 5 were issued six months to one year late and, as of December 2012, 17 were still pending release.

   DHCD passes through approximately 98 percent of its U.S. Department of Energy Weatherization Grant funding to sub-recipients. DHCD should work to ensure timely completion and issuance of all monitoring reports. Completing these reports will provide for the timely resolution of findings and recovery of disallowed costs when DHCD identifies them.

Education

Department of Education, Central Office Operations (DOE/COO)

1. <u>Improve Information Security Awareness and Training</u>. DOE/COO does not provide adequate information security awareness and training or ensure that all employees with access to sensitive information receive training at least annually.

   The Commonwealth's information security standard requires agencies to train employees annually as to their responsibilities while interacting with sensitive data. While DOE/COO provides some general information security awareness and training, the APA found that the program is missing the following training requirements.

- Agency-specific IT security training requirements
- Role-based IT security training requirements
- Document users' acceptance of the agency security policies, including acceptable use, after receiving training

Additionally, DOE/COO only provided training to 253 of 304 employees during fiscal year 2012. It is essential that DOE/COO provide IT system managers, administrators, and users, timely training and enforce this requirement by suspending employee account access for non-compliant employees.

The APA recommends that DOE/COO improve its information security awareness and training program by including agency-specific and role-based security training requirements. The APA also recommends that DOE/COO ensure compliance with the annual training requirement by suspending access for non-compliant employees.

2. Improve Oracle Database Security. DOE/COO does not follow certain Commonwealth information security standards and best practices for its Oracle database that stores personally identifiable information and information protected under the Family Education Rights and Privacy Act (FERPA). The missing controls increases the overall database security posture in regards to data confidentiality, integrity, and availability.

   While DOE/COO has improved some controls in the database during the last year, the APA identified two issues that require immediate attention. Since the APA recommendations include descriptions of security mechanisms, which are exempt from public disclosure by the *Code of Virginia*, management received a separate document containing a detailed description of the APA's recommendation. Management concurred with the APA recommendations and is working on a corrective action plan.

Virginia Commission for the Arts (VCA)

1. Follow Procurement Guidelines for Contract Services. The VCA did not follow procurement requirements when awarding a contract for consulting services. During fiscal year 2012, the VCA awarded a contract and paid $19,000 to a vendor for consulting services without going through a competitive negotiation process.

   The Virginia Public Procurement Act requires that all professional service contracts be awarded through competitive negotiation. Due to the lack of a competitive negotiation process, the VCA was not able to determine if the services it is receiving are the most efficient and cost effective. Further, failure to seek sufficient competition can cause unnecessary protests from vendors excluded from the process. The APA recommends that the VCA's staff familiarize themselves with procurement requirements to ensure future compliance with procurement laws and procedures.

Executive Offices

Attorney General and the Department of Law (OAG)

1. Improve IT Risk Management and Contingency Plan Process. The OAG does not schedule and conduct annual Information Technology continuity of operation plan (COOP) tests. The OAG also lacks a process to document major findings during its annual risk assessment evaluation.

   Without a formalized evaluation process, the OAG cannot accurately determine the proper safeguards for current and new data, thereby increasing the risk of data loss or data compromise. Additionally, without a standard process to evaluate the outcome of its COOP test, the OAG cannot determine whether it is adequately prepared for potential disruption.

   The Commonwealth's information security standard, SEC 501-06, requires agencies annually to conduct a documented self-assessment over the continued validity of its risk assessment. The standard also requires agencies to document COOP tests, their outcomes, and any recommendations. This documentation is instrumental for an agency to determine if any changes are necessary to ensure successful and continuous agency operation.

   The APA recognizes that the OAG has made some progress from the previous audit and is actively working to address the remaining issues identified. The APA recommends that the OAG dedicate the necessary resources to perform and document annual self-assessments of its risk assessment. The APA also recommends that the OAG schedule and document COOP tests, as well as hold a "post-mortem" that includes the documentation of the results of the test and any recommendations to improve its contingency plans.

Finance

Department of Accounts (DOA)

1. Enhance Controls Over System Access for Critical Systems. DOA should enhance controls over system access to critical systems for DOA employees. During the APA review of access management, the APA noted areas in need of improvement for the Commonwealth's Payroll system (CIPPS) and the Commonwealth's Accounting System (CARS) including the documentation of policies and procedures surrounding granting access, such as what type of access is necessary for specific job functions of DOA employees and periodic review of employees' access.

   DOA is responsible for granting access to CARS and CIPPS for all of the Commonwealth's agencies. While there are controls in place for granting access to individuals at the various agencies, the controls do not always apply for DOA employees who often have much more system access capabilities than the individuals at the various agencies.

   Access is granted on an ad-hoc basis depending on what job functions DOA assigns the employee. There are no documented policies and procedures specific to granting access for DOA employees, including what type of access is necessary for specific job functions. This not only makes it more difficult to periodically review access, but also increases the risk of inappropriate access. In addition, CIPPS is an old and complex mainframe system, and there is no formal training for those granting access. There is also no clear documentation on what users can do with their access, making it difficult to grant the appropriate access or determine if ongoing access is reasonable.

The APA noted DOA users having access that extends beyond their normal job duties. This was noted for critical functions within the system such as granting security; therefore, these users can modify their own security or add or modify any other user's security. The APA also noted instances of individuals keeping their access after changing positions, which management indicated was for backup purposes; however, this creates numerous levels of backups. Further, there is no periodic review of DOA employees' access to CIPPS, and management's internal control testing (ARMICS) does not cover CIPPS security.

Management should develop policies and procedures for granting access for DOA employees including a description of the type of access necessary to perform specific job functions. The policies and procedures should be based on the principle of least privilege and address the level of backup needed for critical functions. In addition, management should ensure that individuals granting access have a thorough understanding of what each role allows the user to do within the system. Management should also implement periodic reviews of employees' access to ensure it is appropriate based on the individual's current job duties and in compliance with its policies and procedures. Further, management should incorporate CIPPS security within its ARMICS reviews.

DOA is currently in the process of implementing a new enterprise system to replace CARS. Modern systems offer more comprehensive access options, which will make it even more important to have comprehensive policies and procedures surrounding granting of access. Therefore, management should also consider these issues when designing and implementing access policies and procedures for the new system.

Department of Accounts (DOA) and Department of Taxation (TAX)

1. <u>Improve Communication Surrounding Financial Reporting Process.</u> DOA and TAX need to have a more collaborative process to ensure activity related to TAX is properly reported in the Commonwealth's financial statements. Over the last several years, the APA has noted instances where it does not appear that DOA and TAX are collaborating to the extent necessary to ensure they fully understand the others' financial reporting processes. This increases the risk that the Commonwealth's financial statements could have material errors.

   TAX and DOA do communicate with each other as part of the financial reporting process, and the APA acknowledges the communication that occurred to resolve issues related to the fiscal year 2012 financial statements. The APA recommendations are intended to improve the level and nature of communication between the two agencies to create a more proactive and collaborative financial reporting process for activity that is significant to the CAFR.

   Both DOA and TAX play vital roles in the process used to prepare the Commonwealth's Comprehensive Annual Financial Report (CAFR). DOA is responsible for accumulating and analyzing financial information from the Commonwealth's agencies and institutions. TAX provides information to DOA on material financial activity reported in the CAFR. While each agency has staff that are very knowledgeable about their internal processes and activity, it is important that they are also continuously sharing information to ensure the financial reporting process accurately presents the Commonwealth's financial activity. Over the last few years, the APA has either proposed adjustments or posed questions concerning financial information that either TAX provided to DOA or DOA reported based on activity in CARS, which resulted in material changes to the CAFR. The APA believes that strengthening the communication process between TAX and DOA could minimize the risk of future misstatements.

As part of strengthening this process, TAX needs to improve their financial reporting procedures. TAX's accounts receivable reporting procedures adequately document the mechanics of the process but do not adequately address the underlying concepts and methodologies that are critical to understanding their reporting processes. There are also a number of specific assumptions that DOA and TAX have agreed to over the years that are not documented in TAX's procedures. TAX needs to expand their procedures to address and document some of these underlying methodologies and concepts. In addition, methodology changes and the justification, similar to the ones this year, need to be documented so information is available on decisions and methodology changes, should questions arise in future years.

DOA also has a responsibility for understanding the methodologies and assumptions for activity that is material to the CAFR. DOA should review TAX's procedures to ensure the methodology is sound and it correctly includes assumptions that they have mutually agreed to in the past. Both TAX and DOA need to periodically reevaluate these assumptions to ensure they are still valid and relevant.

To minimize the risk of future errors related to TAX's financial activity, DOA and TAX need to work more closely together and have a more collaborative process. The APA recommends that TAX and DOA ensure that they have sufficient documentation surrounding the financial reporting process and have discussed their internal processes with each other. In addition, the APA recommends they have periodic communications surrounding TAX's financial activity to discuss the need for modifications to the procedures and/or the manner in which the activity is reported in CARS and in the CAFR. The APA also recommends that DOA evaluate whether there are other agencies with material activity and higher risk financial reporting processes for which this type of periodic communication is necessary.

Department of the Treasury (TD)

1. Create Information Security Review Plan. TD does not have a three-year plan that coordinates reviews of information systems containing sensitive information. The Commonwealth's IT Security Audit Standard, SEC502-02.1, requires agencies to create a plan that considers independent review coverage of all systems containing sensitive data over a three year period.

   The APA recommends that TD create a plan per the requirements outlined in the Commonwealth's standard. TD should coordinate these review activities across independent parties who are not associated with the process or procedures of particular systems, such as TD's Information Security Officer or other qualified party.

Health and Human Resources

Department for Aging and Rehabilitative Services (DARS)

1. Obtain Federal Authorization before Deviating from Cash Management Requirements. In response to the threat of a federal shutdown, DARS drew down approximately $1.5 million dollars in excess federal funds in late July 2011, which remained in DARS accounts until September 2011.

   Under DARS Cash Management Improvement Act (CMIA) agreement with the federal government, the Commonwealth agrees to draw down federal funds based on prescribed funding techniques to limit the amount of time between the draw down and the use of those funds.

   While DARS materially complied with the CMIA, because of a potential federal shutdown, DARS made a management decision to draw down approximately two weeks of additional funds to ensure that clients in the Vocational Rehabilitation program would continue to be served in the event that funds were not available from the federal government.

   If DARS needs to deviate from its agreement with the federal government, it should communicate the decision to the federal government and obtain its authorization.

2. Improve IT Security Program.

   As reported in management's corrective action plans, the complete and proper solution to this prior finding is taking more than a year. Due to the long-term commitment required to implement, monitor, and evaluate management's corrective actions for this finding, the APA is providing a follow-up on the progress that management is making.

   The APA determined that management is making adequate progress through their corrective action plans. The APA will continue to provide updates on this finding in future reports until management has had enough time to fully implement their corrective actions and the APA has evaluated them for effectiveness.

   This is a repeat finding. DARS continues not to have a complete IT security program, which causes it to lack certain safeguards surrounding mission critical and confidential data. The Commonwealth's Information Security Standard SEC501-06 requires agencies to have a complete IT security program.

   While DARS has resolved some of the issues the APA reported last year, eight components are still incomplete. Management intends to have these remaining components completed and implemented by June 2013.

   - User accounts to sensitive systems are not locked if security training requirements are not met. 648 of 1,334 employees, or 49 percent, have not completed IT Security Awareness and Training and continue to have access to sensitive information in violation of DARS policies and procedures.

- Risk Assessments are not performed for all sensitive IT systems.
- Risk Assessments do not identify all regulatory requirements for data types for sensitive systems.
- System information in the Disaster Recovery Plan is not consistent with the Risk Management documents or Continuity of Operations Plan (COOP).
- Disaster Recovery Plan recovery requirements for IT systems do not support the essential business functions (based on Risk Management Plans), including system configurations, lists of hardware and software, and vendor contacts.
- A policy and process does not exist that determines who is subject to background checks before being given access to sensitive data.
- User reviews are not performed annually for sensitive systems and periodically for non-sensitive systems.
- The IT security program does not address transaction encryption or authentication.

Without a complete IT security program, management at DARS is not in compliance with security standards and placing the Commonwealth's information at risk. DARS continues not to have a complete IT security program because management's plan is to resolve all items by June 2013. The APA recommends that DARS update its information security program to address the issues above.

Department of Behavioral Heath and Developmental Services (DBHDS)

1. Notify Oversight Agencies of Operational Changes that Affect Budget Assumptions. Management at DBHDS did not notify the Department of Planning and Budget (DPB) when they received payments late from the federal government and decided to delay the collection of $16.3 million in Medicaid claims. Management decided to change the timing of these collections because DBHDS received its cost settlements and rate adjustments two months later than it normally does from the federal government. Receiving these funds late limited management's ability to use these funds before year-end, thereby increasing DBHDS year-end cash balances. If DBHDS had also processed its Medicaid claims at year-end, management estimates that these claims and the other funds received from the federal government would have caused the State Comptroller to transfer $3 million from the DBHDS special revenue fund to the state's General Fund. Chapter 3 Item 313 B. requires the State Comptroller to transfer non-general fund balance at year-end in excess of $35 million.

   Recently DBHDS worked with DPB to increase the fund balance threshold in Chapter 2 from $20 million to $35 million. The agencies agreed to this increase to ensure the DBHDS had adequate resources to pay for a new electronic health records system. However, management did not notify DPB of the effect that the late payments from the federal government would have on their year-end cash balance and their plans to ensure the State Comptroller would not make the required transfer.

   While management at the DBHDS believes that there is little risk of this same scenario occurring in the future, DBHDS has agreed to notify DPB of operational changes that will affect budget assumptions.

Department of Health (VDH)

1. <u>Complete Required Number of Subrecipient Reviews</u>. VDH did not complete the minimum number of subrecipient monitoring reviews required by the federal Child and Adult Care Feeding Program (CACFP). The U.S. Department of Agriculture (USDA) federal regulation 7 CFR 226.6(m) requires VDH in each federal fiscal year to review 33.3 percent of all of its subrecipients. VDH reviewed 24.13 percent of its subrecipients in the federal fiscal year ending September 2011.

   Insufficient reviews by VDH increases the risk of program non-compliance and fraud at subrecipients. The Commonwealth, through VDH, is liable to the federal government for any funds that program subrecipients do not use according to program regulations. It is VDH's responsibility to comply with federal regulations and to mitigate the Commonwealth's risk by reviewing subrecipients.

   VDH did not complete the required number of reviews of subrecipients because management did not use all of the funds the USDA awarded to VDH for conducting these reviews. The USDA is aware of VDH's non-compliance because VDH returned approximately 97 percent of the $515,000 that it was authorized to use for reviewing subrecipients.

   VDH management is already in the process of hiring additional individuals to meet the subrecipient monitoring requirements for federal fiscal year 2012. VDH management should continue its efforts to complete the required number of subrecipient reviews and adjust their plans as necessary to mitigate the Commonwealth's risk.

2. <u>Perform Required System Access Reviews</u>. Management at VDH is not periodically conducting system access reviews. Commonwealth's Security Standard SEC 501 (SEC 501) Section 5.2.2.6 requires management to perform periodic reviews of all user accounts and their corresponding privileges. By not performing the system access reviews as required, management did not identify that two of its critical controls over system access are not working as intended, promptly remove system access and approve system access.

   Promptly Remove System Access

   Management did not remove Commonwealth Accounting and Reporting System (CARS) access timely for four employees. SEC 501 Section 5.2.2.23-24 requires the prompt removal of system access for terminated or transferred employees. System access should be removed as close to the employee's date of separation as administratively possible. While the APA found no evidence of these employees accessing the system after their termination date, untimely removal of user access increases the risk of unauthorized transactions and could impact the integrity of the Commonwealth's financial systems.

   Approve System Access

   Management could not provide evidence that some of the access granted to the WebVision system was approved. Management completed the proper approval forms; however, in 63 cases the assigned roles that were granted were not selected by their manager on the approval form. While management believes that each employee's roles within WebVision is reasonable based on their job requirements, each of these instances represents a deviation from VDH policies and procedures for approving authorization to its systems. This creates the risk of individuals obtaining unauthorized access to VDH's sensitive information.

If management had performed the required system access reviews, management would have found that it was not promptly removing system access and could have used the system access reviews as evidence that the access granted was subsequently approved. Management should start conducting reviews to comply with SEC 501 Section 5.2.2.6, which requires management to perform periodic reviews of all user accounts and their corresponding privileges to mediate the risk of unauthorized access and transactions.

3. Secure Database Logs. VDH allows its Database Administrators (DBA) to modify the logs that track their activities. The Commonwealth's Information Security Standard, SEC501-06 requires and the Center for Internet Security (CIS) Oracle Best Practices recommends that organizations protect audit trail log files to ensure their integrity.

   DBAs with the ability to modify logs can change or delete the information generated by the database management system to hide their activities. DBAs at VDH have access to change these logs because management did not configure the system with the settings typically used to protect this information, such as segregating the log files from DBA access on the operating system or by transferring the logs to an external server that is inaccessible to the DBAs.

   The APA understands that VDH is working towards correcting this concern by implementing the safeguards and processes to ensure that audit trails are not at risk of modification. The APA also recommends that VDH actively align its internal Oracle policies and processes with an industry best practice, such as the CIS Best Practices, in addition to following the requirements set forth by the Commonwealth's Information Security Standard, SEC501-06.

4. Identify Non-Essential and Dependent Business Functions. VDH does not evaluate all business functions and dependencies when preparing its risk management and contingency planning documents. The Commonwealth's Information Security Standard, SEC 501, requires agencies to identify all business functions and dependent functions. Specifically, the business impact analysis should include all non-essential dependent functions that essential functions rely on.

   By excluding non-essential dependent functions, VDH increases the risk of omitting essential functions. Dependent functions upon which essential functions rely are also considered essential and could impact the agency's mission if not properly identified.

   The APA is aware that VDH is actively working towards correcting this concern. The APA recommends that VDH dedicate the necessary resources to expand the departmental business impact analyses to include non-essential dependent functions.

Department of Medical Assistance Services (DMAS)

1. Address Findings in Internal Audit Report. The APA concurs with the findings in Medical Assistance Services Internal Audit report on the operating environment and security business processes issued in May 2012. The report recommends management strengthen the security of private health information transmitted via email, formally document evidence of annual user

system account reviews, and update security policies and procedures, risk assessment, business impact analysis, security plan, and contingency plan documents. Due to the sensitivity of the information for which DMAS is responsible, management should continue in its efforts to address their findings.

Department of Medical Assistance Services (DMAS) and Department of Social Services (DSS)

1. Obtain Valid Social Security Numbers. **This is a repeat finding**. DMAS has not developed a process for ensuring its system contains only valid Social Security Numbers (SSN) for recipients. Federal regulations 42 CFR 435.910(g) and 435.920 require DMAS to verify recipient SSNs with the Social Security Administration (SSA) or request the SSA to furnish the number, which is allowable under 42 CFR 435.910(e)(3).

   For over a year, the SSA has been furnishing DMAS with the valid SSNs for 390 recipients; however, DMAS has not updated their system with the SSNs provided by the SSA. During the same time period, using information provided by DMAS, the SSA was not able to validate or furnish valid SSNs for another 167 recipients who continue to receive services.

   Management at DMAS believes that there is little risk of financial consequence to the Commonwealth because 42 CFR 435.910(f) states that an agency must not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual's SSN by the SSA. However, inconsistencies between various databases will cause questions regarding the program's integrity. DMAS's information does not contain valid SSNs because the Commonwealth currently does not accept SSNs furnished by the SSA.

   Management at DMAS should work with the Secretary of Health and Human Resources (SHHR) and their federal counterparts to determine which sources of information will be considered "trusted sources" to ensure the Commonwealth has the best information about each recipient. Making these decisions about which entity is the best source for each of the data elements needed for determining eligibility will become more important as SHHR works to increase program integrity and administrative efficiencies by enhancing information sharing between state and federal agencies.

