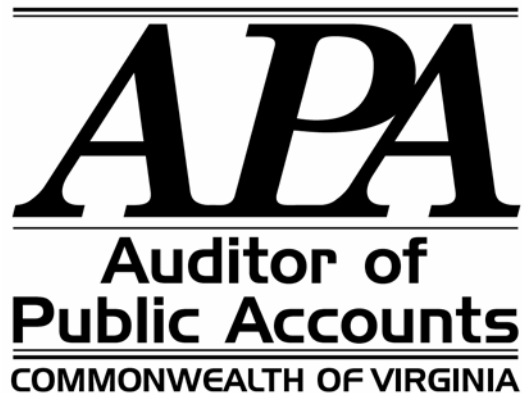


**REVIEW OF THE
FINANCIAL ACCOUNTING AND CONTROL OPERATIONS
OF THE STATE COMPTROLLER**

**FINAL REPORT
NOVEMBER 2005**



EXECUTIVE SUMMARY

We have completed our final review of the operations of the State Comptroller as they relate to the Commonwealth's financial accounting and control operations practices as required by Section 1-2.2.B. of Chapter 4 of the 2004 Virginia Acts of Assembly, Special Session I. For this final report, in addition to providing our final recommendations, we are also repeating the recommendations that we made in our interim report dated November 18, 2004 and providing an update on the status of those recommendations in Chapter 4. A comprehensive report summary and recommendations begins on page 1. Our interim report is set out in chapters one through four of this report and the final review is set out in chapters 5 through 8.

There is a significant opportunity for the Comptroller's Office to improve financial management leadership, increase communication, strengthen internal controls, and create efficiency in the Commonwealth. Throughout this report, we describe areas for improvement and make specific recommendations such as increasing the use of technology, improving access to training, and consolidating of Commonwealth business functions.

The Comptroller's Office should exercise the same degree of financial management leadership and authority as a controller of a major corporation. However, in Virginia, decentralization initiatives in the early 1990s and recurring budget reductions in the Comptroller's Office had the effect of making agencies work independently, eroding the Office's financial management leadership. Expecting agencies to work differently now will not occur without resistance. The Comptroller and his staff will also need to change the way they operate in order to overcome the resistance towards central financial management leadership. The process of change begins with a sound long-term strategic plan that examines future trends and develops a business case for statewide financial management systems modernization.

We recommend the Comptroller and his staff begin a comprehensive strategic planning process that considers our recommendations made throughout this report. The plan should focus on defining a vision for the statewide financial management leadership of the Office, identifying opportunities for using best practices in our technology oriented environment, improving overall communications and coordination between the Comptroller's Office and agencies, and reducing costs by creating efficiencies. Our specific recommendations are throughout this report and, in general, support the need for significant improvement. As part of the strategic plan, the Comptroller should identify optimum employment levels and funding to achieve the desired results and seek changes to the maximum employment levels and funding to support his plan.

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REPORT SUMMARY AND RECOMMENDATIONS

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Improve New Systems and Information Planning

In recent months, the Governor, Chief Information Officer (CIO), and the Information Technology Investment Board have received public/private partnership proposals (PPEA) from vendors to re-engineer state processes and develop an enterprise resource system that could replace all current statewide systems and some agency based systems. This or any similar PPEA, if accepted, would impact systems currently maintained by the Comptroller.

Traditionally, in accordance with VITA requirements, the Comptroller would identify system needs such as replacing CARS, in his IT Strategic Plan approved by VITA. VITA would then prioritize the Comptroller's system needs against other Commonwealth agencies and the priority report would receive the Information Technology Investment Board (ITIB) approval and then go to the General Assembly and Governor. However, in the case of the Comptroller, there was no request to replace administrative systems in his 2004-2006 IT Strategic Plan, no preliminary business case, and no ITIB ranking or approval. We obtained and reviewed the Comptroller's 2006-2008 Strategic Plan, and found that although it does not request that his systems be replaced, it does recognize that the Comptroller will be directly involved in all stages of the PPEA.

Despite the lack of these plans, the Governor's Chief of Staff named an Enterprise Application PPEA team that worked with the PPEA vendors, IBM and CGI-AMS, to develop and administer a 700 question survey to state entities. The team selected 46 entities that they believe represented a good cross-section of state activities and functions. The process, known as Due Diligence, provided the Enterprise Applications PPEA vendors with an understanding of how agencies operate, what systems they use to support these functions, ways that processes could improve, and ways they work well.

The survey appears thorough and gives a good high level picture of the current state of operations. It identifies areas where processes can improve and identifies solutions that agencies have already implemented to address weaknesses in the central accounting systems. However, without a long-term strategic plan for the Commonwealth's financial management, we believe it is difficult for anyone to assess what the Commonwealth must do to achieve any improvement. Instead, the Commonwealth is allowing two vendors to submit proposals without having a strategic vision to compare them to.

If the Secretaries of Finance and Administration and the Comptroller recommend accepting one or both of these PPEA vendors proposals, and the CIO and the Information Technologies Infrastructure Board approve planning, the Governor intends to sign a comprehensive agreement in early November 2005. A comprehensive agreement is essentially a contract between the Commonwealth and a vendor to perform work or provide goods. An Enterprise Application comprehensive agreement may significantly change the way the Commonwealth manages its financial business and may outsource functions.

Based on our discussions with the Comptroller, we understand that the final comprehensive agreement envisions various phases of work and includes a strategic planning component. We reviewed drafts of the various phases however none of the phases clearly set out a strategic planning phase. We believe there is a need for a strategic planning phase to address important decisions such as whether the Commonwealth will operate centralized or decentralized accounting and how electronic workflow would occur, to name a few.

Recommendations:

We initially recommended in our preliminary report and continue to recommend that the Governor and Commonwealth Chief Information Officer (CIO) form a workgroup with the Comptroller to develop a long-term strategic plan for the Commonwealth's financial management needs, including modern accounting systems. As part of the initial work phase of the Enterprise Application project this plan must become an essential element to monitor performance of any PPEA comprehensive agreement.

Regrettably, in an ideal world, we would have preferred that this workgroup complete its plan before the Commonwealth finalizes any Enterprise Application public-private partnership so that the Comptroller and CIO can compare the vendor final proposals to the vision set by the Commonwealth. Without a long-term strategic plan the Commonwealth is at risk of spending funds to develop a system that does not support what we need or how we want to do business.

Although the final decision to sign a comprehensive agreement may be outside of the Comptroller's control, we recommend that as a member of the PPEA team, the Comptroller work to ensure that strategic planning is clearly defined in the agreement as the phase one milestone. The strategic plan is critical because it sets the framework for how the Commonwealth will operate and sets the guiding principles for all other phases.

Going forward, it is important that the Comptroller maintain an up-to-date strategic plan that links information technology needs to his business needs. Having such a plan will allow the Comptroller to make sound business decisions based on whether or not a product or service fulfills an identified business need.

Improve Training and Communication

The Comptroller will always depend on the originating agencies to provide information, and he cannot depend on new systems or reductions in decentralization to change this flow of information. Therefore, it is essential that agency personnel, including agency heads and managers, understand their responsibility for establishing and maintaining accountability.

Individual agency budget reductions have depleted a lot of corporate knowledge at the agency level, which has lessened the effectiveness of some of the controls. Budget reductions also led to limited decentralized disbursement reviews, meaning less centralized monitoring of agency compliance and less interaction between Accounts and agency personnel.

Recommendations:

In order to ensure the agencies have adequate internal controls over their operations, Accounts needs enhance its training programs and resources for agency personnel. It is also important that Accounts strengthen its relationships with the agencies to ensure they can adequately assess the strength of their financial operations and determine potential training needs.

Accounts should ensure that the training it provides and mandates for agency personnel is appropriate based on the experience level of the personnel who are required to attend. As Accounts interacts with agencies throughout the year, they should also see if there are common issues or problems that would warrant a special training class. Because of staffing levels, Accounts can only offer courses a few times a year, even though agencies are always hiring new employees. In order to make training available when needed, Accounts should look at how they can use technology to provide better on-line guidance and tutorials for the various functions in CARS and CIPPS. These on-line programs would also serve as refresher training for someone who serves as a back-up and performs the functions infrequently. The Comptroller should continue to look for other ways to enhance the professional competence and overall strength and abilities of state agencies' fiscal staff.

Accounts should make improvements to the CAPP Manual, which is another tool it utilizes as a training mechanism for agency personnel. The CAAP Manual is currently on the Internet, but it is a series of Acrobat files. To make it more user-friendly and the information easily accessible, Accounts should consider changing the Manual to a searchable format that allows users to more easily search for a topic and find all references to the topic in the CAPP manual. In updating the guidance in the CAPP manual, Accounts should also take a proactive approach and address the various technological advances that agencies could use such as electronic invoicing capabilities and determine whether the policies and procedures adequately embrace and address the controls related to these processes.

As mentioned above, decentralized disbursement reviews have been limited. Accounts has increased staff in this area and consequently has performed more reviews than compared with recent years. Now that Accounts has had the opportunity to strengthen its decentralized disbursement review function, it has shifted its focus from quantity to quality of reviews. Rather than strive to perform a significant number of reviews, the focus is on agencies that Accounts has identified as being higher risk.

Recommendation:

Accounts should continue to strengthen the disbursement review function in order to provide sufficient oversight of agencies.

Over the years Accounts has experienced staff reductions resulting in less resources to devote to building and maintaining relationships with other agencies. In order to adequately address imminent changes in auditing and accounting standards including the potential trickle down effect of the Sarbanes Oxley Act on governments as well as recent trends in financial reporting emphasizing the need for more timely financial information it becomes more imperative for Accounts to build better relationships with agencies to ensure the Commonwealth can comply with these standards.

