REPORT ON STATEWIDE FINANCIAL MANAGEMENT AND COMPLIANCE

FOR THE QUARTER ENDED SEPTEMBER 30, 2013

OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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STATEMENT OF PURPOSE

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

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

This *Quarterly Report* includes information for the quarter ended September 30, 2013, and comparative FY 2013 data. Some information in the report is for the quarter ended June 30, 2013, which is the most current data available.

David A. Von Moll, CPA, CGFM
Comptroller

DOA
Virginia Department of Accounts
Financial Accountability. Reporting Excellence.

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 September 30, 2013

The APA issued 8 reports covering 38 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				
None				
Agriculture and Forestry				
None				
Commerce and Trade				
Virginia Racing Commission	0	0	0	N/A

	New Findings	Repeat Findings	Total Findings	CAW Received
Education				
Norfolk State University[(1)]	5	3	8	YES
Virginia Community College System[(2)]	2	1	3	YES
Blue Ridge Community College	0	0	0	N/A
Central Virginia Community College	4	0	4	YES
Dabney S. Lancaster Community College	1	0	1	YES
Danville Community College	2	0	2	YES
Eastern Shore Community College	0	0	0	N/A
Germanna Community College	2	0	2	YES
J. Sargeant Reynolds Community College	0	0	0	N/A
John Tyler Community College	0	0	0	N/A
Lord Fairfax Community College	0	0	0	N/A
Mountain Empire Community College	0	0	0	N/A
New River Community College	0	0	0	N/A
Northern Virginia Community College	0	1	1	YES
Patrick Henry Community College	2	0	2	YES
Paul D. Camp Community College	5	0	5	YES
Piedmont Virginia Community College	0	0	0	N/A
Rappahannock Community College	0	0	0	N/A
Southside Virginia Community College	0	0	0	N/A
Southwest Virginia Community College	0	0	0	N/A
Thomas Nelson Community College	0	0	0	N/A
Tidewater Community College	3	0	3	YES
Virginia Highlands Community College	1	0	1	YES
Virginia Western Community College	1	0	1	YES
Wytheville Community College	0	0	0	N/A
Virginia's Museums[(3)]				
Frontier Culture Museum of Virginia	2	0	2	NO
Gunston Hall	4	0	4	YES
Jamestown-Yorktown Foundation	2	1	3	YES
Science Museum of Virginia	0	0	0	N/A
Virginia Museum of Fine Arts	0	0	0	N/A
Virginia School for the Deaf and Blind[(4)]	3	3	6	YES
Executive Offices				
None				
Finance				
None				
Health and Human Resources				
Department of Conservation and Recreation [(5)]	0	0	0	N/A
Department of Human Resource Management	0	0	0	N/A
Natural Resources				
Virginia's Museums[(3)]				
Virginia Museum of Natural History	0	0	0	N/A
Public Safety				
Department of Corrections[(6)]	3	0	3	YES
Virginia Correctional Enterprises[(6)]	0	0	0	N/A
Virginia Parole Board[(6)]	0	0	0	N/A
Technology				
None				

	New Findings	Repeat Findings	Total Findings	CAW Received
Transportation				
None				
Veterans Affairs and Homeland Security				
None				

(1) The APA identified deficiencies in internal control over financial reporting that are considered "material weaknesses" and other deficiencies that are considered "significant deficiencies". As listed below:

Material Weaknesses

- *Address Inadequate Staffing and Organizational Structure (Repeat Finding)*
- *Develop and Implement Policies and Procedures*
- *Improve Year-end Financial Reposting Process*
- *Properly Maintain Documentation for Audit*
- *Properly Perform Reconciliations of Bank and Accounting System (Repeat Finding)*
- *Correct Deficiencies in Fixed Asset Management Program (Repeat Finding)*

Significant Deficiency

- *Perform Internal Control Risk Assessment Procedures*

In addition to the internal control findings, the APA had one Federal non-compliance finding, and one additional recommendation in the form of an Efficiency Finding.

(2) One report covering 23 Community Colleges and the Virginia Community College System (VCCS) System Office

(3) The APA issued a combined audit that includes six museums as noted below:

Secretary of Education:

Frontier Culture Museum of Virginia – Fiscal Years 2010 and 2011
Gunston Hall - Fiscal Years 2010 and 2011
Jamestown-Yorktown Foundation - Fiscal Years 2010 and 2011
Science Museum of Virginia- Fiscal Years 2010 and 2011
Virginia Museum of Fine Arts – Fiscal Year 2011

Secretary of Natural Resources:

Virginia Museum of Natural History – Fiscal Year 2011

(4) The APA issued one report that covers both the Virginia School for the Deaf and Blind, and the Virginia School for the Deaf and Blind Foundation for the years ended June 30, 2011 and June 30, 2012.

(5) This audit includes the Virginia Land Conservation Foundation and the Chippokes Plantation Farm Foundation for the period July 1, 2011 through December 31, 2012.

(6) The APA issued one combined audit report that included these three agencies.

Audit Findings - Quarter Ended September 30, 2013

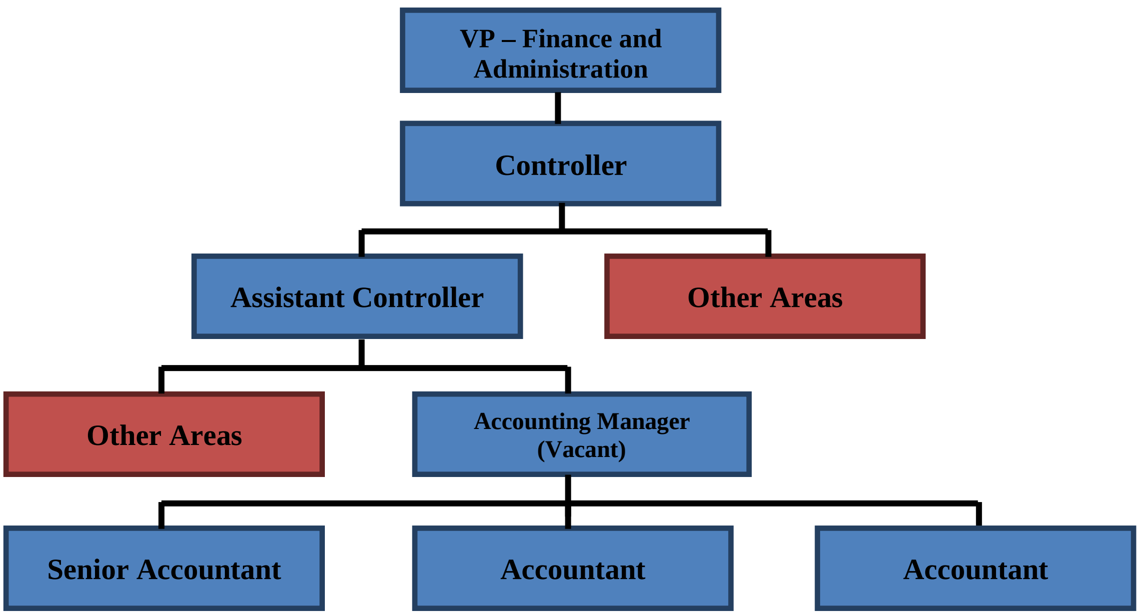
The following agencies had one or more findings contained in their audit report.

Education

Norfolk State University (NSU)

1) <u>Address Inadequate Staffing and Organizational Structure:</u> ***This is a Material Weakness and a Repeat Finding.*** NSU's office of Finance and Administration is currently structured as seen in Figure 1 below. NSU maintains an enrollment of approximately 6,500 students and based on analysis of institutions of a similar size and nature, it is apparent that NSU is significantly understaffed in key financial and administrative functions.

<u>Figure 1. Diagram of NSU's current organizational structure:</u>



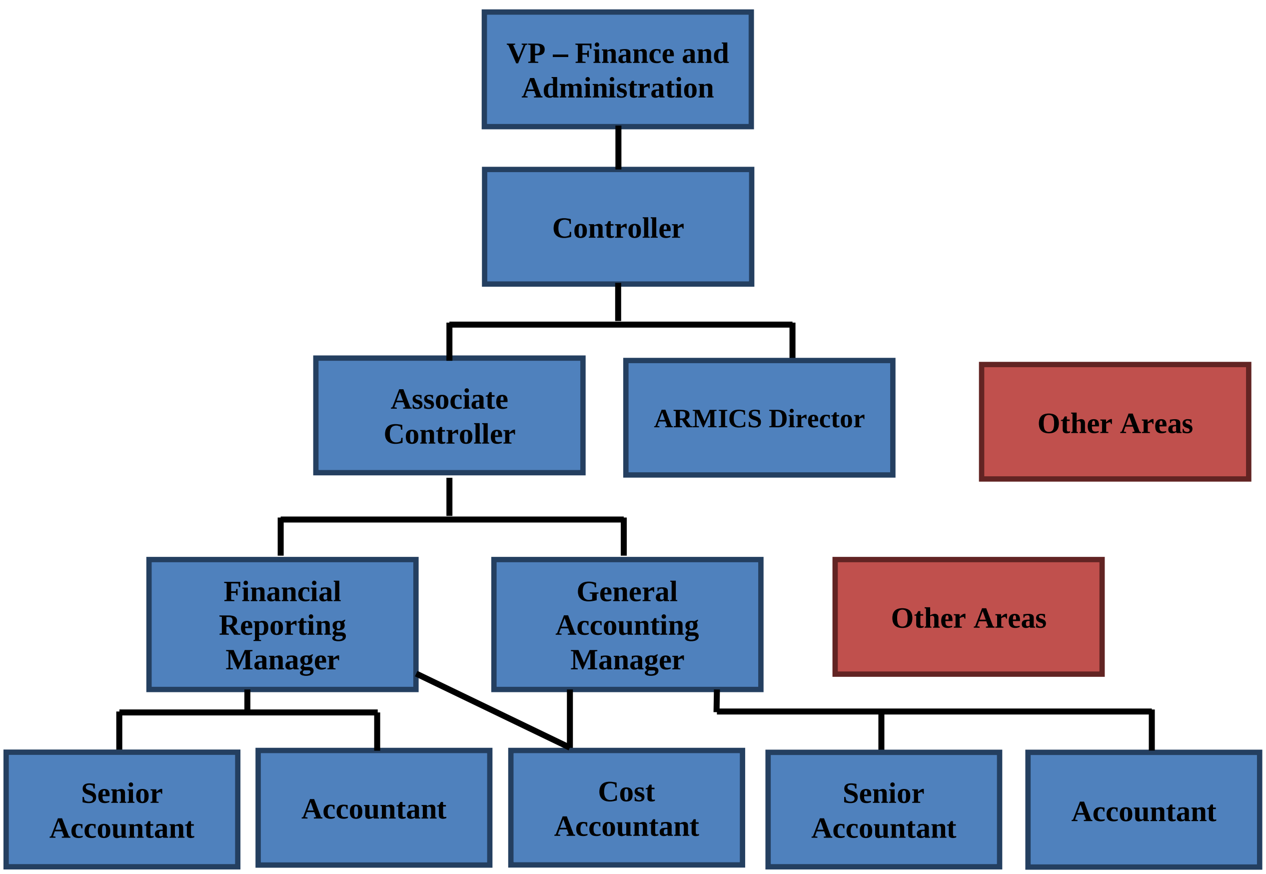
Concerns regarding significant staff turnover and inadequate staffing levels were originally noted as part of the APA letter dated May 7, 2012. Although NSU made attempts during the last year to hire individuals to fill key positions, it is still vastly understaffed. As a result, insufficient staffing in finance and administrative positions resulted in significant delays throughout the audit process, and often, the inability to locate necessary audit documentation and provide timely answers to audit inquiries.

NSU currently employs three full-time individuals and two part-time individuals as part of the Controller's office. NSU hired three of these individuals as temporary employees to perform reconciliations and other general accounting functions. Based on the current organizational structure, vacancies continue to exist in key positions, particularly in the roles of Accounting Manager and Fixed Asset Accountant.

Other public four-year institutions of a similar size to NSU have between six and twelve employees in accounting functions. Specifically, the majority of universities of similar enrollment size have positions such as Assistant Controller, Financial Reporting Manager, General Accounting Manager, Agency Risk Management and Internal Control Standards (ARMICS) compliance officer, as well as a number of staff accountant positions. A diagram of the typical structure of these offices has been included in Figure 2 for reference below.

NSU management should immediately analyze its needs with respect to accounting and reporting functions and allocate the appropriate resources to enable efficient and effective operation of NSU. It should be noted that not all institutions are organized in the same fashion, nor do they have the same institutional needs; however, this recommendation is intended to address the current impracticality of NSU's organizational structure and to emphasize the importance of appropriate division of labor and adequate allocation of resources to ensure continuity of NSU operations.

Figure 2. Approximate Organizational Structure for Similar-sized Institutions:



2) Develop and Implement Policies and Procedures: ***This is a Material Weakness***. NSU is currently lacking policies and procedures related to key financial reporting and accounting functions, which could result in inconsistent preparation and compilation of financial statement schedules and financial data. NSU finalized the transition to the Colleague accounting system at the beginning of fiscal year 2012. As a result, the fiscal year 2012

financial statements will represent the first set of financial statements prepared from data entered and maintained entirely in Colleague.

Consistency, with regard to preparation and presentation of financial data, is an essential principle of accounting. Without consistency in preparation of financial schedules, it is nearly impossible to compare financial information between periods. In addition, the lack of policies and procedures in this area greatly increases the risk of error and misstatement of financial information. Combined with unsustainably low staffing levels in the Controller's office, the lack of policies and procedures greatly increases the risk, in the event of the departure of a key employee, that NSU will be unable to perform required functions in an efficient, effective, and timely manner.

In response to the APA letter dated May 7, 2012, NSU detailed the appointment of three individuals to key positions, including Controller, Assistant Controller, and Director of Procurement. These individuals began working at NSU in May 2012, and as of August 2013, only the Controller remains employed with NSU. While it is difficult to predict with absolute certainty the length of time in which an employee will remain in a given position, this commentary merely serves as an example of the importance of documented policies and procedures to ensure continued functionality of the department and NSU.

The combined impact of insufficient staffing and lack of clearly documented policies and procedures constitutes a material weakness in internal control and must be prioritized and corrected to avoid potentially catastrophic lapses in operational functionality. NSU should immediately begin to document all processes related to everyday accounting functions and year-end financial reporting, as well as ensure policies and procedures are developed for all other administrative functional areas. This documentation should include specific and detailed references as to how information is entered into and obtained from the Colleague system.

3) <u>Improve Year-end Financial Reporting Process:</u> ***This is a Material Weakness.*** The process used to prepare the fiscal year 2011 financial statements was inefficient and outdated, resulting in material adjustments to financial information presented in NSU's financial statements. To prepare the fiscal year 2011 financial statements, NSU utilized a crosswalk spreadsheet, which summarized activity by fund on individual tabs, starting with balances from the financial accounting system and then adding any necessary adjusting entries. During the audit, the APA noted multiple instances of improper posting of adjusting entries to the crosswalk, inaccurate formulas, and adjusting entries that were unnecessary for financial reporting purposes.

   In addition to the errors related to the financial statements, the APA noted inconsistencies and inaccuracies in financial statement footnote disclosures. Many of the footnotes lacked required elements as prescribed by the Government Accounting Standards Board (GASB), and as such, required revision. Similarly, the APA encountered errors in preparation of the year-end submissions provided to the Department of Accounts for consolidation in the Commonwealth's Comprehensive Annual Financial Report. As the Department of Accounts (DOA) relies on the information submitted by the colleges and universities, it is essential that this information is accurate to ensure fair presentation of the Commonwealth's financial report.

Although an integrated financial reporting module is not included as part of the Colleague financial accounting system, it is not uncommon for universities to utilize third-party reporting software to aid in the consolidation of information from the financial accounting system to the appropriate financial statement presentation. Appropriately mapping accounts in the financial system to financial statement line items in reporting software will allow NSU to eliminate some of the reclassification adjusting entries currently required at fiscal year end. Additionally, utilizing this approach should reduce the number of tabs and spreadsheets needed in the consolidation, which will decrease risk of human error in the compilation process.

NSU should leverage report-writing software to develop an efficient and effective process for compiling financial statement information from the accounting system. During this process, NSU should attempt to minimize the number of steps requiring manual adjustment of financial data, as these situations represent a higher risk of material misstatement to the financial statements. In addition, NSU should clearly document the procedures used to generate the financial statements, footnotes, and year-end submissions, as these procedures will help ensure compliance with accounting pronouncements and aid in consistency of presentation from year-to-year. Lastly, all documentation related to the compilation of the financial statements, adjusting entries, and footnotes, should be maintained in a centralized location, organized in an efficient manner, and available to auditors promptly upon request.

4) Properly Maintain Documentation for Audit: ***This is a Material Weakness.*** Throughout the audit process, APA auditors noted missing or incomplete audit documentation. In some cases, there was insufficient documentation to support the specific item selected for testing. While the APA was ultimately able to obtain sufficient appropriate audit evidence to support the individually published financial statements, the lack of an audit trail represents an issue that could have significant impacts on the audit process. If auditors are unable to obtain sufficient appropriate audit evidence due to lack of documentation, it could result in the inability of the auditor to provide an opinion on the financial statements.

   The inability to locate needed supporting documentation for audit requests resulted in significant delays during the audit. Although some documentation was located, the delays resulted in inefficiency on the part of auditors and staff in attempting to support the financial statements. Additionally, in multiple instances, NSU staff provided "final" documents to APA staff, which were later discovered to be incomplete versions of the documentation requested. As a result, the auditors had to re-perform audit procedures on multiple occasions, resulting in lost time for auditors and NSU personnel.

   NSU should develop a comprehensive system for filing documentation to ensure that it is available during future audits. In addition, this system should be documented in a way that inexperienced staff can determine the appropriate location for storing final versions of supporting documentation. NSU personnel should strive to develop a process which will enable them to respond promptly to audit requests to reduce the length of time required to complete the audit. The prompt provision of supporting documentation for audit requests will significantly decrease the burden on the auditors and NSU personnel and will decrease the amount of time required to complete the audit.

5) Properly Perform Reconciliations of Bank Accounts and Accounting System: ***This is a Material Weakness and a Repeat Finding***. As noted in the APA letter dated May 7, 2012, NSU lacked resources to promptly reconcile its primary bank account, as well as complete the reconciliation of NSU's accounting system to the Commonwealth Accounting and Reporting System (CARS). While the APA noted improvement in the performance of reconciliations since the aforementioned letter, there is the potential for further improvement of the reconciliation process.

   During the APA review of the reconciliations and supporting documentation, the APA noted many reconciling items. Although these reconciling items were identified by NSU personnel, they were not utilized to adjust and properly reflect the appropriate activity in the accounting system. In addition, supporting documentation for reconciling items was unavailable or improperly maintained, and as such, was not available to the auditors. Often, NSU staff were unable to sufficiently explain the existence of the reconciling items and, as a result, these items continued to accumulate on each subsequent reconciliation.

   While the completion of the reconciliation is an important part of the process, it should be noted that an equally important part of the process is ensuring that reconciling items have resulted in adjustments to the system. Researching reconciling items and adjusting the system, when necessary, ensures financial information is up to date and accurately reflects the current financial position of NSU. Additionally, appropriately accounting for reconciling items reduces the risk of inappropriate activity, which may go unnoticed if reconciling items are allowed to accumulate on reconciliations.

   NSU should ensure that timely reconciliations are performed between the accounting system and all bank accounts. Additionally, NSU should ensure they have timely reconciled the accounting system to CARS. As part of this process, NSU should investigate all reconciling items and make adjustments to the system where appropriate. Reconciling items should not continue to accumulate from month to month, and NSU should institute a review process to ensure reconciliations have been completed properly and all necessary adjustments have been made.

6) Correct Deficiencies in Fixed Asset Management Program: ***This is a Material Weakness and a Repeat Finding.*** As noted as part of the APA report on internal control for fiscal year 2010, dated June 7, 2011, NSU had several deficiencies in internal control related to disposal of fixed assets and completion of fixed asset physical inventories. Additionally, in the APA letter dated May 7, 2012, the APA indicated NSU had not "recorded, tagged, or otherwise controlled fixed assets, including equipment, for most of 2012." While the APA audit of the financial statements pertained solely to fiscal year 2011, auditors performed procedures over fixed assets covering the period through June 30, 2012.

   During the APA procedures, they noted the following:

   - Several missing assets, including one with significant remaining book value;
   - Many instances where fixed assets were not appropriately tagged and were not accurately reflected in the fixed asset system with respect to cost or

useful life, resulting in improper depreciation of assets and requiring adjustments to the financial statements;

- Several instances where assets were ordered, but never placed into service. These assets remain unopened in NSU's warehouse, and represent an inefficient use of NSU resources;
- Implementation of the Colleague financial system was not properly tracked and recorded as an intangible asset, which resulted in a significant adjustment to the financial statements;
- Inability of NSU staff to locate supporting documentation for asset disposals occurring during the fiscal year;
- Physical inventory of assets has not been performed during the last two years resulting in noncompliance with the Commonwealth Accounting Policies and Procedures Manual (CAPP); and,
- Use of inaccurate reports to generate financial statement information, resulting in multiple adjustments during the audit process.