Department of Social Services (DSS)

The following three recommendations constitute a material weakness for the Commonwealth, which are entitled: "**Prohibit System Users from Modifying Security Settings**," "**Create and Implement a Change Management Process for Sensitive Applications**," and "**Create and Implement an Audit Process for Sensitive Applications.**" While no material errors were noted during the APA audit, the risk for errors will increase if management does not resolve these weaknesses before it expands the use of the Virginia Case Management System (VaCMS) as part of the Secretary of Health and Human Resources' eHHR Program. Virginia's Medicaid modernization solution is expected to be a product of the eHHR Program.

1. Prohibit System Users from Modifying Security Settings. **Material Weakness Component.** DSS allows five end users of the Virginia Case Management System (VaCMS) to modify its security settings. Section 8.2.2 of the Commonwealth's Information Security Standard requires

each agency to establish separation of duties in order to protect sensitive Information Technology (IT) systems and data.

Without separating end users from functions reserved for the Information Security Officer (ISO), the ISO is limited in his ability to know that VaCMS controls are working as intended and cannot ensure the Commissioner that functions within VaCMS are properly secured. This weakness was caused when these users were assigned their current level of access in order to troubleshoot and test VaCMS before it went into production in October 2011.

When a system moves from the development phase into production, it is important that the entity secure the system to mitigate the risk of fraud or error. Therefore, the APA recommends that DSS not provide end users with functions reserved for the ISO to strengthen controls surrounding VaCMS. To avoid this issue in the future, the APA recommends that DSS incorporate VaCMS into the ISO's Security Access Management System, which is used to monitor system access centrally. Incorporating the VaCMS into the ISO's Security Access Management System will also help mitigate the risk of fraud or error when other public assistance programs migrate to the VaCMS in the future. In addition, DSS should consider implementing a process to review VaCMS' audit logs until these functions are separated in order to track end user activity. By doing such, the ISO will be able to mitigate the risk of end users having too much access.

2. Create and Implement a Change Management Process for Sensitive Applications. **Material Weakness Component.** DSS has not adopted an application change management process that conforms to industry best practices for VaCMS. The Commonwealth's Information Security Standard, SEC 501-06 Section 10.4.2, requires agencies to establish change management controls so that changes to the IT environment do not compromise security controls. Several best practices, such as ITIL and COBIT, provide guidance on establishing a comprehensive change management framework. Implementing a formal change management process reduces the risk that sensitive data is compromised due to programming errors or acts of fraud.

   In October 2011, the VaCMS transitioned from the development to the production phase. While VaCMS was in the development phase, DSS had a formal change management process in place to track system modifications. However, when VaCMS transitioned to production, DSS failed to carry its change management process forward. The change management responsibility was transferred to the Division of Child Care and Early Childhood Development, which has not yet adopted an application change management process that conforms to industry best practices.

   To remedy this weakness, the APA recommends DSS adopt a change management process that conforms to industry best practices. Specifically, DSS should develop a procedure for the VaCMS' change management process. In addition, DSS should consider implementing a Change Advisory Board consisting of individuals from the Information Technology, Operations, and Business groups. By doing such, DSS will keep management informed of system modifications and mitigate the risk of programming errors or acts of fraud.

3. Create and Implement an Audit Process for Sensitive Applications. **Material Weakness Component.** DSS does not have an audit management process for highly privileged administration accounts in its Unisys Mapper System and its new Virginia Case Management System that both contain mission critical data and personally identifiable information. The

Commonwealth's Information Security Standard, SEC 501-06 Section 9.3, requires agencies to monitor and record IT system activity to adequately protect sensitive data.

Database administrator accounts have elevated privileges that allow these accounts to perform inserts, updates, and deletes on data in the database without adhering to the controls implemented in the end-user application that accesses the database. Administrator accounts can also structurally change database tables and automatically execute programs triggered by specific events.

Without an audit management process, DSS is unable to log and monitor the activities performed by the database administrator accounts. This inhibits the administrators' ability to trouble-shoot unexpected events and reduces management's ability to assist law enforcement in investigating a potential database breach. DSS has not been able to implement an audit management process because the feature does not exist within the Unisys Mapper System.

To eliminate this weakness, DSS is replacing the Unisys Mapper System with one containing modern controls. However, DSS has not finalized a process to monitor the activities recorded in the logs of its latest system, VaCMS. Therefore, the APA recommends that DSS assign the responsibility and establish an audit management process for all its applications that contain sensitive data, such as mission critical and personally identifiable information. By doing such, DSS will reduce the risk of unauthorized and undetected database modifications.

4. Perform Risk Assessment and Develop a Monitoring Plan Before Hiring More Staff. The Division of Family Services (Family Services) within DSS has not assessed programmatic risks prior to making the decision to hire additional staff for its monitoring function. The United States Code 31 USC 7502(f)(2)(b) requires pass-through entities to monitor the sub-recipient's use of federal awards through site visits, limited scope audits, or other means. The implementing federal circular A-133 § .400 (d)(3) necessitates that monitoring activities be done as necessary, which can only be determined by doing a proper risk assessment.

   In response to a review performed by the United States Department of Health and Human Services, Family Services has reviewed Title IV-E Foster Care and Adoption Assistance case files from Local Department of DSS (Local Departments) and has found errors. To resolve these errors and avoid financial penalties, the Commissioner and his Deputies (Executive Management) have authorized Family Services to hire eight additional positions to perform monitoring activities. However, Family Services has not performed a risk assessment or developed a monitoring plan before making this decision to hire. Without a risk assessment or monitoring plan, DSS cannot be sure the eight new employees are fully warranted.

   The APA recommends Family Services work with DSS monitoring experts in the Division of Community and Volunteer Services to develop a monitoring plan, which should be supported by a risk assessment. This assessment should include, but not be limited to, recipient's prior year monitoring findings, effectiveness of their internal systems, and potential risk to DSS. If these efforts are unsuccessful, the APA recommends the Executive Management work with both divisions to determine what resources are necessary to develop the plan. By doing such, DSS will be able to focus its monitoring efforts and allocate its resources efficiently and effectively to mitigate programmatic risk.

5. Review Grantee Audited Schedule of Expenditure of Federal Awards. DSS is not reviewing the audited Schedule of Expenditure of Federal Awards (SEFA) during its review of grantee single audits. While DSS reviews grantee single audits for audit findings, it does not review the SEFAs or compare them to DSS' internal accounting records to ensure pass-through funds are properly included. Grantees that do not include proper amounts on their SEFA are increasing the likelihood that DSS cannot rely on the grantee's audit. Office of Management of Budget's Circular A-133 § .400(d)(4) requires DSS to ensure subrecipients have met the audit requirements of Audits of State, Local Governments, and Non-Profit Organizations, and § .320(b)(2)(xi) also requires the reporting of the amount of expenditures associated with each federal program.

   For the fiscal year ended June 30, 2011, the latest information available, the APA selected 1 grant from 12 different grantee SEFAs obtained from the Federal Audit Clearinghouse and compared their amounts to Social Services' internal accounting records. In total, for the 12 items tested, the APA found that grantees' reported expenditures were approximately $2.1 million less than DSS' internal accounting records. Because DSS had not compared their records to the grantees' SEFA, management was not aware of these differences. Subsequently, management has reviewed most of the differences the APA found and determined that they were the result of reporting errors made by the grantees.

   Errors within grantee SEFAs may cause federal funds that pass-through DSS not to receive a proper audit. To mitigate this risk and to be in compliance with federal requirements the APA recommends that DSS review SEFAs and compare them to DSS' internal accounting records. In addition, DSS should develop a formal process for requiring grantees to provide a justification for significant differences or resubmit a corrected SEFA to DSS and the federal government if an error is discovered. If an error is discovered with a local government's SEFA, DSS should copy the Auditor of Public Accounts on their communications with the local government because an error on an audited SEFA may be an indicator of audit quality. SEFAs are the foundation for their grantee single audits and management should develop and implement the necessary processes to ensure their accuracy.

6. Further Evaluate Automating the OASIS Reconciliation Process. The Division of Family Services (Family Services) is not reviewing Online Automated Services Information Systems (OASIS) reconciliations in a timely manner. As required by 45 CFR 1356.71, the case record of the child must contain sufficient documentation to verify a child's eligibility in order to substantiate payments made on the child's behalf. Since OASIS is separate from the Payment System, Local Departments of Social Services (Local Departments) must perform manual reconciliations between OASIS and their payment systems to meet this federal requirement, which Family Services must manually review to meet its oversight responsibilities.

   Due to a lack of staffing within Family Services, the Division has only been able to review OASIS reconciliations from one-sixth of the Local Departments during the fiscal year. During these reviews, Family Services has found deficiencies in the reconciliation process. However, some of the errors noted had taken place months before the review was performed by Family Services and still have not been corrected. Without a streamlined reconciliation and review process, Local Departments are adding to their overhead costs and Social Services will most likely not be able to meet its oversight responsibilities without additional staffing.

Management within Family Services was recently informed by its data analytics vendor that there is an automated process to match payment and case records electronically. However, the scope of the contract only included an assessment as to whether the automated process was feasible. Therefore, DSS will need to evaluate if it should replace the manual reconciliations with an automated process.

To be more effective and efficient, Family Services should consider using automated features to streamline its OASIS reconciliation process. Therefore, the APA recommends Family Services work with Executive Management to further evaluate automating the OASIS reconciliation process. In deciding, at a minimum, DSS should perform a cost-benefit analysis to ensure the benefits outweigh the costs. Automating this process should help Family Services be able to identify errors faster than its current manual process and incorporate those risks into its monitoring plan. Additionally, it should make the reconciliation process more effective to take some of the administrative burden off of the Local Departments.

7. Develop Policies for Adjusting Title IV-E Foster Care Errors. DSS has not developed policies for Local Departments to follow when Title IV-E Foster Care errors are discovered. DSS is responsible for maintaining and updating the Finance Guidance Manual that Local Departments are required to follow. In response to a review performed by the Federal Government, the Division of Family Services within DSS has reviewed a significant portion of its Title IV-E Foster Care population. During this review, Family Services has found approximately $1.2 million in payment errors. However, DSS has not developed any guidance on how to adjust for these errors.

   Without definitive guidance, Local Departments are using their own discretion on how to code these errors within Social Services' reimbursement system. Because Local Departments can use different methods for resolving these errors, this may lead to inconsistencies, which will decrease DSS's ability to detect adjustments that are unallowable under federal guidelines. Additionally, because Local Departments use funding streams from other sources, they may elect to code these expenses to other agencies, such as the Office of Comprehensive Services.

   The guidance manual has not been updated because the different divisions and agencies that need to work together to make the necessary updates have not been tasked with making the required decisions needed to update the manual. Therefore, the APA recommends that Executive Management at DSS have the affected groups develop guidance for processing Title IV-E Foster Care adjustments and provide this guidance to Local Departments. In addition, DSS should implement a process for tracking these adjustments to assure they are reasonable and allowable under federal guidelines. By doing such, DSS management will be able fulfill its supervisory responsibility to assure that Local Departments are consistently handling these errors and not creating a liability for the Commonwealth through their adjustments.

8. Update Information Technology Disaster Recovery Plans. DSS did not update its IT disaster recovery plans to reflect its current IT environment. While recovery responsibilities for infrastructure components rest with the IT Partnership with Northrop Grumman, it is still DSS' responsibility to maintain updated recovery procedures for its mission critical applications. The Commonwealth's Information Security Standard, SEC 501-06 Section 3.3.2, requires agencies to conduct periodic reviews, reassessment, testing, and revision of the IT disaster recovery plans

to reflect changes in essential business functions, services, IT system hardware and software, and personnel.

DSS last updated its recovery plans in 2005 before its IT infrastructure transitioned to the IT Partnership. These outdated plans present a risk to DSS because they do not contain the proper procedures to restore its mission critical applications. This may result in longer downtimes in which individuals will not be able to access services, such as food stamps and Medicaid, in case of a disaster. DSS does not have an updated IT disaster recovery plan because management did not explicitly assign this responsibility within its Information Security Program dated September 2012.

The APA recommends that DSS update all IT disaster recovery plans to reflect its current environment and application restoration procedures. To ensure future updates occur, management should assign the periodic review and update of the recovery plans to specific positions within DSS, and document these responsibilities within each employee's work profile and its Information Security Program.

9. Continue Using Performance Information to Evaluate Policy Changes. Approximately 1,000, or 0.25 percent, of all recipients statewide in Medicaid were not re-certified as eligible within 12 months. As required by Title 42 Section 435.916 of the Code of Federal Regulations, agencies administering the Medicaid Program must re-determine the eligibility of Medicaid beneficiaries, with respect to circumstances that may change, at least every 12 months. Together, the Commonwealth and federal government provided approximately $900,000 worth of benefits to these individuals after the eligibility re-certification was required. If these individuals are not subsequently determined to still be eligible for Medicaid, the federal government may question its half of the funding.

   Management at DSS has identified re-certification of Medicaid as a risk and developed a performance measures report to track compliance with this requirement. Management is in the process of pursuing policy and system changes to allow case workers to perform administrative re-certifications for Medicaid. DSS should continue to use its performance measures to evaluate the effectiveness of their changes and make adjustments as needed.

10. Improve Eligibility Edit Checks to Prevent Conflicting Information. Management within the Division of Benefit Programs at DSS failed to design edit checks within the ADAPT Eligibility system to prevent conflicting information from being entered. There is no edit check within ADAPT to compare the child's birth date to how the case worker answers the question of whether a child is between the ages of 5 and 18. Additionally, by incorrectly answering this question, case workers could bypass edit checks related to the child's truancy status.

    The truancy status is important because the TANF Manual, Section 201.3, states "[t]o be eligible for assistance, children in the assistance unit under age 18, including minor parents, must comply with the compulsory school attendance requirement." If not, they should have a formal plan in place to get the child back in regular school attendance. If the child is between the ages of 5 and 18, truant from school, and not in compliance with the plan, the child should be excluded from the case receiving TANF Benefits.

During the APA's analysis of all active cases, they found three instances of children being marked as not being between the ages of 5 and 18 whose birth date indicated that they were within this range and were marked as truant and noncompliant with a plan. However, the system did not exclude these children from their cases, which it would have done if the case worker correctly answered the question. After the APA brought these exceptions to the attention of DSS' management they contacted the Local Department of DSS and determined that these individuals were not actually truant.

To prevent conflicting information from being entered into ADAPT, DSS should consider eliminating the question about the age on the truancy screen (AEVIPP) and use the date of birth on record within ADAPT. However, given the age of ADAPT and plans to replace it, management may forgo any reprogramming of ADAPT and instead opt to review the system for conflicting information to ensure that case workers are not using this weakness to bypass truancy questions. Additionally, management should evaluate all ADAPT logic before it is carried over to a new system to ensure weaknesses are not carried forward.

11. Work with Federal Government to Eliminate Likely Questioned Costs in the Future. DSS system has conflicting information describing a child's relationship with his or her parents. To comply with the Code of Federal Regulations, Section 431.10 and the state plan for evaluating income limits for Medicaid, DSS's manual requires caseworkers to assign children to a parent's budget unit, if the parent is financially responsible for the child. If the caseworker incorrectly does not include a child in the parent's budget unit, the system will not remove the child from Medicaid if the parent's income exceeds the limit set by the state plan.

    A query of all families returned 249 cases where the family's income exceeded the Federal Poverty Level. Of these 249 cases, the APA randomly tested 25 and found 22 cases where the family properly consisted of multiple budget units to account for the parent not being financially responsible for their child. However, in the other three cases, the caseworker incorrectly excluded the child from the budget unit of the financially responsible parent. Projecting the $3,978 paid for services in these three cases to the population of families with incomes exceeding the Federal Poverty Level, the APA estimated likely questioned costs of $39,620, or 0.0005 percent of Medicaid's expenses.

    These errors occurred because the case worker did not set up the family within the correct budget units as the case originated. DSS is in the process of replacing their eligibility determination system, ADAPT, with a new modernized system to comply with the requirements of the Affordable Care Act. In addition, eligibility requirements pertaining to household income will be changing in the upcoming year. Therefore, DSS should perform a cost-benefit analysis to determine whether any system enhancements' benefits would exceed any likely questioned costs. DSS should also obtain information from the federal government to determine how to implement the new income eligibility rules to eliminate additional likely questioned costs in the future.

12. Use Card Replacement Information to Evaluate Risk and Recommend Policy Decisions. DSS does not use the Card Replacement Report provided by its vendor to evaluate risk within the Supplemental Nutrition Assistance Program (SNAP). Best business practices for managing benefit cards includes monitoring the prevalence of lost, stolen, and damaged cards as a possible

indicator of card trafficking. Currently, DSS receives a card replacement report for each locality on a monthly basis, but does not utilize this report to evaluate programmatic risk.

These reports are currently provided in a format that prevents management from analyzing reports electronically for patterns and are generally between 800 and 1,000 pages long each month and include new card issuance. The formatting of these reports makes statistical analysis difficult. While reviewing the Card Replacement Report for the period beginning July 1, 2011 and ending June 30, 2012, the APA randomly selected ten users listed as having lost cards in July 2011. The APA then manually searched the remaining eleven months to see if these users appeared on any other reports. Of the ten users selected, one user reported a card lost in two other months. Another user reported a card lost in three months and a damaged card in an additional month. While this sample is not statistically valid and cannot be projected to the total population, these results present an indication of potential risk for DSS.

DSS is currently initiating a pilot program at five Local Departments of DSS, which will request interviews with beneficiaries who frequently replace cards and attempt to identify reasons for replacement and potential fraud. However, DSS has no legal recourse to take against beneficiaries who frequently report cards lost, damaged, or stolen. To assist in this effort, the APA recommends that DSS work with its vendor to obtain the Card Replacement Report in a useable format. The APA then recommends that DSS begin using the Card Replacement Report along with its current work with Local Departments to evaluate risk and recommend policy changes as necessary. By doing such, DSS will enhance its oversight efforts and mitigate the risk of fraud within the Supplemental Nutrition Assistance Program.

Transportation

Department of Motor Vehicles (DMV)

1. Improve Database Security. **This is a Repeat Finding**. DMV is actively working towards mitigating the database security control weaknesses the APA found during the their previous year's audit. While DMV addressed all issues in its corrective action plan, the APA found that DMV did not implement proper controls while addressing Database Administrator activity logs.

   The APA has communicated the details of this issue to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the *Code of Virginia*, due to their sensitivity and description of security controls.

   The APA recommends that DMV review its activity logging controls and change the appropriate configurations to ensure the activity log's confidentiality, integrity, and availability. While implementing these controls, DMV should reference the Center for Internet Security Oracle best practices and the Commonwealth's Information Security Standard, SEC501-07, to ensure compliance with best practices and standards.

2. Improve Information Technology Contingency and Disaster Recovery Plan Update Process. DMV recently updated its information technology continuity of operations and disaster recovery plans. However, while updating these documents, DMV did not assign a recovery time objective (RTO) for a mission critical and sensitive system, the Driver License Central Issuance

(DLCI) system. Additionally, since the introduction of DLCI two years ago, DMV's agency-wide contingency plan does not reflect the new system.

The Commonwealth's Information Security Standard, SEC501-06 Sections 2.3.2 (5a) and 3.2.2 (2a), requires agencies to determine RTOs for systems classified as sensitive. A system is sensitive if its data requires high confidentiality, high integrity, or high availability.

The standard, Section 3.2.2 (1), also requires that DMV "Designate an employee to collaborate with the agency Continuity of Operations Plan (COOP) coordinator as the focal point for IT aspects of COOP and related Disaster Recovery (DR) planning activities."

The APA recommends that DMV review its IT Contingency and Disaster Recovery Plan update process and consider enhancing it to ensure it includes RTOs for all mission critical and sensitive systems. The APA also recommends that DMV's Information Technology Security group appoint an employee that communicates any changes in the IT contingency and disaster recovery plans to the agency COOP coordinator to ensure consistency.