Other states have developed an informal process to manage customer relationships by assigning a specific staff member in the Comptroller's Office to serve as an accounting "analyst" for each state agency. Over time, this approach can develop a good relationship because the agency fiscal staff knows they can call their analyst with any question.

Recommendations:

Accounts should consider whether assigning an analyst within Accounts to each state agency could be beneficial in building a stronger relationship with the agencies so that they are more comfortable calling Accounts for assistance in the resolution of questions and problems. The Comptroller should also consider developing a mechanism similar to a "help desk" approach for following up with agencies that have requested assistance in order to create accountability for ensuring that Accounts is responsive to their requests for assistance.

Expand Operation of Service Bureaus

Accounts operates the Payroll Service Bureau to perform payroll processing, leave accounting, benefits data entry, and prepare certain payroll and benefits reconciliations and information returns for 37 agencies with approximately 6,300 employees. The Bureau's creation sought to achieve economies of scale and alleviate administrative burdens for smaller agencies having to maintain trained payroll staff. Currently, Accounts accepts agencies into the Payroll Service Bureau on a voluntary basis.

Chapter 1042 of the 2003 Acts of Assembly required Accounts to operate a fiscal service center to support certain agencies identified by Planning and Budget. As yet, Planning and Budget has not identified any additional agencies as specified by this language. However, Accounts does currently provide fiscal services to certain agencies, and there are other agencies throughout the Commonwealth that provide similar fiscal services to certain agencies.

Recommendation:

The General Assembly should consider requiring that Planning and Budget provide justification for any agency having less than 200 employees for not using the service center and the payroll service bureau. Accounts should plan for the additional use of these service bureaus by establishing a fee structure to ensure there is adequate funding to hire the necessary additional staff and obtaining approval of the charging of fees from the General Assembly.

Improve Statewide Report Preparation Process

Recent trends in financial reporting emphasize the need for more timely financial information. There are inherent system limitations in the Commonwealth's primary accounting system that make Accounts' ability to provide more timely financial information particularly challenging. Therefore, it is crucial that Accounts consider ways to increase the efficiency of the financial report preparation process. Improved efficiency should consequently lead to more timely financial information. We have provided below several areas in which we believe Accounts could achieve efficiencies in the report preparation process and recommend they consider these as part of their on-going review of the process.

Recommendations:

Automate Processes - There are several areas where Accounts either has the automation in place and has not taken full advantage of its capabilities or where they can implement automation given their current resources. Further, Accounts should consider obtaining additional data accumulation and analysis software and tools to achieve efficiencies in accumulating and analyzing data and hiring an expert in this area to train and assist its analysts on the use of these tools. Finally, Accounts should consider utilizing a web-based approach to accumulating information from agencies as opposed to accumulating the information via electronic mail.

Methods for Collecting Financial Information - Accounts should consider alternative methods for gathering financial information to determine whether there are more efficient ways to accumulate and report the information. Currently, some agencies do use estimation processes to develop the information submitted to Accounts. However, many rely heavily on actual activity in determining balances.

Agency Guidance and Relationships - Accounts must enhance its relationships with the agencies that provide information for use in statewide reports. Accounts should ensure the agencies have a full understanding of their role in the reporting process and should continue to provide the agencies guidance on how their information affects statewide reporting. As part of this process they should educate the agencies on the need for more timely information and work with them to develop process improvements which would provide information more timely to Accounts.

Enhance Knowledge of Standards and Requirements - Accounts' employees should receive additional training on federal guidelines and programs in order to provide sufficient guidance to state agencies and to perform an effective desk review of agency submissions. Further, Accounts should enhance its review process of the Statewide Schedule of Expenditures of Federal Awards (SEFA) to ensure it is complete and accurate. Finally, Accounts should consolidate responsibilities for federal regulations, including the SEFA, the Statewide Indirect Cost Allocation Plan, and the Cash Management Improve Act, into one division.

Coordinate with Central Support Agencies

The Commonwealth's central support agencies need to work together to build better communication channels to ensure they are communicating a consistent message to the agencies they support and that they understand the impact of their actions on the other central support agencies. The Comptroller establishes financial accounting and control operations practices for the Commonwealth. However, the other central support agencies often issue guidance that contradicts or undermines the guidance from the Comptroller.

Further, as the Commonwealth prepares to move toward a modern accounting system, good communication among the central support agencies is necessary since they are responsible for many of the Commonwealth's statewide systems.

Recommendations:

As the Comptroller has statutory responsibility for the Commonwealth's financial accounting and control operations practices, he should actively involve his staff in the development of any guidance by the other support agencies that relates to financial accounting and control operations. The Comptroller should take the lead in developing and enforcing a process using the statutory authority provided to him to ensure his office is aware of any activities of the central support agencies that could potentially impact the operations of the Comptroller's Office. The Comptroller should consider developing a liaison program with the other support agencies where designated staff from among the agencies would periodically update each other on the activities of their respective agencies.

Central support agencies often have overlapping support functions. The General Assembly should consider reviewing the current organization and operations of the central support agencies and determine whether there are opportunities to improve effectiveness and efficiency of these operations through the restructuring of certain responsibilities among these agencies. If the Commonwealth moves toward the development of an ERP system to replace the systems currently maintained by many of the central support agencies, the General Assembly may want to determine if there are opportunities to strengthen the current management structure of the Commonwealth based on the chief financial officer management structure.

Other Recommendations

Potential Legislative Changes

The General Assembly should consider establishing a separate group pool for Line of Duty health plan beneficiaries and setting up a separate trust fund for this program. The General Assembly should also consider moving responsibility for the Line of Duty health benefits to the Department of Human Resource Management as recommended by the study prepared pursuant to Chapter 899 of the 2002 Acts of Assembly.

The General Assembly may wish to amend the Code of Virginia to reflect current operations and needs. Several sections are outdated in what they require in comparison to what has evolved over time as current operating practices. Specifically,

- 1. Section 2.2-1512 of the Code of Virginia sets out requirements for information the Comptroller should include in the August 15 report. Over time, the contents of this report have evolved into what is most useful for the users and many of the requirements today would require the Comptroller to reproduce the accounting system reports, which would be thousands of pages.*
- 2. Section 43-40 of the Code of Virginia requires the Comptroller to review the evidence of ownership before paying a claimant for sold unclaimed property. Accounts does produce the check, but Treasury is responsible for everything else related to unclaimed property.*

Staff Retention

Accounts should examine ways to attract and retain additional quality employees. As Accounts has reorganized and flattened the organization due to budget reductions over the past 15 years, the result is significant employee attrition has taken place and fewer available promotional opportunities. Notably since 2001, 21 positions have gone unfilled.

As a result of this attrition, Accounts has employees in some areas who specialize in what they do, and there is no one else within the organization that has a good understanding of the job functions. Additionally, some of the more experienced staff are approaching eligibility for retirement. While Accounts has recently been able to fill vacant positions throughout the agency and expanded the cross-training of its employees to ensure that more than one individual can perform critical job functions, the Comptroller should continue to emphasize the importance of cross-training employees.

Court Accounting Systems

Section 58.1-3173 of the Code of Virginia requires the Comptroller to approve the system of accounting for each clerk of each court of record and to prescribe the method of making the entries and keeping the required records. In practice, Accounts sets the policies and procedures for the deposit of fines collected by the courts, but does not participate in approving systems of accounting for the courts. The Comptroller should determine what systems are currently in use by the courts of record and determine whether any changes are needed and develop a process to review future systems prior to their implementation by the clerks of the courts of record.

Chapter 1 Comptroller's Office Overview

1.1 Duties and Responsibilities

The Department of Accounts and the Office of the State Comptroller have been in existence since 1928. The Code of Virginia and the various Appropriations Acts set forth certain duties and responsibilities of the Comptroller related to the Commonwealth's financial accounting and control operations practices. In addition, the Comptroller's Office has certain functions it carries out in order to ensure the Commonwealth's compliance with federal laws and regulations.

Statutory Duties

The Code of Virginia sets forth numerous responsibilities for the Comptroller and the Department of Accounts. We have summarized some of the more significant requirements below, with a parenthetical reference to the part of this report where we provide a further discussion and description of how the Comptroller addresses these requirements.