The lack of physical inventory, insufficient tagging of equipment, a number of idle or unused assets, and errors in financial reporting present a significant risk of misappropriation of assets from NSU. NSU should develop updated policies and procedures to ensure fixed assets are properly controlled. These policies should include the initial identification of potential fixed assets following procurement, proper recording of the value of the assets in the fixed asset system, assignment of an appropriate useful life and salvage value, tagging of fixed assets, completion of required fixed asset inventories, and appropriate disposal of assets deemed obsolete or no longer needed for NSU purposes. Following development of these procedures, NSU should complete a full physical inventory, ensuring that all equipment has been properly tagged. In addition, any assets determined to be obsolete, or fully depreciated and no longer needed by NSU, should be surplussed or disposed using an approved methodology. Idle or unused assets remaining in the warehouse should be re-deployed to other departments within NSU, if possible, or should be surplussed unless NSU expects to use them imminently. Finally, NSU should ensure the information used to prepare the financial statements is reasonable and properly prepared.

7) <u>Perform Internal Control Risk Assessment Procedures:</u> As outlined in the CAPP Manual Topic 10305, each Agency Head is responsible for having agency management document the agency's assessment of internal controls to include:

- Strengths, weaknesses, and risks over the recording of financial transactions in the General Ledger;
- Compliance with the agency's financial reporting requirements;
- Compliance with laws and regulations; and,
- Stewardship over the Commonwealth's assets

The initial implementation of ARMICS included the documenting, evaluating, and testing of agency-level controls. DOA provides that once the process has been successfully implemented, the institution should refresh and refine the evaluation each year. Ultimately, the agency head is required to certify that they have established, maintained, and evaluated their agencies' internal control framework.

The APA audit found incomplete documentation related to the completion of ARMICS reviews and the improper certification of the completion of those reviews to DOA. Additionally, the ARMICS documentation for fiscal year 2012 should have resulted in a significant amount of documentation regarding changes in internal control following the implementation of the Colleague system. The APA audit indicated that documentation of internal control, with respect to the implementation of the Colleague system, has not yet occurred.

As NSU addresses staffing concerns, it should dedicate resources to ensure all policies and procedures are up-to-date and reflect the current system of internal control. Following this update, the ARMICS officer should perform a complete review of NSU's system of internal control and the agency head should appropriately certify its completion to DOA. Following the complete review of internal control, the ARMICS officer should annually refine the evaluation to reflect any changes in internal control or areas of concern.

8) Properly Calculate and Return Title IV Funds: NSU staff used incorrect dates to calculate refunds of Title IV funds for Fall 2011 and Spring 2012 student withdrawals.

   When calculating the length of the semester, financial aid office staff used the last day of classes, rather than the last day of exams as the official end of each semester. This error causes an understatement in the amount of the return and applies to all items in the sample tested, resulting in the return of $1,171 less than required to the Department of Education. In accordance with 34 CFR 668.3, for return of Title IV funds calculation purposes, a week of instructional time is that in which at least one day of instruction or examinations occurs or, after the last day of classes, at least one day of study for final examinations occurs.

   As this finding was identified as part of the fiscal year 2012 Statewide Single audit, the APA recognizes that the error was corrected by NSU and the appropriate amount of funds have since been returned to the Department of Education. Moving forward, financial aid personnel should use the last date of exams as the end date for determining the length of the semester.

Virginia Community College System - System Office (VCCS/SO)

1) Improve Segregation of Duties within AIS PeopleSoft: ***This is a Repeat Finding.*** During the APA audit of the VCCS for the prior fiscal year, the APA found improper segregation of duties within the AIS PeopleSoft system. During the APA review of access at the System Office and several colleges, multiple instances of inappropriate access were noted, indicating a deficiency applicable to the entire System. These findings were communicated to management during the last month of fiscal year 2012. As a result, management was unable to implement meaningful corrective action in a timeframe that would improve the effective operation of AIS access controls for the fiscal year 2012 financial statement audit.

   The System Office has, however, developed queries and provided additional guidance during fiscal year 2013 to assist colleges in identifying segregation of duties risks. The APA encourages the System Office to continue its efforts in this area, and the APA will perform a system-wide review of AIS access for fiscal year 2013 to assess the effect of corrective actions implemented by management.

2) Deactivate User Access Promptly Upon Employee Termination: Certain colleges and the System Office are not deactivating user access to the state's procurement system (eVA) promptly upon employee termination. The APA noted the following exception for the System Office: Untimely deletion of access to eVA for three out of ten employees tested (30 percent).

   Per eVA Electronic Procurement System Security Standards, Section 2.8 Deactivation of eVA Access, eVA access should be deactivated when the requirement for access no longer exists. As eVA is a web-based application, allowing access to eVA for terminated employees increases the risk of improper activity by former employees which could result in a liability for the VCCS. The System Office should develop processes whereby access is removed without delay upon employee separation.

3) Improve Policies, Procedures, and Financial Reporting over Accounts Receivable: The Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20505 provides procedures for ensuring that accounts receivable are fairly presented in accordance with generally accepted accounting principles. Accordingly, CAPP Topic 20505 requires colleges to establish realistic estimates of allowances for doubtful accounts based upon historical data or other pertinent information, initiate write-offs in accordance with established policies and procedures, maintain an accurate record of accounts receivable, and provide an aged trial balance of receivables.

   When reviewing the information submitted by the individual community colleges, the System Office should ensure that the colleges have recorded an allowance for doubtful accounts or have provided sufficient justification why the absence of an allowance for doubtful accounts fairly presents the accounts receivable balance at year-end.

Central Virginia Community College (CVCC)

1) Reconcile Financial Aid Activity to Direct Loan Servicing System: CVCC did not reconcile loan financial records with the Direct Loan Servicing System (DLSS).

   In accordance with 34 CFR 685.301(e) and 34 CFR 685.102(b), colleges must report all loan disbursements and submit required records to the Direct Loan Servicing System via the Common Origination and Disbursement (COD) system within 30 days of disbursement. Each month, COD provides colleges with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and Loan Detail records.

   The Financial Aid Office should reconcile its financial records with the SAS files monthly to ensure the DLSS accurately reflects CVCC's financial records.

2) Improve Reporting to National Student Loan Data System: The Admissions and Records Office did not report students graduating in the Fall 2011 semester to the U.S. Department of Education using the National Student Loan Data System (NSLDS).

In accordance with 34 CFR 685.309(b), CVCC must report students receiving direct loans where the student has stopped enrolling at least half-time, is not enrolled at least half-time for the period the loan was intended, or has changed his permanent address. Unless CVCC expects to submit its next student status confirmation report within the next 60 days, CVCC must notify the Department of Education within 30 days of the enrollment change.

The Admissions and Records Office should immediately transmit all of the Fall 2011 graduates to the U.S. Department of Education using the NSLDS. Further, the Admissions and Records Office should implement reconciliation or independent check processes to ensure the data in NSLDS accurately reflects CVCC's academic records.

3) Improve Reporting of Pell Grant Disbursements: The Financial Aid Office did not report disbursements of student financial aid to the U.S. Department of Education timely using the COD System.

   In accordance with 76 FR 32961, CVCC is required to report Federal Pell Grant disbursements to COD within 30 days of disbursement, but no more than seven days before disbursement. In four of 35 students tested, the Financial Aid Office did not record disbursements in COD within the required timeframe.

   The Financial Aid Office should report disbursements to COD within the required timeframes and use the PeopleSoft provided reconciliation process to ensure all records in COD agree to CVCC records.

4) Properly Calculate and Return Title IV Funds: Student Financial Aid Offices at CVCC did not properly identify, calculate, and/or return Title IV funds for students who officially or unofficially withdrew from courses and no longer qualified for federal financial aid.

   CVCC did not properly identify 11 total students who withdrew in the Spring 2012 semester, resulting in CVCC not returning $6,046.14 to the U. S. Department of Education.

   Code of Federal Regulations, 34 CFR 668.22 states when a recipient of Title IV grant or loan assistance withdraws from an institution during a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date and return the money within a reasonable timeframe. All calculations of return of Title IV funds are required to be completed within 30 days of semester end and funds are required to be returned within 45 days after the date that the institution determines the student has withdrawn.

   Failures to promptly identify, calculate, and return unearned Title IV funds may jeopardize continued participation in Title IV programs.

Dabney S. Lancaster Community College (DSLCC)

1) Improve Internal Controls over AIS Security Review: DSLCC did not complete AIS access reviews during fiscal year 2012. An annual review of system access is required by VCCS IT Security Standard 11.2.4 and ensures financial information remains secure and decreases the risk of inappropriate or fraudulent activity.

   DSLCC should ensure AIS access is reviewed and certified annually as required by the VCCS IT Security Standard.

Danville Community College (DCC)

1) Improve Internal Controls over AIS Security Review: DCC did not complete AIS access reviews during fiscal year 2012. An annual review of system access is required by VCCS IT Security Standard 11.2.4 and ensures financial information remains secure and decreases the risk of inappropriate or fraudulent activity.

   DCC should ensure AIS access is reviewed and certified annually as required by the VCCS IT Security Standard.

2) Improve Policies, Procedures, and Financial Reporting over Accounts Receivable: DCC's policies and procedures over accounts receivable are outdated, stated as last revised on July 31, 2006, and do not include methodologies for establishing the allowance for doubtful accounts and writing off uncollectible accounts. As a result, DCC submitted state schedules for accounts receivable without recording an allowance for doubtful accounts. Additionally, DCC does not perform write-offs of uncollectible accounts on a timely basis.

   CAPP Manual Topic 20505 provides procedures for ensuring that accounts receivable are fairly presented in accordance with generally accepted accounting principles. Accordingly, CAPP Topic 20505 requires colleges to establish realistic estimates of allowances for doubtful accounts based upon historical data or other pertinent information, initiate write-offs in accordance with established policies and procedures, maintain an accurate record of accounts receivable, and provide an aged trial balance of receivables.

   DCC should consult with the System Office to improve its accounts receivable policies and procedures, including developing a methodology for the timely write-off of uncollectible accounts and establishing a realistic allowance for doubtful accounts.

Germanna Community College (GCC)

1) Reconcile Financial Aid Activity to Direct Loan Servicing System: GCC did not reconcile loan financial records with the Direct Loan Servicing System (DLSS).

   In accordance with 34 CFR 685.301(e) and 34 CFR 685.102(b), colleges must report all loan disbursements and submit required records to the Direct Loan Servicing System via the Common Origination and Disbursement (COD) system within 30 days of disbursement.

Each month, COD provides colleges with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and Loan Detail records.

The Financial Aid Office should reconcile its financial records with the SAS files monthly to ensure the DLSS accurately reflects GCC's financial records.

2) Properly Calculate and Return Title IV Funds: Student Financial Aid Offices at GCC did not properly identify, calculate, and/or return Title IV funds for students who officially or unofficially withdrew from courses and no longer qualified for federal financial aid.

   GCC did not properly identify 12 of 40 student withdrawals tested (30 percent) within 30 days of the end of the semester. Additionally, Title IV funds were not returned within 45 days of the institutional determination date for 11 of 37 students tested (29 percent).

   Code of Federal Regulations, 34 CFR 668.22 states when a recipient of Title IV grant or loan assistance withdraws from an institution during a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date and return the money within a reasonable timeframe. All calculations of return of Title IV funds are required to be completed within 30 days of semester end and funds are required to be returned within 45 days after the date that the institution determines the student has withdrawn.

   Failures to promptly identify, calculate, and return unearned Title IV funds may jeopardize continued participation in Title IV programs.

Northern Virginia Community College (NVCC)

1) Deactivate User Access Promptly Upon Employee Termination: ***This is a Repeat Finding*** NVCC did not deactivate user access to the state's procurement system (eVA) promptly upon employee termination. In addition, NVCC did not remove access to other college and statewide applications in a timely manner. The APA noted the following exceptions while performing testing:

   - Untimely deletion of access to college and statewide applications for 6 out of 20 employees tested (30 percent)

   - Untimely deletion of access to eVA for three employees (repeat from prior year)

   Per eVA Electronic Procurement System Security Standards, Section 2.8 Deactivation of eVA Access, eVA access should be deactivated when the requirement for access no longer exists. As eVA is a web-based application, allowing access to eVA for terminated employees increases the risk of improper activity by former employees which could result in a liability for the System. NVCC should develop processes whereby access is removed without delay upon employee separation.

Additionally, NVCC IT Security Policy requires the Human Resources department to notify the Information Technology department at the end of each month regarding any employee separations which require removal of system access. The exceptions noted above exceeded the timeframe outlined in the policy. Due to the timing of the prior year audit, some of the benefits of NVCC's corrective action plan may not have been fully applied for the period under audit. Furthermore, The APA testwork supports that the corrective action plan has resulted in improvement over timeliness of access deactivation. However, NVCC should continue to evaluate its access policies and procedures and build on the improvements experienced during the prior year to ensure compliance with college and statewide access policies.

Patrick Henry Community College (PHCC)

1) Deactivate User Access Promptly Upon Employee Termination: PHCC did not deactivate user access to the state's procurement system (eVA) promptly upon employee termination. The APA noted the following exception for PHCC: Untimely deletion of access to eVA for both employees tested (100 percent).

   Per eVA Electronic Procurement System Security Standards, Section 2.8 Deactivation of eVA Access, eVA access should be deactivated when the requirement for access no longer exists. As eVA is a web-based application, allowing access to eVA for terminated employees increases the risk of improper activity by former employees which could result in a liability for the System. The PHCC should develop processes whereby access is removed without delay upon employee separation.

2) Improve Policies, Procedures, and Financial Reporting over Accounts Receivable: PHCC reported $509,280 in accounts receivable that did not exist as of the fiscal year end and failed to include existing student accounts receivable. PHCC was unable to adequately explain how accounts were aged and was unable to justify reasonableness of write-off and allowance methodologies. PHCC did not apply an allowance for doubtful accounts to the vast majority of account types and did not write off delinquent accounts within a reasonable timeframe. In addition, PHCC has not developed written policies and procedures over the accounts receivable process.

   CAPP Manual Topic 20505 provides procedures for ensuring that accounts receivable are fairly presented in accordance with generally accepted accounting principles. Accordingly, CAPP Manual Topic 20505 requires colleges to establish realistic estimates of allowances for doubtful accounts based upon historical data or other pertinent information, initiate write-offs in accordance with established policies and procedures, maintain an accurate record of accounts receivable, and provide an aged trial balance of receivables.

   PHCC should perform a detailed evaluation over the accounts receivable reporting process and develop policies and procedures to ensure accounts receivable are accurately reported to the System Office for inclusion in the System's consolidated financial statements.

Paul D. Camp Community College (PDCCC)

1) Improve Control Environment: The APA found that management at PDCCC has not fully cross-trained their staff on various financial aid processes. In addition, the APA found that PDCCC lacks adequate contingency planning and documented procedures sufficient to ensure continued control over Student Financial Aid processes in the event key personnel cannot perform their duties.

   The APA recommends PDCCC devote the resources necessary to ensure continuity in operations in the event of an absence of their respective managers. Proper contingency planning includes cross-training financial aid and business office staff to perform multiple duties, and adequately documenting procedures reflecting the operations of the office.

2) Reconcile Federal Funds Accounts: The APA found PDCCC did not reconcile the College's federal funds bank account during fiscal year 2012.

   Federal regulations require institutions receiving Federal Student Aid to have an adequate internal control structure which includes reconciling the federal funds bank account. Reconciling the PDCCC bank account timely is a fundamental internal control and failing to properly reconcile and correct differences could result in undetected errors or irregularities.

   PDCCC should immediately implement policies and procedures to ensure reconciliations of all bank accounts occur monthly and are reviewed and signed by an appropriate supervisor.

3) Reconcile Federal Activity Reports to Accounting Records: PDCCC did not reconcile Federal G5 Activity Reports to the College's accounting records.

   Code of Federal Regulations Title 34 CFR 676.19 requires PDCCC to reconcile fiscal records monthly. As PDCCC did not reconcile its activity to the federal reports, it did not recognize the need to draw down $129,436 of Pell funds for the Fall 2011 and Spring 2012 semesters.

   Accounting and financial aid staff should immediately begin reconciling the Federal Activity Reports to PDCCC's accounting records. Additionally, staff should properly document the reconciliation, resolve all differences promptly, and ensure proper approval and review by the appropriate supervisor. This reconciliation ensures PDCCC is properly receiving and recording all Federal Student Aid in its accounting system and properly reporting information in the Federal databases. Prompt and complete reconciliations would also identify amounts PDCCC may not have drawn down from the federal programs.

4) Ensure Use of Appropriate Cost of Attendance: The Financial Aid Officer did not enter the correct cost of attendance in PDCCC's student information system for the 2011-2012 financial aid year.

   In accordance with 20 U.S.C. 1087ll, cost of attendance, as determined by PDCCC, estimates the total costs of attending for a period of one year and is a critical component in the determination of financial aid a student can receive. Since PDCCC did not enter the 2011-2012 cost of attendance, the system defaulted to the 2010-2011 aid year and incorrectly calculated cost of attendance for Summer 2011 and early filing students in Fall 2011. PDCCC did not have a procedure for management to review and verify the cost of attendance to ensure it is correctly updated each financial aid year.

The APA recommends PDCCC immediately implement procedures to ensure the student information system is updated each year with the correct cost of attendance.

5) Properly Calculate and Return Title IV Funds: Student Financial Aid Offices at PDCCC did not properly identify, calculate, and/or return Title IV funds for students who officially or unofficially withdrew from courses and no longer qualified for federal financial aid.

   PDCCC did not return Title IV funds within 45 days of determination of student withdrawal for 11 of 12 students tested (92 percent). When PDCCC did return the funds, they did not return the correct amount, resulting in a loss to the U.S. Department of Education in the amount of $1,200.

   Code of Federal Regulations, 34 CFR 668.22 states when a recipient of Title IV grant or loan assistance withdraws from an institution during a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date and return the money within a reasonable timeframe. All calculations of return of Title IV funds are required to be completed within 30 days of semester end and funds are required to be returned within 45 days after the date that the institution determines the student has withdrawn.

   Failures to promptly identify, calculate, and return unearned Title IV funds may jeopardize continued participation in Title IV programs.

Tidewater Community College (TCC)

1) Deactivate User Access Promptly Upon Employee Termination: TCC did not remove access to other college and statewide applications in a timely manner. The APA noted the following exception for TCC: Untimely deletion of access to college systems for 10 out of 21 employees tested (47 percent).

   TCC's policy regarding removal of access to information systems containing sensitive data requires staff to notify the Information Technology Security Manager when user access to an information system is no longer required or when a user's access level should be updated due to a change in the employee's job function. TCC should evaluate their current procedures to ensure timely communication of access termination requests upon employee separation.

2) Improve Controls over Processing Wage Employment and Termination Processes: TCC lacks sufficient written policies and procedures for the hiring of wage employees, and is not consistently maintaining Form HR-38s (Request for Employment of Wage) or other documentation to support authorization of employment for wage employees. In addition, TCC is not entering accurate or timely termination dates in the Human Resources Management System (HRMS).

In a sample of 20 wage employees receiving paychecks in fiscal year 2012, Human Resources (HR) could not produce the required Form HR-38 or other documentation for six employees (30 percent), authorizing their employment for the periods under review. The individual departments conducting hiring activities did not provide sufficient authorizations for wage employment, nor did HR follow-up with the related hiring departments to ensure its records were accurate and sufficiently supported. Additionally, in the APA's sample of 31 terminated employees, the termination dates recorded in HRMS did not have supporting documentation to validate the recorded dates or did not agree to the supporting resignation letters, Form HR-20, e-mail, or other supporting documentation. For three terminated employees, no supporting documentation exists to validate the termination dates recorded in HRMS. For two employees, Human Resources recorded the effective termination dates approximately three months to one year after the termination date noted in the supporting documentation. Not entering accurate termination dates and in a timely manner increases the risk of separated employees accruing unearned leave or retirement benefits and receiving payments in error.

The APA recommends that TCC develop written policies and procedures that specifically address authorization and documentation requirements needed from the individual hiring departments, methods of communication between HR and hiring departments, and monitoring and maintenance responsibilities. TCC should also develop a process that facilitates training for the hiring of wage employees for the individual departments conducting hiring activities. Additionally, the APA recommends that TCC develop separate, or revise current termination procedures to address roles and responsibilities, required documentation to validate terminations, and accuracy and timeliness of termination dates entered in HRMS.

3) <u>Obtain and Review Sub-Recipient Audit Reports:</u> TCC as the Health Information Technology Consortium leader is responsible for monitoring sub-recipients of the Consortium. The APA determined OMB Circular A-133 (A-133) audits were required for all sub-recipients; however, the audit reports were not obtained and evaluated by TCC.

   OMB Circular A-133 .400 (d) (4) states that pass-through entities should ensure all sub-recipients expending $500,000 or more in federal awards during the sub-recipient's fiscal year have been subject to an A-133 audit. Pass-through entities should issue a management decision on audit findings included in the sub-recipient's audit report and ensure the sub-recipient takes appropriate and timely corrective action. This procedure, as outlined in A-133, ensures sub-recipients have satisfied the compliance requirements for the management of federal funds.