3. Improve User Access Control Across Systems. DMV does not periodically review user account privileges in its IT system that controls access to certain sensitive applications and files. The Commonwealth's Information Security Standard, SEC 501-06 Section 5.2.2 (6), requires agencies to review all user accounts and corresponding privileges for the users' continued need to access all IT systems.

   DMV is working with the Commonwealth's IT Partnership with Northrop Grumman to establish an account review process; however, due to circumstances beyond DMV's control, the process is stalled and there is no definite completion date.

   The APA recommends that DMV continue working with the IT Partnership and the Commonwealth's Chief Information Officer to escalate the urgency within the Partnership to complete the necessary tasks to establish a process to review user accounts and the associated privileges. In the meantime, the APA recommends that DMV periodically compare the active accounts to a listing of active employees, ensuring accounts identified as belonging to terminated employees are deleted.

4. Improve Web Application Security. DMV uses outdated software for an essential component in a key web application system. The outdated software no longer receives security updates from its vendor, which makes the system more vulnerable to potential attacks from the internet.

   The APA has communicated some additional details of this weakness to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the *Code of Virginia*, due to their sensitivity and description of security controls. The APA recommends that DMV address these concerns to reduce the risk of a malicious user taking advantage of the weakness to exploit the system and the data it contains.

Department of Rail and Public Transportation (DRPT)

1. Improve Grants Monitoring and Management Processes. DRPT does not have sufficient policies and procedures clearly delineating roles and responsibilities of staff for grants

monitoring and management. Further, staff do not consistently follow the policies and procedures that do exist. Specifically, certain compliance and grantee review activities are not consistently performed or documented, nor are grantee annual audited financial statements obtained or reviewed as required.

Inconsistent grants monitoring and management can lead to funding being distributed to ineligible grantees, misuse of funds by grantees, the incorrect amount of funds being distributed in a grant period, and general inefficiencies in the overall process. Further, insufficient policies and procedures make the transitioning of employees in and out of grants management roles more difficult.

Many of the issues observed can be attributed to the merger of the Rail and Transit Divisions into a single division during 2012. While a single Grantee handbook governing grant administration existed, each division observed their own grants management process prior to the merger. The previously separate approaches to the essentially same process resulted in inconsistency and confusion regarding how grantees should be monitored moving forward.

DRPT has recognized this as an issue and is in the process of developing and implementing a single comprehensive standard for all grants management. Once updated, DRPT should provide training to orient all grant managers with the policies. Finally, management should ensure that grant managers are following and consistently applying the policies and procedures to all grantees.

Department of Transportation (DOT)

1. Improve Database Security. DOT did not implement certain controls in a key Oracle database that stores sensitive information. The Center for Internet Security Oracle 11g Database best practices recommends implementing specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability. The APA has communicated the details of this issue to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the *Code of Virginia*, due to their sensitivity and description of security controls.

2. Improve Financial Reporting Procedures. DOT's unaudited Accounts Receivable, Commitments, and Schedule of Federal Expenditures submissions for the Commonwealth's Comprehensive Annual Financial Report (CAFR) compilation contained omissions or errors which in some instances resulted in material misstatements or misclassifications. System implementation, data conversion and the financial reporting preparation and review processes did not include sufficient procedures to prevent or detect these errors or omissions.

   The nature of data converted from DOT's old to its new financial reporting system impacted the accuracy of queries used to support their CAFR submissions. While DOT performed reviews on a sample basis to ensure the accuracy of the information both during conversion and when their financial reporting queries were run, DOT's review was not sufficient to identify the errors noted above.

   Further, over the past several years, DOT has experienced turnover within their Accounts Receivable personnel. This, combined with the implementation of a new system without updated procedures, made it difficult for the agency personnel responsible for preparing this submission to adequately consider the inclusion and classification of receivables, or be capable of questioning items that fell outside of expectations.

DOT should ensure that their financial reporting procedures over these areas provide sufficient direction for new personnel as well as adequate controls to prevent or detect and correct mistakes such as those identified above. The APA recognizes that a system implementation of this scope is unusual and infrequent and acknowledge DOT's ongoing efforts to ensure future system queries designed to support financial reporting are appropriately reviewed for reasonableness and accuracy. Improved financial reporting controls will ensure DOT's unaudited financial submissions are materially correct and accurately represent its operations in order to meet DOT and the Commonwealth's financial reporting needs.

3. Improve Internal Controls Supporting Davis-Bacon Act Compliance. DOT does not sufficiently monitor certified payroll submissions from contractors and/or subcontractors to ensure their adherence with the Davis-Bacon Act (Code of Federal Regulations Title 29 Parts 1, 3, 5, 6 and 7). The Davis-Bacon Act requires that contractors and subcontractors submit weekly payrolls to DOT for federally funded construction contracts exceeding $2,000 to ensure they pay prevailing wage rates predetermined by the Department of Labor.

   DOT relies on its SiteManager system to facilitate its oversight activities. District office staff support the process by entering the payroll receipt date into SiteManager as well as date stamping the payroll submission. The APA observed several instances where these steps were not being properly or consistently followed, impacting DOT's ability to properly monitor the submissions. DOT's Civil Rights Division, tasked with centrally monitoring Davis-Bacon Act compliance, cites insufficient staffing in district offices as impacting their ability to achieve full compliance with their own policies and procedures.

   As the APA's testwork did not identify any specific instances of contractor non-compliance in paying the prevailing wage, and they are not questioning any federal costs. However, ineffective monitoring of contractor and subcontractor payrolls could allow instances of non-compliance to go undetected and ultimately result in the loss of federal funding.

   DOT should either provide additional staff as necessary to follow their existing policies and procedures, or evaluate and update their policies and procedures to reflect a process that will enable them to ensure contractor compliance with the Davis Bacon Act within the constraints of their available resources.

Additional Recommendations – Quarter Ended March 31, 2013

The APA issued additional recommendations in their June 30, 2012 audit reports titled, "Agencies of the Secretary of Finance" and "Agencies of the Secretary of Transportation". Recommendations in this section may include, risk alerts, efficiency issues, or general comments to management.

<u>Re-examine Financial Recordkeeping and Reporting Process for Authorities and LGIP</u>
Secretary of Finance, Department of Accounts, Department of the Treasury

<u>Status on Prior Year Finding: Improve Controls over Small Purchase Charge Cards</u>
Secretary of Transportation, Department of Motor Vehicles

Special Reports – Quarter Ended March 31, 2013

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

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2012

Report of Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2012

Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2012 through December 31, 2012

Statewide Analysis of Operating Appropriations for the year ended June 30, 2012

Other Audit Reports Received – Quarter Ended March 31, 2013

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

Dabney S. Lancaster Community College Reaccreditation Review for the year ended June 30, 2012

George Mason University Intercollegiate Athletic Programs for the year ended June 30, 2012

Indigent Defense Commission for the years ended June 30, 2010, 2011, and 2012

James Madison University Intercollegiate Athletic Programs for the year ended June 30, 2012

Longwood University Intercollegiate Athletic Programs for the year ended June 30, 2012

Norfolk State University Intercollegiate Athletics Programs for the year ended June 30, 2012

Old Dominion University Intercollegiate Athletic Programs for the year ended June 30, 2012

Radford University Intercollegiate Athletic Programs for the year ended June 30, 2012

Rappahannock River Basin Commission for the year ended June 30, 2012

The College of William and Mary in Virginia Intercollegiate Athletic Programs for the year ended June 30, 2012

University of Virginia Intercollegiate Athletics Programs for the year ended June 30, 2012

Urban Public-Private Partnership Redevelopment fund and the Rehabilitation of Derelict Structures Fund for the year ended June 30, 2012

Virginia Board of Bar Examiners for the year ended June 30, 2012

Virginia Commonwealth University Intercollegiate Athletic Programs for the year ended June 30, 2012

Virginia Military Institute Intercollegiate Athletic Programs for the year ended June 30, 2012

Virginia Polytechnic Institute and State University Intercollegiate Athletic Programs for the year ended June 30, 2012

Virginia Small Business Financing Authority for the years ended June 30, 2011 and June 30, 2012

Virginia State Bar for the year ended June 30, 2012

Virginia Western Community College Reaccreditation Review for the year ended June 30, 2012

Auditor of Public Accounts Reports - Executive Branch Agencies

Summary of Prior Audit Findings

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

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

	IN PROGRESS		COMPLETED	
	On Schedule	Delayed	On Schedule	Delayed
Administration				
State Board of Elections	0	1	0	0
Department of Human Resource Management	1	0	0	0
Agriculture and Forestry				
None				
Commerce and Trade				
Virginia Employment Commission	0	2	0	0
Virginia Racing Commission	0	1	1	0
Education				
Christopher Newport University	1	0	0	0
The College of William and Mary in Virginia	2	0	0	0
Richard Bland College	1	0	0	0
University of Virginia	1	0	0	0
Virginia Community College System	0	1	0	0
Mountain Empire Community College	0	1	0	0
New River Community College	2	1	0	0
Northern Virginia Community College	0	1	0	0
Southwest Virginia Community College	0	2	0	0
Tidewater Community College	0	1	0	0
Virginia Highlands Community College	0	1	0	0
Wytheville Community College	1	1	0	0
Virginia School for the Deaf and Blind	0	1	0	0
Executive Offices				
None				
Finance				
None				

Health and Human Resources				
Department of Health	0	1	0	0
Department of Medical Assistance Services	0	1	0	0
Department of Rehabilitative Services *1.*	0	1	0	0
Department of Social Services	0	3	0	0
Natural Resources				
Department of Game and Inland Fisheries	0	1	0	1
Public Safety				
Department of Alcoholic Beverage Control	1	2	0	0
Department of Corrections	0	1	0	0
Department of Military Affairs	0	1	0	0
Department of State Police	2	0	0	0
Technology				
Virginia Information Technologies Agency	1	0	0	0
Wireless E-911 Services Board	0	1	0	0
Transportation				
Department of Motor Vehicles	1	1	1	0
Virginia Port Authority(2)	0	1	2	0
TOTALS	14	28	4	1

1. *Effective July 1, 2012, the Department of Rehabilitative Services became known as the Department for Aging and Rehabilitative Services.*

2. *This audit was performed by CliftonLarsonAllen, LLP, and provided to the APA.*

Status of Prior Audit Findings

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

The first two digits of the finding number are the fiscal year audited in which the finding occurred. The next two digits represent the number of the finding that occurred in the year audited. Multiple finding numbers for one finding represent repeat findings.

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
State Board of Elections (SBE)				
2010	10-02 08-02	Improve information systems security program. **This is a Repeat Finding.**	Upgraded/replaced servers, and provided security training to all employees. Still working on updating and filling in gaps in its Business Impact Analysis.	In Progress (Delayed)
Department of Human Resource Management (DHRM)				
2011	11-01	Improve Documentation, Cost Tracking, and Accounting for Overhead Allocations and Service Billings	The Time and Leave system is completed, implementation begins in April 2013.	In Progress (On Schedule)
Virginia Employment Commission (VEC)				
2012	12-01 11-01	Resolve Employer Wage Discrepancies Timely. **This is a Repeat Finding.**	Policies and procedures have been developed and implemented. Staff will be trained on these polices. Affected Employee Work Profiles will be adjusted to reflect new responsibilities and accountabilities.	In Progress (Delayed)
	12–02 11-02	Follow timekeeping and payroll procedures. **This is a Repeat Finding.**	HRMS continues to send out reminders to managers regarding OT procedures. VEC IAD is preparing to conduct a test of OT approvals	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Virginia Racing Commission (VRC)</u>				
2012	12-01 11-01	Use supported database software. **This is a Repeat Finding**	The VRC is working with VITA to finalize the implementation of the new licensing system.	In Progress (Delayed)
	12-02	Verify and Test Application and Database Backups.	Responsibility has been assigned for verifying and testing backups.	Completed (On Schedule)
<u>Christopher Newport University (CNU)</u>				
	11-02	Limit Employee Functions within Banner Finance	The Comptroller is restructuring all Banner classes to ensure all employee's access is in scope and relevant to each position.	In Progress (On Schedule)
<u>The College of William and Mary in Virginia (CWM)</u>				
2012	12-01	Improve Controls in the Property Control Office	The physical inventory is complete and in the reconciliation phase. After reconciliation, a perpetual inventory system will be implemented.	In Progress (On Schedule)
	12-02	Improve Banner User Access Review	The initial review has been completed. The first of subsequent annual reviews will be conducted later in the Summer / Fall.	In Progress (On Schedule)
<u>Richard Bland College (RBC)</u>				
2012	12-01	Improve Banner User Access Review	The initial review has been completed. The first of subsequent annual reviews will be conducted later in the Summer / Fall.	In Progress (On Schedule)
<u>University of Virginia (UVA)</u>				
2012	12-01	Improve Oracle Database Security	University is reviewing the three controls in question, and is in process of developing processes and procedures to improve security.	In Progress (On Schedule)
<u>Virginia Community College System (VCCS) Central Office</u>				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	The colleges have been informed of their security roles. Control monitoring reports are not yet finalized. The VCCS Central Office is responding on behalf of the affected colleges.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
Mountain Empire Community College (MECC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS Central Office Response	In Progress (Delayed)
New River Community College (NRCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS Central Office Response	In Progress (Delayed)
	11-02	Perform Fixed Asset Physical Inventories	A plan to ensure a two year physical inventory cycle is in place. The initial inventory under the plan will be conducted by the end of FY 2013.	In Progress (On Schedule)
	11-03	Improve Payroll and Leave Controls	A new filing process has been put into operation. A new comprehensive policy and procedures manual is being developed including leave liability accrual and other issues.	In Progress (On Schedule)
Northern Virginia Community College (NVCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS Central Office Response	In Progress (Delayed)
Southwest Virginia Community College (SWVCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS Central Office Response	In Progress (Delayed)
	11-04	Improve Student Financial Aid Control Environment	Cross training is underway and on-going. The Financial Aid procedures manual has been updated to include recent material. One additional Financial Aid staff member remains to be hired.	In Progress (Delayed)
Tidewater Community College (TCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS Central Office Response	In Progress (Delayed)
Virginia Highlands Community College (VHCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS Central Office Response	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
<u>Wytheville Community College (WCC)</u>				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS Central Office Response	In Progress (Delayed)
	11-04	Perform Fixed Asset Physical Inventories	A five phase plan is set up for the physical inventories, reconciliations will be made, and adjustments completed as necessary. Currently in Phase five.	In Progress (On Schedule)
<u>Virginia School for the Deaf and Blind (VSDB)</u>				
2010	10-03	Strengthen Internal Controls Over Capital Asset Useful Life Methodologies	Fixed assets have not yet been re-evaluated to determine if the useful life needs to be extended. The target date has been extended.	In Progress (Delayed)
<u>Department of Health (DOH)</u>				
2011	10-01	Use system capabilities to ensure proper service delivery.	Crossroads project on schedule. Walkthrough test in February 2013. User Acceptance testing to begin after walkthrough followed by pilot in August 2013. The final completion date is set for June 2014.	In Progress (Delayed)
<u>Department of Medical Assistance Services (DMAS)</u>				
2011	11-05 10-01	Obtain valid social security numbers. **This is a Repeat Finding.**	DMAS (along with DSS and LDSS) have implemented a process to ensure the integrity and validity of SSNs used between the agencies. The upcoming new Eligibility and Enrollment system should create a permanent fix to this issue.	In Progress (Delayed)
<u>Department of Rehabilitative Services (DRS)</u> **<u>Effective July 1, 2012 known as Department for Aging and Rehabilitative Services (DARS)</u>**				
2011	11-02	Improve IT System Controls	Several improvements have been made to IT Security. Seven components remain incomplete.	In Progress (Delayed)
<u>Department of Social Services (DSS)</u>				
2011	11-01 10-01 09-06	Establish enforcement mechanisms for foster care and adoption payments (Title IV-E). **This is a Repeat Finding and progress has been made.**	APA review of the systems was favorable. APA concerns with resources for performing and monitoring system results as well as local agencies addressing identified deficiencies were noted.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2010	10-02	Use system functionalities to improve financial operations.	Final corrective action based on an upcoming ORACLE Release 12 due in October 2013.	In Progress (Delayed)
	10-05	Finalize responsibilities for infrastructure security. **This is a Repeat Finding that requires Partnership action.**	Appendix A&B both signed by DSS and VITA. Continued negotiation with VITA over Portable Device Encryption and the CPS/APS Hotline.	In Progress (Delayed)
<u>Department of Game and Inland Fisheries (DGIF)</u>				
2012	10-01 09-01	Improve Internal Controls and Compliance of the IT Systems Security Program. **This is a Repeat Finding.**	The BIA update is complete, research RTOs for critical functions complete.	Completed (Delayed)
	10-03	Improve Internal Controls over System Access. **This is a Repeat Finding.**	Implementation of consultant recommended employee change procedures is underway.	In Progress (Delayed)
<u>Department of Alcoholic Beverage Control (ABC)</u>				
2011	11-02	Improve remote store server security.	Server remediation project is underway. Dealing with issues one at a time.	In Progress (Delayed)
2012	12-01	Improve Controls over the MIPS to Performance Interface	Developing policies and procedures for both manual and automated reviews.	In Progress (On Schedule)
2012	12-02	Update IT Risk Management and Contingency Plans	Agency has implemented a risk management strategy, awaiting board guidance.	In Progress (Delayed)
<u>Department of Corrections (DOC/CA)</u>				
2010	10-03	Improve Controls and Processes Surrounding Fixed Asset Accounting and Control System. **This is a Repeat Finding.**	Procedures are underway to ensure accurate FAACS data using the CARS 462 or 463 reports. FAACS training will be ongoing after implementation this summer.	In Progress (Delayed)
<u>Department of Military Affairs (DMA)</u>				
2010	10-06	Strengthen Recording and Tagging of Equipment.	A perpetual inventory process is being developed. FAACS adjustments identified from the inventories will be keyed into FAACS.	In Progress (Delayed)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
Department of State Police (VSP)				
2011	11-01	Upgrade Unreliable and Unsupported Infrastructure Devices	VITA identified necessary document that acts as control point between VITA and their contractor.	In Progress (On Schedule)
	11-02 09-03	Upgrade database system software. **This is a Repeat Finding.**	LEAMS is being implemented in Field Operations. CATS is in production. An RFP will go out for the evidence module.	In Progress (On Schedule)
Virginia Information Technologies Agency (VITA)				
2011	11-01	Review Statewide IT Contracts	Proposals are under negotiation, and implementation is being developed.	In Progress (On Schedule)
Wireless E-911 Services Board				
2011	11-01 10-02 09-03	Determine Accuracy of PSAP Data. **This is a Repeat Finding.**	All overpaid PSAPs have been recovered except for the City of Portsmouth. Portsmouth will pay over time with full collection estimated by December 2014. Payments to underpaid PSAPs will begin by June 2013.	In Progress (Delayed)
Department of Motor Vehicles (DMV)				
2011	11-01 10-01	Enhance information system security program. **This is a Repeat Finding** • Information Security Program • Security Awareness Training • Disaster Recovery and Contingency Planning	Security awareness training is ongoing.	In Progress (Delayed)
	11-02	Improve Database Security	The DMV is working with NG to address database security issues. VITA ticket is in to enhance password security. Other security enhancements are under discussion or being implemented.	In Progress (On Schedule)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
	11-04	Improve Controls Over Small Purchase Charge Cards (SPCC)	A staff employee has been hired. Checklists are being developed and employees will be trained (Users and supervisors). Internal Audit will become more involved in reviews.	Completed (On Schedule)

Virginia Port Authority (VPA)

Latest Audit Year	Finding Number	Title of the APA Audit Finding	Current Status as Reported by Agency	Status Summary
2011	12-01 11-01 10-01	Improve IT Security Program **This is a Repeat Finding**	An Information Security Policy is being implemented. Other policies are in progress and under review.	In Progress (Delayed)
2012	12-02	Davis Bacon Compliance	Added step to review process that involves signing and dating payroll documents	Completed (On Schedule)
2012	12-03	Procurement Suspension and Debarment Compliance	Added a clause to all solicitations and contracts	Completed (On Schedule)

Compliance Monitoring

Certification 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 Certification of Agency Reconciliation to CARS Reports.