- The Comptroller is to maintain a complete system of accounting for the financial transactions of every state department. All transactions in public funds are to clear through the Comptroller's office. (Sections 2.5 *General Accounting* and Chapter 3 *Statewide Accounting Systems*) However, certain Universities can process their own receipts and disbursements, including payroll, vendor payments, travel reimbursements, petty cash, cash receipts, revenue refunds, and interagency payments. (Section 2.8 *Decentralization*)
- The Comptroller is to establish unified financial accounting and control, and prescribe what accounts must be kept by each state agency in addition to the system of general accounting maintained in the Comptroller's office. (Sections 2.5 *General Accounting* and Chapter 3 *Statewide Accounting Systems*)
- The Comptroller is to direct the development of a modern, effective, and uniform system of bookkeeping and accounting. This should include a system of checks and balances and a system of accounting suitable to the needs of the various agencies and institutions. (Sections 2.5 *General Accounting* and Chapter 3 *Statewide Accounting Systems*)
- The Comptroller is to maintain a full explanation of all systems of accounting that are developed and provide information about these systems to the officials affected by the systems. (Sections 2.5 *General Accounting* and Chapter 3 *Statewide Accounting Systems*)
- The Comptroller must post twice a year, by April 1 and October 1, on the Department of Accounts Internet website, information about revenue sources collected by the Commonwealth. The Comptroller is also to include any Auditor of Public Accounts control findings that any revenue source was used for any purpose other than the purpose originally established in law for such revenue source. (Section 2.5 *General Accounting*)

- The Comptroller must prepare a preliminary annual report to the Governor on or before August 15. This report must include a statement showing the balance available for each department, monthly expenditures from each appropriation account in the twelve months of the preceding year, annual revenues and expenditures in each fund, and a balance sheet. These must all be classified and itemized in accordance with the budget classifications adopted by the Governor. Over time, the content of this general fund preliminary report has changed to reflect the needs of current users and does not contain all of the information originally required. (Sections 2.6 *Financial Reporting*)
- The Comptroller must prepare a final annual report on or before December 15. The report shall include (i) financial statements that are prepared, insofar as practical as determined by the Comptroller and the Auditor of Public Accounts, in accordance with generally accepted accounting principles; (ii) supplementary statements prepared on the budgetary basis of accounting; (iii) information provided by the State Treasurer on the status of bonded debt in the Commonwealth and the future general fund requirements for such debt; and (iv) other information deemed necessary by the State Treasurer. In this report, the Comptroller must designate an amount for nonrecurring expenditures equal to the remaining amount of the general fund balance that is not otherwise reserved or designated. (Section 2.6 *Financial Reporting*)
- The Comptroller must compare the total individual income, corporate income, and sales taxes collected with the official budget estimate within five business days after the preliminary close of the Commonwealth's accounts at the end of each fiscal year. If the comparison indicates that the collections are 1.0 percent or more less than the official budget estimate, the Governor must prepare a reestimate of general fund revenues for the current biennium and the next biennium in accordance with the provisions of Section 2.2-1503 of the Code of Virginia. The Governor must report the reestimate to the chairman of the Senate Committee on Finance and the chairmen of the Finance and Appropriation Committees of the House of Delegates not later than September 1 following the close of the fiscal year. This information is included in the monthly revenue report. (Section 2.5 *General Accounting*)
- By January 1 each year the Comptroller must certify the total of the prior year's general fund revenue collections in excess of the official estimate in the appropriation act, the total unreserved general fund balance whose reappropriation is not required, and the total funds to be credited to the Virginia Water Quality Improvement Fund for the prior year. This information is included in the monthly revenue report (Section 2.5 *General Accounting*) and in the August 15th preliminary report. (Section 2.6 *Financial Reporting*)
- The Comptroller is to only issue a disbursement warrant after he has audited, through the use of statistical auditing or other acceptable means, the supporting documentation and satisfied himself as to the regularity, legality, and correctness of the disbursement, and that the claim has not been previously paid. (Section 2.5 *General Accounting*)
- Accounts is to procure the services of one or more private contractors to conduct systematic recovery audits of state agency contracts. These contracts are to be

performance-based and allow the contractor to be paid a percentage (not to exceed 10 percent) of any payment error that is recovered. Recovery audits consist of the review of contracts to identify payment errors made by state agencies to vendors and other entities resulting from (i) duplicate payments, (ii) invoice errors, (iii) failure to apply applicable discounts, rebates, or other allowances, or (iv) any other errors resulting in inaccurate payments. Accounts reports on the status and effectiveness of recovery audits, including any savings realized, to the Chairs of the House Committee on Appropriations and the Senate Committee on Finance by January 1 of each year. The 2003 General Assembly Session added this requirement and Accounts is currently seeking proposals from vendors who perform recovery audits. General Accounting will have responsibility for this function once Accounts selects the vendor.

- The Comptroller must prepare a register of all warrants for payments out of the state treasury to present to the Treasurer for payment. (Section 2.5 *General Accounting*)
- The Comptroller sets policies on travel expenses for all executive branch agencies and reviews requests for reimbursement on at least a sample basis. (Section 2.5 *General Accounting*)
- The Comptroller files an annual report on November 1 on the number and dollar amounts of late payments by each department, interest paid, and steps being taken to reduce the future incidence of late payments. (Section 2.6 *Financial Reporting*)
- Accounts, in conjunction with the Office of the Attorney General, sets the overriding policies for the collection of accounts receivable for state agencies. Accounts has responsibility for oversight and monitoring the accounts receivable program. Annually, Accounts is to report those agencies and institutions that do not have effective accounts receivable programs. Accounts sets the guidelines for charging interest, penalties, and administrative charges. (Section 2.6 *Financial Reporting*) In addition, Accounts coordinates the debt set-off program used to collect past due accounts. (Section 2.5 *General Accounting*)
- The Comptroller is responsible for handling claims against the Commonwealth. (Section 2.2 *State Payroll Operations and Charge Card Administration*)
- The Comptroller is responsible for handling line of duty lump sum and continuing health care payments. (Section 2.1 *Administrative Services*)
- The Comptroller maintains a file of reports received from each higher education institution annually of all athletic receipts and disbursements of the institution and any affiliated groups as public records in the Administrative Services Division. In addition, the Comptroller maintains an inventory of all the public property and furniture in the Governor's house and outbuildings.
- The Code requires the Comptroller to pay unclaimed property claimants the proceeds of any sale after verification of ownership. In reality, Treasury handles unclaimed property, including verification of ownership, and Accounts processes the check to the claimant once requested by Treasury.

- Accounts does the accounting and reconciliations associated with state employee's contributions to the deferred compensation plan. Accounts also transfers the contributions, as well as the Commonwealth's cash match, to the designated investment company. (Section 2.2 *State Payroll Operations and Charge Card Administration*)
- The Comptroller must approve the system of accounting for each court of record, maintained and supplied by the Supreme Court of Virginia. In practice, Accounts sets the policies and procedures for the deposit of fines collected by the courts, but does not approve the systems of accounting for the courts.
- The Comptroller is responsible for distributing the annual payments received from the Tennessee Valley Authority to the appropriate localities. In addition, the Comptroller makes Virginia's proportionate payment towards the budget of the Ohio River Valley Water Sanitation Commission. (Section 2.5 *General Accounting*)

Boards and Other Committee Assignments

By virtue of his office, the Comptroller serves on various boards, including the Virginia Public Building Authority Board, the Virginia Public School Authority Board, the Virginia College Building Authority Board, the Treasury Board, the Wireless E-911 Services Board, and the Virginia College Savings Plan Board. In addition, the Comptroller serves on the Public Private Partnership Oversight Committee established to oversee the financing of technology needs of the Department of Taxation. The Committee reviews and approves the terms of contracts relating to the measurement of the revenue attributable to the technology program; however the Committee has not met since the current Comptroller took office.

Appropriation Act Duties

The Appropriations Act has set forth numerous requirements for the Comptroller over the past 15 years. Each Act also details the Comptroller's responsibility for transfers and payments. We have summarized some of the more significant requirements and responsibilities below, with a parenthetical reference to the part of this report where we provide a further discussion and description of how the Comptroller addresses these requirements. Where appropriate, we also included a parenthetical reference to the Appropriation Act in which the duty is first mentioned. Other requirements in the Act include:

- Accounts must develop procedures for a federal Statewide Indirect Cost Allocation Plan (SICAP) used to recover allowable indirect and overhead costs for agencies receiving federal grants and contracts. Before the Commonwealth can recover any funds, the federal government must audit the plan. Approval of the plan also allows the purchase of goods and services with federal grant funds from activities accounted for in the Commonwealth's Internal Service Funds. (Section 2.6 *Financial Reporting*)
- The Comptroller must review proposed building projects to determine if they qualify as capital lease agreements. Accounts notifies the Treasury Board upon the approval of any transaction which qualifies as a capital lease under the terms of this section. (Section 2.6 *Financial Reporting*)
- The Comptroller must issue travel regulations and can reimburse travel costs. The Act allowed the Comptroller to authorize exemptions to certain restrictions and to

reimburse using a per diem instead of actual cost in certain cases. The CAPP Manual includes the travel regulations. (Chapter 668 for fiscal years ending June 30, 1989 and 1990; Section 2.5 *General Accounting*)

- Accounts must develop policies and procedures to ensure state agencies comply with Federal tax reporting requirements for IRS Form 1099. The Comptroller has continued these policies in the CAPP Manual. (Chapter 972 for fiscal years ending June 30, 1991 and 1992; Section 2.2 *State Payroll Operations and Charge Card Administration*)
- The Comptroller must work with two universities to develop a plan for decentralization. This pilot program eventually led to new language in the Code of Virginia Section 2.2-803.1, to make this a permanent program. (Chapter 723 amendment of Chapter 972 in Section 2.8 *Decentralization*)
- Accounts must seek proposals for a new or modified statewide integrated human resource information system, which ultimately resulted in the IHRIS project. This project was later tabled. (Chapter 966 for fiscal years ending June 30, 1995 and 1996; Section 3.1 *Comptroller's Office Responsibilities: Commonwealth Integrated Personnel and Payroll System – CIPPS*)
- The Comptroller can charge state agencies a per check fee of \$1 when agencies have failed to comply with the provisions of the Commonwealth's Small Purchase Charge Card and/or Electronic Data Interchange programs. (Sections 2.5 *General Accounting* and 2.2 *State Payroll Operations and Charge Card Administration*)
- Accounts should establish and operate a payroll service center to support the payroll processing for certain agencies. Services include payroll processing, benefit enrollment, leave accounting, and reconciliations. A later Act added the requirement that Accounts should recover the cost of services provided by the service bureau. (Chapter 912 for fiscal years ending June 30, 1997 and 1998 and Chapter 1042 of the 2003 Acts of Assembly; Section 2.3 *Payroll Service Bureau*)
- Chapter 899 of the 2002 Acts of Assembly requires the Department of Human Resource Management and the Department of Accounts to jointly conduct a study and develop recommendations in order to transfer the health insurance benefit portion of the Line of Duty Act program from the Department of Accounts to the Department of Human Resource Management's health insurance program. The study reported its findings and recommendations to the Director of the Department of Planning and Budget and thus far the General Assembly has declined to act on the proposed changes. (Section 2.1 *Administrative Services*)
- Accounts should operate a fiscal service center to support certain agencies identified by Planning and Budget. The service center will provide services such as accounts payable processing, travel voucher processing, and reconciliations. Accounts should recover the cost of these services. Additional agencies other than those identified by Planning and Budget may use this center with the approval of their cabinet secretary and the Secretary of Finance. (Chapter 1042 of the 2003 Acts of Assembly; Section 2.1 *Administrative Services*)