   The APA recommends that TCC properly monitor A-133 audits of sub-recipients, ensuring the audits are conducted and any internal control or noncompliance issues are addressed timely and appropriately.

Virginia Highlands Community College (VHCC)

1) <u>Reconcile Federal Funds Accounts:</u> The APA found VHCC did not reconcile the federal funds bank account to the College's accounting system from January 2012 through May 2012.

Federal regulations require institutions receiving Federal Student Aid to have an adequate internal control structure which includes reconciling the federal funds bank account. Reconciling VHCC's bank account timely is a fundamental internal control and failing to properly reconcile and correct differences could result in undetected errors or irregularities.

VHCC should immediately implement policies and procedures to ensure reconciliations of all bank accounts occur monthly and are reviewed and signed by an appropriate supervisor.

Virginia Western Community College (VWCC)

1) Deactivate User Access Promptly Upon Employee Termination: VWCC did not deactivate user access to the state's procurement system (eVA) promptly upon employee termination. The APA noted the following exception for VWCC: Untimely deletion of access to eVA for 8 out of 14 employees tested (57 percent).

   Per eVA Electronic Procurement System Security Standards, Section 2.8 Deactivation of eVA Access, eVA access should be deactivated when the requirement for access no longer exists. As eVA is a web-based application, allowing access to eVA for terminated employees increases the risk of improper activity by former employees which could result in a liability for the System. VWCC should develop processes whereby access is removed without delay upon employee separation.

Frontier Culture Museum of Virginia (FCMV)

1) Improve Revenue Projection Reporting: FCMV did not complete or submit non-general revenue estimates to the Department of Planning and Budget for fiscal year 2011 as required to be used as a part of the Commonwealth's budget development process. Agencies such as FCMV, who heavily depend on non-general funds, can encounter operating difficulties if they cannot effectively estimate or collect those revenues needed to sustain their operations.

   As they significantly rely on non-general fund revenues to support their operations, FCMV should have completed non-general fund revenue estimates to aid their budgetary process. FCMV should evaluate their budgetary development process, including estimating non-general fund revenues, and ensure that they are providing reasonable non-general fund revenue estimates for use in the Commonwealth's and their own budget development process.

2) Improve Small Purchase Charge Card Internal Controls: A review of the FCMV fiscal year 2010 and 2011 small purchase charge card activity found that 10 of the 11 cardholders in 2010 and 12 of the 13 cardholders in 2011 had monthly purchasing limits that significantly exceeded their actual purchasing needs. These cardholders utilized less than 30 percent of their purchasing authority and in many instances averaged five percent or less usage. Further, two of these cardholders made five or fewer purchases during the entire two fiscal years audited.

The Commonwealth's policies and procedures and best practice indicate that monthly limits should be set at a level to support the business purpose intended for the cardholder, while minimizing the risk for inappropriate use. Consistently underutilizing purchasing authority suggests that small purchases charge card administrator is not reviewing the amount of purchasing done by cardholders or working with their supervisor to set more appropriate purchasing levels. It also suggests that the administrator is not monitoring and canceling inactive cards.

FCMV's small purchase charge card program administrator should review all cardholder purchasing and adjust the limits as appropriate based on the cardholders' buying needs and responsibilities in accordance with the Commonwealth's policies and procedures. The administrator should also periodically review card usage, cancelling those that are no longer needed, and ensuring the number of cardholders is consistent with the agency's needs.

Gunston Hall (GH)

1) Improve Expenditure Review and Documentation: GH maintained insufficient documentation to provide evidence of their review of invoices and that all items billed had been received prior to making payment. While the expenditures were reasonable in purpose, invoices should be properly reviewed and documented to ensure unnecessary payments do not hinder the agency's cash flow and under payments do not damage the museum's or the Commonwealth's reputation with vendors. Further, documentation should be thorough enough and retained in a manner to substantiate expenses and support payments made for amounts other than the amount billed by the vendor. GH should improve their expenditure review process and maintain appropriate documentation to support expenditure payments.

2) Improve Non-General Funds Revenue Estimations: GH does not develop estimations for non-general fund revenues using a specific estimation methodology; rather, they are calculated in an attempt to retain the same overall budget for the organization while accommodating general fund budget cuts. The agency has consistently increased their non-general fund revenue estimate since 2009, but those funds have not materialized, impacting museum programs and placing additional demands on the limited funds provided to them by their foundation.

   The process for projecting non-general fund revenues is important to both GH's internal budgeting process and the Commonwealth's budget development process. Agencies such as GH, with limited resources, can encounter operating difficulties if they cannot effectively project or collect non-general fund revenues to sustain their operations.

   GH should evaluate their process for estimating non-general fund revenues and ensure that they are providing reasonable non-general fund revenue estimates to support both their own and the Commonwealth's budget development process. This process should include obtaining confirmation of any planned contribution to be provided by their foundation.

3) Establish Memorandum of Agreement for Human Resources Program Assistance: GH relies on the Department of Human Resource Management (DHRM) to enter information in the Commonwealth's Personnel Management Information System and the Benefits Eligibility

System; however, there is no documented Memorandum of Agreement (agreement) between the two agencies regarding these services. A formalized agreement would establish the level and duration of service provided by DHRM and would document and clarify the responsibilities of and controls provided by both agencies.

Currently, DHRM can discontinue services to GH without any notification leaving GH without access to perform key human resource functions. Additionally, without an agreement, GH cannot ensure that DHRM is providing the appropriate level of service and retaining the appropriate documentation, or hold DHRM accountable for not providing adequate service.

GH should work with DHRM to establish a formal agreement that outlines the scope of services to be provided by DHRM and the responsibilities of GH.

4) Improve Internal Controls over Revenue Collection and Deposit Processes: GH does not have adequate internal controls over their revenue collection and deposit processes. While GH has an exception from Commonwealth policies which allows them to make deposits weekly, they do not always comply with this exception, and have made deposits more than one week late. In addition, limited staffing resources caused the agency to have inadequate segregation of duties over collections as the same individual prepared deposits, made deposits, and keyed deposits into the Commonwealth Accounting and Reporting System. Finally, GH does not log checks into a check log or register and therefore has no evidence to verify if checks received by the museum were deposited.

   GH should improve internal controls over the revenue collection and deposit process to ensure that deposits are made in accordance to the exception granted by the Department of the Treasury. Furthermore, GH should ensure that there is adequate segregation of duties in relation to the revenue collection and deposit process. Improvements in these areas will help decrease the risk of fraud or theft.

Jamestown-Yorktown Foundation (JYF)

1) Improve Information Security Standard Compliance: ***This is a Repeat Finding.*** As in the previous year JYF continues to not enforce policies and procedures for system access administration. The Commonwealth's Information Security Standard requires agencies to maintain access authorization documentation as well as documentation of their periodic review of user accounts. In addition, the standard requires that access authorization forms be approved by both the supervisor and data/system owner. While JYF has approved policies and procedures in place to meet the security standard, they have not consistently placed those policies and procedures into practice. Specifically, JYF does not have sufficient documentation supporting access authorizations or the required periodic review of user accounts.

   JYF's Information Technology Manager position was vacant for more than one year, contributing to the cause of this. Due to the vacancy, JYF relies heavily on their financial system vendor for application support and does not have a sufficient understanding of the system and its modules to evaluate system access. JYF cannot implement an adequate review of the internal accounting system's user access, nor can they ensure that proper access is granted to new users without having an understanding of the modules and menus within the system.

Even though the position remained vacant for an extended period of time, JYF was still responsible for enforcing the security standard and implementing the agency's policies and procedures. By not following the security standards or the agency's internal policies and procedures, JYF is increasing the risk of system vulnerabilities and unauthorized access to its systems.

JYF's Information Technology Manager should ensure their internal policies and procedures are enforced and that documentation is maintained to support implementation of those policies and procedures. Furthermore, the Information Technology Manager should obtain knowledge of the various modules and menus within JYF's internal accounting system. This will help JYF complete the required periodic system access reviews and ensure that access to the system is appropriate.

2) <u>Improve Documentation of Reconciliations and Reviews:</u> JYF does not have proper procedures in place to document reconciliations and supervisory reviews performed for their payroll and financial systems. Without adequate documentation and supervisory review, management cannot ensure that reconciliations are performed properly and in a timely manner. Reconciliations assist agencies in identifying processing errors. Improper and untimely reconciliations can allow processing errors in financial records to remain undetected or corrected. Proper documentation and signoff removes doubt of the responsibility for the task and increases accountability in employees for their work. JYF should enhance their reconciliation documentation procedures to definitively show when and by whom the reconciliations and reviews are performed.

3) <u>Improve Payroll Certification Processes:</u> For two out of five payrolls tested, JYF did not comply with the Commonwealth's post certification policy which requires post certification activities to occur one day after certifying payroll. JYF was unable to provide an explanation for the cause of the delays, which ranged from one day to almost two weeks. Timely post-certification activities help ensure payroll transactions are processed as requested and unauthorized payroll changes are recognized by management. JYF should ensure that post-certification activities are completed timely for every payroll in order to ensure that they are processed accurately

Virginia School for the Deaf and Blind (VSDB)

1) <u>Strengthen Internal Controls Over Capital Asset Useful Life Methodologies:</u> ***This is a Repeat Finding.*** As previously reported in the fiscal year 2010 audit report, VSDB does not have proper controls in place for assigning and re-evaluating useful lives of depreciable capital assets (buildings, equipment, and infrastructure). VSDB still has not developed and implemented an agency specific useful life methodology. As a result, the entity has a significant amount of fully depreciated assets. As of fiscal year 2012, they had approximately \$20.6 million in fully depreciated assets. In addition, as of fiscal year 2012 there is approximately \$761,000 in assets that are 90 percent depreciated and \$1.8 million in

assets that are 75 percent depreciated. The majority of these assets are buildings and infrastructure.

GASB Statement No. 34, implemented in 2002, requires accumulated depreciation and depreciation expense to be presented in the Comprehensive Annual Financial Report (CAFR). The second implementation guide for GASB Statement No. 34 states, "If the assets are significant, the estimated useful lives assigned to capital assets should be reconsidered. Assets still in use should not be reported as fully depreciated." Accordingly, all agencies must assign reasonable useful lives to depreciable capital assets based upon the agencies' own experience and plans for the assets. In addition, agencies should perform a periodic review of estimated useful lives to properly reflect the asset's remaining life.

VSDB should immediately develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the re-evaluation of currently assigned useful lives.

2) <u>Maintain a Positive Control Environment:</u> VSDB should ensure that it maintains a positive "tone at the top" regarding internal controls. Because of the unique situation in which VSDB is a Kindergarten through 12th grade education provider operating as an executive branch agency, sometimes VSDB management feels it is necessary to make decisions or take actions that go against established Commonwealth rules and regulations, as demonstrated in the following examples.

- VSDB circumvented VITA procurement policies that require all agencies to go through VITA to purchase computers and computer related equipment when the cost exceeds $100,000. VSDB used a grant from its Foundation to purchase 200 new computers for the students and faculty directly from a vendor on state contract at a total cost of $212,000. VSDB's management did not purchase the computers through VITA as required because they thought it would delay the process. VITA charged VSDB with a five percent surcharge on the total price of the computers, as they would have if VSDB purchased the computers through VITA.

- VSDB implemented the new information technology structure for the academic portion of VSDB without complying with VITA security policies because of the need to implement the system quickly for the start of the school year. For details on this noncompliance, see the finding below entitled, "Develop and Implement an Information Security Program and Improve Firewall Management."

Management should ensure that the "tone at the top" depicts the highest expectations for internal controls over daily operations. When making decisions that affect students, management should strive to ensure VSDB adheres to all Commonwealth policies and procedures. VSDB should develop and implement internal policies and procedures to supplement the Commonwealth's policies and procedures. VSDB should follow all VITA policies over project management, planning and budgeting, security, and technology procurement. Not following these policies could result in the loss of their exception from VITA management of the classroom environment.

3) Develop and Implement an Information Security Program and Improve Firewall Management: VSDB's exception from VITA's standard managed information technology service implementation for the classroom environment required VSDB to establish a separate network and infrastructure to support the students and faculty. VSDB implemented and continues to operate this structure without Information Technology (IT) risk management and contingency plans and without an information security program. VSDB's IT program lacks several minimum key controls that the Commonwealth's current information security standard, SEC501, requires agencies to implement to safeguard data. The Department of Accounts (DOA) assisted VSDB in developing a draft program since the last APA audit. However, this program is general in nature and needs customization before it is usable.

   A complete and adequate information security program is particularly important now that VSDB's information technology department manages certain parts of VSDB's network infrastructure instead of VITA. Without an adequate program, VSDB cannot implement appropriate safeguards surrounding data including confidential student records.

   VSDB should continue to develop the draft information security program and complete all the necessary components. VSDB needs to particularly evaluate and provide the necessary controls surrounding its newly acquired IT infrastructure responsibilities. In developing these controls, VSDB needs to consider the requirements in the Commonwealth's current information security standard, SEC501, and other industry best practices as appropriate.

   In addition, VSDB does not adequately manage its firewall that protects the instructional and student networks. VSDB implemented its new firewall without evaluating risks, configuring basic settings, or creating management policies and procedures. Overall, this weakens the security posture of the instructional and student networks, and makes the components connected to those networks, such as servers, desktops, and laptops more open to external attacks.

   VSDB should reconfigure its firewall to comply with the minimum requirements outlined in the Commonwealth's current information security standard, SEC501. VSDB should also develop firewall management policies and procedures to ensure consistent management practices. Additionally, VSDB should implement additional rules on the firewall to address its particular environment and potential risks. Lastly, VSDB needs to periodically perform and document vulnerability assessments and penetration tests against the firewall to ensure its proper configuration and protection capabilities of emerging threats.

4) Improve Construction Contract Accounting: ***This is a Repeat Finding.*** As part of the campus consolidation, the Staunton campus has been going through significant construction and renovations over the past several years. The General Assembly appropriated approximately $73 million for this construction and renovation in fiscal year 2010. During fiscal years 2011 and 2012, VSDB had expenses of $22.0 and $21.5 million, respectively associated with the project. The construction project is comprised of demolition, renovation, and new construction to support the consolidation of VSDB's programs. The project includes construction of a new Maintenance Facility, Education Building, Deaf Dormitory,

and Blind Dormitory; renovation of Stuart Student Center, Peery and Swanson elementary schools, and the Chapel building; creation of a new bus loop, Hope Road, a main entrance, and a playground; and demolition of a Maintenance Building and the Harrison Building. As of June 30, 2012, the construction project was 83 percent complete, and VSDB should take possession of all buildings on campus by the end of July. The courtyard should be complete by the end of November. The final phase of the project includes demolition of Darden Hall and installation of a parking lot.

The Department of General Services has performed the procurement and project management of this major construction project. However, the accounting for Construction in Progress related to the project is VSDB's responsibility. VSDB does not have adequate controls over the administration of its construction contracts and the accounting for Construction in Progress. Proper oversight by management is necessary to ensure that the school ensures that they are obtaining quality work at a reasonable price. The APA identified this issue in the prior audit, but VSDB did not make any effort to implement corrective actions to change its process.

During the review, the APA found the following issues:

- VSDB does not have an adequate process to track construction expenses that enables them to support the amounts ultimately recorded as assets in the Fixed Asset Accounting and Control System (FAACS). VSDB overstated the buildings recorded in FAACS for fiscal year 2011 by $2.1 million due to double counting invoices when moving amounts from Construction in Progress to Buildings.

- VSDB did not properly remove three demolished assets associated with the construction project from FAACS. VSDB did not remove two assets demolished in fiscal year 2010 as part of Carter Hall until fiscal year 2011 and then did not record the proper disposal date. In addition, VSDB recorded the wrong disposal date for Harrison Hall. VSDB demolished the building in July 2010 but recorded it as disposed in FAACS as of September 2010. Since acquisition and disposal dates drive the calculation of depreciation, it is important for VSDB to record these properly.

The CAPP Manual provides guidance on how to track Construction in Progress that will ensure that agencies capture all possible project expenses and related detail and can smoothly transition assets to FAACS when the project is complete.

VSDB should use the CAPP Manual guidance to develop their Construction in Progress Schedule. They should maintain sufficient internal documentation to support changes made to Construction in Progress balances and for assets moved from Construction in Progress to other asset categories in FAACS. VSDB should record the disposal of assets in FAACS timely and with the correct disposal date.

5) <u>Improve Reconciliation Processes:</u> ***This is a Repeat Finding.*** VSDB does not have documented policies and procedures for their monthly Commonwealth Accounting and

Reporting System (CARS) reconciliation process or their monthly Fixed Asset Accounting and Control System (FAACS) to CARS reconciliation process. In addition, the FAACS reconciliations do not have signatures and dates documenting the review process.

The Commonwealth's policies and procedures require that agencies have detailed written procedures for meeting all CARS reconciliation requirements. These "desk procedures" must document the reconciliation process in an agency-standardized format, and the agency must have them available for inspection (with all supporting documentation) by outside parties, such as the APA and DOA. The lack of detailed written policies and procedures increases the risk of error in CARS and the modification of procedures to circumvent existing internal controls. Further, having procedures makes it easier to transition responsibilities when there is turnover and to hold employees accountable when they do not perform their functions.

Typically, VSDB does not have many fixed assets entered into FAACS, but given the current renovation and construction projects in progress on campus, the number of assets entered into FAACS has increased. Not having a review process for the FAACS to CARS Reconciliation increases the risk of error in the systems and the modification of procedures to circumvent existing internal controls.

VSDB should develop, document, and implement policies and procedures for their CARS and FAACS reconciliation process. These policies and procedures should include signatures and dates for the preparation and review processes. VSDB should submit monthly certifications to DOA only after all required reconciliations are complete.

6) <u>Properly Record School Revenues:</u> VSDB does not properly record school revenues. Instead of recording receipts as revenues, VSDB uses sub-object codes XX99, which is an intra-agency expenditure recovery. VSDB recorded revenues of at least $104,735 for fiscal year 2011 and $154,417 for fiscal year 2012 as an intra-agency expenditure recovery. These revenues are associated with employees purchasing meal tickets for the cafeteria, employees and students purchasing items from the Student Center, rent charged for use of buildings on campus, and earnings from student fundraisers.

   The Department of Planning and Budget (DPB) did not require agencies to request permission to use the XX99 sub-object codes for fiscal year 2011. However, agencies were still responsible for correctly using these codes. Agencies should not use recovery codes to record payments for goods or services provided to public or private individuals or entities.

   VSDB should properly record payments for goods or services as revenue and not as intra-agency expenditure recoveries. VSDB should work with DOA and DPB to determine the proper way to account for these funds.

Public Safety

Department of Corrections (DOC)

1) Improve Information Security Program: DOC does not have updated IT risk assessments for some mission critical business functions and is missing certain required documentation in its information security program. While the lack of this documentation does not present an immediate threat, these vulnerabilities weaken DOC's security posture and compliance with the Commonwealth's security standard, SEC 501. Specifically, DOC's information security program is missing the following components:

    - Risk assessments for four of five defined mission critical business functions, which are essential inputs into contingency and disaster recovery planning.

    - Periodic vulnerability scans on mission critical applications and supporting databases.

    - Interoperability agreements for ten of 34 system interfaces between DOC and external entities which manage sensitive data.

    SEC 501-06 requires agencies to develop and implement policies and procedures for the controls listed above to ensure that proper security mechanisms protect mission critical and sensitive information. DOC should develop and implement controls that address the weaknesses noted above. Further, management should update the appropriate policies and procedures to reflect these controls, document expectations, and provide the necessary training.

2) Improve Internal Controls over Voyager Fuel Cards: DOC does not have adequate internal controls over Voyager Fuel Cards resulting in noncompliance with the DOC Operating Procedure 323.1 Vehicle Acquisition, Operations, and Maintenance (Vehicle Procedures) and Office of Fleet Management Services (OFMS) Policies and Procedures Manual. DOC's Vehicle Procedures include guidance over the physical security of the cards and performing monthly reviews of the billing report. However, the Vehicle Procedures do not provide guidance on how to access the Mansfield Voyager Card online data to perform the monthly billing reviews. In addition, DOC does not adequately communicate its Vehicle Procedures to divisions and facilities within the agency and does not provide any central oversight or monitoring to ensure compliance.

    The OFMS Policy requires that agencies assign Fuel Card Custodians to assume physical security over the Voyager Fuel Cards. All facilities and divisions reviewed had a Fuel Card Custodian with adequate physical security established over the cards.

    The OFMS Policy requires that agencies assign Fuel Card Account Custodians to assume responsibility for reviewing card activity to ensure appropriate use. The Vehicle Procedures require the facilities and divisions to review, at least monthly, the usage of each Voyager card assigned to their unit for appropriate card usage. The facilities and divisions should maintain documentation of the monthly reviews for three years or until audited. Five of six facilities and divisions reviewed do not review Mansfield Voyager Card reports monthly.

None of the facilities and divisions maintained their documentation for the designated timeframe, if they performed a review.