DOA closely monitors Certification status, evaluates exceptions, and posts correcting entries in CARS. Certifications for November, December, January and February were due 01/09/2013*, 01/31/2013, 02/28/2013 and 03/29/2013, respectively.

Certifications Late or Outstanding
As of April 30, 2013

Agency	Nov	Dec	Jan	Feb
Norfolk State University	O/S	O/S	O/S	O/S

Key: O/S – Certification is outstanding
DATE – The date received by DOA
*Due the holiday schedule, the due date for the November Certification was extended to January 9, 2013

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 March 31, 2013, all responses have been received within an acceptable timeframe, except as noted below.

Department of Conservation and Recreation – failure to respond to the *CARS and CARS FINDS Security Listing and Certification Report* that was due on November 12, 2012 and failure to respond to repeated follow-up communications from the Department of Accounts staff.

Trial Balance Review

As an integral part of the monthly reconciliation process, each agency should review their monthly trial balance for any anomalies and investigate and correct immediately. If the anomaly cannot be corrected at the agency level, the problem should be noted on the exception register. DOA monitors selected general ledger balances and contacts agencies in writing about certain irregular balances. For the quarter ended March 31, 2013, no agencies failed to respond timely, make corrective action and/or provide additional information.

Trial Balance Review

As of April 15, 2013

Agency	Dec	Jan	Feb
None			

Analysis of Appropriation, Allotments and Expenditures, and Cash Balances

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

DOA contacts agencies in writing about credit cash balances and appropriations versus expenditure anomalies. For the quarter ended March 31, 2013, no agencies failed to respond timely, make corrective action and/or provide additional information.

Credit Cash, Excess Expenditures, and Expenditure Credits

As of March 31, 2013

Agency	January	February	March
None			

Disbursement Processing

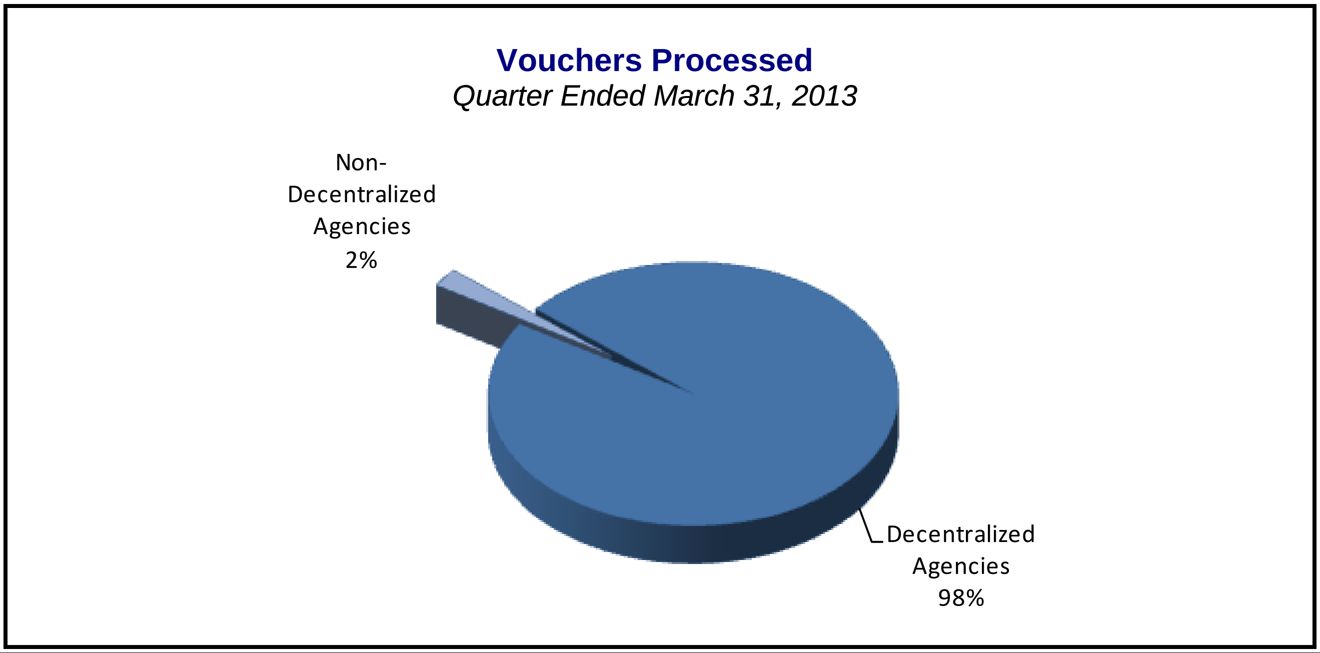
During the quarter ended March 31, 2013, DOA deleted, at the submitting agency's request, 28 payments that were awaiting disbursement from the vendor payment file. These included duplicate payments, payments for returned items, payments with incorrect vendor information and payments of incorrect amounts. These types of transactions may point to areas where improved agency internal accounting controls should be evaluated.

Twelve separate agencies requested deletes during the quarter. For the quarter ended March 31, 2013, no agency requested more than four vendor payment deletions.

Paperwork Decentralization

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

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



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

Decentralized Agencies

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

A formal corrective action plan is required for agencies considered deficient in their compliance responsibilities. DOA will perform a follow-up review to verify the actions taken by the agency adequately addressed the deficiencies noted in the original report.

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

Agencies are evaluated for compliance with the following sections of the Commonwealth Accounting Policies and Procedures CAPP Manual:

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

Agencies are generally selected each quarter using a systematic risk evaluation of all decentralized agencies. One review was completed for a decentralized agency during this quarter.

Compliant Agencies

N/A

Agencies Requiring Corrective Action	Corrective Actions Needed
Wytheville Community College	Small Purchase Charge Card: Justification / Documentation; Travel Expenditures

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 942 non-travel disbursement batches and 256 travel disbursement batches were reviewed, disclosing six exceptions that were resolved prior to releasing the transactions for payment.

Prompt Payment Compliance

The *Code of Virginia* requires that State agencies and institutions pay for goods and services by the required payment due date. The reporting required by the *Code of Virginia* §2.2-4356 is being met by the information presented here. This section details the number and dollar amounts of late payments by secretarial area, institutions and agencies, and the total amount of interest paid. Agencies and institutions that process 50 or more vendor payments during a quarter are reported as not meeting Prompt Pay requirements if fewer than 95 percent of their payments are processed by the required due date.

Statewide Prompt Payment Performance Statistics

	Quarter Ended March 31, 2013		Fiscal Year 2013 To-Date		Comparative Quarter Ended March 31, 2012	
	Late	Total	Late	Total	Late	Total
Number of Payments	5,942	536,010	16,018	1,658,594	**6,351**	**561,662**
Dollars (in thousands)	$ 45,343	$1,519,497	$121,195	$4,771,051	**$ 80,730**	**1,581,539**
Interest Paid on Late Payments				$9,278		
Current Quarter Percentage of Payments in Compliance				98.9%		
Fiscal Year-to-Date Percentage of Payments in Compliance				99.0%		
Comparative Fiscal Year 2012 Percentage of Payments in Compliance				**98.9%**		

Prompt Payment Performance by Secretarial Area

Quarter Ended March 31, 2013

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.8%	99.2%
Agriculture and Forestry	99.7%	99.4%
Commerce and Trade	99.3%	99.7%
Education*	98.7%	97.5%
Executive Offices	99.2%	90.8%
Finance	99.8%	99.4%
Health and Human Resources	99.2%	98.8%
Independent Agencies	99.6%	99.8%
Judicial	99.9%	99.9%
Legislative	99.9%	99.9%
Natural Resources	99.1%	93.9%
Public Safety	99.3%	98.5%
Technology	99.7%	99.8%
Transportation*	98.3%	90.8%
Veterans Affairs and Homeland Security	99.2%	88.7%
Statewide	**98.9%**	**97.0%**

Prompt Payment Performance by Secretarial Area

Fiscal Year 2013

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.8%	99.4%
Agriculture and Forestry	99.7%	98.6%
Commerce and Trade	99.3%	99.3%
Education *	98.9%	97.7%
Executive Offices	99.3%	96.9%
Finance	99.7%	98.0%
Health and Human Resources	99.1%	99.0%
Independent Agencies	99.5%	99.6%
Judicial	99.9%	99.9%
Legislative	99.8%	99.9%
Natural Resources	99.4%	96.9%
Public Safety	99.4%	98.1%
Technology	99.4%	99.6%
Transportation*	98.5%	93.1%
Veterans Affairs and Homeland Security	99.3%	92.5%
Statewide	**99.0%**	**97.5%**

* 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, and may include local payments. These agencies and institutions are decentralized for vendor payment processing.

For the quarter ended March 31, 2013, the following agencies that processed 50 or more vendor payments during the quarter were below the 95 percent prompt payment performance standard.

Prompt Payment Compliance Rate
Agencies Below 95 Percent
Quarter Ended March 31, 2013

Agency	Late Payments	Total Payments	Payments in Compliance
Education			
Frontier Culture Museum of Virginia	18	217	91.7%
Gunston Hall	7	58	87.9%
Health and Human Resources			
Central Virginia Training Center	98	1,701	94.2%
Virginia Foundation for Healthy Youth	12	192	93.8%
Public Safety			
Department of Emergency Management	53	713	92.6%

For FY 2013, the following agencies that processed 200 or more vendor payments during the year were below the 95 percent prompt payment performance standard.

Prompt Payment Compliance Rate
Agencies Below 95 Percent
Fiscal Year 2013

Agency	Late Payments	Total Payments	Payments in Compliance
Health and Human Resources			
Commonwealth Center for Children and Adolescents	21	397	94.7%

E-Commerce

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

EDI, Direct Deposit, SPCC and Payline Opt-Out are best practices that demonstrate effective financial management, particularly during difficult economic times. They increase efficiency in processing and eliminate wasteful use of time, paper, printing, and postage for both large and small vendor payments, payroll, and employee travel reimbursement.

Agencies and institutions are expected to embrace these practices to the fullest extent possible. Other agencies of the Commonwealth that are responsible for payment processes outside of those processed centrally have also embraced e-commerce initiatives (e.g., VEC, DSS). As a result, the methodology for accumulating the Statewide E-Commerce Performance Statistics includes additional payments made by these agencies. On the following pages, agencies and institutions are identified if e-commerce statistics indicate that they are not fully utilizing these tools.

Statewide E-Commerce Performance Statistics

	Quarter Ended March 31, 2013			Comparative Quarter Ended March 31, 2012
	E-Commerce	Total	Percent	Percent
Number of Payments	2,180,427	2,595,397	84.0%	85.5%
Payment Amounts	$ 8,385,600,398	$ 8,895,330,602	94.3%	88.9%

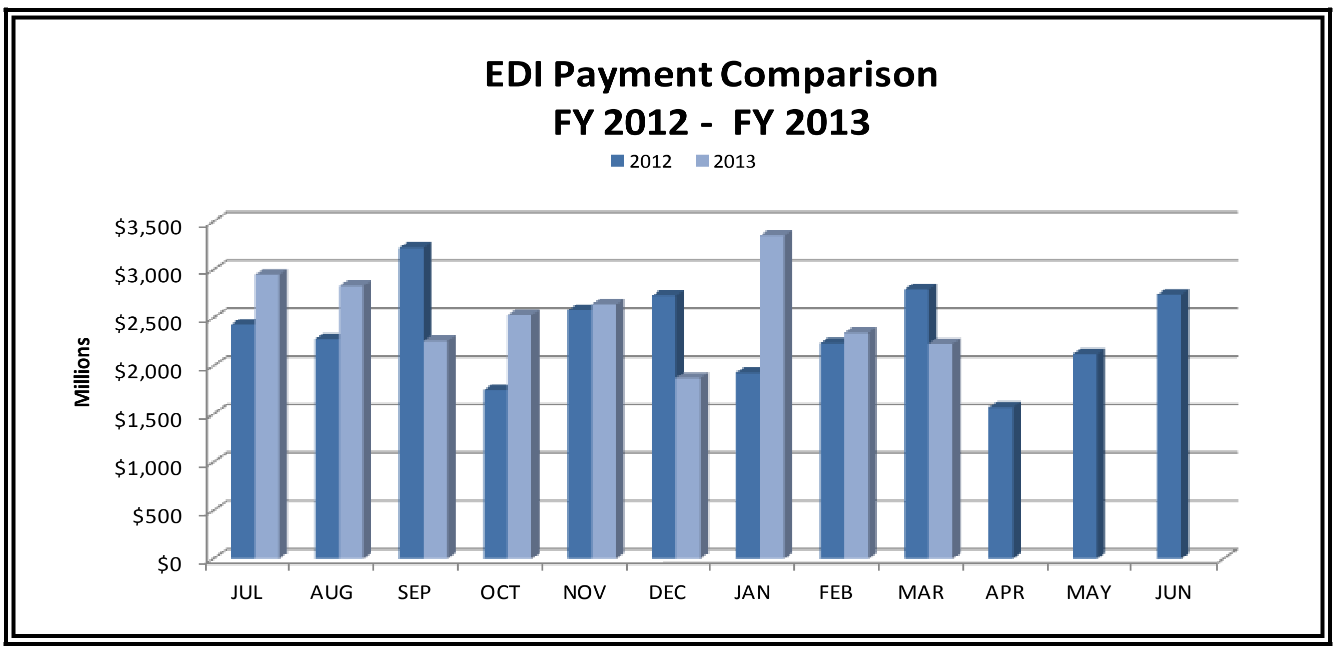
	Fiscal Year 2013 To-Date			Comparative Fiscal Year 2012
	E-Commerce	Total	Percent	Percent
Number of Payments	6,671,867	7,849,266	85.0%	85.8%
Payment Amounts	$ 26,417,106,802	$ 29,186,786,159	90.5%	87.5%

Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the third quarter of FY 2013 was over $960 million (14.0 percent) more than the same quarter last year. The number of trading partner accounts increased by 31.0 percent from March 2012. The increase is due to efforts to convert state employee travel reimbursements from checks to electronic payments. In February 2013, the Department of Accounts began a process efficiency that utilizes employee CIPPS banking for travel reimbursements. This increased the number of payments made via EDI and the number of trading partner accounts. In addition, enrollment by corporations, sole proprietors and grantees has increased significantly due to solicitation by the Department of Accounts staff.

Financial EDI Activity

Financial EDI Activity	Quarter Ended March 31, 2013	Fiscal Year 2013 To-Date	Comparative Fiscal Year 2012 To-Date
Number of Payments	57,357	178,033	169,571
Amount of Payments	$ 7,941,353,682	$ 23,042,525,484	$ 21,987,540,400
Number of Invoices Paid	198,939	610,367	610,405
Estimated Number of Checks Avoided	98,363	303,221	253,978
Number of Trading Partner Accounts as of 3/31/13		79,186	60,435



Travel EDI

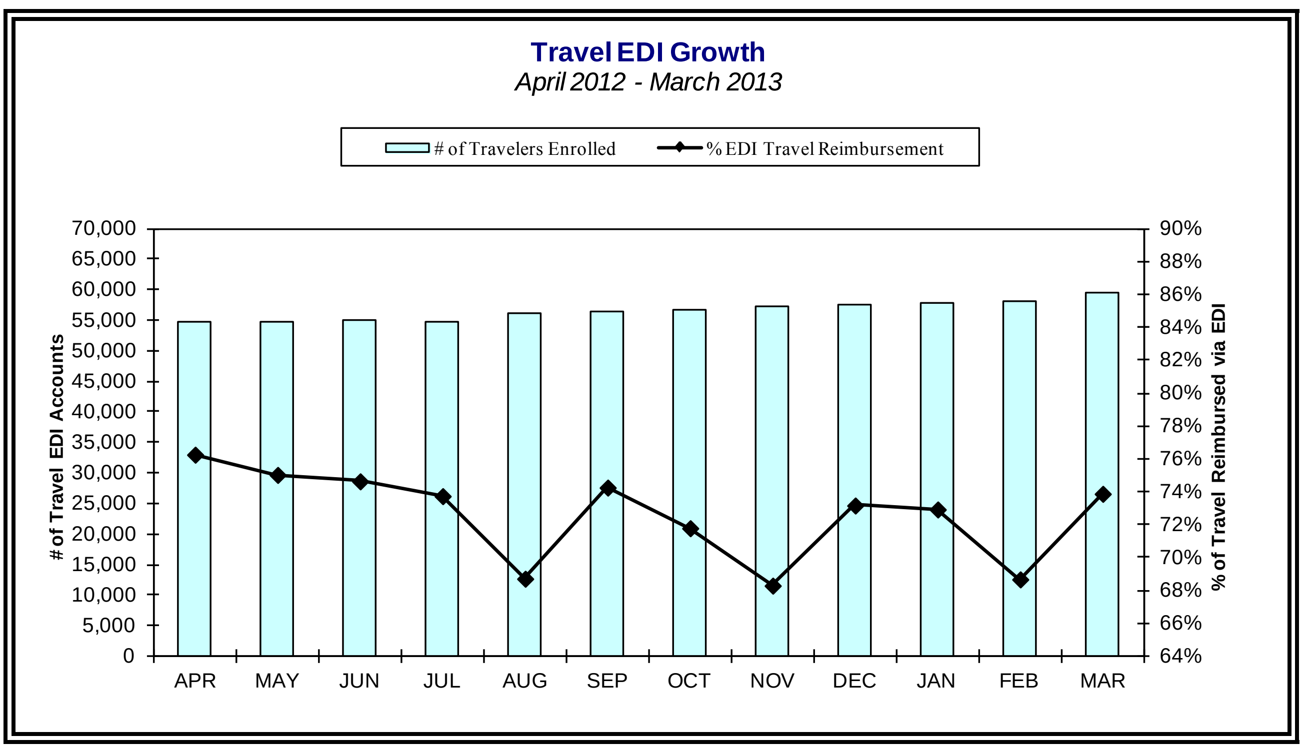
Expansion of the Travel EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI. Per Chapter 3, 2012 Special Session I, Virginia Acts of Assembly §4-5.04 e.5. *State employees traveling on official business of state government shall be reimbursed for their travel costs using the same bank account authorized by the employee in which their net pay is direct deposited.*

DOA implemented this change in February 2013. The change does not apply to employees whose net pay goes to an EPPI Card. Those employees should provide a bank account for travel reimbursements. Agencies will continue to be phased in through May 2013.

Quarterly utilization statistics are provided to the EDI Coordinators of each agency in an effort to identify areas where EDI can be expanded.

In accordance with §4-5.04 f. of the Appropriation Act, the Comptroller charges agencies for each travel reimbursement check issued in lieu of Travel EDI. Agencies are expected to take action to enroll applicable employees in the EDI program and thus avoid the fees altogether. For FY 2013, the fee is $5 per travel reimbursement check.

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



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

Travel Reimbursement
Travel EDI Performance by Secretarial Area
Quarter Ended March 31, 2013

Secretarial Area	Employee Percent	Non-Employee Percent	Reimbursement Checks Issued
Administration	93.7%	13.8%	31
Agriculture and Forestry	98.2%	6.7%	65
Commerce and Trade	94.5%	84.4%	90
Education (1)	84.7%	32.7%	1,000
Executive Offices	96.4%	0.0%	14
Finance	97.4%	0.0%	19
Health and Human Resources	93.7%	38.5%	653
Independent Agencies	97.3%	26.1%	46
Judicial	41.0%	6.7%	2,447
Legislative	84.3%	11.1%	51
Natural Resources	88.4%	41.7%	138
Public Safety	88.5%	13.5%	577
Technology	94.8%	0.0%	10
Transportation (1)	46.1%	87.5%	2,590
Veterans Affairs & Homeland Security	75.5%	43.4%	90
Statewide for Quarter	**76.1%**	**30.4%**	**7,821**
Fiscal Year 2013 To-Date			
Statewide	**76.7%**	**27.8%**	**26,099**
Comparative Fiscal Year 2012 To-Date			
Statewide	**82.5%**	**29.0%**	**20,994**

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

The following table lists agencies with Employee EDI participation rates below 85 percent that issued more than 25 travel reimbursement checks during the quarter. These statistics are informational only and **do not** necessarily indicate noncompliance with the Appropriation Act.