- The Comptroller must provide the Governor with the actual total of individual income, corporate income, and sales taxes for the just completed fiscal year, as compared to the official budget estimate within five business days after the preliminary close of the accounting records. The Governor uses this report to determine whether there is a need to re-estimate the general fund revenues by September 1. This information is included in the monthly revenue report. (Chapter 1042 of the 2003 Acts of Assembly; Section 2.5 *General Accounting*)
- Beginning in the 2001-2002 biennium, the Appropriation Act allows the Comptroller to begin preparing the accounts of the Commonwealth for each subsequent fiscal year on or about ten (10) days before the start of such fiscal year. During this period, the Comptroller may authorize the disbursement of general funds drawn against appropriations of the subsequent fiscal year to meet the contractual obligations of the Commonwealth, not to exceed an amount specified in the Appropriation Act. Debt service payments are to be made in accordance with bond documents, trust indentures, and escrow agreements and are not subject to this provision.

Other Duties

In addition to the Code of Virginia and the Appropriation Act, several federal regulations result in mandated processes for the Comptroller. The Comptroller, as auditee, is required by OMB Circular A-133 “Audits of States, Local Governments and Non-Profit Organizations” to prepare the Schedule of Resolution of Prior year Audit Findings and the Schedule of Expenditures of Federal Awards sections of the Statewide Single Audit Report. Prior to the revision of Circular A-133 in 1997, the Auditor of Public Accounts prepared these schedules. (Section 2.6 *Financial Reporting*) Under the Cash Management Improvement Act of 1990 (CMIA), the Comptroller must prepare detailed analyses of the movement of federal aid payments and determine whether the federal government or the state is the beneficiary of “interest float” that results. The goal of the Comptroller is to minimize the interest liability owed to the federal government each year. (Section 2.2 *State Payroll Operations and Charge Card Administration*)

1.2 Trends in Funding and MEL

At its peak in the early 1990’s, Accounts employed just under 200 staff and had an operating budget of \$13.3 million. For fiscal year 2004, the Comptroller’s Office employed 95 staff and had an operating budget of \$7.7 million.

Over the past 15 years, certain changes in the Account’s operations and funding reductions have led to reductions in staff. An overview of the changes is shown in Exhibit 1. Specific changes include:

- In 1992, CARS data entry and pre-audit for certain agencies were decentralized, resulting in a reduction of 29 positions over two years. This included the layoff of 16 positions.
- In 1995, the Comptroller reorganized the office and abolished a layer of management (assistant controller positions) to manage the reduction of 30 positions associated with the Workforce Transition Act. These workforce reductions were partially offset by automation using personal computer

technology. However, selected agency services and review functions, such as agency functional analyses, were eliminated.

- From fiscal year 1997 to 2001, Accounts established a Payroll Service Bureau with five new funded positions, and five unfunded positions absorbed from other areas in the Comptroller's office.
- During fiscal years 2001 and 2002, the Comptroller laid off four employees and cut 13 positions through attrition due to the statewide budget cuts. The Comptroller managed these reductions primarily through the elimination of the Disbursement Review and Fixed Asset Division and the Financial Analysis and Services Division. The Comptroller allotted abbreviated functions and the remaining positions among the remaining divisions.
- In fiscal year 2003, the budget cuts continued and the Comptroller laid off 10 employees and cut eight positions through attrition. The Comptroller managed these reductions through additional reorganization and consolidation of some units. In addition, the Comptroller added two positions and absorbed the function of the State Internal Auditor into Accounts.

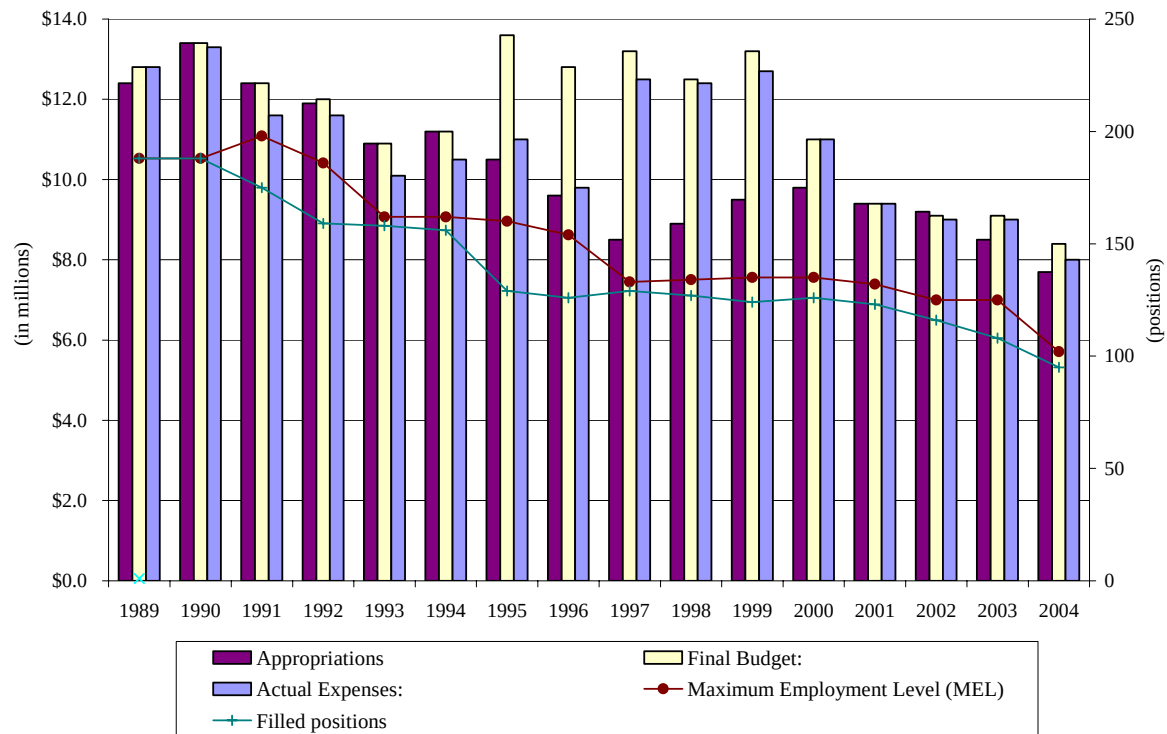
Department of Accounts
Analysis by Appropriation, Budget and Actual Expenses and Funded Positions
(dollars in millions)

	1989	1990	1991	1992	1993	1994
Appropriations	\$ 12.4	\$ 13.4	\$ 12.4	\$ 11.9	\$ 10.9	\$ 11.2
Final Budget:						
724 Financial Systems Development and Management	\$1.6	\$1.4	\$1.2	\$1.1	\$1.1	\$1.2
737 Accounting Services	3.7	4.2	4.4	4.2	3.8	4.1
749 Administrative and Support Services	7.5	7.8	6.8	6.7	6.0	5.9
826 Service Center Administration	-	-	-	-	-	-
Total	\$ 12.8	\$ 13.4	\$ 12.4	\$ 12.0	\$ 10.9	\$ 11.2
Actual Expenses:						
724 Financial Systems Development and Management	\$ 1.6	\$ 1.4	\$ 1.2	\$ 1.1	\$ 1.0	\$ 1.2
737 Accounting Services	3.7	4.1	4.3	4.1	3.7	3.9
749 Administrative and Support Services	7.5	7.8	6.1	6.4	5.4	5.4
826 Service Center Administration	-	-	-	-	-	-
713 Executive Management	-	-	-	-	-	-
Total	\$ 12.8	\$ 13.3	\$ 11.6	\$ 11.6	\$ 10.1	\$ 10.5
(positions)						
Maximum Employment Level (MEL)	188	188	198	186	162	162
Filled positions	188	188	175	159	158	156

Note: Appropriations represent the general funds made available to Accounts. The final budget and actual expenses include both general and nongeneral funds.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
\$ 10.5	\$ 9.6	\$ 8.5	\$ 8.9	\$ 9.5	\$ 9.8	\$ 9.4	\$ 9.2	\$ 8.5	\$ 7.7
\$4.2	\$4.7	\$6.1	\$5.1	\$5.6	\$2.4	\$2.1	\$1.9	\$1.8	\$1.6
3.8	3.4	3.7	3.9	3.8	3.8	3.8	3.8	3.7	3.8
5.6	4.7	3.3	3.2	3.5	4.5	3.1	2.9	3.2	2.6
-	-	0.1	0.3	0.3	0.3	0.4	0.5	0.4	0.4
\$ 13.6	\$ 12.8	\$ 13.2	\$ 12.5	\$ 13.2	\$ 11.0	\$ 9.4	\$ 9.1	\$ 9.1	\$ 8.4
\$ 1.6	\$ 1.7	\$ 5.4	\$ 5.0	\$ 5.1	\$ 2.5	\$ 2.1	\$ 1.9	\$ 1.8	\$ 1.6
3.8	3.4	3.7	3.9	3.8	3.8	3.8	3.7	3.6	3.4
5.6	4.7	3.3	3.2	3.5	4.4	3.0	2.9	3.2	2.6
-	-	0.1	0.3	0.3	0.3	0.5	0.5	0.4	0.4
-	-	-	-	-	-	-	-	-	-
\$ 11.0	\$ 9.8	\$ 12.5	\$ 12.4	\$ 12.7	\$ 11.0	\$ 9.4	\$ 9.0	\$ 9.0	\$ 8.0
160	154	133	134	135	135	132	125	125	102
129	126	129	127	124	126	123	116	108	95

Exhibit 2 – Trends in Appropriations, Budget, Actual Expenses and Positions



Note: Appropriations represent the general funds made available to Accounts. The final budget and actual expenses include both general and nongeneral funds.