Often, the individual responsible for the Voyager cards was unaware of the Vehicle Procedures and their job responsibilities. In two cases, the facility's Voyager card custodian was under the assumption that DOC's General Service Unit was responsible for monitoring and reviewing monthly bills. However, the General Services Unit is only responsible for specific Central Office divisions. Each facility and division is responsible for following the Vehicle Procedures. Therefore, no one reviewed the monthly bills for reasonableness for these divisions over the past several years.

OFMS policies state that Voyager cards should not be used to purchase mid-grade or premium fuel unless regular is not available or the vehicle manufacturer requires it. In addition, Voyager cards should not be used to purchase food and beverages or non-vehicle related goods and services. The APA found $97,337 in potentially inappropriate purchases across all Voyager cards during fiscal year 2012 for items such as food, premium and mid-grade fuel, and sales tax. At the six facilities reviewed, DOC could not provide explanations for the majority of these purchases because the facilities and divisions are not reviewing purchases made each month. One facility was not aware that they should only purchase regular gasoline.

One facility does not require employees to use Voyager cards to purchase fuel when using an Enterprise rental vehicle. The facility allows employees to pay for the fuel and obtain reimbursement. By not requiring the use of a Voyager card, employees are paying and being reimbursed for taxes on fuel purchases. State policy allows this only if the agency works with the Department of Taxation (TAX) to obtain reimbursement for any tax paid on fuel. Since the facility is not requesting reimbursement from TAX, it is unnecessarily paying taxes on fuel purchased in this manner.

Proper communication of policies and procedures with DOC's facilities and divisions that handle Voyager Fuel Cards helps to ensure the proper monitoring of the cards and that individuals handling the cards understand their duties and responsibilities. Without individuals at each facility and division performing appropriate job responsibilities surrounding Voyager Fuel Cards, the risk of inappropriate purchases and fraudulent activity increases.

DOC should assign an individual that will have oversight of all Voyager card activity, including all facilities and divisions. DOC should ensure that the individual has the authority, not just the responsibility, to provide direction and oversight over all Voyager Fuel Cards at the central office, divisions, and facilities. DOC should use this position to strengthen controls surrounding the usage and review of Voyager Fuel Card activity. Finally, DOC should update its Vehicle Procedures to specifically state what each facility and division's responsibilities are surrounding Voyager Fuel Cards and how to access the Mansfield website to monitor and review monthly expenses

3) <u>Properly Identify and Remove System Access for Terminated Employees:</u> DOC does not have adequate procedures to ensure removal of employee system access upon termination of employment. The APA found one individual with CARS access for almost six months after

termination. The APA found another individual with CARS access for over 18 months after termination, which was still active at the time of this audit. DOC does not have adequate procedures to identify all terminated employees. The Separated Employee Listing used by General Accounting to identify terminated employees does not include individuals that have transferred to other state agencies. Therefore, DOC does not identify employees who have transferred to another state agency for consideration in removing system access for CARS, as well as VA CORIS and eVA. DOC should develop and implement procedures to identify all individuals terminating employment with the agency and ensure removal of their system access.

Additional Recommendations – Quarter Ended September 30, 2013

The APA issued one Efficiency Recommendation.

> Norfolk State University (NSU): Improve Management of Small Purchase Charge Card Program.

Special Reports – Quarter Ended September 30, 2013

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

> Progress Report on the Electronic Health and Human Resources (eHHR) Program—Virginia's Medicaid Modernization Solution as of August 2013
>
> Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2013 through June 30, 2013
>
> Review of Agency Performance Measures for the year ended June 30, 2012
>
> Review of the Governance Structure over The Virginia Railway Express – September 2013

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

> Commonwealth of Virginia Court Operations for the year ended June 30, 2012

Other Audit Reports Received – Quarter Ended September 30, 2013

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

> Virginia State Lottery Department for the year ended June 30, 2013

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

> A. L. Philpott Manufacturing Extension Partnership for the years ended June 30, 2010, 2011, and 2012
>
> State Lottery Department "Decades of Dollars" – Report on Applying Agreed-Upon Procedures for the period April 2012 through March 2013

State Lottery Department "Mega Millions" – Report on Applying Agreed-Upon Procedures for the period April 2012 through March 2013

State Lottery Department "Megaplier" – Report on Applying Agreed-Upon Procedures for the period April 2012 through March 2013

State Lottery Department "Power Ball" – Report on Applying Agreed-Upon Procedures for the period April 2012 through March 2013

State Lottery Department "Power Play" – Report on Applying Agreed-Upon Procedures for the period April 2012 through March 2013

State Lottery Department "Win For Life" – Report on Applying Agreed-Upon Procedures for the period April 2012 through March 2013

Wireless E-911 Services Board 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				
Department of General Services	0	1	0	0
State Board of Elections	0	1	0	0
Commerce and Trade				
Department of Housing and Community Development	0	0	1	0
Virginia Employment Commission	0	1	0	1
Education				
Christopher Newport University	1	0	0	0
The College of William and Mary in Virginia	1	0	0	0
Department of Education, Central Office Operations	0	0	2	0
Longwood University	0	0	2	0
University of Virginia	0	0	1	0
Virginia Community College System	0	0	0	1
Mountain Empire Community College	0	0	0	1
New River Community College	0	0	0	1
Northern Virginia Community College	0	0	0	1
Southwest Virginia Community College	0	0	0	1
Tidewater Community College	0	0	0	1
Virginia Highlands Community College	0	0	0	1
Wytheville Community College	0	0	0	1
Virginia Military Institute	1	0	1	0
Virginia School for the Deaf and Blind	0	1	0	0
Virginia State University	1	0	0	0
Finance				
Department of Accounts	0	0	1	0
Department of the Treasury	1	0	0	0

	IN PROGRESS		COMPLETED	
	On Schedule	Delayed	On Schedule	Delayed
Health and Human Resources				
Department of Health	0	1	1	0
Department of Medical Assistance Services	0	1	0	1
Department of Rehabilitative Services (1)	0	0	0	1
Department of Social Services	7	2	0	0
Natural Resources				
Department of Game and Inland Fisheries	0	1	0	0
Public Safety				
Department of Alcoholic Beverage Control	0	2	0	0
Department of Corrections	0	0	0	1
Department of State Police	2	0	0	0
Virginia Department of Emergency Management	5	0	1	0
Technology				
Virginia Information Technologies Agency	0	1	0	0
Wireless E-911 Services Board	0	0	0	1
Transportation				
Department of Motor Vehicles	4	0	0	0
Department of Rail and Public Transportation	1	0	0	0
Department of Transportation	0	1	1	0
TOTALS	24	13	11	13

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

Status 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 included in this report.

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

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
Department of General Services (DGS)				
2012	12-01 10-02	Improve Application Controls. **This is a Repeat Finding.**	The new Peoplesoft upgrade version was put into production in Sept. 2013. DGS is currently addressing some upgrade issues that were identified in user final testing.	In Progress (Delayed)
State Board of Elections (SBE)				
2012	12-01 10-02 08-02	Improve Information Systems Security Program. **This is a Repeat Finding.**	SBE contacted multiple vendors in attempt to find an affordable outside resources and has submitted a budget request for a full time ISO position.	In Progress (Delayed)
Department of Housing and Community Development (DHCD)				
2012	12-01	Enhance Monitoring of Sub-Recipient Program.	DHCD has issued all subgrantee monitoring reports, and has prepared a schedule for FY 2014.	Completed (On Schedule)
Virginia Employment Commission (VEC)				
2012	12-01 11-01	Resolve Employer Wage Discrepancies Timely. **This is a Repeat Finding.**	The monitoring program is in place and working effectively.	Completed (Delayed)
	12-02 11-02	Follow Timekeeping and Payroll Procedures. **This is a Repeat Finding.**	An overtime policy has been recommended and is currently in progress.	In Progress (Delayed)

Christopher Newport University (CNU)				
2012	12-01	Improve eVA Internal Controls and Compliance.	The University has completed measures to ensure compliance, ERS training has been developed and provided to supervisors and resource providers, and is in the process of updating purchasing policies and procedures.	In Progress (On Schedule)
The College of William and Mary in Virginia (CWM)				
2012	12-01	Improve the Financial Reporting Process	Testing in progress and the setup of Banner and Access databases.	In Progress (On Schedule)
Department of Education, Central Office Operations (DOE/COO)				
2012	12-01	Improve Information Security Awareness and Training	Administration policy has been updated and incorporates agency specific and role-based IT security requirements.	Completed (On Schedule)
	12-02	Improve Oracle Database Security	DOE incorporated additional controls into the database configuration.	Completed (On Schedule)
Longwood University (LU)				
2012	12-01	Improve Review and Preparation of Financial Statements. **Material Weakness**	LU has implemented new and strengthened existing controls over financial reporting.	Completed (On Schedule)
	12-02	Improve Oracle Database Security	LU developed an ITS standard, database user accounts enforce stronger passwords, and a centralized log server is being used.	Completed (On Schedule)
University of Virginia (UVA)				
2012	12-01	Improve Oracle Database Security	New password rules matching the policies were put into place and a database audit activity trail was implemented.	Completed (On Schedule)
Virginia Community College System (VCCS) System Office				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	The colleges have been provided system options with better AIS segregation of duties.	Completed (Delayed)

Mountain Empire Community College (MECC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS System Office Response.	Completed (Delayed)
New River Community College (NRCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS System Office Response.	Completed (Delayed)
Northern Virginia Community College (NVCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS System Office Response.	Completed (Delayed)
Southwest Virginia Community College (SWVCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS System Office Response.	Completed (Delayed)
Tidewater Community College (TCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS System Office Response.	Completed (Delayed)
Virginia Highlands Community College (VHCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS System Office Response.	Completed (Delayed)
Wytheville Community College (WCC)				
2011	11-01	Improve Monitoring Controls Over High Risk Transactions	See the VCCS System Office Response.	Completed (Delayed)
Virginia Military Institute (VMI)				
2012	12-01	Ensure Termination Procedures are followed	HR is developing policies for all departing employees. A new employment category with limited access will be created for part time employees.	In Progress (On Schedule)
	12-02	Improve Administration of eVA Security	VMI has appointed primary and backup eVA Security Officers that have no procurement responsibilities.	Completed (On Schedule)

Virginia School for the Deaf and Blind (VSDB)				
2010	10-03	Strengthen Internal Controls Over Capital Asset Useful Life Methodologies	VSDB has developed a procedure for evaluating the useful life of fixed assets. Will contact DOA to set up nomenclature codes specific to VSDB.	In Progress (Delayed)
Virginia State University (VSU)				
2012	12-01	Ensure Compliance with Title III Endowment Investments Restrictions	VSU is working with an external investment manager exploring alternate options and will make a recommendation.	In Progress (On Schedule)
Department of Accounts (DOA)				
2012	12-02	Enhance Controls Over System Access for Critical Systems	DOA has documented the policies for granting access.	Completed (On Schedule)
Department of the Treasury (TD)				
2012	12-01	Create Information Security Review Plan.	Treasury submitted a three-year IT Security plan to VITA and VITA approved.	In Progress (On Schedule)
Department of Health (DOH)				
2012	12-01	Complete Required Number of Sub-Recipient Reviews	All participating sponsors have been reviewed for the past three-year cycle.	Completed (On Schedule)
2011	11-01 10-01	Use System Capabilities to Ensure Proper Service Delivery	Crossroads pilot roll-out is scheduled with the Crater Health District for November 12, 2013. Pilot will remain in place for 12 weeks.	In Progress (Delayed)
Department of Medical Assistance Services (DMAS)				
2012	12-01	Address Findings in Internal Audit Report	Six of the seven findings have been completed. The one remaining: update contingency plan documents, is scheduled to be completed in Spring 2014.	In Progress (Delayed)
	12-02 11-05 10-01	Obtain Valid Social Security Numbers. **This is a Repeat Finding.**	All of the remaining 87 of the original 557 SSN's have been corrected. The upcoming new Eligibility and Enrollment system should create a permanent fix to this issue.	Completed (Delayed)

Department of Rehabilitative Services (DRS)

Effective July 1, 2012 known as Department for Aging and Rehabilitative Services (DARS)

2012	12-02 11-02	Improve IT System Controls	Agency has completed risk assessments, encryption reviews, and authentication requirements.	Completed (Delayed)

Department of Social Services (DSS)

2012	12-02	Create and Implement a Change Management Process for Sensitive Applications. ***Material Weakness Component***	The Eligibility Modernization Project plan has been developed and will be implemented in the Fall of 2013.	In Progress (Delayed)
	12-04	Perform Risk Assessment and Develop a Monitoring Plan Before Hiring more Staff	A risk assessment in conjunction with the use of Federal Foster Care Instruments has been applied.	In Progress (On Schedule)
	12-06	Further Evaluate Automating the OASIS Reconciliation Process	A Contract Accountant has been hired to assist the Division's Senior Analyst for Financial Performance in the OASIS Certification and Reconciliation process.	In Progress (On Schedule)
	12-07	Develop Policies for Adjusting Title IV-E Foster Care Errors	Developing strategies to review, revise, and implement plans to address financial concerns.	In Progress (On Schedule)
	12-09	Continue Using Performance Information to Evaluate Policy Changes	There has been a noticeable reduction in backlogs of overdue Medicaid renewals, a 33% reduction over a four month period.	In Progress (On Schedule)
	12-11	Work with Federal Government to Eliminate likely Questions Costs in the Future	Staff continues to provide technical assistance to local agencies to ensure household composition rules are followed.	In Progress (On Schedule)
	12-12	Use Card Replacement Information to Evaluate Risk and Recommend Policy Decisions	Awaiting FNS final rules that allow states to establish card replacement thresholds.	In Progress (On Schedule)
2011	11-01 10-01	Establish Enforcement Mechanisms for Foster	This recommendation was modified and cited as a	In Progress (On Schedule)

	09-06	Care and Adoption Payments (Title IV-E). **This is a Repeat Finding and progress has been made.**	new recommendation: see 12-06 "Further Evaluate Automating OASIS Reconciliation Process".	
2010	10-02	Use System Functionalities to Improve Financial Operations	DSS has conducted the suggested cost benefit analysis and has implemented several system functionalities associated with FAAS.	In Progress (Delayed)
<u>Department of Game and Inland Fisheries (DGIF)</u>				
2011	11-02 10-03	Improve Internal Controls over System Access. **This is a Repeat Finding.**	DGIF has completed an Internal Control review of system accesses. Policies and procedures will be developed to improve system access controls with automated controls replacing manual processes when possible.	In Progress (Delayed)
<u>Department of Alcoholic Beverage Control (ABC)</u>				
2012	12-02	Update IT Risk Management and Contingency Plans	Risk assessments are underway, not yet signed by executive management or directors. Governance review is underway.	In Progress (Delayed)
2011	11-02	Improve Remote Store Server Security	Risk documentation has been completed, and is awaiting APA review.	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.**	Per FY 2012 APA report this has been completed.	Completed (Delayed)
<u>Department of State Police (VSP)</u>				
2011	11-01	Upgrade Unreliable and Unsupported Infrastructure Devices	VSP has signed an MOU with VITA for transformation of the critical infrastructure, and are awaiting a reply from Northrop Grumman.	In Progress (On Schedule)

	11-02 09-03	Upgrade Database System Software. **This is a Repeat Finding.**	LEAMS continues to be implemented across BFO. Efforts to replace remaining legacy technologies are at risk due to lack of funding.	In Progress (On Schedule)
<u>Department of Emergency Management (DEM)</u>				
2012	12-01	Evaluate Petty Cash Needs and Strengthen Controls	VDEM will maintain existing balance until after hurricane season on 11/30/2013.	In Progress (On Schedule)
	12-02 10-01	Improve Controls Over Small Purchase Charge Card. **This is a Repeat Finding**	VDEM will obtain proper documentation, reconcile statements monthly and monitor this process.	Completed (On Schedule)
	12-03	Improve Information System Access Controls	VDEM is preparing written policies and procedures around system access.	In Progress (On Schedule)
	12-04	Improve Controls over Fuel Card Management	VDEM is in the process of preparing and distributing a written policy and procedure for all issues related to the use of agency owned and state vehicles.	In Progress (On Schedule)
	12-05	Follow FMS to CARS Reconciliation Procedures	VDEM is reviewing current reconciliation procedures and updating existing procedures.	In Progress (On Schedule)
	12-06	Strengthen Procedures Over the Virginia Disaster Relief Fund	VDEM will recommend and implement the necessary changes to enhance the program	In Progress (On Schedule)
<u>Virginia Information Technologies Agency (VITA)</u>				
2011	11-01	Review Statewide IT Contracts	Implementation plan developed and has been modified to transition existing SOWs.	In Progress (Delayed)
<u>Wireless E-911 Services Board</u>				
2011	11-01 10-02 09-03	Determine Accuracy of PSAP Data. **This is a Repeat Finding.**	The Board has completed corrective action with respect to prior audit findings according to the APA FY 2012 audit.	Completed (Delayed)

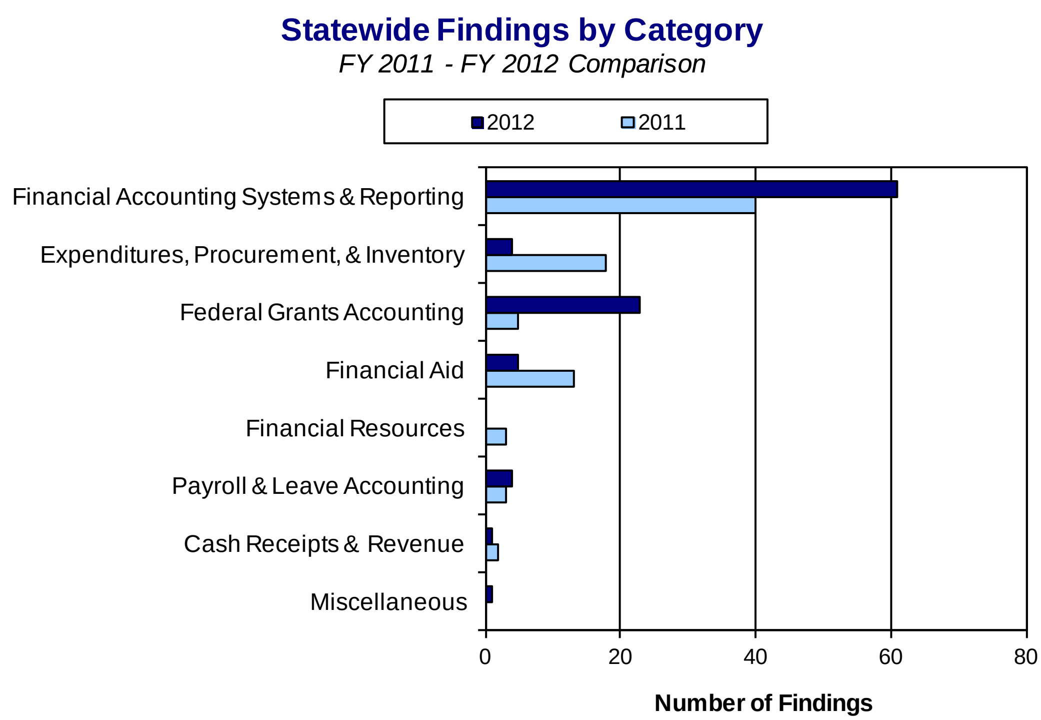
<u>Department of Motor Vehicles (DMV)</u>				
2012	12-01 11-02	Improve Database Security. **This is a Repeat Finding.**	DMV is anticipating a following up discussion with CBN to set target dates for testing and implementation.	In Progress (On Schedule)
	12-02	Improve Information Technology Contingency and Disaster Recovery Plan Update Process	DMV is conducting a table-top exercise to identify strengths and weaknesses in the disaster recovery plan.	In Progress (On Schedule)
	12-03	Improve User Access Control Across Systems	DMV IT Security Office and Architecture staff will work with Partnership staff to take the steps to clean up the Directory, and develop a method to systematically review accounts on a periodic basis.	In Progress (On Schedule)
	12-04	Improve Web Application Security	Implementing the Oracle upgrade.	In Progress (On Schedule)
<u>Department of Rail and Public Transportation (DRPT)</u>				
2012	12-01	Improve Grants Monitoring and Management Processes	On-going monitoring continues using new procedures for FY 2014 grants cycle. Grantee handbook is pending performance metrics for allocating funding resulting from HB2313.	In Progress (On Schedule)
<u>Department of Transportation (VDOT)</u>				
2012	12-02	Improve Financial Reporting Procedures	Written procedures for all year-end financial submissions have been completed.	Completed (On Schedule)
	12-03	Improve Controls Supporting Davis-Bacon Act Compliance	Currently testing a Civil Rights Labor Management System that will assist VDOT to be more effective in monitoring payroll submissions.	In Progress (Delayed)

Annual Summary of APA Audit Findings

As of September 30, 2013, the Auditor of Public Accounts has issued 53 audit reports for the fiscal year ended June 30, 2012. These 53 audits covered 116 Executive Branch agencies. Of these reports, 30 reflected no internal control weaknesses or compliance findings. The remaining 23 audit reports covered 72 agencies. Of these 72 agencies, 41 agencies had at least one finding. The APA identified 99 audit findings that cited internal control weaknesses and instances of noncompliance in the 41 agencies. For the fiscal year ending 2011, 23 of 51 reports contained findings and 84 total findings were reported.