Agency Employee EDI Performance
Utilization Below 85 Percent

Agency	Percent	Reimbursement Checks Issued
Education		
Christopher Newport Univeristy	81.0%	35
Virginia State University	76.7%	48
Southside Virginia Community College	68.6%	32
Norfolk State University	37.7%	109
Health and Human Resources		
Department for Aging and Rehabilitative Services	82.9%	57
Judicial		
Supreme Court	65.1%	187
Juvenile and Domestic Relations District Courts	21.2%	287
General District Courts	14.8%	409
Combined District Courts	13.0%	188
Circuit Courts	5.4%	672
Natural Resources		
Department of Conservation and Recreation	64.0%	80
Public Safety		
Division of Community Corrections	79.8%	37
Department of Emergency Management	63.7%	77
Transportation		
Department of Transportation	37.9%	2,542

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.

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

Agency Non-Employee EDI Performance
Utilization Below 10 Percent

Agency	Percent	Reimbursement Checks Issued
Agriculture and Forestry		
Department of Agriculture and Consumer Services	5.1%	56
Education		
Longwood University	0.0%	83
Christopher Newport University	0.0%	27
Health and Human Resources		
Department of Health	7.4%	104
Judicial		
Circuit Courts	5.3%	286
Virginia State Bar	0.9%	224
Public Safety		
Department of Criminal Justice Services	9.1%	30
Department of Forensic Science	0.0%	73

The following table lists agencies that have accumulated more than $200 in employee EDI check charges for the fiscal year and have a utilization rate below 80 percent. Agencies are charged for each travel reimbursement check issued to an employee after their second check of the fiscal year. For FY 2013, the charge is $5 per check. These statistics indicate noncompliance with §4-5.04f of the Appropriation Act which requires that all employees likely to travel more than twice per year be reimbursed for travel costs using electronic data interchange.

Agency Non-Compliance Travel Check Charges
Utilization Below 80 Percent

Agency	Percent	Year-to-date Charges
Education		
Southside Virginia Community College	68.6%	$270.00
Norfolk State University	37.7%	$530.00
Transportation		
Department of Transportation	37.9%	$4,350.00
Judicial		
Supreme Court	65.1%	$585.00
Juvenile and Domestic Relations District Courts	21.2%	$3,540.00
General District Courts	14.8%	$4,055.00
Combined District Courts	13.0%	$1,940.00
Circuit Courts	5.4%	$8,740.00
Public Safety		
Department of Emergency Management	63.7%	$725.00
Natrual Resources		
Department of Conservation and Recreation	64.0%	$345.00

Direct Deposit

During the third quarter of FY 2013, 516,155 checks were avoided using direct deposit. Effective August 1, 2008, direct deposit was mandated for all new hires. Agencies may mandate direct deposit for all eligible employees at their discretion.

Direct Deposit Performance by Secretarial Area

Quarter Ended March 31, 2013

Secretarial Area	Direct Deposit % of Salaried Employees	Direct Deposit % of Wage Employees
Administration	99.9%	100.0%
Agriculture and Forestry	99.2%	95.1%
Commerce and Trade	100.0%	99.8%
Education	99.8%	95.6%
Executive Offices	100.0%	71.4%
Finance	99.7%	98.9%
Health and Human Resources	99.7%	99.2%
Independent Agencies	99.6%	100.0%
Judicial	99.7%	84.8%
Legislative	99.7%	100.0%
Natural Resources	99.6%	98.8%
Public Safety	99.8%	97.7%
Technology	100.0%	100.0%
Transportation	100.0%	99.5%
Veterans Affairs and Homeland Security	100.0%	100.0%
Statewide	**99.8%**	**96.6%**

Comparative *Quarter Ended March 31, 2012*		
Statewide	**99.7%**	**95.8%**

Statewide Salaried Direct Deposit Performance

Quarter Ended March 31, 2013

Salaried Direct Deposit Participation	99.8%

Salaried Direct Deposit Below 98 Percent

Agency	Percent	Number of Employees

All agencies meet or exceed the 98% threshold for salaried employees

Statewide Wage Direct Deposit Performance

Quarter Ended March 31, 2013

Wage Direct Deposit Participation	**97.1%**

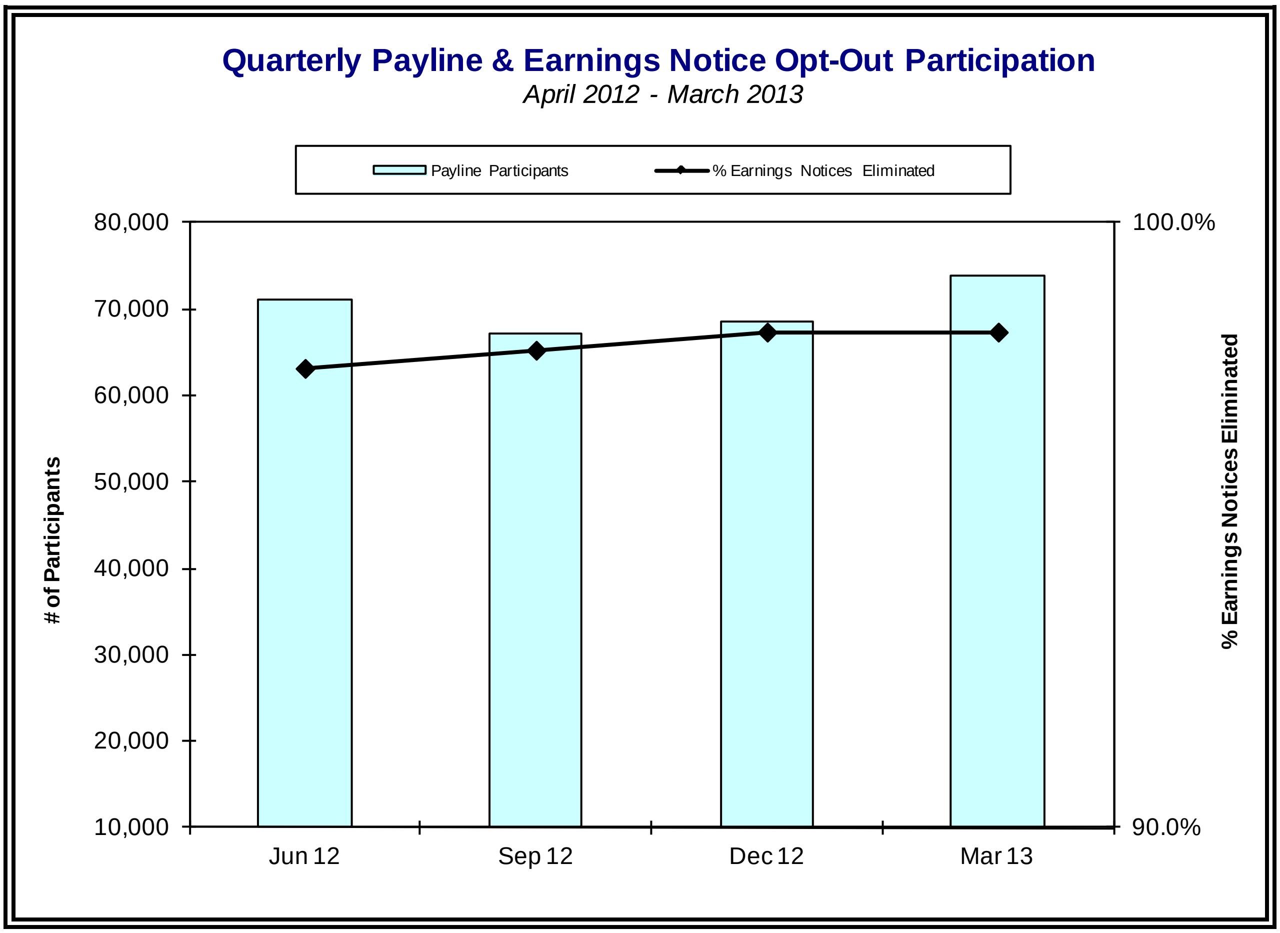
Wage Direct Deposit Below 90 Percent

Agency	Percent	Number of Employees
Education		
Mountain Empire Community College	86.1%	115
New River Community College	78.0%	173
Norfolk State University	84.9%	870
Southwest Virginia Community College	88.3%	196
Virginia Highlands Community College	78.4%	199
Health and Human Resources		
Northern Virginia Mental Health Institute	87.5%	16
Judicial		
Combined District Courts	75.0%	12
General District Courts	78.1%	118

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 10,625,002 earnings notices.



Note: The report used to count the number of Payline participants was modified to more accurately count the number of records in Payline for quarter ending March 2013.

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

Payline and Earnings Notice Opt-Out Participation by Secretarial Area

Quarter Ended March 31, 2013

Secretarial Area	Percent Payline Participation	Percent Earnings Notices Eliminated*
Administration	98.5%	100.0%
Agriculture and Forestry	84.9%	86.3%
Commerce and Trade	98.3%	100.0%
Education	72.7%	98.9%
Executive Offices	91.4%	100.0%
Finance	99.3%	100.0%
Health and Human Resources	91.2%	98.3%
Independent Agencies	95.0%	100.0%
Judicial	87.5%	94.1%
Legislative	67.0%	75.0%
Natural Resources	85.9%	88.5%
Public Safety	89.9%	100.0%
Technology	97.4%	100.0%
Transportation	96.0%	100.0%
Veterans Affairs and Homeland Security	72.9%	69.7%
Statewide	**86.1%**	**98.2%**
Comparative Quarter Ended March 31, 2012		
Statewide	**82.5%**	**97.8%**

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

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

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

Most agencies elected a global opt-out in response to the January 1, 2009, mandate. Only 20 agencies have not chosen a global opt-out and participation is reviewed to monitor progress. As of March 31, 2013, the following agencies have not met their established thresholds for eliminating earnings notice print.

Earnings Notice Elimination

Agency	Percent Earnings Notices Eliminated QE 03/31/2013	Percent Earnings Notices Eliminated QE 12/31/2012
Education		
Paul D. Camp Community College*	58%	58%

*** Paul D. Camp has elected to eliminate paper earnings notices as of May 15, 2013.***

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.

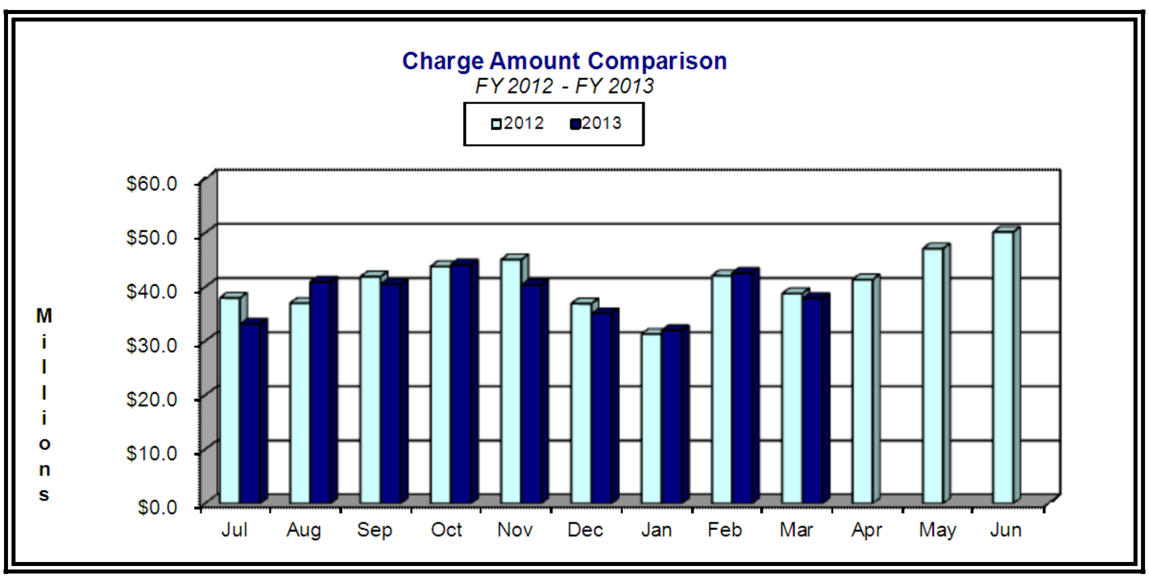
The Department of Accounts has a third charge card tool called ePayables. This program allows payments processed through CARS for vendors enrolled in the ePayables program to convert their payment to a card thus increasing the card program's spend.

The total amount charged on SPCC, Gold and ePayables cards during the third quarter of FY 2013 increased by $264 thousand or 0.2 percent from the same quarter last year.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended March 31, 2013	Fiscal Year 2013 To-Date	Comparative Fiscal Year 2012 To-Date
Amount of Charges	$ 112,505,061	$ 346,809,755	$ 354,953,276
Estimated Number of Checks Avoided	178,073	547,814	554,790
Total Number of Participating Agencies		204	210
Total Number of Cards Outstanding		17,603	18,078

The following chart compares charge activity for FY 2013 to activity for FY 2012:



SPCC Utilization Compliance

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

For purposes of computing the $5 underutilization charge imposed in accordance with §4-5.04f of the Appropriation Act, the threshold has been set at 80 percent.

For data compilation purposes, 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 VISA's vendor base in excess of 26 million merchants based on the vendor name.

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

Statewide SPCC Performance

Quarter Ended March 31, 2013

Percentage Utilization for Eligible Transactions	**88%**

SPCC Utilization by Secretarial Area

Quarter Ended March 31, 2013

Secretarial Area	Payments in Compliance (1)	Non-Compliant Transactions (2)
Administration	88%	396
Agriculture and Forestry	96%	134
Commerce and Trade	85%	467
Education*	91%	3,530
Executive Offices	95%	38
Finance	95%	101
Health and Human Resources**	91%	2,861
Independent Agencies	82%	510
Judicial	42%	1,778
Legislative	97%	40
Natural Resources	94%	604
Public Safety	97%	1,165
Technology	77%	71
Transportation*	72%	6,926
Veterans Affairs and Homeland Security	85%	332
Statewide	**88%**	**18,953**

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

** Department for Aging and 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 80 Percent

Agency	Payments in Compliance	Non-Compliant Transactions
Commerce and Trade		
Virginia Employment Commission	50%	401
Education		
Norfolk State University	68%	671
Health and Human Resources		
Department of Behavioral Health and Developmental Services	77%	83
Virginia Board for People with Disabilities	74%	14
Central Virginia Training Center	72%	281
Independent Agencies		
State Corporation Commission	16%	336
Judicial		
Board of Bar Examiners	0%	23
Circuit Courts	0%	147
Combined District Courts	0%	186
General District Courts	0%	706
Juvenile and Domestic Relations District Court	0%	423
Magistrate System	0%	90
Virginia Criminal Sentencing Commission	0%	16
Technology		
Virginia Information Technologies Agency	77%	71
Transportation		
Department of Transportation	70%	6,453
Veterans Affairs and Homeland Security		
Sitter-Barfoot Veterans Care Center	58%	272

SPCC and ATC Payment Compliance

Agencies and institutions participating in the Charge Card program are required to submit Bank of America VISA payments via EDI no later than the 7th of each month. Failure to pay the correct amount when due jeopardizes the Commonwealth's contractual relationship with the charge card vendor and may result in suspension of an agency's charge card program. Any agency that pays their bill late by more than two (2) business days is reported. For the month of January, this represents the bill date of January 15, 2013, with the payment due no later than February 7th.

Agencies are credited under prompt payment reporting for timely payment of each purchasing charge card transaction. ***Effective July 1, 2007, any late payments on the Airline Travel Card (ATC) will be reflected in this section along with purchase card late payments. If an agency is late paying their ATC bill, agency prompt payment statistics may be adjusted downward to reflect each ATC bill submitted as a late payment.***

The following table lists agencies more than two days late in submitting their payments by each program type.

Agency	Jan	Feb	Mar
Purchase Card Program:			
Commerce and Trade			
Virginia Economic Development Partnership		X	
Virginia Tourism Authority		X	
Education			
Frontier Culture Museum of Virginia		X	X
Gunston Hall		X	
Northern Virginia Community College	X		
University of Virginia Medical Center			X
Health and Human Resources			
Woodrow Wilson Rehabilitation Center		X	
Legislative			
Division of Legislative Services		X	
Airline Travel Card Program:			
Commerce and Trade			
Virginia Tourism Authority		X	

Travel Charge Card

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

One of the major concerns under this program is the timely payment of card statements. Delinquent accounts result in higher costs to the contractor and ultimately threaten the viability of the Commonwealth's travel charge card program.

The contract provides for the following actions on delinquent accounts:

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

The following table identifies the number of delinquent card accounts with Bank of America by agency during the quarter ended March 31, 2013, and the total amounts past due.

Travel Charge Card Program

As of March 31, 2013

Agency	Total Delinquent Accounts	Amounts 60 Days Past Due	Amounts 90-120 Days Past Due	Amounts >150 Days Past Due
Commerce and Trade				
Virginia Employment Commission	1	0	0	80
Virginia Economic Development Partnership	1	150	831	0
Education				
University of Virginia	1	0	703	353
Virginia Polytechnic Institute and State University	4	933	289	0
Virginia Commonwealth University	1	66	0	0
Virginia State University	4	1,191	289	0
Norfolk State University	1	0	239	0
Longwood University	1	107	0	0
Old Dominion University	1	0	245	88
George Mason University	1	141	0	0
Tidewater Community College	1	0	0	204
Judicial				
Virginia State Bar	1	502	0	0
Health and Human Resources				
Department of Health	1	57	0	0
Independent				
State Corporation Commission	1	403	0	0
Technology				
Virginia Information Technologies Agency	1	114	0	0

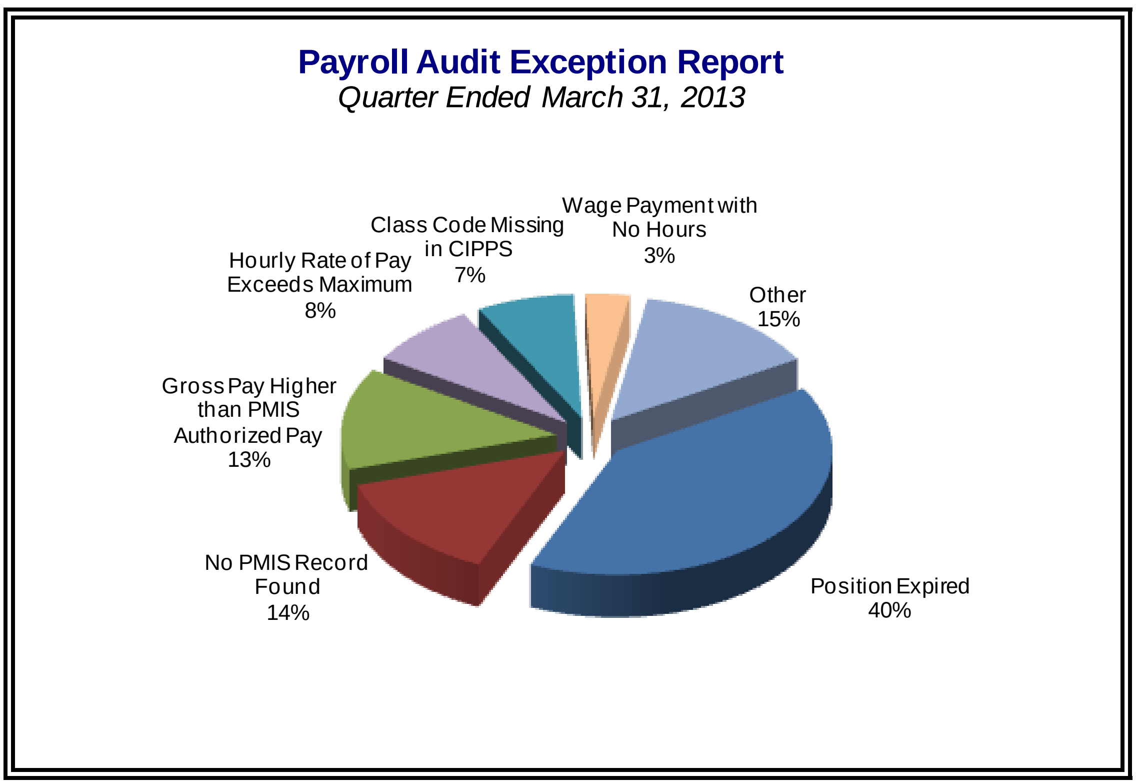
Payroll Controls

CIPPS/PMIS Payroll Audit

During the quarter, DOA's automated comparison of payroll (CIPPS) and personnel (PMIS) records examined 411,332 salaried pay transactions and 109,282 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 3,875 new exceptions noted statewide during the quarter, with an overall exception rate of 0.72%.