1.3 Strategic Plan

The Comptroller's Office prepares a strategic plan for each biennium. The Comptroller requires each division manager provide input about their division, covering areas such as staffing levels, customer service, mission critical activities, and the reward system. The Comptroller then takes this information and consolidates it into a cohesive plan for the agency.

The Plan begins with the mission of the Comptroller's Office: *To provide a uniform system of accounting, financial reporting, and internal control adequate to protect and account for Commonwealth financial resources.* The Plan covers the federal and state mandates under which the Comptroller's office operates: Cash Management Improvement Act of 1990, Indirect Cost, Statewide Single Audit, Internal Revenue Service tax regulations, and Governmental Accounting Standards Board statements.

The Plan details the functional activities and sub-activities of each organization unit within Accounts. It recognizes the accomplishments for the past year and presents the critical issues and challenges Accounts recognizes it must address in the coming years.

Accomplishments for the period January 2002 through April 2003 include:

- Introduction of the new web-based Remittance Electronic Data Interchange Virginia (REDI Virginia). REDI Virginia allows EDI trading partners to view remittance data on a secure website rather than using the previous unreliable fax process. REDI Virginia saves telecommunications costs and provides quicker, more reliable, and secure access to remittance data.
- Enhancement of Payline to allow individuals to opt-out of receiving printed earnings notices. The electronic paycheck stub eliminates central printing costs and distribution costs, and is more secure than having paper copies of the earnings statements produced.
- Successful implementation of Governmental Accounting Standards Board Statement Number 34 for the fiscal year ended June 30, 2002. Accounts not only received an unqualified audit opinion, but also received the GFOA's certificate of excellence in reporting. Both of these are factors that contribute to the Commonwealth's AAA bond rating.
- Beginning of the implementation phase of a web reports distribution system. Eventually, this will allow the use of the internet for the agencies to retrieve their reports, resulting in cost savings related to handling and managing accounting reports and improving the timeliness and security of receiving the reports.
- Consolidation of the Department of the State Internal Auditor into Accounts, as required by legislation passed in the 2002 General Assembly session.
- Reorganization and elimination of lower priority activities while maintaining critical agency functions to achieve budget cuts in the spring and fall of 2002. This required the layoff of 13 percent of the agency's staff, and resulted in leveraging the skills of remaining experienced staff members to enable Accounts to continue to meet its core mission objectives.

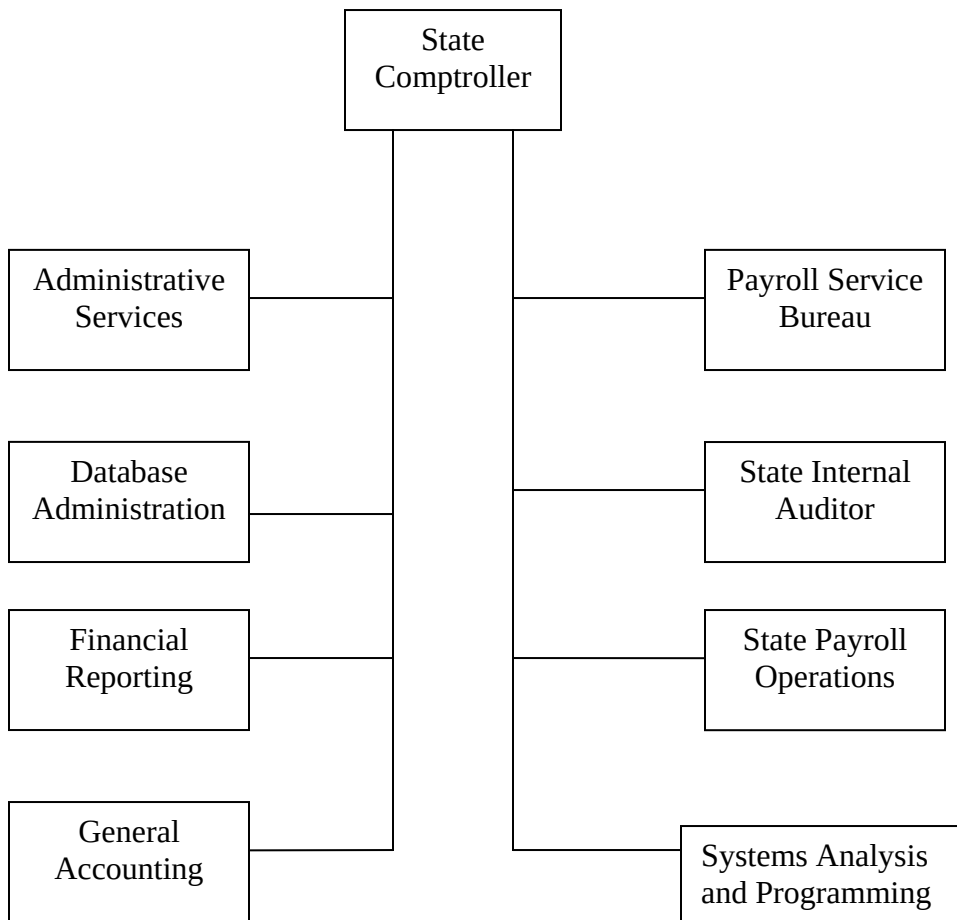
Accounts faces several critical issues and challenges which it outlines in its strategic plan. Specifically, Accounts specified the following issues in their strategic plan:

- The ability to retain and develop experienced professional accounting and information technology staff becomes more difficult each year. Layoffs have depleted staff resources available to provide back-up staff. Fewer resources are available for continuing education, career development, and compensation, which increases the risk of losing professional staff. Succession planning and replacement training is difficult due to the lack of resources and the increasing scope of knowledge and experience lost with each resignation. With the diminished staff resources, the remaining staff are focused full-time on core operations and do not have the time for new initiatives or long-term planning.
- Statewide budget reductions have resulted in the reduction of agency fiscal staff who agency management typically perceived as “overhead” but who in reality represent essential internal financial controls. Accounts cancelled the Fiscal Management Training program due to budget reductions, which makes it difficult to communicate important internal controls to agency fiscal management. Budget reductions also led to limited decentralized disbursement reviews, meaning less centralized monitoring of agency compliance. New ways must be found to enhance the professional competence and overall strength and abilities of agency fiscal staff.
- In the event of a computer systems disaster, there is a three to five day system downtime that will occur as the Commonwealth switches central systems over to the backup VITA site. This time delay would adversely affect business-critical processing schedules for CIPPS and CARS for making timely payments to employees, localities, and vendors. Accounts is exploring risk mitigation strategies and alternative systems back-up plans.
- Accounts continues to look for ways to reduce the use of paper in order to reduce costs. Included in this initiative are web distribution of agency reports, maximizing the use of eVA, and use of REDI Virginia, Payline, and the Small Purchase Charge Card program.
- Accounts desktop and server hardware is out-of-date and unreliable. In addition, operating systems and associated software needs to be updated and better graphics software need to be identified.
- Accounts believes it must retain ownership and control of the business processes executed through the Commonwealth’s major central financial systems (accounting, financial reporting, and payroll) in order to maintain the internal control structure and financial management capabilities. This ownership and control must be part of the requirements of any VITA enterprise-wide system. Accounts desires to participate in building a business case for future enterprise-wide system development efforts, but will find it challenging to do this and continue to meet existing responsibilities with existing staff levels.
- The administration and management of the Line of Duty death benefit claims and payments related to insurance benefits for beneficiaries may not be at the optimal

agency for the most efficient operation at existing staff levels. In addition, the Criminal Injuries Compensation Fund, managed by the Virginia Workers Compensation Commission, funded the expenses in fiscal year 2004. The original intent of that fund was not for Line of Duty payments.

Chapter 2 Organization of the Comptroller's Office

The Department of Accounts (Accounts) has eight divisions, and below are the primary functions and responsibilities of each of these divisions. Over time, there have been several reorganizations that changed the responsibilities and structure of the various divisions, including the consolidation of several divisions and the elimination of the Assistant Comptroller management layer within Accounts. These changes have been necessary for a variety of reasons including budget reductions and general changes in state government including increased automation and decentralization of operations.



2.1 Administrative Services

The Administrative Services Division provides support services to Accounts as well as several other agencies. Over time, the major changes to Administrative Services have been its consolidation with the Human Resource Division in fiscal year 2004 and the reduction of positions as necessitated through budget cuts or by changes within state government including decentralization.