Category	New Findings	Repeat Findings	Total Findings
Financial Accounting Systems & Reporting (1)	52	9	61
Expenditures, Procurement, & Inventory	3	1	4
Federal Grants Accounting	21	2	23
Financial Aid	5	-	5
Financial Resources	-	-	-
Payroll & Leave Accounting	2	2	4
Cash Receipts & Revenue	1	-	1
Miscellaneous	1	-	1
Total	**85**	**14**	**99**

(1) This category includes system security findings.



Compliance Monitoring

Agency Risk Management and Internal Control Standards (ARMICS) Compliance

ARMICS is a comprehensive, risk based, approach to Internal Control. It is based on the Treadway Commission's Committee of Sponsoring Organizations, 1992 publication "Internal Control Framework" and their 2004 work entitled, "Enterprise Risk Management."

ARMICS provides guidance for establishing and assessing agency internal controls in order to more effectively manage risk and maintain accountability. The ARMICS process concludes with an annual certification by the agency head and fiscal officer that they have established, maintained, and evaluated their agencies' internal control framework.

Non-compliance with ARMICS can take two forms:

1. Incomplete or late submission of the annual certification statement (without an extension authorized by DOA).

2. Substantial non-compliance with the processes required for the successful implementation of ARMICS based on a Quality Assurance Review (QAR) performed by the DOA.

Non-Compliance results in the Agency being included in the Comptroller's Quarterly Report. Remediation of the deficiency will result in the agency being removed from the non-compliant list published in the subsequent Comptroller's Quarterly Report.

As of September 30, 2013, the following agencies were not in compliance with ARMICS:

Agency Name	Reason for Non-Compliance
Department of Business Assistance	Failure to submit an ARMICS certification
Norfolk State University	Substantial non-compliance with the ARMICS process

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 July and August were due 08/30/2013 and 09/30/2013 respectively.

Certifications Late or Outstanding

As of October 31, 2013

Agency	Jul	Aug
None		

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

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 September 30, 2013, all responses have been received within an acceptable timeframe.

Trial Balance Review

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

DOA monitors selected general ledger balances and contacts agencies in writing about certain irregular balances. For the quarter ended September 30, 2013, no agencies failed to respond timely, make corrective action and/or provide additional information.

Trial Balance Review

As of September 30, 2013

Agency	Jul	Aug	Sept
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 September 30, 2013, no agencies failed to respond timely, make corrective action and/or provide additional information.

Credit Cash, Excess Expenditures, and Expenditure Credits

As of September 30, 2013

Agency	July	August	September
None			

Disbursement Processing

During the quarter ended September 30, 2013, DOA deleted, at the submitting agency's request, 32 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.

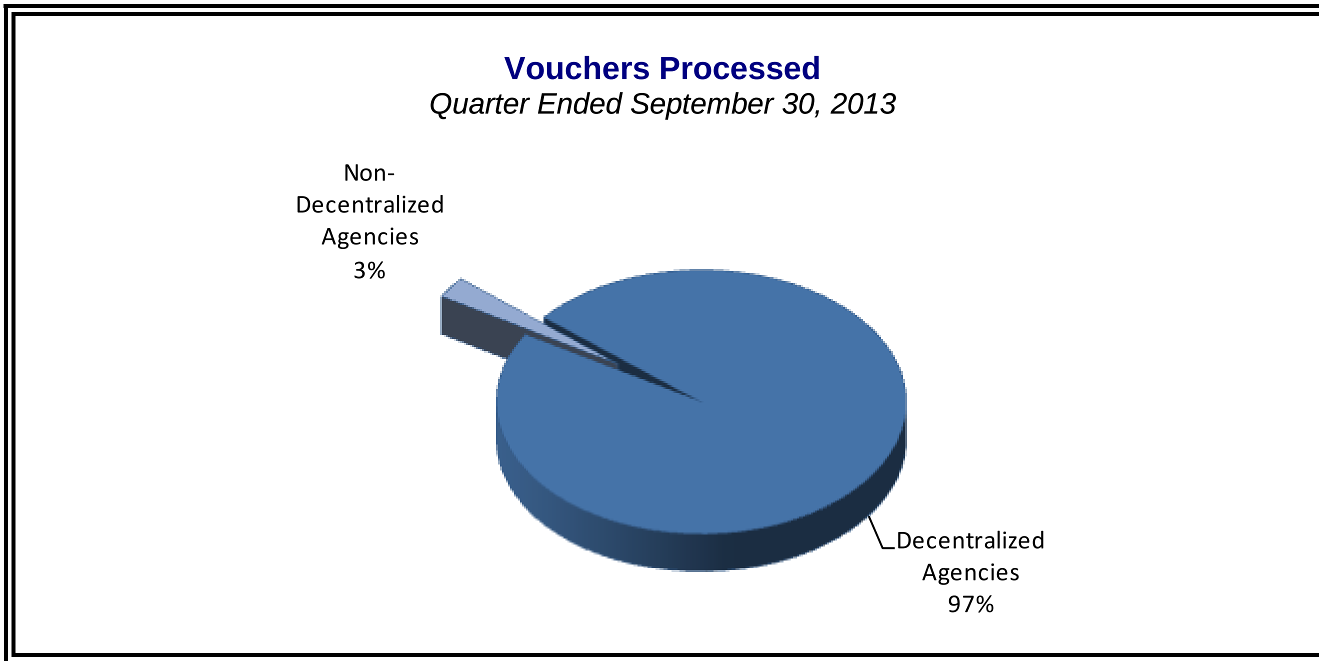
Thirteen separate agencies requested deletes during the quarter. For the quarter, ended September 30, 2013, one agency requested more than four vendor payment deletions:

- Northern Virginia Community College

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

Department of State Police

Agencies Requiring Corrective Action	**Corrective Actions Needed**
None	N/A

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 898 non-travel disbursement batches and 425 travel disbursement batches were reviewed, disclosing five 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 September 30, 2013		Fiscal Year 2014 To-Date		Comparative Quarter Ended September 30, 2012	
	Late	Total	Late	Total	Late	Total
Number of Payments	5,633	576,526	5,633	576,526	**4,678**	**553,079**
Dollars (in thousands)	$ 29,346	$1,758,264	$29,346	$1,758,264	**$ 27,867**	**1,692,300**
Interest Paid on Late Payments				$1,868		
Current Quarter Percentage of Payments in Compliance				99.0%		
Fiscal Year-to-Date Percentage of Payments in Compliance				99.0%		
Comparative Fiscal Year 2013 Percentage of Payments in Compliance				**99.2%**		

Prompt Payment Performance by Secretarial Area

Quarter Ended September 30, 2013

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.8%	99.7%
Agriculture and Forestry	99.8%	99.0%
Commerce and Trade	99.2%	99.3%
Education*	98.9%	98.2%
Executive Offices	99.7%	99.8%
Finance	99.7%	98.5%
Health and Human Resources	99.0%	97.8%
Independent Agencies	99.3%	99.8%
Judicial	99.9%	99.9%
Legislative	99.9%	99.4%
Natural Resources	98.9%	98.8%
Public Safety	99.5%	98.8%
Technology	99.4%	99.9%
Transportation*	99.0%	97.4%
Veterans Affairs and Homeland Security	99.6%	97.8%
Statewide	**99.0%**	**98.3%**

Prompt Payment Performance by Secretarial Area

Fiscal Year 2014

Secretarial Area	Payments in Compliance	Dollars in Compliance
Administration	99.8%	99.7%
Agriculture and Forestry	99.8%	99.0%
Commerce and Trade	99.2%	99.3%
Education*	98.9%	98.2%
Executive Offices	99.7%	99.8%
Finance	99.7%	98.5%
Health and Human Resources	99.0%	97.8%
Independent Agencies	99.3%	99.8%
Judicial	99.9%	99.9%
Legislative	99.9%	99.4%
Natural Resources	98.9%	98.8%
Public Safety	99.5%	98.8%
Technology	99.4%	99.9%
Transportation*	99.0%	97.4%
Veterans Affairs and Homeland Security	99.6%	97.8%
Statewide	**99.0%**	**98.3%**

* 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 September 30, 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 September 30, 2013

Agency	Late Payments	Total Payments	Payments in Compliance
Health and Human Resources			
Central Virginia Training Center	103	1,889	94.5%

For FY 2014, 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 2014

Agency	Late Payments	Total Payments	Payments in Compliance
Health and Human Resources			
Central Virginia Training Center	103	1,889	94.5%

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 September 30, 2013			Comparative Quarter Ended September 30, 2012
	E-Commerce	Total	Percent	Percent
Number of Payments	2,529,961	2,884,780	87.7%	86.0%
Payment Amounts	$ 9,056,916,787	$ 10,088,882,846	89.8%	89.2%

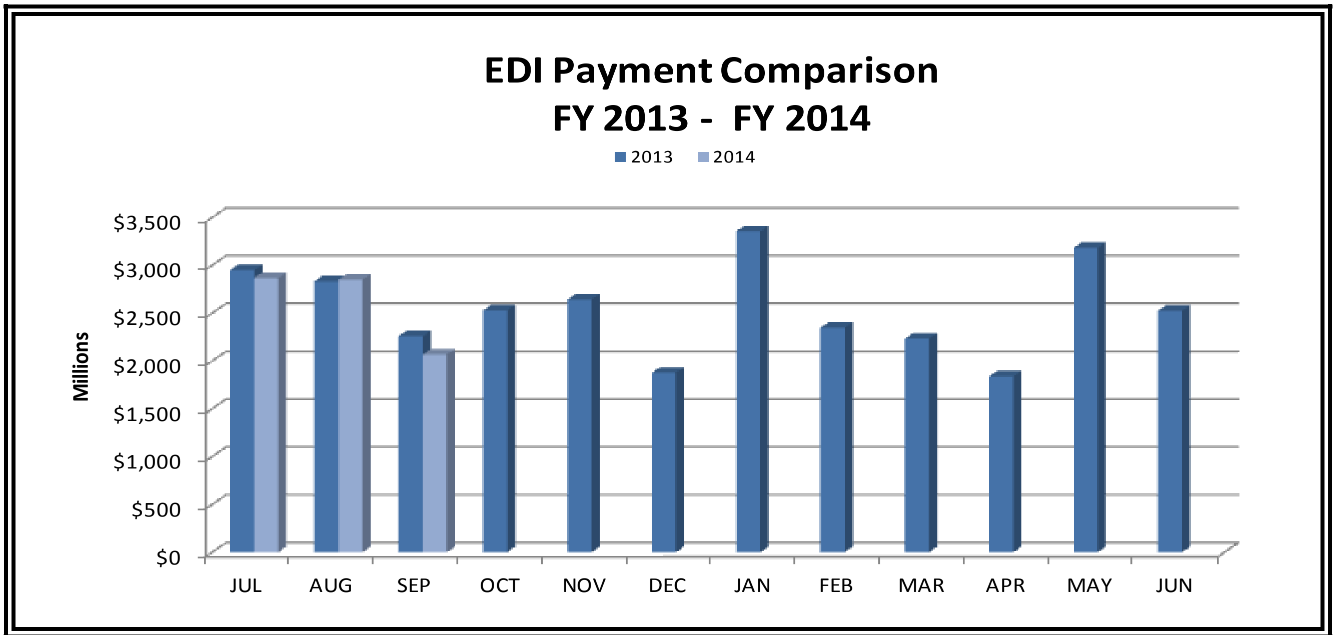
	Fiscal Year 2014 To-Date			Comparative Fiscal Year 2013
	E-Commerce	Total	Percent	Percent
Number of Payments	2,529,961	2,884,780	87.7%	86.0%
Payment Amounts	$ 9,056,916,787	$ 10,088,882,846	89.8%	89.2%

Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the first quarter of FY 2014 was over $255 million (3.1 percent) less than the same quarter last year. The number of trading partner accounts increased by 102.3 percent from September 2012. The increase is due to efforts to convert state employee travel reimbursements from checks to electronic payments. In February 2013, 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 Department of Accounts staff.

Financial EDI Activity

Financial EDI Activity	Quarter Ended September 30, 2013	Fiscal Year 2014 To-Date	Comparative Quarter Ended September 30, 2012
Number of Payments	63,446	63,446	58,811
Amount of Payments	$ 7,791,845,337	$ 7,791,845,337	$ 8,047,601,289
Number of Invoices Paid	189,034	189,034	206,556
Estimated Number of Checks Avoided	103,429	103,429	181,381
Number of Trading Partner Accounts as of 09/30/13		126,186	62,354



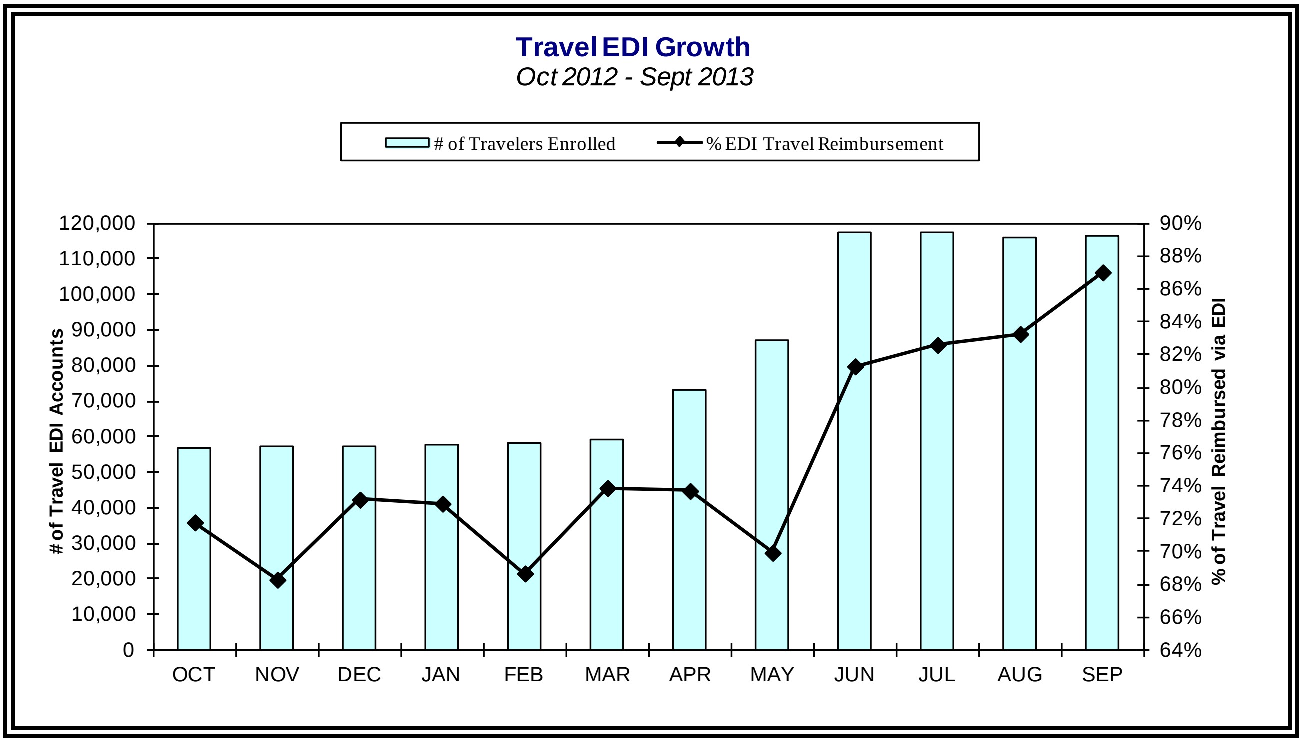
Travel EDI

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. Per Chapter 806, 2013, 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 completed implementation of this change in May 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.
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 2014, 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 September 30, 2013

Secretarial Area	Employee Percent	Non-Employee Percent	Reimbursement Checks Issued
Administration	97.8%	50.0%	14
Agriculture and Forestry	99.2%	6.9%	72
Commerce and Trade	98.3%	74.0%	77
Education (1)	94.2%	33.0%	831
Executive Offices	99.5%	0.0%	3
Finance (2)	98.7%	0.0%	6
Health and Human Resources	98.2%	37.3%	526
Independent Agencies	98.1%	18.5%	46
Judicial	92.6%	8.0%	1,122
Legislative	91.5%	52.4%	79
Natural Resources	97.1%	52.9%	64
Public Safety	97.8%	9.9%	343
Technology	100.0%	33.3%	2
Transportation (1)(2)	55.5%	37.5%	1,465
Veterans Affairs and Homeland Security	87.3%	44.8%	51
Statewide for Quarter	**91.3%**	**28.4%**	**4,701**
Fiscal Year 2014 To-Date			
Statewide	**91.3%**	**28.4%**	**4,701**
Comparative Fiscal Year 2013 To-Date			
Statewide	**77.7%**	**25.1%**	**8,174**

(1) Statistics do not include agencies and institutions decentralized for vendor payment processing.
(2) Statistics include both travel and non-travel payments.

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		
Norfolk State University	76.5%	42
Public Safety		
Department of Emergency Management	82.8%	30
Transportation		
Department of Transportation	42.1%	1,448

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	5.2%	55
Education		
Longwood University	0.0%	122
Judicial		
Circuit Courts	7.0%	320
Virginia State Bar	1.4%	292
Public Safety		
Department of Criminal Justice Services	1.9%	53
Department of Forensic Science	0.0%	152

The following table lists agencies that have accumulated more than $100 in employee EDI check charges for the fiscal year and have a utilization rate below 80 percent. Agencies are charged for each travel reimbursement check issued to an employee after their second check of the fiscal year. For FY 2014, 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
Transportation		
Department of Transportation	42.1%	$280.00

❖❖❖❖❖

Direct Deposit

During the first quarter of FY 2014, 578,298 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 September 30, 2013

Secretarial Area	Direct Deposit % of Salaried Employees	Direct Deposit % of Wage Employees
Administration	100.0%	100.0%
Agriculture and Forestry	99.2%	95.8%
Commerce and Trade	100.0%	99.5%
Education	99.8%	96.9%
Executive Offices	100.0%	75.0%
Finance	99.7%	100.0%
Health and Human Resources	99.7%	99.2%
Independent Agencies	99.3%	100.0%
Judicial	99.7%	88.8%
Legislative	99.7%	100.0%
Natural Resources	99.7%	97.6%
Public Safety	99.7%	98.9%
Technology	100.0%	100.0%
Transportation	100.0%	96.9%
Veterans Affairs and Homeland Security	99.7%	98.5%
Statewide	**99.8%**	**97.5%**

Comparative

Quarter Ended September 30, 2012

Statewide	**99.6%**	**97.2%**

Statewide Salaried Direct Deposit Performance

Quarter Ended September 30, 2013

Salaried Direct Deposit Participation	99.8%

Salaried Direct Deposit Below 98 Percent

Agency	Percent	Number of Employees

All agencies achieved a direct deposit percentage of at least 98% for salaried employees

Statewide Wage Direct Deposit Performance

Quarter Ended September 30, 2013

Wage Direct Deposit Participation	97.5%

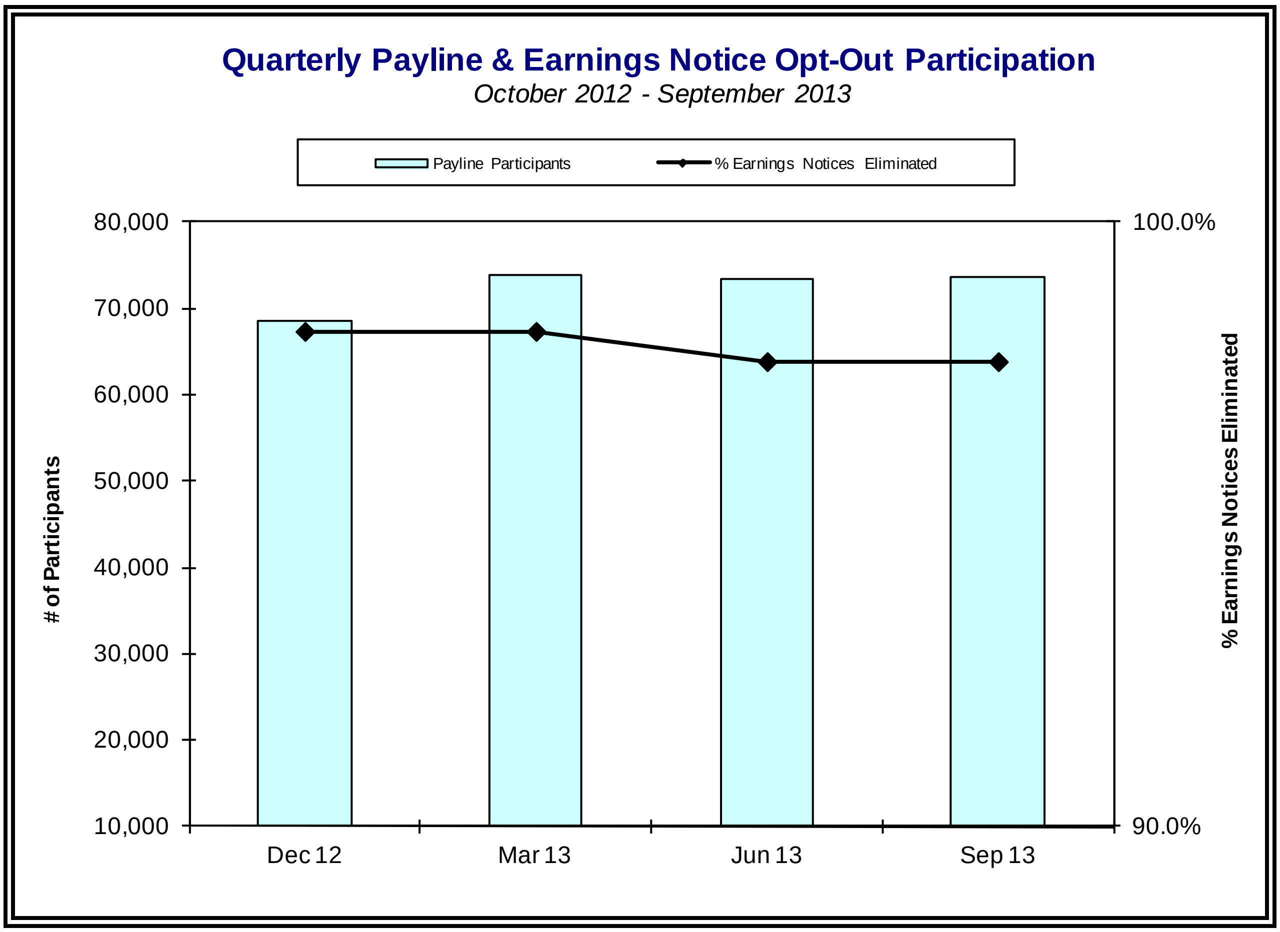
Wage Direct Deposit Below 90 Percent

Agency	Percent	Number of Employees
Education		
New River Community College	83.3%	144
Virginia Highlands Community College	74.0%	247
Southwest Virginia Community College	74.7%	190
Judicial		
General District Courts	84.4%	154
Combined District Courts	80.0%	15

Payroll Earnings Notices

Elimination of earnings notices associated with direct deposit is an additional method for increasing the benefits of electronic payments. Employees are currently able to obtain enhanced information online using the web-based Payline system.