The statewide salaried payroll exception rate was 0.67% and the wage payroll exception rate was 0.92%. During this quarter, 22 employee paychecks were reduced to recover $22,099.92 in overpayments.

While the largest cause of exceptions is the processing of payments to employees whose position authorization has expired and not been updated in PMIS, the second largest cause of exceptions is the processing of payments to salaried employees who no longer have an active record set up in the PMIS system for their current agency. 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.

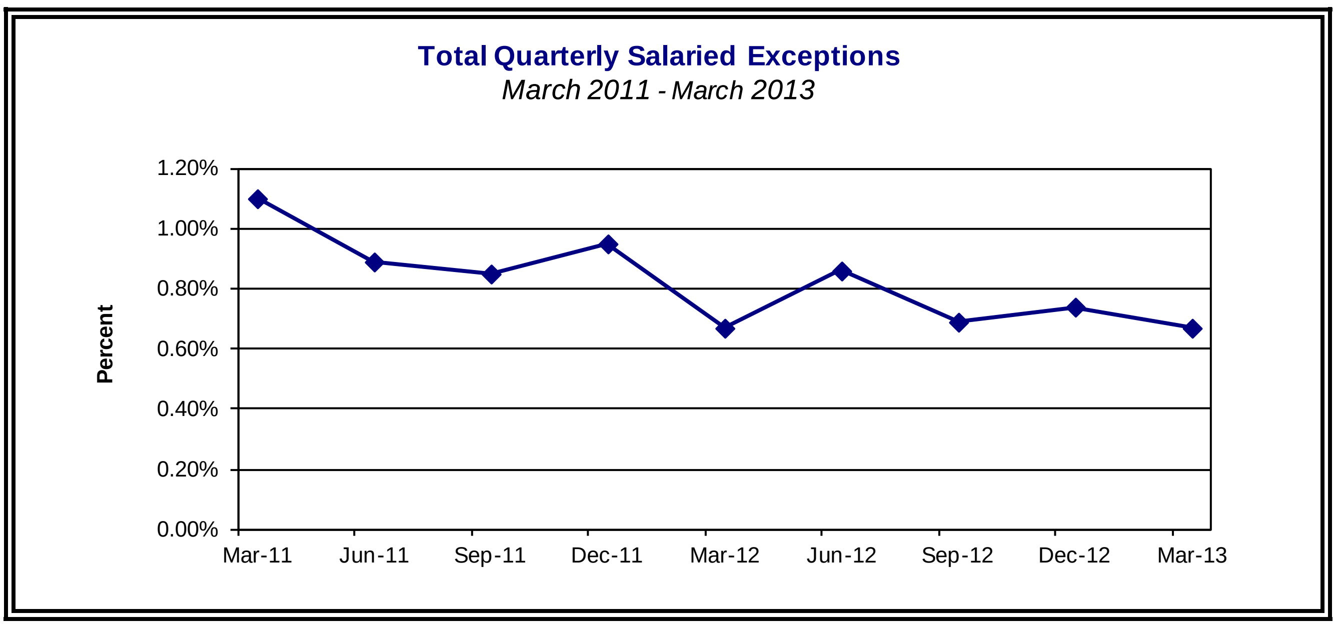
Payroll Exception Audit

Agency Payroll Exceptions as a Percent of Salaried Payments

Quarter Ended March 31, 2013

Agency	# of Salaried Exceptions	Exceptions as a % of Salaried Payments
Total Salaried Payroll Exceptions for the Quarter		**0.67%**

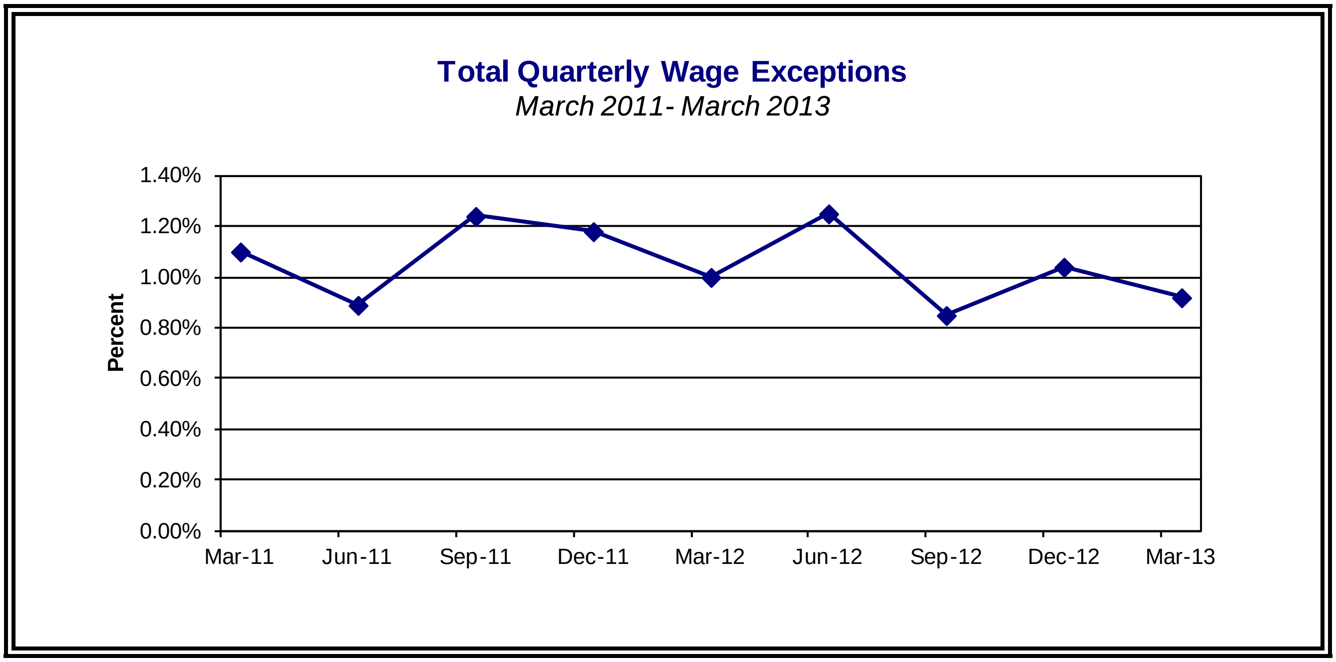
The following chart compares payroll exceptions as a percentage of salaried payments by quarter for the past two years.



Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended March 31, 2013

Wage Payroll Exceptions for the Quarter	0.92%

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



CIPPS/PMIS 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
Health and Human Resources	
Woodrow Wilson Rehabilitation Center	2

Payroll Certification

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

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

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

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

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

Payroll Certification Compliance

Agency	Variance Amount (a)		Performed by DOA (b)	Submitted Late (c)	Corrected by DOA (d)
Education					
Piedmont Virginia Community College	$ 10,738	*			
Southside Virginia Community College			1		
Virginia Highlands Community College	43,131				
Virginia Western Community College	163,791				
Health and Human Resources					
Central Virginia Training Center			2		
Southeastern Virginia Training Center	53,784				
Transportation					
Department of Transportation	10,743,122				

* Explanation for gross pay difference submitted late

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. Health care reconciliations for the months of December, January and February were due 01/31/2013, 02/28/2013 and 03/29/2013, respectively.

Schedule of Health Care Reconciliations Received Late

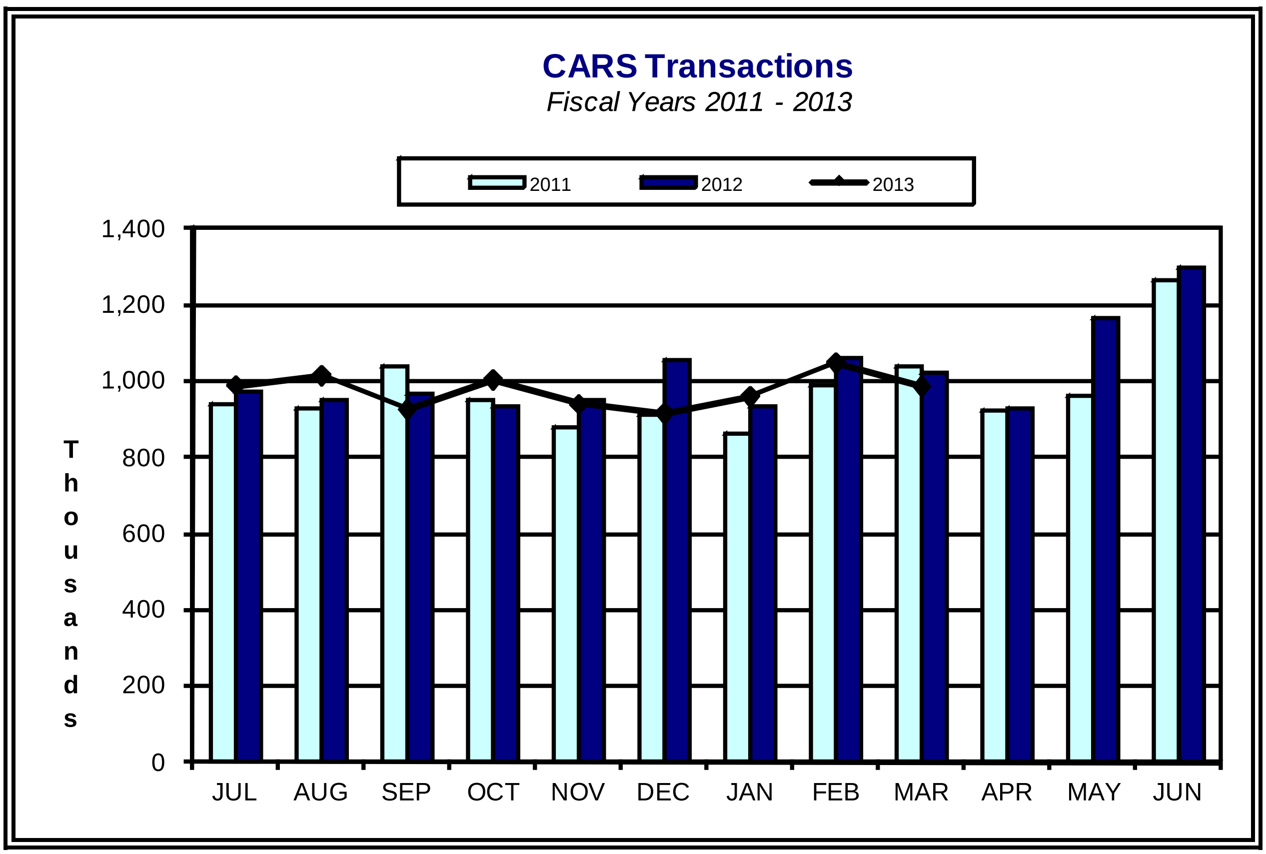
Agency	Dec	Jan	Feb
Virginia School for the Deaf and the Blind			x
Southside Virginia Community College	x		

FINANCIAL MANAGEMENT ACTIVITY

DOA monitors several types of financial activity. Various measures are used to track activities for CARS, payroll, accounts receivable, indirect cost recoveries, treasury loans, and the Fixed Asset Accounting and Control System (FAACS).

Commonwealth Accounting and Reporting System (CARS)

CARS activity trends provide important information about statewide accounting. Currently, measures are used to track CARS transactions and error counts. A marked increase or decrease in the number of CARS transactions may indicate that an agency has changed the way it accounts for an activity. Such change may require DOA review.

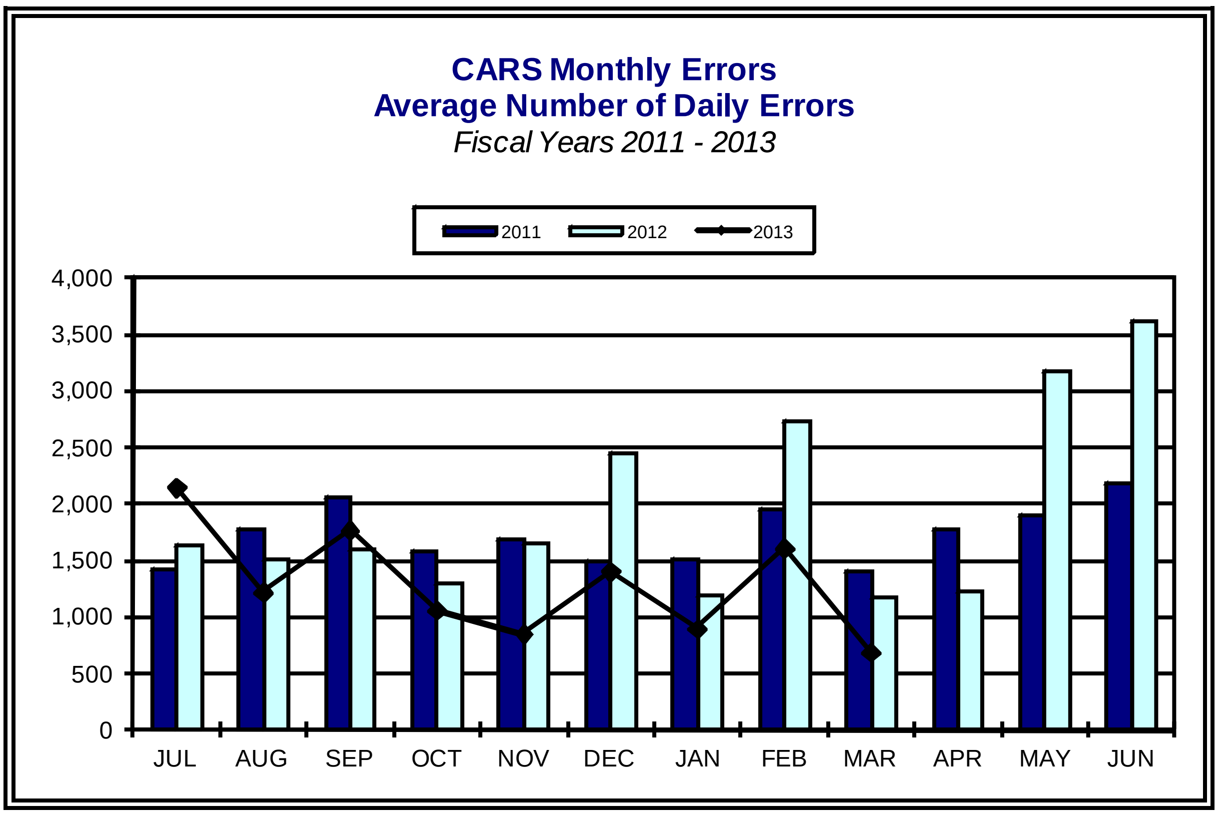


CARS Edits

One of the most important management tools used by DOA is the monitoring of CARS errors generated by standard system edits. Batches remain on the error file until problems are resolved, which, for disbursement transactions, can lead to noncompliance with prompt payment standards and poor vendor relations. During the third quarter of FY 2013, the most frequent reasons cited for transactions processing to the error file were:

- Available Cash Negative
- Expenditures > Allotment
- Certified Amount Not in Balance

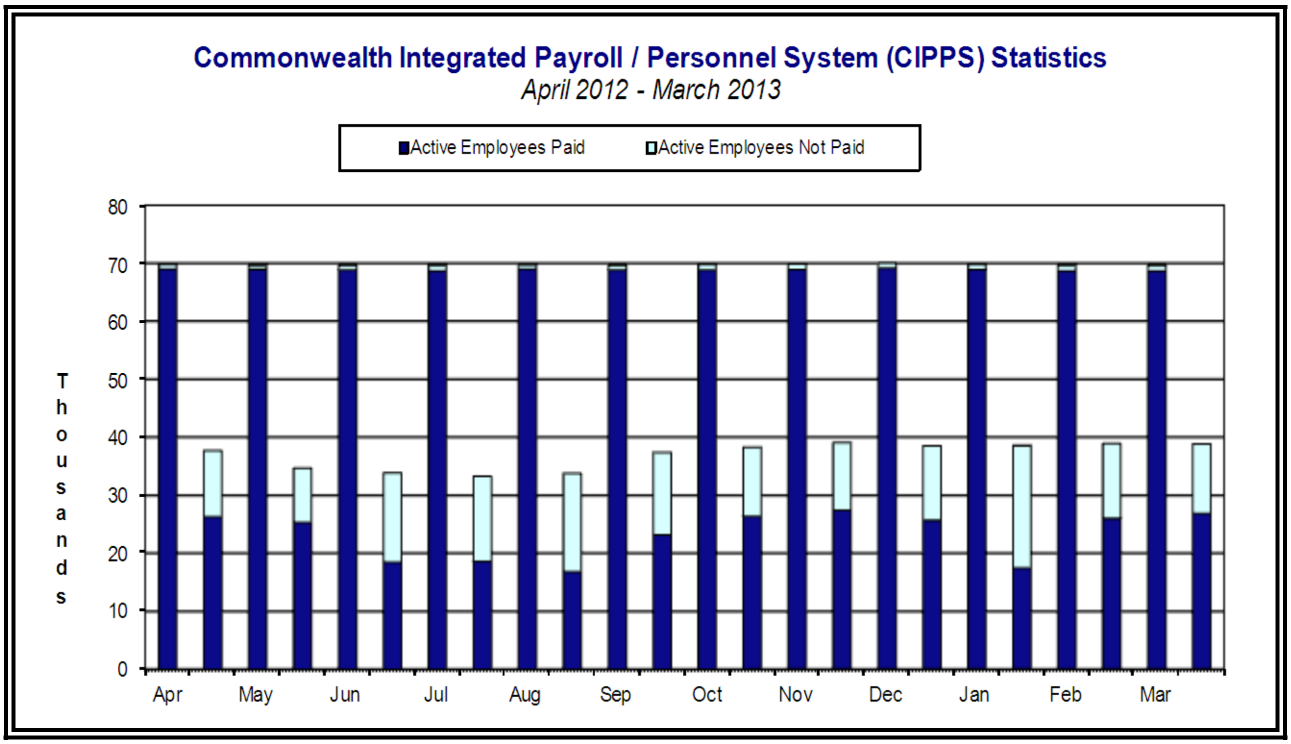
Agencies may avoid funding errors by more closely monitoring cash and allotment balances. Sound agency cash management practices should be developed to ensure transactions are not submitted to CARS when funding is not available. Agencies should develop procedures to ensure certified amounts are calculated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



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 108,464 employees. Payroll services are also provided through eight decentralized higher education institutions.

On average, 92,146 employees were paid each month, of which 68,715 were salaried employees.