Administrative Services is responsible for invoice processing, accounts payable, and accounting reconciliation services to Accounts, the Department of Treasury, and the Department of Planning and Budget. The Division also processes accounts payable only for the State Council of Higher Education for Virginia and the Commonwealth Health Research Board. Chapter 1042 of the 2003 Acts of Assembly required Accounts to operate a fiscal service center to support certain agencies identified by Planning and Budget. While Administrative Services does provide fiscal services to the agencies listed above, as it has for some time, Planning and Budget has not identified additional agencies as specified by this language. In addition, the Division is responsible for the human resources, payroll, and benefits administration functions for Accounts' employees. While the Division does not have a dedicated human resource position, it receives technical assistance when necessary from the Department of Treasury or Planning and Budget's human resource personnel. The Division also processes payroll, fringe benefits, and leave for Treasury, Planning and Budget, and Virginia College Savings Plan, which represents approximately 330 employees.

Administrative Services publishes and maintains, on its website, the Commonwealth Accounting Policies and Procedures Manual (CAPP), the Comptroller's Quarterly Report, and the CAFR. The CAPP Manual establishes the statewide accounting practices for all agencies of state government. While the various other divisions within Accounts are responsible for the content of the CAPP Manual, the Administrative Services Division is responsible for coordinating the updates and accumulating them for inclusion on the website. The Division is also responsible for granting access to agencies to Reportline, which is a web-based system that provides on-line access to electronic versions of the standard CARS reports. Accounts created this system in order to reduce the cost of providing paper copies of reports to the agencies.

Administrative Services also maintains, as public records, all documents related to cash deposits and disbursement transactions for non-decentralized agencies and related to Accounts' central processing activities. This responsibility has declined over the years as more agencies have taken on maintaining all of their records for public inspection. Administrative Services coordinates internal and external training programs in terms of course registration and granting continuing professional education credits. The external training programs provided to state agencies, includes training related to the central systems that Accounts administers including CARS, FAACS, and CIPPS. In prior years, Accounts also offered a Financial Management Training Program for agencies. However, Accounts discontinued this program in fiscal year 2002 due to budget constraints.

Administrative Services has also taken over the responsibility for processing payments to beneficiaries of certain public safety officers who die or are disabled from work related causes under the provisions of the Line of Duty Act. Under this Act, the death of certain public safety officers entitles their beneficiaries to receive a lump sum payment. The Division also is responsible for making monthly payments for health insurance for surviving spouses, disabled officers and their spouses, and dependents, which has significantly increased the workload required to administer this Act. Chapter 899 of the 2002 Virginia Acts of Assembly directed the Department of Accounts, the Virginia Retirement System (Retirement System) and the Department of Human Resource Management (Human Resource) to conduct a study and develop recommendations in order to transfer administration of the Line of Duty Act death benefit and health benefit programs from Accounts to the Retirement System and Human Resources, respectively. The study recommended that administration of the Line of Duty death benefit remain at Accounts and administration of the Line of Duty health insurance benefit be transferred to Human Resources since they handle all of the other

health care programs for the Commonwealth. As a long-term solution, Human Resource recommends establishing a separate group pool for Line of Duty health plan beneficiaries.

2.2 State Payroll Operations and Charge Card Administration

The State Payroll Operations and Charge Card Administration is responsible for all aspects of the payroll process including payroll production, payroll and benefits accounting, and agency assistance and training. The Division operates and maintains the Commonwealth Integrated Payroll/Personnel System (CIPPS), the state's central payroll and leave system. CIPPS currently processes payroll for approximately 86,000 or 80 percent of the Commonwealth's employees. Agencies and institutions use CIPPS to process employee salaries and wages, tax computations, payroll deductions, and leave transactions. This Division grants and monitors system access to the various agencies and institutions that utilize CIPPS. Data from CIPPS generates direct deposit and checkwrite files that Accounts sends directly to banks and Treasury for disbursement processing. Each day the Division reconciles all payroll disbursements recorded in CIPPS to amounts recorded in CARS. In addition, each pay period the division performs an automated comparison of CIPPS to PMIS, a system maintained by DHRM, and researches discrepancies either internally or with assistance from the impacted agencies.

The Division performs several other functions related to payroll processing including preparing and submitting various information to the Federal Government such as monthly tax deposits, quarterly withholding reports, and W-2 forms for employees paid through CIPPS. In addition, the Division is responsible for implementing system modifications required for changes in tax laws or in the needs of state government. Further, the Division administers the state benefit and supplemental deduction programs for healthcare, flexible spending accounts, deferred compensation, and numerous other deductions. The division must extract these deductions from payroll data, reconcile the amounts to the general ledger, and process the payments to the third party vendors.

The Division provides assistance and training to agency payroll staff and fiscal officers as needed. They conduct semi-annual training classes on how to process payroll in CIPPS and also publish Payroll Bulletins on Accounts' website to communicate any relevant information concerning payroll processing to the various agencies that utilize CIPPS.

The Division administers the Commonwealth's Small Purchase Charge Card Program, which is an alternative payment method that state agencies and institutions use when making small purchases under \$5,000. The Division also operates the Gold Card Program, which allows procurement officers to make purchases up to \$50,000. The Division monitors and reports on usage of charge cards by agencies and ensures timely payments to the purchasing card vendors. In fiscal year 2004, in order to encourage maximum use of the small purchase charge card, the Division began charging agencies and institutions a \$1 check fee if they did not use the purchase card for a minimum of 70 percent of eligible transactions.

Other duties include accumulating and preparing data for the Comptroller's quarterly Report on Statewide Financial Management and Compliance, providing guidance to agencies for required Federal Information Returns related to vendor payments, and administering claims against the Commonwealth as required by Section 2.2-814 of the Code of Virginia. Also, the Division ensures compliance with the Federal Cash Management Improvement Act (CMIA), which requires states receiving Federal funding to establish agreements regulating interest payment responsibilities whenever the movement of federal aid payments to states result in "interest float" benefits to either the federal government or to the state.

2.3 Payroll Service Bureau

The Payroll Service Bureau performs payroll processing, leave accounting, benefits data entry, and prepares certain payroll and benefits reconciliations and information returns for participating agencies. Chapter 912 of the Appropriation Act for the fiscal years ending June 30, 1997 and 1998, created the Bureau in order to achieve economies of scale and alleviate administrative burdens for smaller agencies having to maintain trained payroll staff. The Bureau began operations in July 1996 as part of the Payroll and Financial Analysis Division, serving 17 agencies and approximately 1,780 employees with a staff of four payroll and benefits analysts. In 2000, the Payroll Service Bureau became a separate division within the Department of Accounts.

As of November, 2004,, the Bureau provides services to 32 agencies and approximately 5,300 employees with a staff of nine, including a manager and eight payroll and benefits analysts. Each analyst processes payroll for approximately 650 employees, which exceeds the Bureau's targeted processing load of 500 to 550 employees. Each participating agency is assigned a payroll and benefits analyst, who is responsible for communicating with the appropriate agency personnel and performing the agreed upon services for the agency. The initial five payroll and benefits analyst positions were funded with new operating appropriations. However, Accounts absorbed the cost of subsequent positions created to reach the current staffing level. In fiscal year 2002, Accounts began charging a fee to certain customer agencies to help offset the cost of operating the Bureau.

2.4 Information Resource Management

Information Resource Management consists of two divisions within Accounts, the Systems Analysis and Programming Division and the Database Administration Division. The two divisions provide a "check and balance" control over Accounts' systems. The Systems Analysis and Programming Division develops and maintains applications. The Database Administration Division operates the production environment, which includes hardware, software, and systems security.

The Systems Analysis and Programming Division currently spends approximately 30 percent of their time developing new applications with the remaining 70 percent used for the maintenance of existing applications. Recently this division has focused on developing web-enabled applications such as Payline, Reportline, and REDI Virginia. In July 2004, the four employees from this division having responsibility for Production Control became employees of the Virginia Information Technologies Agency (VITA). Production Control creates and schedules job requests and verifies that the jobs ran as intended.

The Database Administration Division controls and tests application changes before they enter the production environment and runs the systems help desk, computer center, and the local area network (LAN). In July 2004, seven of the division's then ten employees became employees of VITA. The VITA group within this division is Computer Operations.

2.5 General Accounting

The General Accounting Division's primary responsibilities concern the operation and maintenance of CARS as required by the Code of Virginia. CARS is a cash-basis accounting system, used to record all of the Commonwealth's cash receipts and disbursement transactions and provides a means to enforce state appropriation law for all state agencies through automated edits and manual reviews. See Section 3.1 *Commonwealth Accounting and Reporting System - CARS* for additional information concerning CARS

processing and the system design. General Accounting activities include developing and issuing CAPP Manual policies and procedures for entering transactions. The Division also offers periodic training courses on CARS on-line data entry policies and procedures. In addition, the Division issues special procedures for monthly and year-end closings.

The Division's staffing remained relatively constant until fiscal year 2002, when it received several functions previously assigned to the disbanded Disbursements Review and Fixed Assets Division. As a result, the Division received five additional positions. However, in fiscal year 2003 due to budget cuts the Division eliminated four positions. Currently, the Division has 16 positions including a position added in fiscal year 2004 to perform quality assurance reviews on the accounting operations within the various state agencies, which was in response to a recommendation included in the fiscal year 2003 audit report. In addition, the Division has reinstated one of the positions eliminated in fiscal year 2003 that was responsible for decentralized agency reviews.

Other activities include the daily reconciliation of the CARS cash position to the books of the State Treasurer, generating internal and agency reports, creating check files for disbursement transactions for the Department of Treasury to print checks, and reconciling and sending the banks the Electronic Data Interchange (EDI) files. The Division also monitors CARS activity, provides assistance to agencies, and resolves errors as necessary. They also process certain transactions in CARS including reoccurring or correcting journal entries, transfers as required by part 3 of the Appropriation Act, and the quarterly calculation and allocation among the various funds of interest earned by the Department of Treasury on the Commonwealth's cash and investments as required by the Code of Virginia and Appropriation Act.