In addition to increasing direct deposit participation, agencies and institutions are expected to encourage employees to enroll in Payline and discontinue receipt of centrally printed earnings notices. Since inception in November 2002, the Commonwealth has eliminated the printing of approximately 11,642,144 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 September 30, 2013

Secretarial Area	Percent Payline Participation	Percent Earnings Notices Eliminated*
Administration	98.5%	100.0%
Agriculture and Forestry	83.7%	85.5%
Commerce and Trade	98.0%	100.0%
Education	72.0%	98.6%
Executive Offices	93.2%	100.0%
Finance	99.6%	100.0%
Health and Human Resources	91.2%	98.4%
Independent Agencies	94.6%	100.0%
Judicial	86.4%	93.6%
Legislative	66.8%	75.0%
Natural Resources	75.1%	78.1%
Public Safety	89.9%	100.0%
Technology	97.4%	100.0%
Transportation	96.2%	100.0%
Veterans Affairs and Homeland Security	71.3%	69.6%
Statewide	**85.4%**	**97.7%**
Comparative Quarter Ended September 30, 2012		
Statewide	**82.5%**	**97.9%**

- 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 September 30, 2013, the following agencies have not met their established thresholds for eliminating earnings notice print.

Earnings Notice Elimination

Agency	Percent Earnings Notices Eliminated QE 09/30/2013	Percent Earnings Notices Eliminated QE 06/30/2013
Agriculture and Forestry		
Department of Agriculture and Consumer Services	82.8%	90.9%
Education		
Eastern Shore Community College	59.3%	63.6%
Frontier Culture Museum of Virginia	54.4%	44.6%
Southwest Virginia Community College	78.2%	87.3%
Virginia Highlands Community College	54.5%	71.6%
Judicial		
General District Courts	89.2%	87.8%

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.

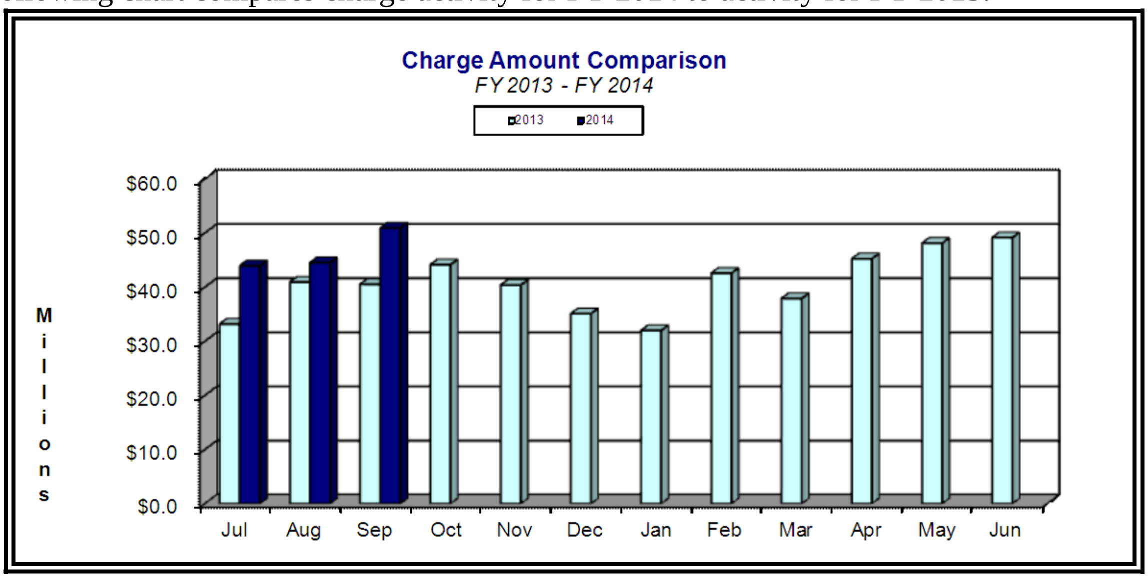
The total amount charged on SPCC, Gold and ePayables cards during the first quarter of FY 2014 increased by $24.8 million or 21 percent from the same quarter last year.

Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended September 30, 2013	Fiscal Year 2014 To-Date	Comparative Fiscal Year 2013 To-Date
Amount of Charges	$ 139,427,055	$ 139,427,055	$ 114,668,525
Estimated Number of Checks Avoided	187,205	187,205	180,110
Total Number of Participating Agencies		202	206
Total Number of Cards Outstanding*		14,886	14,847

* Individual Liability Travel Charge Cards have been removed from the total Cards Outstanding counts for Fiscal Year-To-Date 2013 and 2014.

The following chart compares charge activity for FY 2014 to activity for FY 2013:



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 September 30, 2013

Percentage Utilization for Eligible Transactions	**88%**

SPCC Utilization by Secretarial Area

Quarter Ended September 30, 2013

Secretarial Area	Payments in Compliance [1]	Non-Compliant Transactions [2]
Administration	88%	436
Agriculture and Forestry	96%	138
Commerce and Trade	83%	550
Education*	91%	3,467
Executive Offices	91%	74
Finance	97%	101
Health and Human Resources**	89%	3,487
Independent Agencies	82%	563
Judicial	38%	1,879
Legislative	98%	28
Natural Resources	94%	722
Public Safety	96%	1,317
Technology	91%	26
Transportation*	71%	7,522
Veterans Affairs and Homeland Security	85%	363
Statewide	**88%**	**20,673**

* 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
Administration		
Department of Minority Business Enterprise	39%	61
Commerce and Trade		
Virginia Employment Commission	42%	457
Education		
Norfolk State University	69%	559
Thomas Nelson Community College	76%	162
Virginia State University	78%	330
Health and Human Resources		
Central Virginia Training Center	74%	290
Independent Agencies		
State Corporation Commission	14%	392
Judicial		
Board of Bar Examiners	0%	36
Circuit Courts	0%	157
Combined District Courts	0%	164
General District Courts	0%	739
Juvenile and Domestic Relations District Court	0%	489
Magistrate System	0%	100
Virginia Criminal Sentencing Commission	0%	26
Transportation		
Department of Transportation	70%	6,937
Veterans Affairs and Homeland Security		
Sitter & Barfoot Veterans Care Center	57%	306

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 July, this represents the bill date of July 15, 2013, with the payment due no later than August 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	July	August	Sept
Purchase Card Program:			
Commerce and Trade			
Tobacco Indemnification and Community Revitalization Commission		X	
Education			
Old Dominion University			X
University of Virginia Medical Center	X		
Virginia Community College System- Central Office			X
Executive Offices			
Attorney General and Department of Law	X		
Airline Card Program:			
Education			
Virginia Western Community College	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 September 30, 2013, and the total amounts past due.

Travel Charge Card Program

As of September 30, 2013

Agency	Total Delinquent Accounts	Amounts 60 Days Past Due	Amounts 90-120 Days Past Due	Amounts >150 Days Past Due
Agriculture and Forestry				
Department of Agriculture and Consumer Services	1	499	0	0
Commerce and Trade				
Board of Accountancy	1	269	0	0
Department of Labor and Industry	1	225	0	0
Education				
George Mason University	1	0	82	0
James Madison University	5	1,903	0	0
Longwood University	1	42	0	0
Norfolk State University	3	2,369	344	0
Old Dominion University	6	1,102	1,010	0
Patrick Henry Community College	1	164	0	0
Radford Univeristy	1	188	0	0
University of Virginia	2	503	56	0
Virginia Commonwealth University	4	2,524	0	0
Virginia Polytechnic Institute and State University	2	872	392	0
Virginia State University	4	2,178	78	0
Wytheville Community College	1	872	0	0
Health and Human Resources				
Department for the Blind and Vision Impaired	2	196	0	0
Department of Health	2	454	77	0
Department of Medical Assistance Services	1	29	0	0
Department of Social Services	2	1,272	0	0
Independent Agencies				
State Corporation Commission				
Public Safety				
Department of Emergency Management	1	189	65	0
Technology				
Virginia Information Technologies Agency	1	0	944	0
Transportation				
Department of Motor Vehicles	5	1,068	29	0

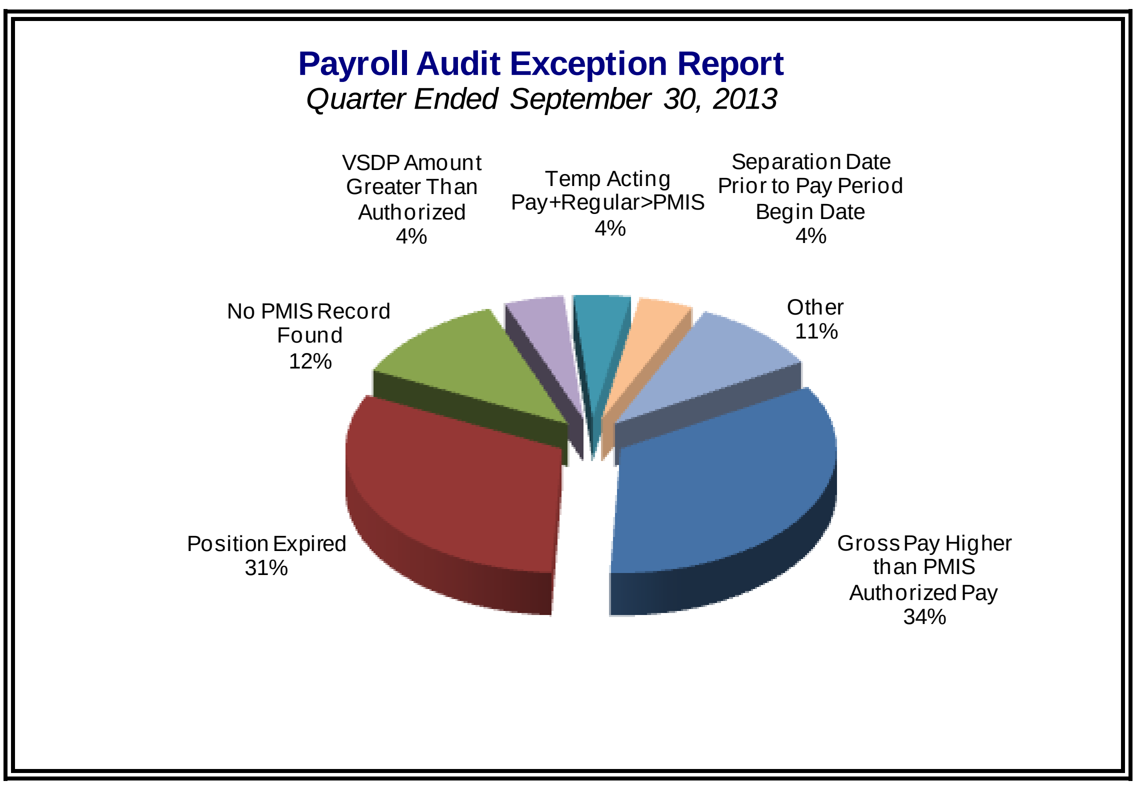
Payroll Controls

CIPPS/PMIS Payroll Audit

During the quarter, DOA's automated comparison of payroll (CIPPS) and personnel (PMIS) records examined 411,149 salaried pay transactions and 97,880 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 4,040 new exceptions noted statewide during the quarter, with an overall exception rate of 0.77%.

The statewide salaried payroll exception rate was 0.83% and the wage payroll exception rate was 0.53%. During this quarter, 25 employee paychecks were reduced to recover $12,638.54 in overpayments.

While the largest cause of exceptions is the result of agency failure to complete the salary increase authorization process by updating PMIS salary amounts *prior* to paying the increased salary amounts in CIPPS, the second largest cause of exceptions is the processing of payments to employees whose position expiration date has not been updated in PMIS. 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.



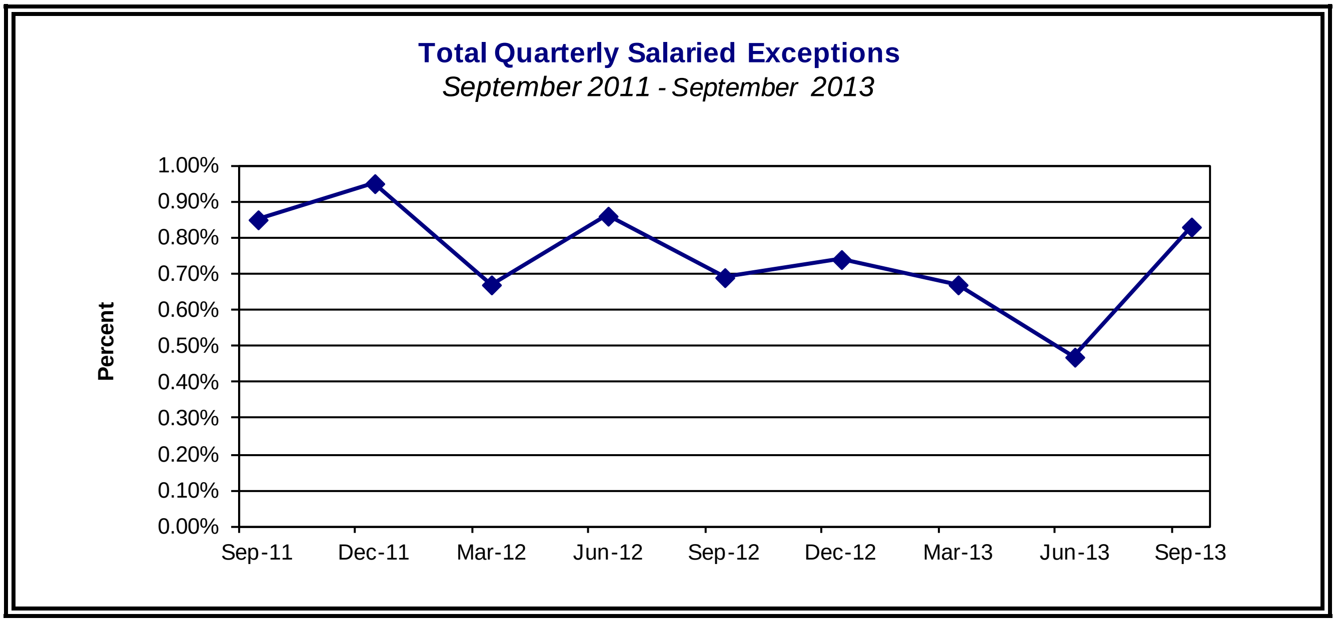
Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Agencies are reported below if the percentage of payroll exceptions to salaried or wage payments exceeds three times the statewide average for the quarter.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Salaried Payments
Quarter Ended September 30, 2013

Agency	# of Salaried Exceptions	Exceptions as a % of Salaried Payments
Piedmont Virginia Community College	40	4.02%

Total Salaried Payroll Exceptions for the Quarter	**0.83%**

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 September 30, 2013

Wage Payroll Exceptions for the Quarter	0.53%

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
Education	
Piedmont Virginia Community College	11

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				
New River Community College			3	
Piedmont Community College*	$ 387			
J. Sargeant Reynolds Community College	36,000			
Health and Human Resources				
Central State Hospital	28,615	1		
Central Virginia Training Center	53,016			

* 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 June, July and August were due 07/31/2013, 08/30/2013 and 09/30/2013, respectively.

Schedule of Health Care Reconciliations
Received Late

Agency	Jun	Jul	Aug
Department of Alcoholic Beverage Control			X
Library of Virginia			X
New River Community College			X
Piedmont Virginia Community College			U
Southside Virginia Community College			X
Virginia Commonwealth University	U	U	U
Virginia Worker's Compensation Commission			X

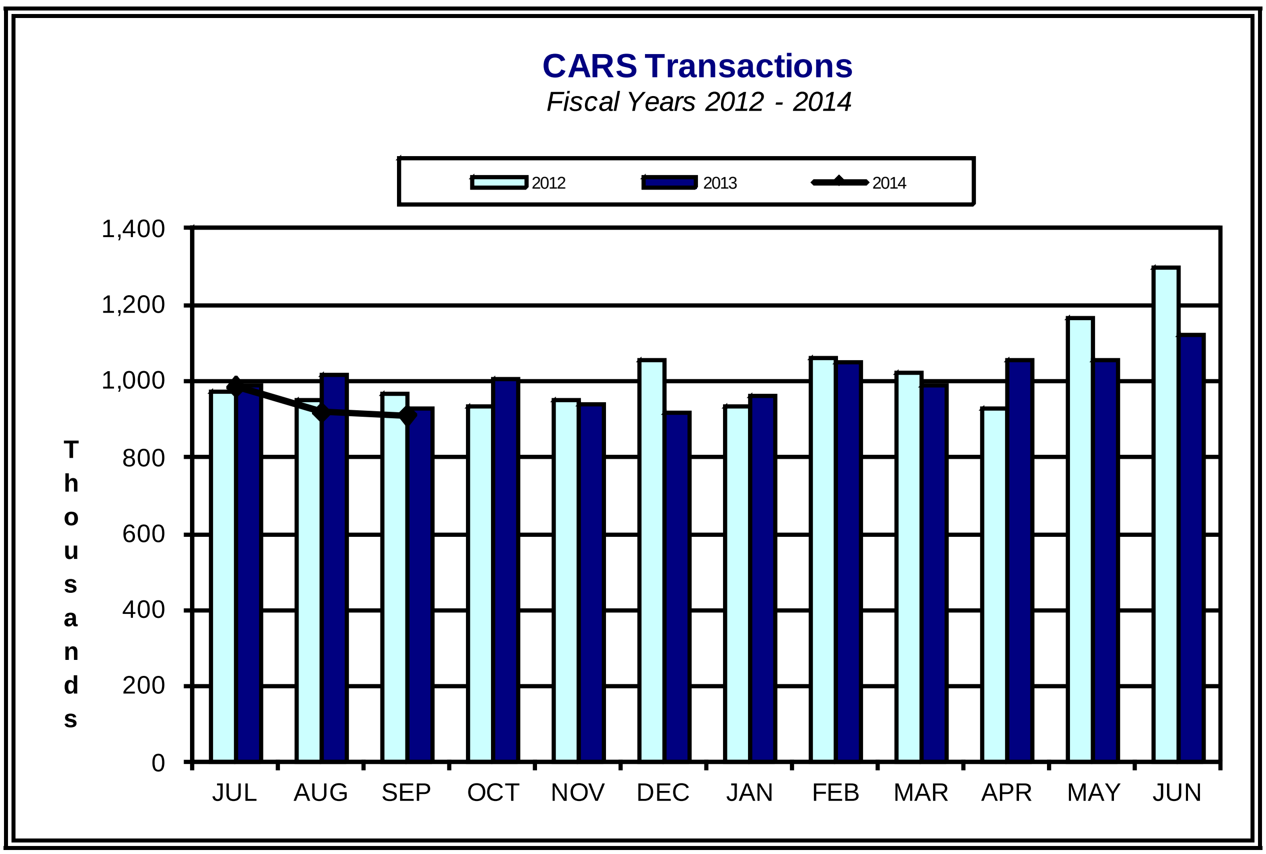
* U – Reconciliation outstanding as of 9/30/2013
* X – Late

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.