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

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

Benefit Participation by CIPPS Agencies

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

Benefit Participation
Number of Participating Employees

Benefit	As of 3/31/2013	Comparative As of 3/31/2012	Comparative As of 3/31/2011
Health Care			
COVA Care	76,132	74,561	73,922
COVA Connect	6,364	7,624	7,540
Kaiser	2,084	2,142	2,138
Tricare	42	23	N/A
Optional Retirement Plans*			
Fidelity Investments	645	617	578
TIAA/CREF	1,673	1,658	1,616
Political Appointee - ORP	46	102	91
Deferred Compensation*	43,874	42,749	40,908
Flexible Reimbursement*			
Dependent Care	840	818	788
Medical Care	8,617	7,665	7,481

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

Accounts Receivable

Executive Summary

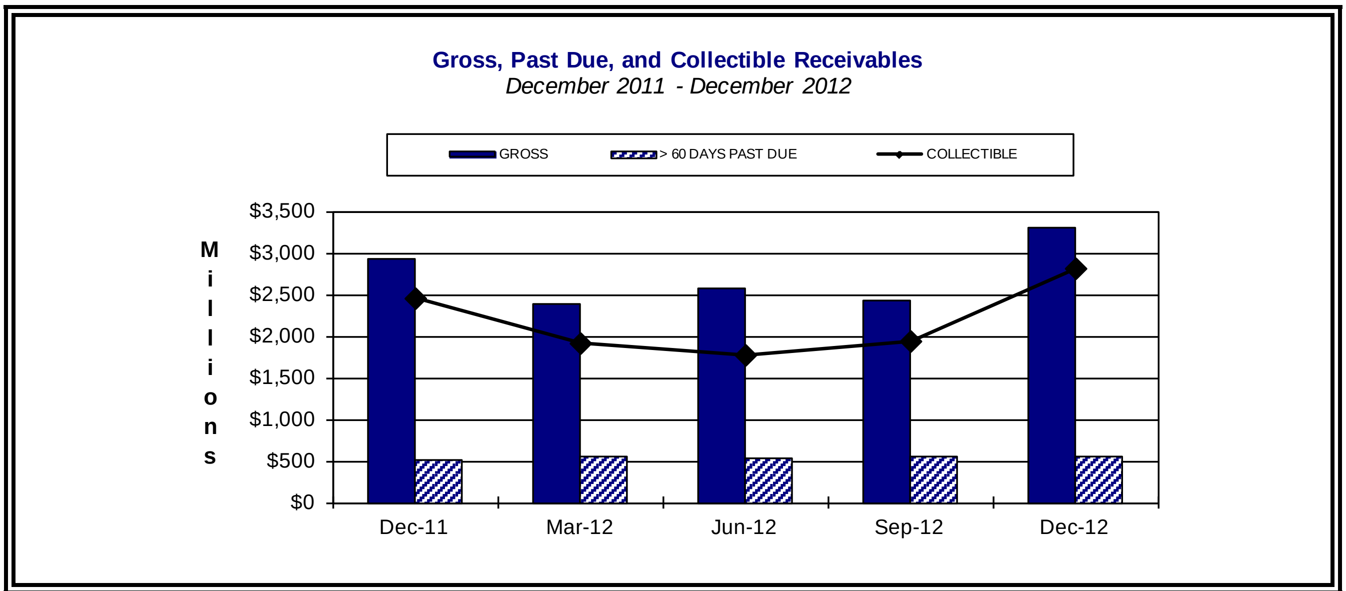
The *Code of Virginia* § 2.2-4800 et seq. requires the Department of Accounts, along with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. In order to carry out this responsibility, DOA has issued policies and procedures on accounting, collecting, reporting, and writing off accounts receivable. In addition, DOA provides technical assistance to agencies and institutions and uses statistical analyses and audit reports to monitor the on-going effectiveness of agencies in managing their accounts receivable.

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

Commonwealth agencies and institutions reported adjusted gross receivables of $3.30 billion at December 31, 2012, with $2.82 billion considered collectible. Receivables over 60 days past due as of December 31, 2012, totaled $555.5 million. Of that amount, $30.2 million was placed with private collection agencies, $49.6 million was placed with the Division of Debt Collection and $475.7 million was retained in-house for additional collection efforts.

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

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



As of December 31, 2012, agencies expected to collect $2.82 billion (85 percent) of the $3.30 billion adjusted gross receivables. About 1 percent is due to the General Fund, primarily for benefit recoveries and sales of permits. The balance, which contains Medicaid penalties that are no longer revertible, is due to several nongeneral funds.

Collectible Receivables by Fund

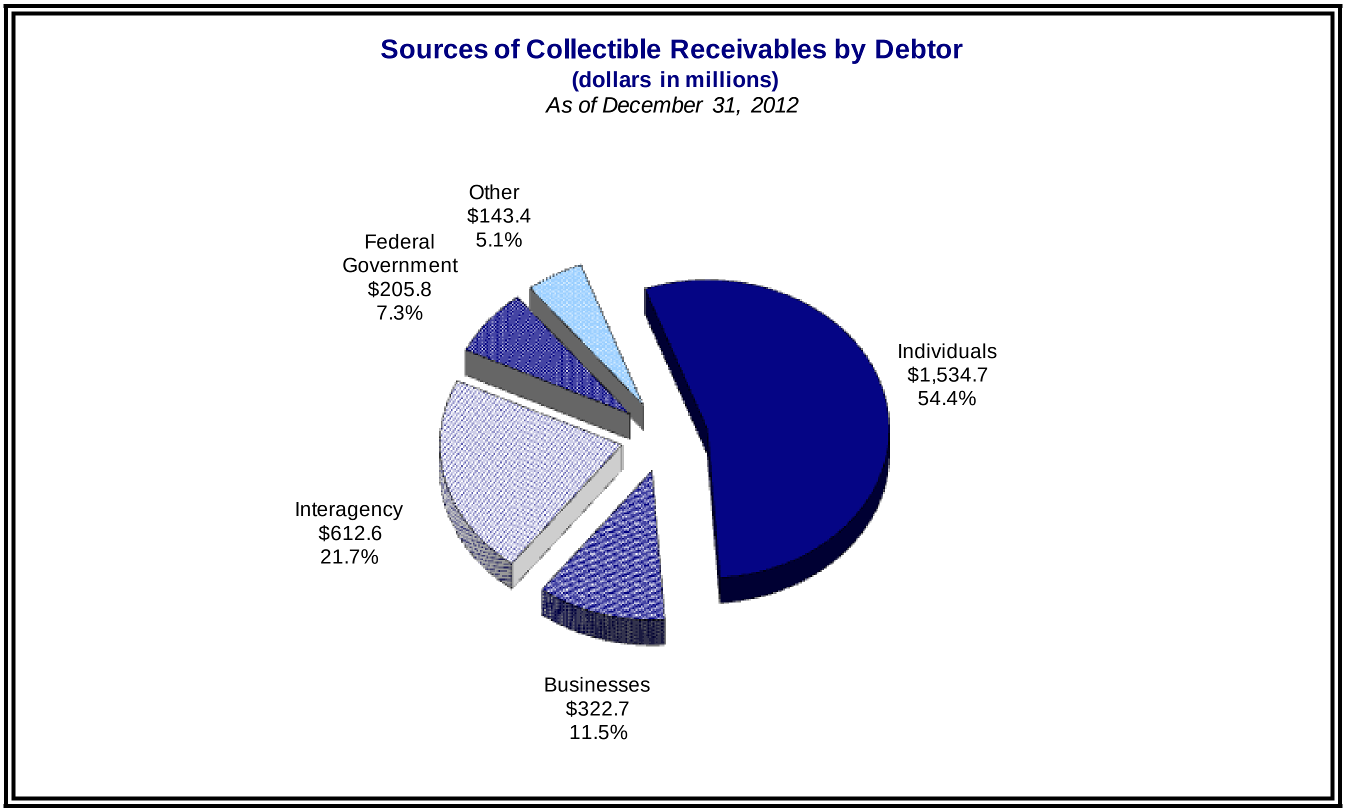
Not Including Circuit Courts, District Courts, or Department of Taxation

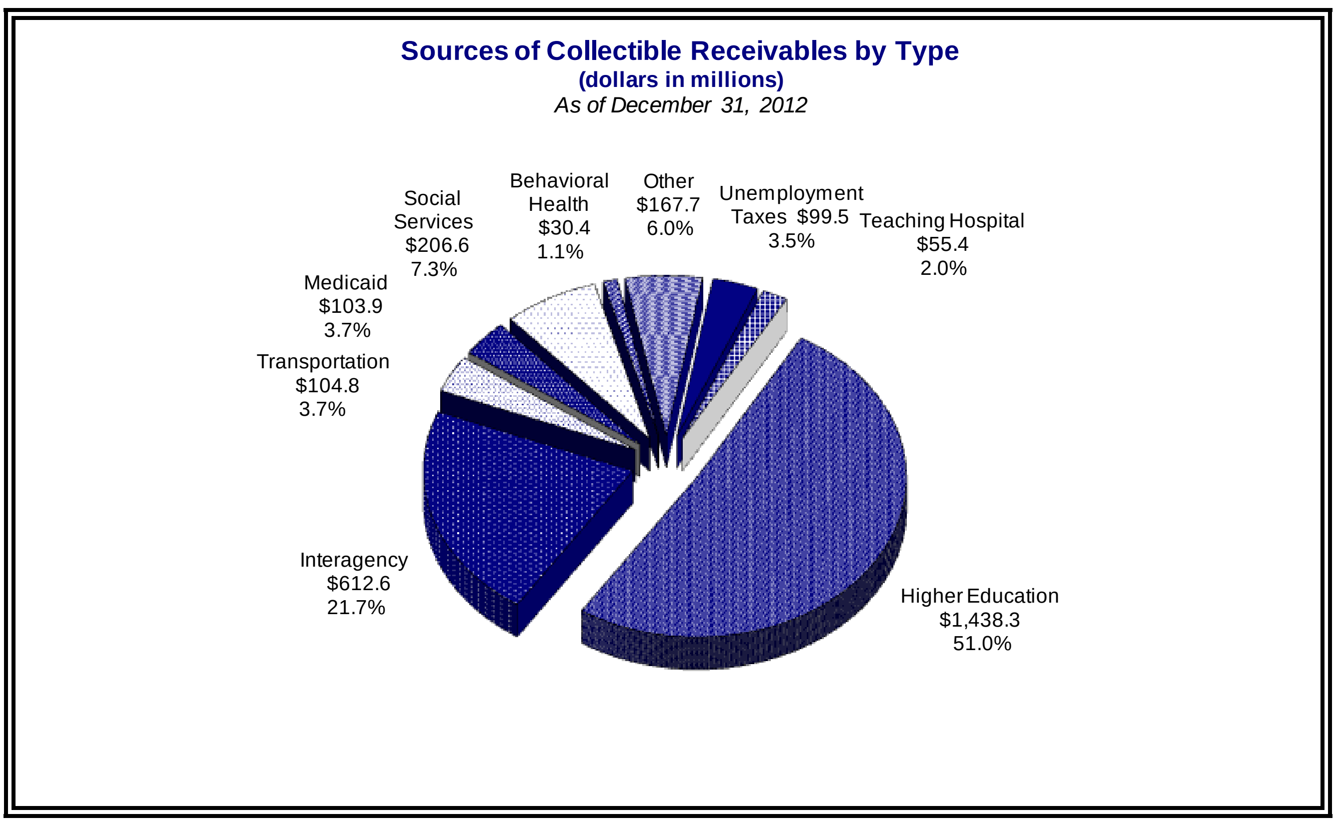
As of December 31, 2012

Fund	Source		Amount	Percent
General Fund 1%	Medicaid - Current Recoveries	$	16,731,342	54%
	Social Services		3,319,328	11%
	Labor and Industry Inspections		624,527	2%
	State Police Permits		1,612,648	5%
	Corrections		1,355,776	4%
	Other		2,722,209	9%
	Subtotal		26,365,830	85%
	Interagency Receivables		4,763,368	15%
	Total General Fund Collectible	**$**	**31,129,198**	**100%**
Nongeneral Funds 99%	Medicaid - Dedicated Penalty Fees	$	72,115,052	3%
	Medicaid - Federal Reimbursements		15,017,502	1%
	Unemployment Taxes *		99,513,719	4%
	Transportation		104,846,717	4%
	Child Support Enforcement		181,163,116	6%
	Federal Government		60,161,866	2%
	DBHDS Patient Services		30,421,451	1%
	Hospital		55,370,144	2%
	Enterprise		88,221,455	3%
	Higher Education		1,438,277,229	51%
	Other		35,125,817	1%
	Subtotal		2,180,234,068	78%
	Interagency Receivables		607,818,690	22%
	Total Nongeneral Fund Collectible	**$**	**2,788,052,758**	**100%**
All Funds	**Grand Total**	**$**	**2,819,181,956**	**100%**

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

Summary of Receivables by Source





Not counting Taxation and the Courts, ten agencies account for 76 percent of the Commonwealth's adjusted gross and 74 percent of the adjusted collectible accounts receivable balances.

Accounts Receivable Summary

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

As of December 31, 2012

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
University of Virginia Medical Center	$ 538,888,458	$ 2,560,530	$ 536,327,928
University of Virginia - Academic Division	300,942,442	225,926	300,716,516
Virginia Polytechnic Institute and State University	281,021,919	2,668,431	278,353,488
Department of Social Services	529,861,771	319,335,413	210,526,358
Virginia Commonwealth University	209,535,034	5,623,044	203,911,990
James Madison University	137,026,341	2,023,980	135,002,361
The College of William and Mary in Virginia	109,179,840	78,035	109,101,805
Old Dominion University	108,667,398	1,547,157	107,120,241
Virginia Employment Commission	167,977,177	63,821,392	104,155,785
Department of Medical Assistance Services	140,741,054	36,592,673	104,148,381
Total	**$ 2,523,841,434**	**$ 434,476,581**	**$ 2,089,364,853**
All Other Agencies	780,129,223	50,312,120	729,817,103
Grand Total	**$ 3,303,970,657**	**$ 484,788,701**	**$ 2,819,181,956**

In addition to internal administrative collection efforts, agencies have three other collection tools available to them. These are computerized matching and debt setoff programs at the Departments of Taxation, Lottery and Accounts, private collection agencies, and the Attorney General's Division of Debt Collection.

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

The Office of the Attorney General requires state agencies and institutions to send accounts of $3,000 or more and 60 days or more past due to the Division of Debt Collection.

These additional collection tools recovered $23.5 million during the quarter ended December 31, 2012. The Division of Debt Collection contributed $1.4 million. Private collection agencies collected $5.0 million, and the debt setoff programs (Tax, Comptroller's and Lottery) collected $17.1 million.

Private collection agencies returned $13.1 million of accounts to agencies, and the Division of Debt Collection discharged $2.2 million of accounts and returned $1.9 million of accounts to agencies.

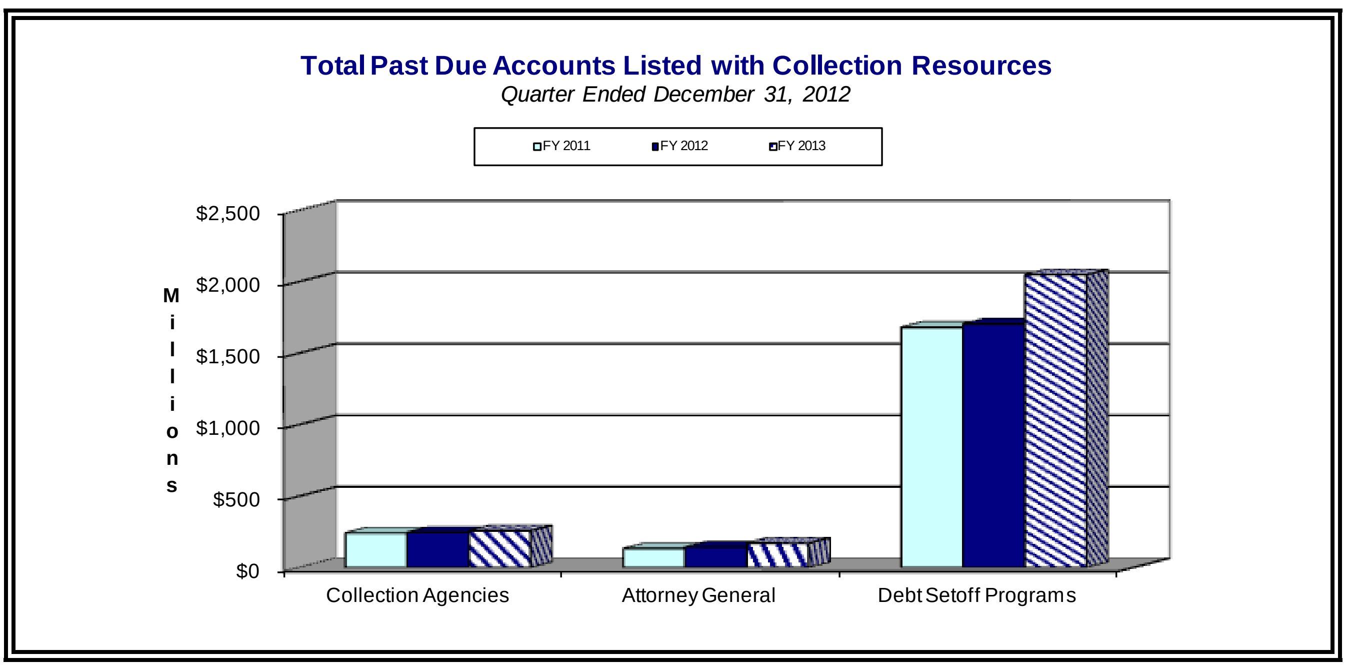
Collectible Receivables Over 60 Days Past Due

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

As of December 31, 2012

Agency	Total Over 60 Days	With Collection Agency	With Attorney General	Retained by State Agency
Department of Social Services	$ 185,438,401	$ 2,910	$ 54,110	$ 185,381,381
University of Virginia Medical Center	107,406,805	-	-	107,406,805
Virginia Employment Commission	70,888,109	18,648,750	26,743,542	25,495,817
Department of Medical Assistance Services	62,313,232	270,810	4,796,353	57,246,069
Department of Behavioral Health and Developmental Services	26,401,692	-	-	26,401,692
Department of Transportation	14,269,194	111,355	6,699,398	7,458,441
University of Virginia - Academic Division	11,801,527	705,437	44,247	11,051,843
Virginia Community College System	7,196,703	3,873,772	64,405	3,258,526
Virginia Polytechnic Institute and State University	6,659,445	928,737	943,208	4,787,500
Virginia Commonwealth University	6,296,321	217,945	189,697	5,888,679
TOTAL	**$ 498,671,429**	**$ 24,759,716**	**$ 39,534,960**	**$ 434,376,753**
All Other Agencies	56,862,273	5,420,834	10,098,088	41,343,351
TOTAL OVER 60 DAYS	**$ 555,533,702**	**$ 30,180,550**	**$ 49,633,048**	**$ 475,720,104**
Uncollectible Amounts Placed for Collection, Including Accounts Written Off	1,921,698,460	228,104,650	121,816,952	1,571,776,858
TOTAL COLLECTION EFFORTS	**$ 2,477,232,162**	**$ 258,285,200**	**$ 171,450,000**	**$ 2,047,496,962**

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



Comptroller's Debt Setoff (CDS) Program

CDS is one of the debt setoff programs used by agencies to collect past due accounts receivable owed to the State, primarily by businesses and individuals acting in a business capacity. Under CDS, a payment made by the State to the debtor may be withheld, in full or in part, to satisfy the debt owed to the State. CDS collected $4.2 million through the third quarter of FY 2013. Please note the amount reported is before any refunds.

Receivable Trend Data

One way to measure an agency's effectiveness at collecting its accounts receivable is to look at how efficient collection procedures are on accounts that are more than 60 days past due. The following table looks at trend percentages of receivables over 60 days past due as a percentage of gross receivables for the agencies with the largest amounts over 60 days past due.