In fiscal year 2002, General Accounting also added the pre-audit and review of agencies maintaining their public records of accounting transactions from the eliminated Disbursements Review and Fixed Assets Division. The Code of Virginia requires the Comptroller to audit disbursements before payment. However, this task has been delegated to decentralized agencies under a Memorandum of Understanding with the Comptroller. The Division continues to perform pre-audit reviews of select agencies. The pre-audit and decentralized review process is discussed further in Section 2.8 *Decentralization*.

The General Accounting Division operates the Commonwealth's Electronic Data Interchange (EDI) program. EDI is a low-cost alternative to the traditional paper check method of payment and allows processing through the automated clearinghouse network between the Commonwealth and its trading partners. The Commonwealth's trading partners include vendors, localities, and state employees (for non-payroll transactions only). General Accounting establishes and maintains trading partner account information, oversees and evaluates the EDI disbursement process, researches and resolves problems, and coordinates software or system changes. Currently, the Commonwealth has approximately 26,000 trading partners and disburses approximately \$18 billion annually using EDI. In fiscal year 2004, in order to encourage agencies to maximize their use of EDI for processing travel reimbursements for state employees, the Division began charging a fee of \$1 for every check written after two checks have been issued to employees for travel reimbursement during a fiscal year.

The General Accounting Division performs numerous other functions including the following:

- prepares the monthly revenue report, which is published on the Secretary of Finance's website;
- oversees the deposit of revenue from Local Treasurers and Clerks of the Circuit Courts including ensuring the amounts are deposited, reported, and reconciled in accordance with state policies and procedures;

- calculates and distributes amounts to local governments as required by the Code of Virginia for such items as state sales taxes, ABC net profits, wine taxes, rolling stock taxes, recordation taxes, and Tennessee Valley Authority payments;
- provides intra-governmental loans and lines of credit for state agencies and higher education institutions;
- updates travel regulations in the CAPP Manual for state employees and monitors compliance with those regulations; and
- operates the Comptroller's Debt Set-Off Program as required by Section 2.2-4806 of the Code of Virginia to recover overdue debts owed the Commonwealth from amounts paid for goods, services and payments to citizens.

2.6 Financial Reporting

The Financial Reporting Division's primary responsibility is the preparation of various financial reports and schedules related to the Commonwealth's financial activity including the following:

- the Commonwealth's Comprehensive Annual Financial Report (CAFR);
- the General Fund preliminary report;
- the Popular Annual Financial Report;
- several annual schedules related to Federal funding received by the Commonwealth;
- the federal and full-costing Statewide Indirect Cost Allocation Plan, as required by the Appropriation Act;
- the monthly report on the cash position of the Commonwealth; and
- the annual report of budgeted and actual disbursements of state funds to localities, which is distributed to state legislators.

The Division annually issues a series of financial statement directives with guidelines for agencies, higher education institutions, and authorities for submitting information to the Division for use in the CAFR preparation process. The Division also uses data from the CARS in preparing its report. The Division provides assistance to agencies, as necessary, throughout the year on financial reporting issues.

Staffing in this Division remained relatively constant until 2001. In fiscal year 2002, the Division received several functions previously assigned to the now disbanded Financial Analysis and Services Division and Disbursements Review and Fixed Asset Division. As a result, the Financial Reporting Division received four additional positions. The Division currently has 14 positions, including a position added in fiscal year 2004 to perform quality assurance reviews on the financial reporting process within the various state agencies, which was in response to a recommendation included in the fiscal year 2003 audit report.

The Financial Reporting Division operates and maintains FAACS and LAS, which are the systems used to record the Commonwealth's capital and controllable assets and leases. The Division provides guidance to agencies concerning the recording and reporting of capital assets and leases mainly through the policies and procedures it includes in the CAPP Manual as well as through training it offers periodically on using FAACS. Currently, the Division enters all information in LAS as the agencies do not have access to the system. In addition, they review all lease classifications to ensure proper classification as either capital or operating based on information provided by the agencies. In 2002, the Financial Reporting Division, using the resources of the Systems Analysis and Programming Division, changed FAACS to a more user-friendly, web-based, on-line system and is working to make LAS web-based, as well.

Other miscellaneous functions performed by the Division include accounts receivable monitoring and reporting as required by Section 2.2-4800 through 2.2-4808 of the Code of Virginia. The Division compiles and reports accounts receivable information quarterly using information submitted by agencies through a web-based system. They also are responsible for updating policies and procedures related to accounts receivable, which are contained in the CAPP Manual. The Division took over this function in fiscal year 2002 after the elimination of the Financial Analysis and Services Division. The Division also monitors compliance with the prompt payment provisions included in the Code of Virginia. The Division reports the number and dollar amount of late payments by secretarial area, agency, and higher education institution quarterly in the Comptroller's Report on Statewide Financial Management and Compliance.

2.7 Division of the State Internal Auditor

In fiscal year 2003, Accounts created the Division of State Internal Audit to assume certain responsibilities of the Department of the State Internal Auditor, for which the 2002 General Assembly Session eliminated funding. The Division, which currently has three positions, administers the Fraud, Waste, and Abuse Hotline, which is the toll-free hotline for state employees to anonymously report possible fraud, waste, or abuse. The Division investigates the validity of allegations, in some cases receiving the assistance of agency internal auditors. The Division also coordinates training for agency internal auditors and will assist in the review of statewide internal controls and procedures beginning in fiscal year 2005.

2.8 Decentralization

Decentralization of Financial Records and Pre-audit Function

Prior to July 1, 1992, the Comptroller's office performed pre-audit reviews of vouchers for all agencies as well as printed and issued checks resulting from expense transactions. This process required all agencies and institutions of higher education to forward their disbursement paperwork to the central repository in Richmond. Often the agencies also retained copies of all documents sent to the repository, increasing the cost of the pre-audit and storage processes.

Effective July 1, 1992, the Comptroller's office began a decentralization initiative that moved the high volume, labor intensive pre-auditing of most disbursements out to the individual agencies under a grant of delegated authority from the Comptroller. The agencies and institutions, thereby, accepted a higher level of responsibility to detect and prevent errors and improper payments prior to disbursement. As a result, the agencies were able to maintain their own documents. This change decreased the paperwork flow to the central repository by approximately 80 percent.

The Comptroller's Office established a quality review process to monitor the agency's compliance with the delegated pre-audit policies and procedures. Originally, the Comptroller's Office staff performed

these reviews on site, but recent changes require the agency to forward requested supporting documentation to the Comptroller's Office.

The Comptroller's Office issues a report of findings for each quality review, and reports the results in the Accounts' Quarterly Report. As noted below, the Comptroller's Office performance of quality reviews has significantly decreased in recent years. The decrease comes from layoffs in 2003 within the Comptroller's Office. The General Accounting Division has moved to a risk based approach in selecting which agencies to review.

	<u>March</u>	<u>June</u>	<u>September</u>	<u>December</u>	<u>Total</u>
1999	57	34	45	29	165
2000	60	35	45	23	163
2001	59	38	45	29	171
2002	59	41	47	1	148
2003	5	5	4	5	19
2004	4	6	5	6	21

Source: DOA Quarterly Reports

Not all agencies participate in this program. The Comptroller's Office continues to perform a pre-audit of disbursements for certain agencies for which the cost of delegation is greater than the efficiency benefits of decentralization, or those few agencies primarily comprised of elected officials and cabinet officers, who seek this additional safeguard.

Decentralization of Additional Duties – Colleges and Universities

In addition to the decentralization of the pre-audit function, many institutions of higher education initiated requests to further decentralize their accounting, budgeting, purchasing, and/or payroll functions. The General Assembly initially approved a pilot decentralization program under the Acts of Assembly of 1994 – Chapter 966. This program became more permanent with the enactment of Section 2.2-803.1 of the Code of Virginia. Since the initial decentralization pilot program, additional institutions of higher education have joined the program.

Once approved for participation, the institution must enter into a memorandum of understanding (MOU) with Accounts and Department of Treasury. The MOU outlines the transfer of responsibilities to the institution. While the MOU provides the Comptroller and the Treasurer with the ability to terminate the MOU, Accounts currently does not have a formal process to evaluate compliance with all aspects of the MOU. Instead they rely upon exception and error reports to monitor compliance on a daily basis. The level of responsibility transferred from Accounts and Treasury to the institution may vary by institution.

Several Acts of Assembly required the Secretary of Finance to report on the progress of the higher education decentralization program. While the reports noted areas of needed improvement related to the implementation of the program, the program overall was considered successful and continuation was recommended. The program is no longer considered a pilot program.

Chartered Colleges and Universities

The College of William and Mary, the University of Virginia, and Virginia Tech have joined together in an initiative to further gain autonomy from central state agencies by becoming Commonwealth Chartered Universities. Under the proposal, the institutions will still be public, state affiliated schools with board of

visitors appointed by the governor, confirmed by the General Assembly, and accountable to the Commonwealth. The General Assembly will consider the Commonwealth Chartered Universities and Colleges Act in the 2005 session. This initiative, if approved, should have little impact on the Comptroller's Office daily operations, as each of these institutions already participates in the decentralization program. As such, the Comptroller's Office has already delegated various responsibilities to these institutions. However, the reporting responsibilities of the Comptroller's Office would change as Chartered Universities would establish their own accounting systems and would not record their financial transactions in the state system.