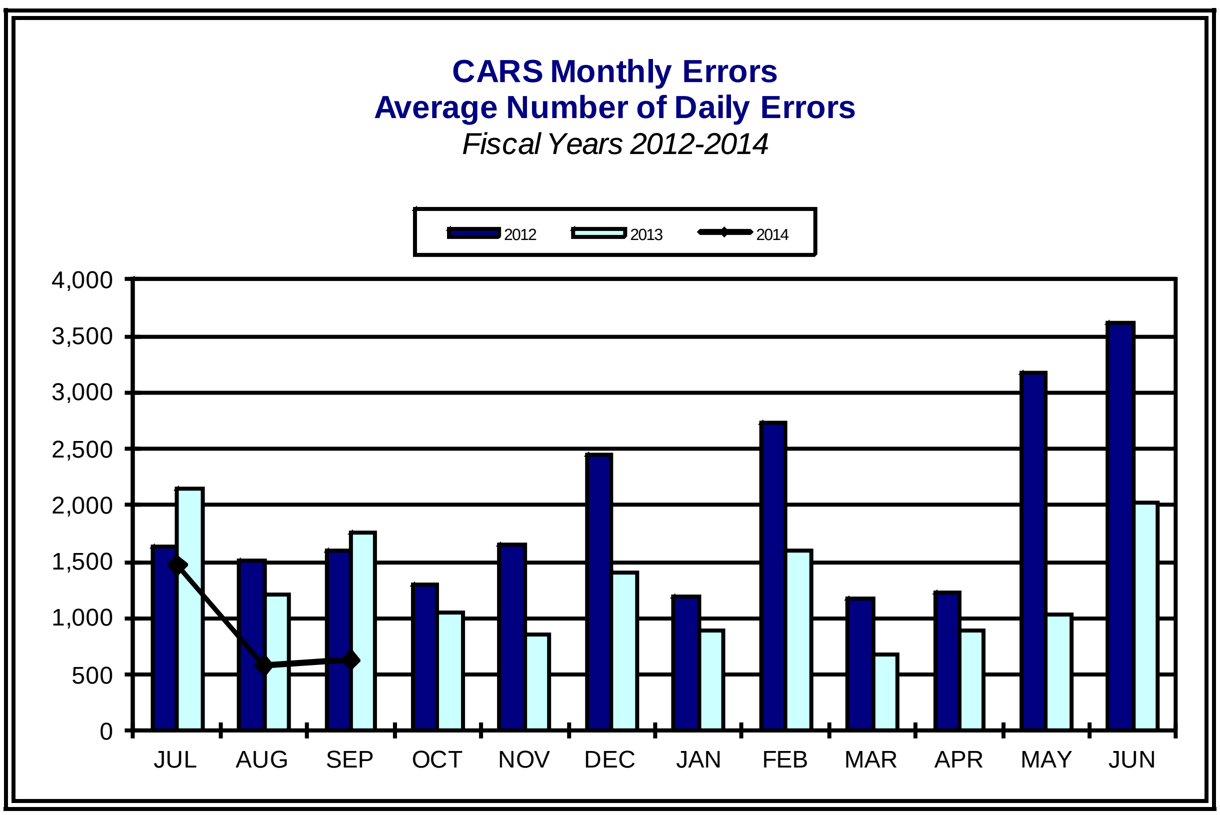


CARS Edits

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 first quarter of FY 2014, the most frequent reasons cited for transactions processing to the error file were:

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

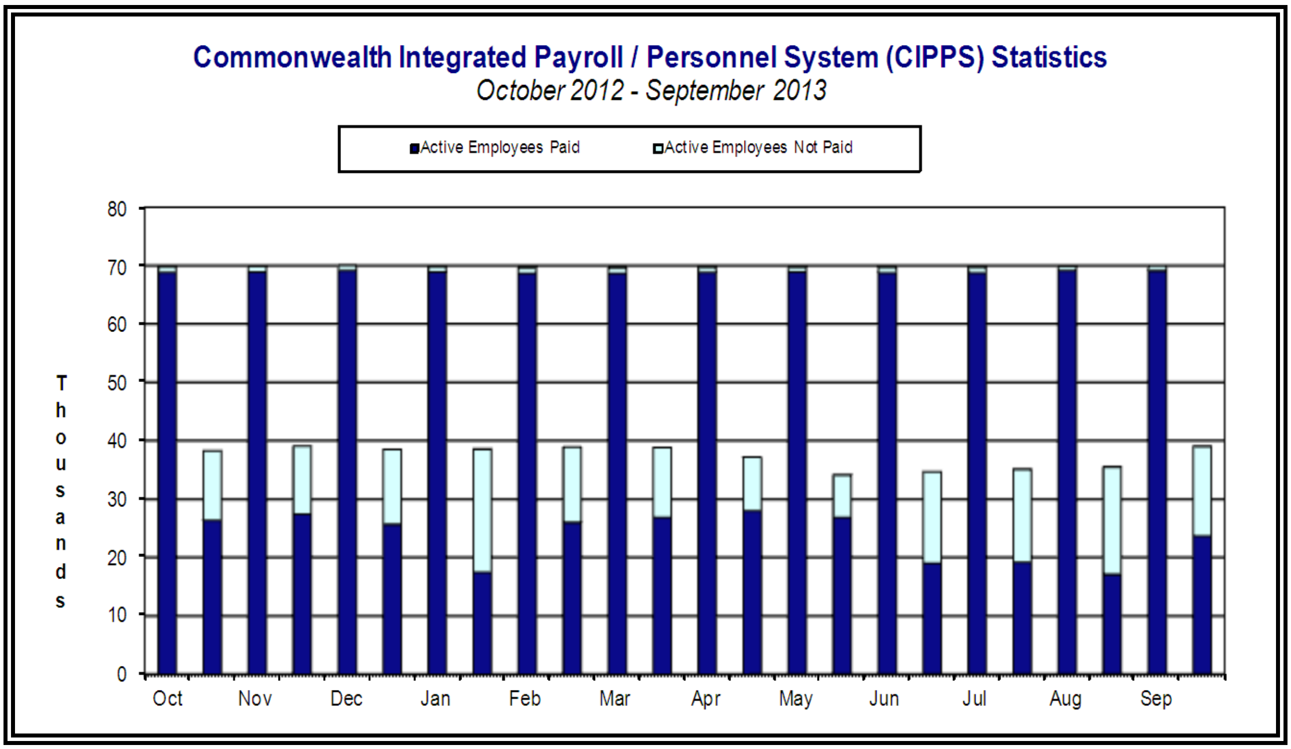
Agencies may avoid funding errors by more closely monitoring cash and allotment balances. Sound agency cash management practices should be developed to ensure transactions are not submitted to CARS when funding is not available. Agencies should develop procedures to ensure certified amounts are calculated 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 106,444 employees. Payroll services are also provided through eight decentralized higher education institutions.

On average, 88,961 employees were paid each month, of which 68,986 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 9/30/2013	Comparative As of 9/30/2012	Comparative As of 9/30/2011
Health Care			
COVA Care	79,624	75,954	74,332
COVA Health Aware	3,291	N/A	N/A
Kaiser	2,115	2,116	2,139
Tricare	63	41	N/A
Optional Retirement Plans*			
Fidelity Investments	635	633	581
TIAA/CREF	1,688	1,647	1,637
Political Appointee - ORP	44	103	94
Deferred Compensation*	43,663	42,907	41,376
Flexible Reimbursement*			
Dependent Care	976	813	790
Medical Care	10,144	8,487	7,528

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

Accounts Receivable

Executive Summary

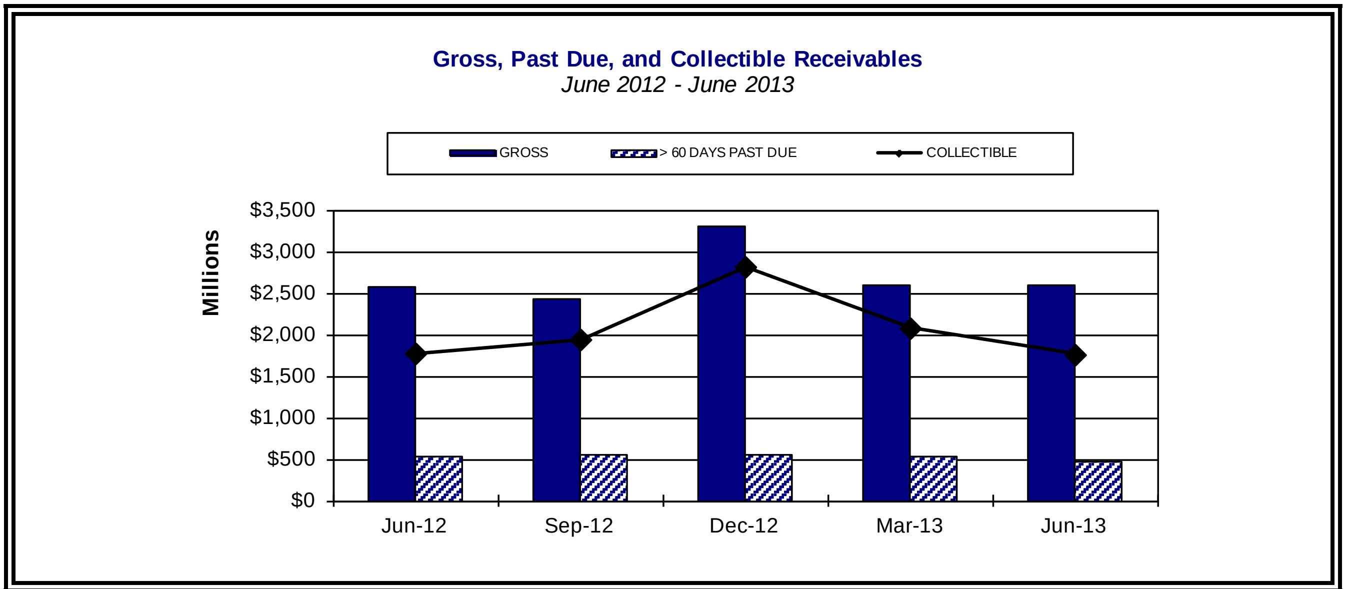
The *Code of Virginia* § 2.2-4800 et seq. requires the Department of Accounts, along with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. In order to carry out this responsibility, DOA has issued policies and procedures on accounting, 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 $2.59 billion at June 30, 2013, with $1.76 billion considered collectible. Receivables over 60 days past due as of June 30, 2013, totaled $479.1 million. Of that amount, $31.7 million was placed with private collection agencies, $37.4 million was placed with the Division of Debt Collection and $410.0 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 June 30, 2013, agencies expected to collect $1.76 billion (68 percent) of the $2.59 billion adjusted gross receivables. About 2 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

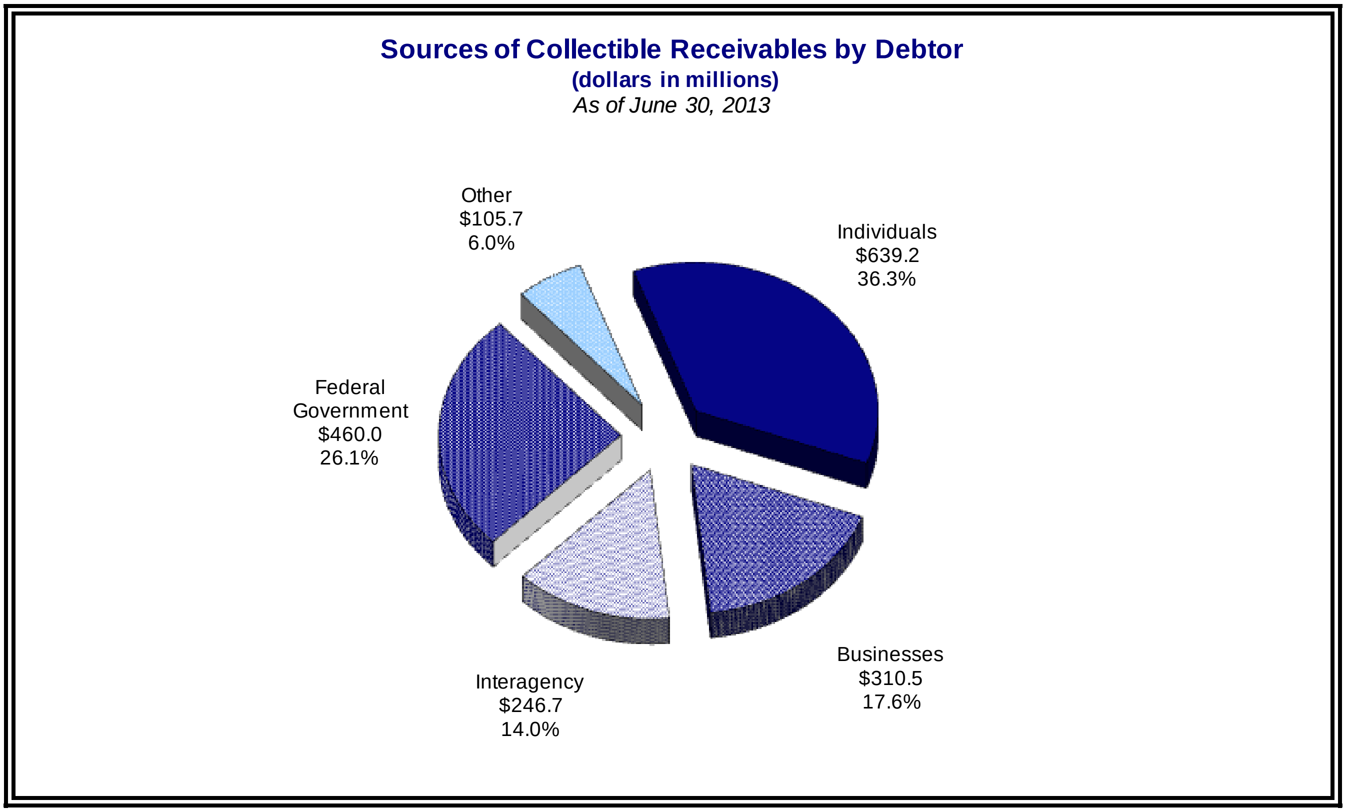
Not Including Circuit Courts, District Courts, or Department of Taxation

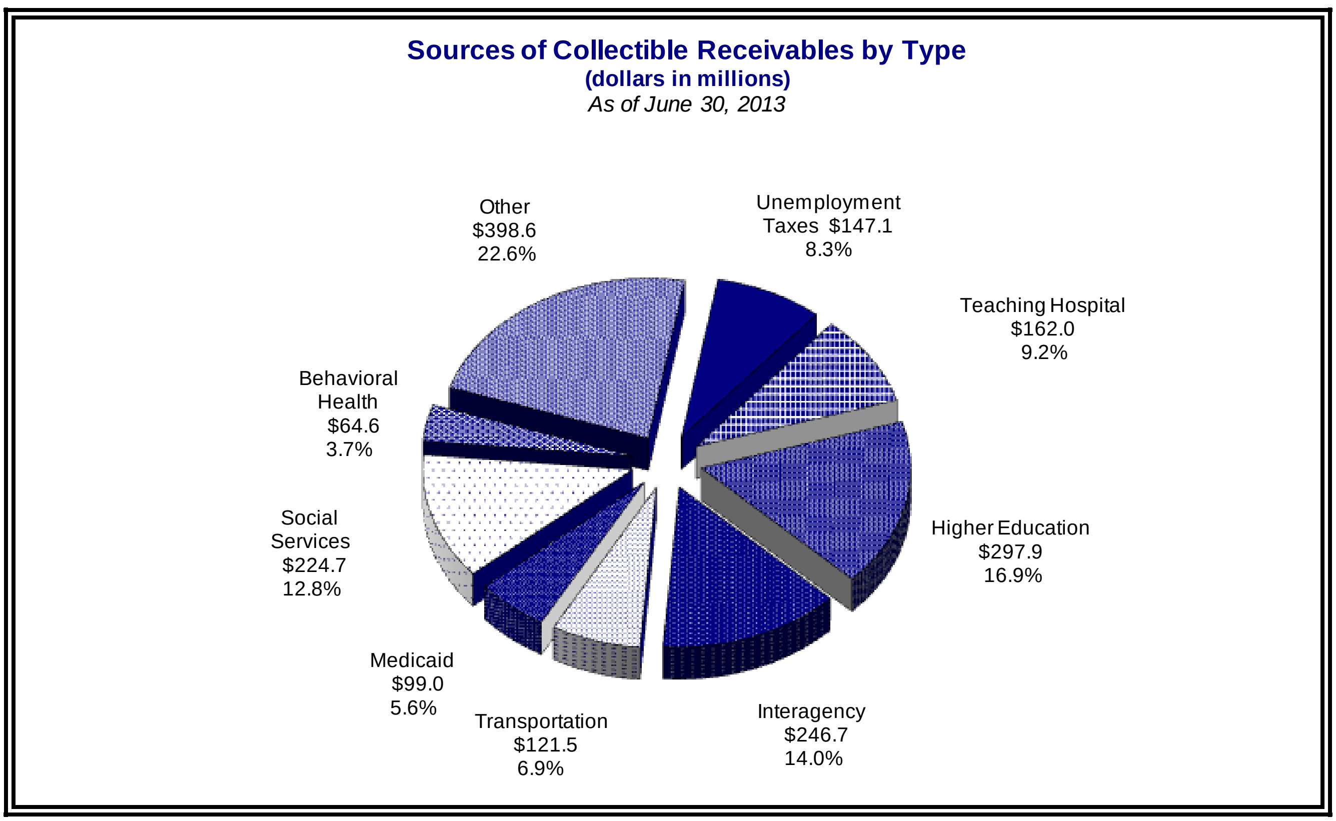
As of June 30, 2013

Fund	Source		Amount	Percent
General Fund	Medicaid - Current Recoveries	$	16,315,573	47%
2%	Social Services		3,290,010	9%
	Labor and Industry Inspections		838,933	2%
	State Police Permits		1,216,325	4%
	Corrections		1,208,207	3%
	Other		10,984,828	33%
	Subtotal		33,853,876	98%
	Interagency Receivables		835,636	2%
	Total General Fund Collectible	**$**	**34,689,512**	**100%**
Nongeneral Funds	Medicaid - Dedicated Penalty Fees	$	69,984,335	4%
98%	Medicaid - Federal Reimbursements		12,675,372	1%
	Unemployment Taxes *		147,122,724	9%
	Transportation		121,490,877	7%
	Child Support Enforcement		188,629,135	11%
	Federal Government		300,610,390	17%
	DBHDS Patient Services		64,618,816	4%
	Hospital		161,988,766	9%
	Enterprise		77,316,173	5%
	Higher Education		297,844,954	17%
	Other		39,214,878	2%
	Subtotal		1,481,496,420	86%
	Interagency Receivables		245,897,617	14%
	Total Nongeneral Fund Collectible	**$**	**1,727,394,037**	**100%**
All Funds	**Grand Total**	**$**	**1,762,083,549**	**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 81 percent of the Commonwealth's adjusted gross and 73 percent of the adjusted collectible accounts receivable balances.

Accounts Receivable Summary

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

As of June 30, 2013

Agency	Gross	Allowance for Uncollectible Accounts	Collectible
Department of Social Services	$ 564,669,772	$ 331,020,546	$ 233,649,226
Department of Education - Direct Aid to Localities	196,033,228	-	196,033,228
University of Virginia Medical Center	522,745,266	335,016,728	187,728,538
Virginia Employment Commission	217,340,802	65,061,197	152,279,605
Department of Transportation	102,027,895	1,623,076	100,404,819
University of Virginia - Academic Division	101,313,001	1,585,989	99,727,012
Department of Medical Assistance Services	133,864,846	34,804,860	99,059,986
Virginia Polytechnic Institute and State University	99,390,452	3,083,300	96,307,152
Department of Behavioral Health and Developmental Services	91,914,178	27,295,362	64,618,816
State Lottery Department	59,485,114	-	59,485,114
Total	**$ 2,088,784,554**	**$ 799,491,058**	**$ 1,289,293,496**
All Other Agencies	498,423,885	25,633,832	472,790,053
Grand Total	**$ 2,587,208,439**	**$ 825,124,890**	**$ 1,762,083,549**

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 $92.1 million during the quarter ended June 30, 2013. The Division of Debt Collection contributed $2.7 million. Private collection agencies collected $61.1 million, and the debt setoff programs (Tax, Comptroller's and Lottery) collected $28.3 million.

Private collection agencies returned $5.6 million of accounts to agencies, and the Division of Debt Collection discharged $3.0 million of accounts and returned $488,417 of accounts to agencies.