Percentage of Gross Receivables Over 60 Days Past Due

Agency	Percent 12/31/12	Comparative Percent 9/30/12	Comparative Percent 6/30/12
Department of Behavioral Health and Developmental Services	45%	44%	33%
Department of Medical Assistance Services	44%	71%	43%
Virginia Employment Commission	42%	47%	38%
Department of Social Services	35%	35%	34%
University of Virginia Medical Center	20%	16%	23%
Department of Transportation	14%	10%	10%
Virginia Community College System	11%	8%	6%
University of Virginia - Academic Division	4%	7%	5%
Virginia Commonwealth University	3%	8%	11%
Virginia Polytechnic Institute and State University	2%	5%	5%
Statewide Average - All Agencies	**17%**	**23%**	**21%**

Another way to measure agency debt collection effectiveness is to compare amounts collected to amounts billed. The table below presents trend percentages for the ten agencies with the highest collectible accounts receivable balances. In total, these ten agencies are responsible for 74 percent of the Commonwealth's collectible receivables balances, as adjusted to exclude the Department of Taxation and the circuit and district courts. Percentages over 100 percent indicate the collection of prior balances as well as current billings.

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

The statewide average of 66 percent indicates that for every $1 billed during the quarter ended December 31, 2012, the state collected 66 cents. This rate is two percent higher than last year and three percent lower than two years ago.

Collections as a Percentage of Billings

		Comparative	
Agency	Percent 12/31/12	Percent 12/31/11	Percent 12/31/10
Virginia Employment Commission	104%	78%	100%
Department of Social Services	95%	92%	91%
Virginia Polytechnic Institute and State University	56%	49%	47%
University of Virginia - Academic Division	47%	39%	46%
Department of Medical Assistance Services	44%	48%	56%
Virginia Commonwealth University	40%	40%	44%
Old Dominion University	37%	29%	30%
The College of William and Mary in Virginia	32%	26%	27%
James Madison University	32%	21%	19%
University of Virginia Medical Center	29%	28%	29%
Statewide Average - All Agencies	**66%**	**64%**	**69%**

Commonwealth Receivables Analysis

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

Department of Medical Assistance Services (DMAS)

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

DMAS' collectible accounts receivable of $104.1 million at December 31, 2012, is a $10.4 million increase over the $93.7 million reported at December 31, 2011. Over the same period, total past due receivables of $70.5 million have increased by $9.8 million.

University of Virginia Medical Center (UVAH)

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

UVAH collectible receivables of $536.3 million at December 31, 2012, were a $123.5 million increase from the $412.8 million reported the previous year. Past due receivables increased by $109.9 million to $342.7 million at December 31, 2012.

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 $104.2 million at December 31, 2012, a decrease of $51.7 million from the previous year. Total past due receivables were $74.7 million, a $4.8 million decrease over last year. VEC collects employer tax receivables in-house. The Attorney General's Office is involved in contested cases. Unemployment benefit overpayments to individuals are referred to private collections agencies after in-house efforts have produced no results and when debtors have left the state.

Virginia Information Technologies Agency (VITA)

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

VITA reported collectible receivables at December 31, 2012, of $56.2 million, which is an increase of $3.6 million reported in the previous year. Most of these receivables are due from other state agencies. As of December 31, 2012, $3.8 million was over 60 days past due, an increase of $915,555 from the previous year.

State Lottery Department (SLD)

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

At December 31, 2012, the State Lottery reported net receivables of $67.4 million, a $2.1 million increase from the previous year. Billings decreased by $40.8 million and collections decreased by $38.6 million during the December 31, 2012 quarter when compared to the December 31, 2011 quarter. At December 31, 2012, the State Lottery had $315,599 that was over 60 days past due. The total amount owed is covered by surety bonds.

Department of Education (DOE)

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

At December 31, 2012, DOE had no accounts receivable due from the Federal government under Direct Aid to Public Education. This is consistent with the prior year.

Virginia Polytechnic Institute and State University (VPISU)

VPISU is one of the Commonwealth's largest universities and one of two land grant institutions in the state. At December 31, 2012, the University reported net collectible receivables of $278.4 million, an increase of $23.0 million over the prior year. At the same time, total past due receivables of $10.2 million increased by $797,869 over the prior year.

The University uses a variety of collection methods to encourage payments. At December 31, 2012, VPISU had $6.7 million of accounts over 60 days past due. $943,208 was placed with the Attorney General's Division of Debt Collection, another $928,737 was placed with private collection agencies, and $4.8 million was subject to additional in-house efforts.

Department of Behavioral Health and Developmental Services (DBHDS)

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

At December 31, 2012, the Department reported collectible receivables of $30.4 million, a $3.9 million increase over the previous year. $33.0 million was past due, with $26.4 million being over 60 days past due. Total past due receivables increased by $3.7 million over the year, and accounts over 60 days past due increased by $3.0 million. At December 31, 2012, the Department had a total of $6.7 million of accounts placed with the Attorney General and $767,224 listed in Taxation's Debt Setoff Programs.

Department of Transportation (VDOT)

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

At December 31, 2012, VDOT reported $98.6 million of collectible receivables, an increase of $73.8 million from the prior year. VDOT also reported $19.4 million total past due and $14.3 million being over 60 days past due. Past due receivables increased by $5.0 million over the year, while receivables over 60 days past due increased by $2.7 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 $6.7 million of their accounts over 60 days past due with the Attorney General's Division of Debt Collection, and $111,355 with private collection agencies.

Department of Social Services (DSS)

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

At December 31, 2012, DSS reported gross receivables of $529.9 million, an allowance for doubtful accounts of $319.3 million and collectible receivables of $210.5 million. Past due receivables totaled $188.3 million, of which $185.4 million was over 60 days past due.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for $475.6 million (90 percent) of the gross receivables, $294.5 million (92 percent) of the allowance for doubtful accounts and $181.2 million (86 percent) of the collectible receivables.

From December 31, 2011, to December 31, 2012, gross receivables increased by $45.6 million and collectible receivables increased by $18.6 million. Total past due receivables increased by $16.1 million and receivables over 60 days past due increased by $15.9 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 December 31, 2012, DRPT had gross and net receivables of $15.5 million. The majority of this money is due via an interagency transfer from VDOT. DRPT reported past due receivables of $1.6 million at December 31, 2012.

Virginia Commonwealth University (VCU)

VCU, based in Richmond, offers more than 200 degree programs to over 32,000 students in a variety of fields ranging from accounting to pharmacy at both undergraduate and graduate levels.

At December 31, 2012, VCU had $203.9 million of collectible receivables, a $16.6 million increase from December 31, 2011. Total past due accounts were $14.1 million, a $3.5 million decrease from December 31, 2011. Accounts over 60 days past due ($6.3 million) decreased by $174,963 from the prior year. Billings increased by $2.4 million to $218.4 million and collections increased by $282,313 to $86.5 million for the December 31, 2012 quarter, when compared to the December 31, 2011 quarter.

The following table is prepared to present the December 31, 2012, aging information in conformity with the provisions of the *Code of Virginia* § 2.2-603.E.(ii).

Taxation and the Circuit and District Courts accounted for 68 percent ($1.99 billion) of the Commonwealth's total $2.94 billion past due accounts receivable at December 31, 2012. Another 18 agencies accounted for 31 percent ($906.1 million), leaving 70 other agencies to comprise the last two percent at $38.7 million.

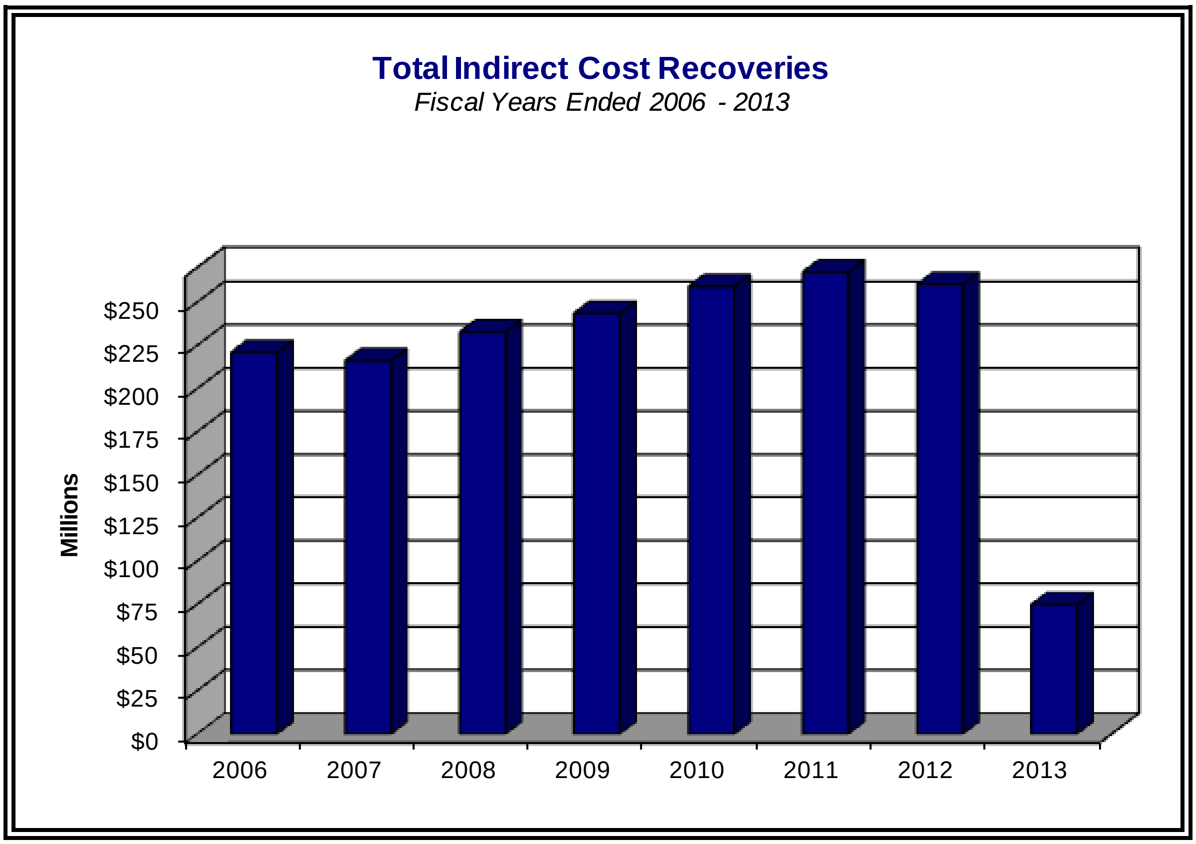
Agencies with the Largest Volume of Past Due Receivables

As of December 31, 2012

Agency	Total Past Due	1 to 180 Days Past Due	181 to 365 Days Past Due	Over One Year
Department of Taxation	$ 1,618,207,346	$ 246,773,374	$ 140,737,599	$ 1,230,696,373
Localities' Circuit and District Courts	375,205,491	38,721,107	64,391,963	272,092,421
Total - Taxation Assessments and Court Fines and Fees	**$ 1,993,412,837**	**$ 285,494,481**	**$ 205,129,562**	**$ 1,502,788,794**
All Other Large Dollar Agencies:				
University of Virginia Medical Center	342,697,358	290,687,400	36,272,653	15,737,305
Department of Social Services	188,337,227	8,978,288	8,955,232	170,403,707
Virginia Employment Commission	74,738,455	15,363,930	14,444,006	44,930,519
Department of Medical Assistance Services	70,512,508	18,382,668	6,911,933	45,217,907
Virginia Community College System	45,947,315	43,549,239	1,359,497	1,038,579
University of Virginia - Academic Division	38,724,565	36,145,583	1,369,772	1,209,210
Department of Behavioral Health and Developmental Services	32,959,367	17,294,989	19,625	15,644,753
University of Mary Washington	21,880,565	21,126,180	111,348	643,037
Department of Transportation	19,375,466	11,030,990	808,761	7,535,715
Virginia Commonwealth University	14,086,549	8,461,243	1,433,461	4,191,845
Virginia Information Technologies Agency	13,808,480	12,755,005	567,838	485,637
Virginia Polytechnic Institute and State University	10,200,782	7,240,933	811,644	2,148,205
Department of State Police	7,051,491	4,954,182	150,099	1,947,210
George Mason University	6,747,678	5,668,168	1,020,685	58,825
Department of General Services	5,559,478	3,441,336	369,082	1,749,060
Virginia Workers' Compensation Commission	4,888,989	1,199,590	2,149,583	1,539,816
Department of Health	4,468,520	2,159,081	624,402	1,685,037
Old Dominion University	4,141,494	3,814,467	311,352	15,675
Total - Largest Dollar Volume Agencies	**$ 906,126,287**	**$ 512,253,272**	**$ 77,690,973**	**$ 316,182,042**
All Other Agencies	38,706,532	24,422,458	6,446,875	7,837,199
Grand Total Past Due Receivables	**$ 2,938,245,656**	**$ 822,170,211**	**$ 289,267,410**	**$ 1,826,808,035**

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 2013 reflects indirect cost recoveries through March 31, 2013

Indirect Cost Recoveries from Grants and Contracts

Fiscal Year 2013

Fund	Year-to-Date Higher Ed	Year-to-Date Non-Higher Ed	Year-to-Date Total
Nongeneral:			
Agency / Institution (1)	$ 17,194,980	$ 54,613,888	$ 71,808,868
Statewide	68,450	908,654	977,104
Agency / Institution ARRA	1,214,270	90,755	1,305,025
Statewide ARRA	92	5,214	5,306
Total Nongeneral	**$ 18,477,792**	**$ 55,618,511**	**$ 74,096,303**
General:			
Agency (Cash Transfers)	-	-	-
Statewide	-	745,407	745,407
Statewide (Cash Transfers)	-	-	-
Total General	**$ -**	**$ 745,407**	**$ 745,407**
Total All Funds	**$ 18,477,792**	**$ 56,363,918**	**$ 74,841,710**

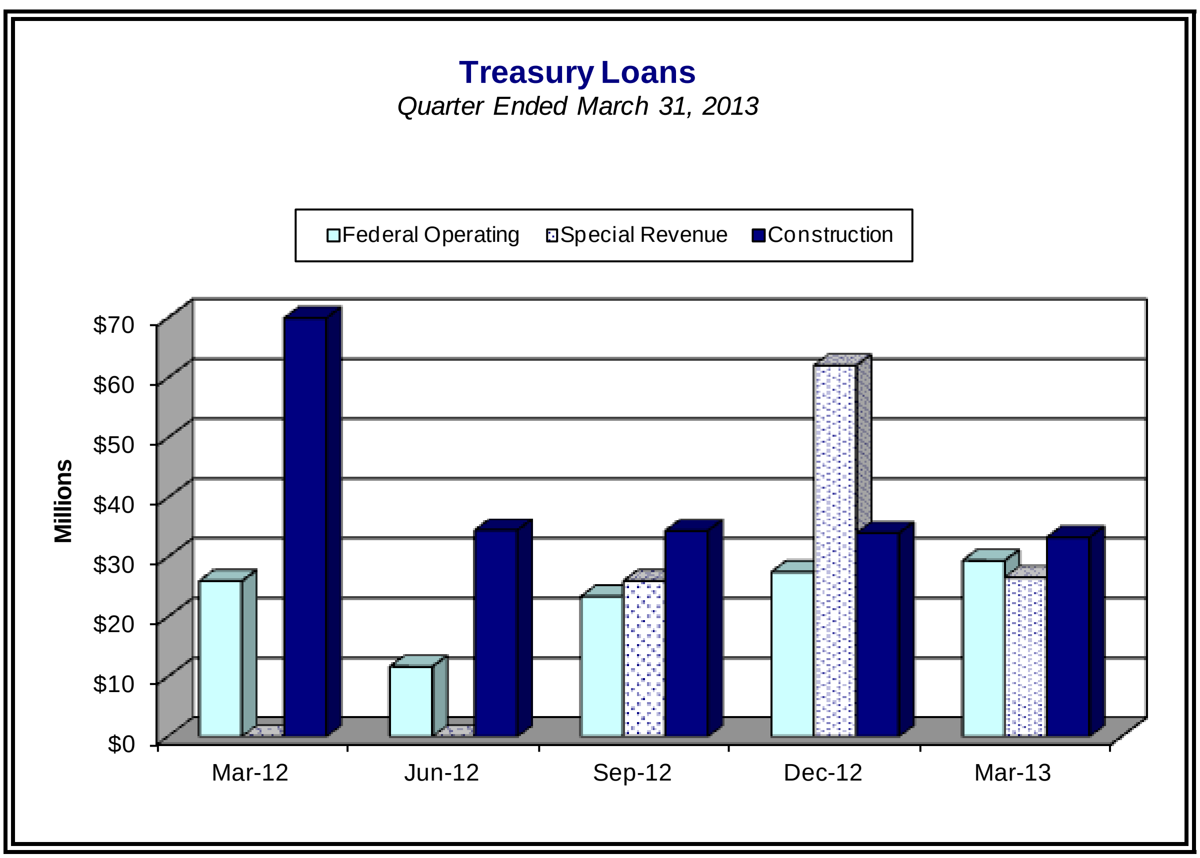
(1) The Department of Social Services records all federal monies received in CARS. However, they do not separately classify such receipts between direct and indirect. Included in the agency nongeneral fund category is $38,248,187 representing the Department of Social Services' estimate of indirect cost recoveries received. This does not include covered higher education institutions.

Loans and Advances

Treasury loans may be used to advance funds to a State agency or institution for a designated purpose prior to some form of reimbursement, typically federal or special revenues. They are loans of a temporary nature, approved on the basis of the following conditions:

- **Anticipation of Federal Operating Funds** supports the operations of federal grants and contract programs for which advance funding has been delayed or for those that require expenditure of funds prior to federal reimbursement.
- **Anticipation of Special Revenue Funds** supports the operations of non-general funded activities when collections are spread unevenly throughout the year while expenses require steady funding.
- **Construction** supports capital projects in anticipation of the sale of authorized debt or other financing for such projects.

The total of all types of treasury loans as of March 31, 2013 was $89.3 million.



Significant New Loans / Drawdowns	New Balance
Department of Military Affairs (DMA)	
Drawdown on a $15 million loan used to pay expenditures incurred in anticipation of reimbursement from the National Guard Bureau.	$ 3,000,000.00
Virginia Community College System (VCCS)	
Drawdown on a $6 million loan used to pay expenditures incurred in anticipation of reimbursement from an approved federally funded grant.	$ 6,000,000.00
Virginia Employment Commission (VEC)	
Drawdown on a $63 million loan used to ensure payment of Unemployment Insurance benefits between late September 2012 and January 1, 2013.	$ 12,000,000.00

Significant Loan Repayments	Prior Balance
Department of Military Affairs (DMA)	
Repayment on a $15 million loan used to pay expenditures incurred in anticipation of reimbursement from the National Guard Bureau.	$ 2,500,000.00
Virginia Community College System (VCCS)	
Repayment on an $8 million loan used to pay expenditures incurred in anticipation of reimbursement from an approved federally funded grant.	$ 4,000,000.00
Virginia Employment Commission (VEC)	
Repayment on a $63 million loan used to ensure payment of Unemployment Insurance benefits between late September 2012 and January 1, 2013.	$ 48,000,000.00

Other methods not charted but used to ensure an agency or institution has sufficient operating cash include authorized appropriation deficits, working capital advances, and lines of credit.

- **Authorized Appropriation Deficits**, which provide funding, when authorized by the Governor, under emergency conditions as described in §4-3.01 and §4-3.02 of the Appropriation Act. There were no deficit loans/appropriations as of March 31, 2013.

- **Working Capital Advances,** which provide operating funds for nongeneral fund projects when revenues to be used for repayment will not be generated within the twelve months required for anticipation loans. The total of all outstanding working capital advances as of March 31, 2013 was $28.8 million.

- **Lines of Credit**, which provide funding for recurring shortfalls of operating cash and are authorized in §3-2.03 of the Appropriation Act. The total of all outstanding lines of credit as of March 31, 2013 was $67.7 million.