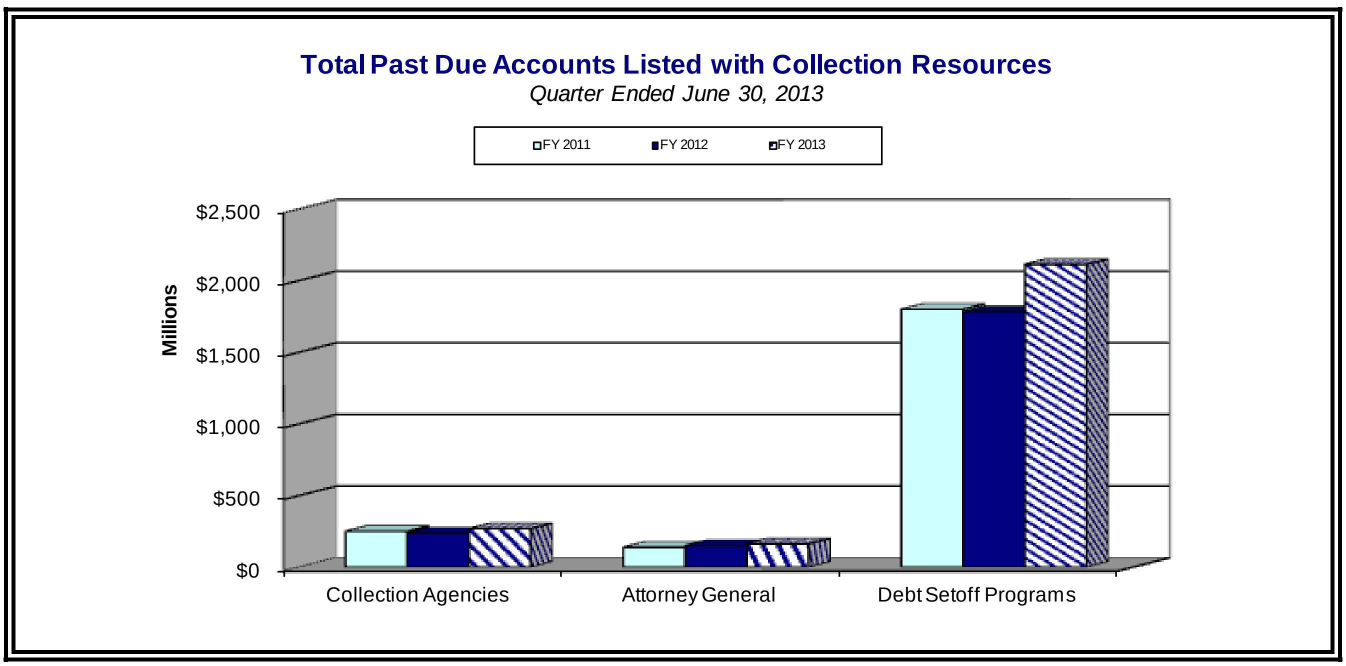
Collectible Receivables Over 60 Days Past Due

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

As of June 30, 2013

Agency	Total Over 60 Days	With Collection Agency	With Attorney General	Retained by State Agency
Department of Social Services	$ 192,778,748	$ 2,910	$ 54,321	$ 192,721,517
Virginia Employment Commission	72,930,116	21,671,676	15,358,745	35,899,695
Department of Medical Assistance Services	58,774,617	103,372	2,380,870	56,290,375
University of Virginia Medical Center	56,440,246	-	-	56,440,246
Department of Behavioral Health and Developmental Services	25,489,394	-	-	25,489,394
Department of Transportation	9,584,683	48,200	6,789,907	2,746,576
Virginia Polytechnic Institute and State University	6,675,515	931,433	1,240,421	4,503,661
Virginia Commonwealth University	5,688,614	274,061	175,254	5,239,299
University of Virginia - Academic Division	5,464,331	532,816	44,247	4,887,268
Virginia Community College System	5,401,423	2,773,080	-	2,628,343
TOTAL	**$ 439,227,687**	**$ 26,337,548**	**$ 26,043,765**	**$ 386,846,374**
All Other Agencies	39,894,344	5,343,435	11,402,694	23,148,215
TOTAL OVER 60 DAYS	**$ 479,122,031**	**$ 31,680,983**	**$ 37,446,459**	**$ 409,994,589**
Uncollectible Amounts Placed for Collection, Including Accounts Written Off	2,066,292,995	237,451,274	125,472,991	1,703,368,730
TOTAL COLLECTION EFFORTS	**$ 2,545,415,026**	**$ 269,132,257**	**$ 162,919,450**	**$ 2,113,363,319**

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 $3.1 million through the first quarter of FY 2014. 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 6/30/13	Comparative Percent 3/31/13	Comparative Percent 12/31/12
Department of Medical Assistance Services	44%	47%	44%
Department of Social Services	34%	35%	35%
Virginia Employment Commission	34%	12%	42%
Department of Behavioral Health and Developmental Services	28%	43%	45%
Virginia Community College System	14%	28%	11%
Virginia Commonwealth University	13%	43%	3%
University of Virginia Medical Center	11%	11%	20%
Department of Transportation	9%	23%	14%
Virginia Polytechnic Institute and State University	7%	7%	2%
University of Virginia - Academic Division	5%	12%	4%
Statewide Average - All Agencies	**19%**	**20%**	**17%**

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 73 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 86 percent indicates that for every dollar billed during the quarter ended June 30, 2013, the state collected 86 cents. This rate is six percent higher than last year and one percent lower than two years ago.

Collections as a Percentage of Billings

Agency	Percent 6/30/13	Comparative Percent 6/30/12	Comparative Percent 6/30/11
Virginia Employment Commission	276%	236%	197%
State Lottery Department	104%	113%	102%
Virginia Polytechnic Institute and State University	102%	99%	115%
Department of Social Services	98%	94%	88%
University of Virginia - Academic Division	96%	98%	104%
Department of Transportation	82%	87%	106%
Department of Medical Assistance Services	73%	71%	82%
Department of Education - Direct Aid to Localities	58%	54%	46%
Department of Behavioral Health and Developmental Services	58%	46%	57%
University of Virginia Medical Center	28%	25%	31%
Statewide Average - All Agencies	**86%**	**80%**	**87%**

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 $99.1 million at June 30, 2013, is a $6.1 million increase over the $93.0 million reported at June 30, 2012. Over the same period, total past due receivables of $62.4 million have increased by $5.7 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 $187.7 million at June 30, 2013, were a $15.1 million decrease from the $202.8 million reported the previous year. Past due receivables decreased by $70.6 million to $184.4 million at June 30, 2013.

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 $152.3 million at June 30, 2013, a decrease of $15.0 million from the previous year. Total past due receivables were $76.7 million, a $16.8 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 June 30, 2013, of $34.4 million, which is a decrease of $7.3 million reported in the previous year. Most of these receivables are due from other state agencies. As of June 30, 2013, $836,257 was over 60 days past due, a decrease of approximately $1.0 million from the previous year.

State Lottery Department (SLD)

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

At June 30, 2013, the State Lottery reported net receivables of $59.5 million, a $4.2 million increase from the previous year. Billings increased by $17.2 million and collections increased by $195,344 during the June 30, 2013 quarter when compared to the June 30, 2012 quarter. At June 30, 2013, the State Lottery had $429,093 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 June 30, 2013, DOE had $195.8 million in accounts receivable due from the Federal government under Direct Aid to Public Education. This is a $25.4 million decrease over 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 June 30, 2013, the University reported net collectible receivables of $96.3 million, an increase of $23.8 million over the prior year. At the same time, total past due receivables of $12.5 million increased by $4.4 million over the prior year.

The University uses a variety of collection methods to encourage payments. At June 30, 2013, VPISU had $6.7 million of accounts over 60 days past due. $1.2 million was placed with the Attorney General's Division of Debt Collection, another $931,433 was placed with private collection agencies, and $4.5 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 June 30, 2013, the Department reported collectible receivables of $64.6 million, a $17.5 million increase over the previous year. $33.0 million was past due, with $25.5 million being over 60 days past due. Total past due receivables decreased by $20.5 million over the year, and accounts over 60 days past due decreased by $1.4 million. At June 30, 2013, the Department had a total of $6.4 million of accounts placed with the Attorney General and $913,225 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 June 30, 2013, VDOT reported $100.4 million of collectible receivables, an increase of $17.2 million from the prior year. VDOT also reported $11.3 million total past due and $9.6 million being over 60 days past due. Past due receivables decreased by $3.1 million over the year, while receivables over 60 days past due increased by $1.0 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 $6.8 million of their accounts over 60 days past due with the Attorney General's Division of Debt Collection, and $48,200 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 June 30, 2013, DSS reported gross receivables of $564.7 million, an allowance for doubtful accounts of $331.0 million and collectible receivables of $233.7 million. Past due receivables totaled $195.8 million, of which $192.8 million was over 60 days past due.

Of these amounts, the Division of Child Support Enforcement (DCSE) was responsible for $495.2 million (88 percent) of the gross receivables, $306.6 million (93 percent) of the allowance for doubtful accounts and $188.6 million (81 percent) of the collectible receivables.

From June 30, 2012 to June 30, 2013, gross receivables increased by $43.2 million and collectible receivables increased by $17.1 million. Total past due receivables increased by $15.7 million and receivables over 60 days past due increased by $15.4 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 June 30, 2013, DRPT had gross and net receivables of $15.9 million. The majority of this money is due via an interagency transfer from VDOT. DRPT reported past due receivables of $370,167 at June 30, 2013.

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 June 30, 2013, VCU had $36.3 million of collectible receivables, a $10.4 million decrease from June 30, 2012. Total past due accounts were $9.0 million, a $142,511 decrease from June 30, 2012. Accounts over 60 days past due ($5.7 million) increased by $50,680 from the prior year. Billings decreased by $26.1 million to $68.7 million and collections decreased by $3.5 million to $78.0 million for the June 30, 2013 quarter, when compared to the June 30, 2012 quarter.

The following table is prepared to present the June 30, 2013, 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 74 percent ($1.99 billion) of the Commonwealth's total $2.69 billion past due accounts receivable at June 30, 2013. Another 18 agencies accounted for 25 percent ($666.9 million), leaving 70 other agencies to comprise the last one percent at $35.4 million.

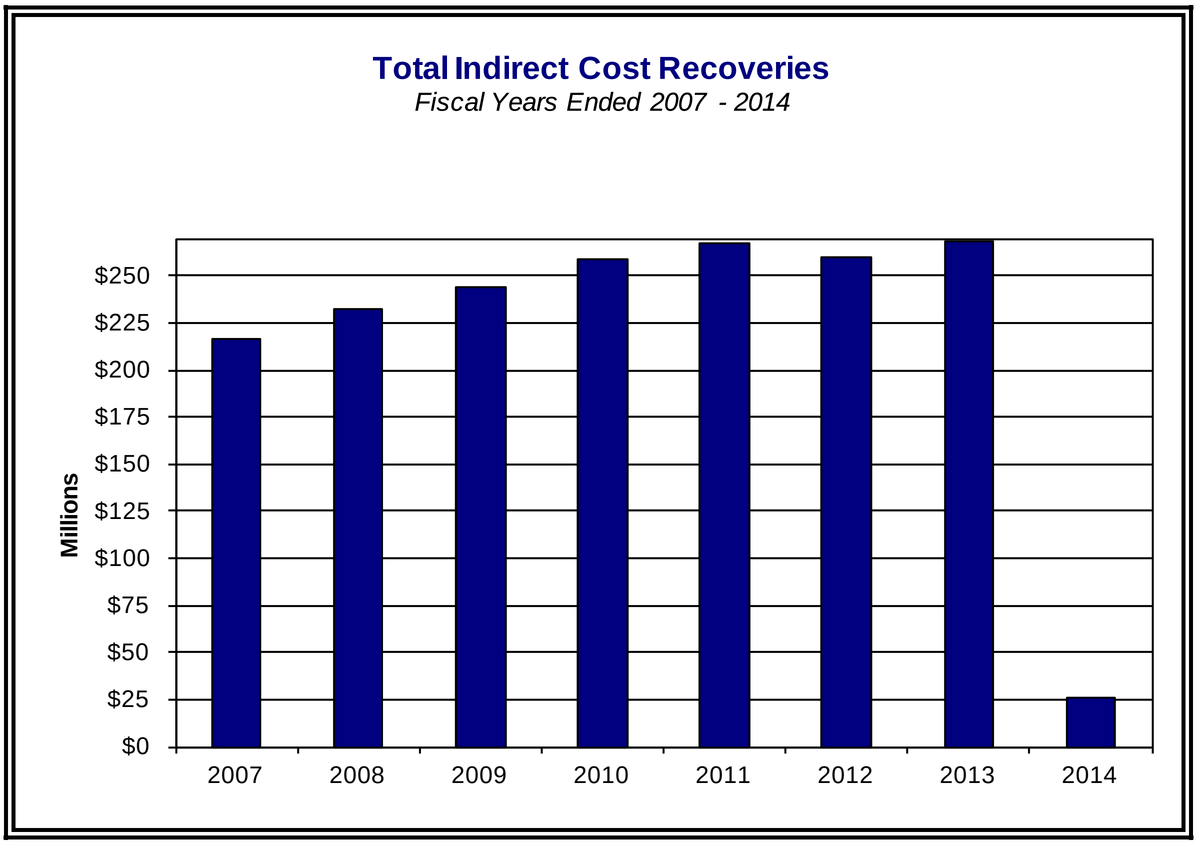
Agencies with the Largest Volume of Past Due Receivables

As of June 30, 2013

Agency	Total Past Due	1 to 180 Days Past Due	181 to 365 Days Past Due	Over One Year
Department of Taxation	$ 1,616,293,023	$ 222,629,418	$ 177,715,212	$ 1,215,948,393
Localities' Circuit and District Courts	368,918,672	36,480,184	61,604,182	270,834,306
Total - Taxation Assessments and Court Fines and Fees	**$ 1,985,211,695**	**$ 259,109,602**	**$ 239,319,394**	**$ 1,486,782,699**
All Other Large Dollar Agencies:				
Department of Social Services	195,792,559	9,332,500	9,312,731	177,147,328
University of Virginia Medical Center	184,425,459	169,731,055	9,745,288	4,949,116
Virginia Employment Commission	76,688,738	18,234,656	11,718,699	46,735,383
Department of Medical Assistance Services	62,373,244	9,361,385	11,453,650	41,558,209
Department of Behavioral Health and Developmental Services	33,035,924	18,879,057	12,150	14,144,717
University of Virginia - Academic Division	20,971,333	19,067,658	1,120,000	783,675
Department of Human Resources Management	16,182,595	16,138,951	27,310	16,334
Virginia Polytechnic Institute and State University	12,452,861	7,778,403	1,525,776	3,148,682
Virginia Community College System	11,892,919	8,727,789	2,090,492	1,074,638
Department of Transportation	11,288,755	3,633,442	869,933	6,785,380
George Mason University	9,749,937	8,371,256	1,121,597	257,084
Virginia Commonwealth University	8,985,641	3,619,449	2,695,513	2,670,679
Virginia Workers' Compensation Commission	5,247,805	1,311,727	1,133,581	2,802,497
Department of Health	4,203,457	2,202,317	141,100	1,860,040
Department of General Services	3,726,975	1,206,772	215,026	2,305,177
Department of State Police	3,712,550	1,511,743	474,766	1,726,041
Department of Motor Vehicles	3,228,078	1,914,223	235,914	1,077,941
State Corporation Commission	2,921,832	793,553	1,931,907	196,372
Total - Largest Dollar Volume Agencies	**$ 666,880,662**	**$ 301,815,936**	**$ 55,825,433**	**$ 309,239,293**
All Other Agencies	35,400,861	23,481,235	4,431,818	7,487,808
Grand Total Past Due Receivables	**$ 2,687,493,218**	**$ 584,406,773**	**$ 299,576,645**	**$ 1,803,509,800**

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 2014 reflects indirect cost recoveries through September 30, 2013.

Indirect Cost Recoveries from Grants and Contracts

Fiscal Year 2014

Fund	Year-to-Date Higher Ed	Year-to-Date Non-Higher Ed	Year-to-Date Total
Nongeneral:			
Agency / Institution (1)	$ 6,414,305	$ 18,987,044	$ 25,401,349
Statewide	86,997	351,323	438,320
Agency / Institution ARRA	356,200	8,218	364,418
Statewide ARRA	14	770	784
Total Nongeneral	**$ 6,857,516**	**$ 19,347,355**	**$ 26,204,871**
General:			
Agency (Cash Transfers)	-	-	-
Statewide	-	185,055	185,055
Statewide (Cash Transfers)	-	-	-
Total General	**$ -**	**$ 185,055**	**$ 185,055**
Total All Funds	**$ 6,857,516**	**$ 19,532,410**	**$ 26,389,926**

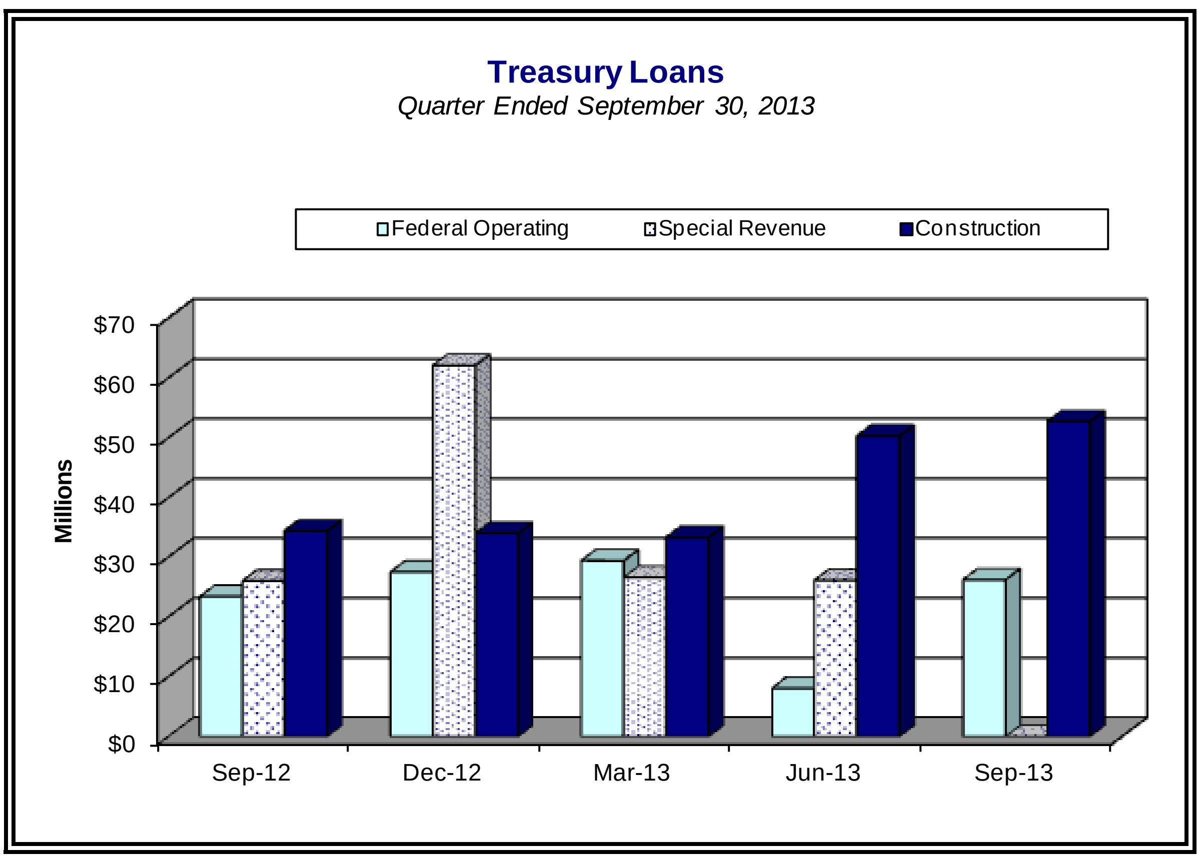
(1) The Department of Social Services records all federal monies received in CARS. However, they do not separately classify such receipts between direct and indirect. Included in the agency nongeneral fund category is $13,190,601 representing the Department of Social Services' estimate of indirect cost recoveries received.

Loans and Advances

Treasury loans may be used to advance funds to a State agency or institution for a designated purpose prior to some form of reimbursement, 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 September 30, 2013 was $78.9 million.



Significant New Loans / Drawdowns		New Balance
Department of State Police (VSP)		
Drawdown on a $1.2 million loan used to conduct numerous grant funded programs that operate on a federal reimbursement basis.	$	1,230,762.00
College of William and Mary (CWM)		
Drawdown on a $23 million loan used to provide cash for payment of obligations associated with property acquisition and required repairs for the Hospitality House Hotel.	$	2,500,000.00
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.	$	6,000,000.00
George Mason University (GMU)		
Drawdown on a $12.5 million loan used to provide operating funds while awaiting federal reimbursements for approved grants and contracts.	$	12,500,000.00
Virginia College Building Authority (VCBA)		
Drawdown on a $80 million loan used to provide cash to reimburse institutions of higher education for expenditures made on authorized projects under the 21st Century Program.	$	58,975,747.61

Significant Loan Repayments		Prior Balance
Virginia Department of Transportation (VDOT)		
Repayment on a $26 million loan used to fund amounts associated with the Launch Pad 0-A and liquid fueling facility improvements at the Mid-Atlantic Regional Spaceport to Orbital Sciences.	$	26,000,000.00
Virginia College Building Authority (VCBA)		
Repayment on a $80 million loan used to provide cash to reimburse institutions of higher education for expenditures made on authorized projects under the 21st Century Program.	$	58,975,747.61

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 September 30, 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 September 30, 2013 was $36.1 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 September 30, 2013 was $71.3 million.