Chapter 3 Statewide Accounting Systems

3.1 Comptroller's Office Responsibilities

The Comptroller's Office maintains a number of accounting systems used by state agencies and institutions, either directly or through interfaces. These systems support the accounts payable, payroll, and fixed asset functions, among others, as described below:

Commonwealth Accounting and Reporting System – CARS

The current CARS system has existed since the mid 1980's after undergoing an upgrade from an earlier version. The system provides for accounts payable and cash disbursements processing, revenue recordation, interagency transfers, federal grants management, and financial reporting. It allows for on-line data entry, however, it is not real-time and processes batches nightly. While on-line inquiry of data is available, the information is limited by unprocessed batches.

CARS provides appropriation information but it does not permit encumbrance accounting, a feature that allows for agencies to monitor appropriation balances for items ordered but not yet received or paid. This feature is especially important as the fiscal year end nears and agencies must not overspend their appropriations.

The CARS system runs on a mainframe computer housed at the Virginia Information Technologies Agency (VITA) data center and agency users access the system through their connection to VITA. VITA provides physical security of the hardware, disaster recovery, and offsite data storage; however, the Comptroller is responsible for granting user access to the system and initiating any changes to the underlying CARS application. The last significant change to CARS occurred during Y2K remediation efforts when date fields were expanded to accept a four-digit year.

Agencies that have their own accounting systems can upload detailed transactions into CARS from the agency systems for batch processing, therefore, eliminating duplicate data entry; however, to ensure the transfer works properly, the agencies must perform a periodic reconciliation process. An interface facilitates the transfer when agencies make the appropriate connection through VITA.

The Comptroller has no plans to replace CARS in the near future; however, he is aware of recent Public-Private Partnership proposals (PPEA) submitted to VITA's CIO and Information Technology Investment Board that suggest replacing statewide systems with modern systems and this would impact CARS.

Fixed Asset Accounting and Control System – FAACS

The Comptroller implemented FAACS in the mid 1980's to account for acquisition, control, and disposal of Commonwealth property. The system provides for different user levels, those that input data directly into the system and those that use an independent system and report only summary balances to FAACS. The system also contains a lease accounting module, known as LAS, that provides a repository of lease data to assist in financial reporting.

The FAACS system runs on a mainframe computer housed at the VITA data center, and again, VITA provides for physical security of the hardware, disaster recover, and offsite storage. However, the Comptroller is responsible for granting user access to the system and initiating any changes to FAACS. Currently, the Comptroller has no plans to replace FAACS in the near future.

Commonwealth Integrated Personnel and Payroll System – CIPPS

The Comptroller implemented CIPPS in 1986 to process the hourly and salaried payroll for most state agencies and institutions. It was originally based on a software package developed by McCormack and Dodge (now owned by GEAC Computer Corp.) and has been modified in accordance with all GEAC required version upgrades. The data files are extensive and the system runs on a mainframe computer housed at the VITA data center. VITA provides physical security of the hardware, disaster recovery, and offsite data storage; however, the Comptroller is responsible for granting user access to the system and initiating any changes to the underlying CIPPS application.

The Comptroller originally planned for CIPPS to integrate the personnel and payroll functions in the Commonwealth; however, the Comptroller did not involve the former Department of Personnel and Training, who handles personnel issues, in the acquisition of the system. Therefore, CIPPS never achieved acceptance as the means of integrating the function. In 1995, the Comptroller and the Department of Human Resource Management began a project to replace CIPPS and other personnel systems with an integrated system using the PeopleSoft system. In 2001, the Commonwealth officially cancelled the project after spending over \$11 million of the planned \$13.2 million budget. Currently, the Comptroller has no plans to replace CIPPS in the near future. Integration opportunities for the Commonwealth's payroll and personnel systems are under study.

In October 2004, we issued a report titled "Special Review on Payroll and Human Resource Systems" in which we recommended the replacement of the current payroll and personnel systems with a statewide integrated payroll and personnel system that would meet the Commonwealth's needs and be mandatory for use by all agencies and institutions. Our report noted that the Information Technology Investment Board should define the new integrated system as a Commonwealth enterprise standard. Further, we recommended before making any decisions on replacing the systems, the Commonwealth should conduct a cost benefit analysis to determine the costs associated with operating and maintaining the current systems versus the cost of implementing, operating, and maintaining a new core system. This analysis should identify the business requirements of individual agencies and define the enterprise of the Commonwealth.

In November 2001, we issued a report titled, "Review of Financial Systems Implementations" that examined why agencies implement independent financial systems and what standards they must follow. Our report noted the Comptroller has established CARS, CIPPS, and FAACS as the official accounting records of the Commonwealth, but he also allows agencies to acquire independent accounting systems, provided they have the capability to reconcile to and exchange data electronically with these central systems, can generate accounting information used in the Commonwealth's financial statements, and provide internal controls and audit trails. Agencies and institutions are encouraged to advise Accounts of plans regarding independent financial systems and must provide copies of post-implementation reviews and evaluation reports. If an agency or institution does not adopt a system that meets the statewide requirements, the Comptroller has the power, supported by the Attorney General, to compel the adoption of a system that will meet the stated requirements.

Our report on financial systems implementations found that state agencies and institutions have various justifications for needing independent systems. For example, agencies need more account detail, encumbrance accounting, and analysis of real-time and historical data, which are functions not available in CARS in the manner agencies desire. Additionally, CARS cannot perform revenue billing, tracking, or accounts receivables management. Further, some agencies such as the Departments of Medical Assistance Services, Social Services, and Education have never used CARS as their primary financial system due to their need for functional integration between their core mission systems and the financial management system and their volume of transactions.

Institutions of higher education generally implement alternatives to CARS because most require a general ledger system that will integrate with a student information system and CARS is unable to integrate in this manner. The account structure required by institutions is different from the CARS account structure and does not meet their individualized needs. For example, CARS does not track grants, accounts receivables, or financial aid in the needed detail. In addition, institutions operate similar to business-type activities; therefore, they report on the accrual basis of accounting, whereas CARS reports on the cash basis of accounting.

To date we have found that agencies have primarily implemented PeopleSoft or Oracle-based systems while higher education institutions have primarily implemented SCT's Banner product. The most common system modules that have been installed include general ledger, accounts payable, accounts receivable, inventory, human resources, purchasing, budgeting, and fixed assets. Institutions of higher education also generally implement a student information module that contains admissions, financial aid, grades, and financial charges, as well as a facilities management module that tracks repairs and maintenance of the buildings on campus.

Agencies and institutions not using PeopleSoft or Oracle have either developed their independent system in-house, which requires a significant commitment of resources to design and program or purchased software from other vendors. The following provides an inventory of the current systems and the number of agencies and institutions using the product:

System Name	Agencies Using This System
PeopleSoft	Supreme Court, Virginia Information Technologies Agency, General Services, Transportation, UVA Medical Center, James Madison University, Virginia Community College System
Oracle Financials	Motor Vehicles, State Corporation Commission, Education, Environmental Quality, Medical Assistance Services, Social Services, Juvenile Justice, University of Virginia
IDSS	Housing and Community Development, Labor and Industry, Conservation and Recreation
JD Edwards	Lottery
AMS Advantage	Taxation
SCT Banner	College Savings Plan, William and Mary, Virginia Tech, Virginia State University, Longwood, Mary Washington, Old Dominion University, Virginia Commonwealth University, Christopher Newport University, George Mason University
Other	Virginia Retirement System, Health Professions, Rehabilitative Services, Agriculture, Game and Inland Fisheries, Port Authority, Forestry, Health, Mental Health, Alcoholic Beverage Control, Virginia Military Institute, Norfolk State University, Radford University

As discussed earlier in Sections 2.5 *General Accounting*, the Comptroller is responsible for the development of a modern, effective, and uniform system applicable to all state agencies and institutions that meets their needs. Agencies pursue independent accounting system to fulfill information needs not satisfied by the current statewide accounting systems.

Agencies and institutions have implemented many of the most popular systems including PeopleSoft, Oracle Financials, and SCT Banner only in recent years. In 1999, pursuant to Chapter 464 of the Acts of the Assembly, the Secretary of Finance procured a study by Metro Information Services that examined the need for replacement of CARS and PROBUD. Metro Information Services recommended the Commonwealth procure and implement a comprehensive financial management system to provide needed tracking, coding, and sorting, and reporting capabilities. Metro Information Services also recommended the Commonwealth consider investigating opportunities to include human resources and/or procurement functionality in the new finance system. Since the study was completed, neither the Comptroller nor the Secretary of Finance have actively pursued a statewide accounting system solution due to the budgetary climate in the Commonwealth.

3.2 VITA and Comptroller's Roles in New Systems Implementations

The Comptroller has long held the primary role in the development of new accounting systems as outlined in Sections 2.2-802 – 2.2-803 of the Code of Virginia. Generally, the Code requires the Comptroller to prescribe and maintain a complete system of general accounting and to direct the development of a modern accounting system.

In legislation effective July 2004, the Code defined system development as a primary responsibility of the newly created Chief Information Officer (CIO) and the Information Technology Investment Board (ITIB). The legislation responded to a Joint Legislative Audit and Review Commission (JLARC) report addressing system development failures in the Commonwealth. The General Assembly believed more oversight and control would provide an opportunity to achieve savings through the consolidation of similar systems development efforts and minimize the likelihood of future project failures.

The auditor reviewed the VITA Code sections to determine their impact on the Comptroller's authority and responsibility for accounting system. The auditor determined that the Comptroller still retains this responsibility for accounting system controls, but all agencies would need to adhere to the following processes when implementing any system:

- The Code requires the CIO to formulate specifications for the purchase and development of IT in order to support a unified approach to IT. This means that the CIO can designate the technical specifications of an automated environment. The automated environment definitions would include operation systems, hardware standards, basic application needs such as e-mail, and integration with basic database, and data exchange requirements. The Comptroller, like any agency, would use these specifications during the procurement process and must select a system that meets the specifications.
- The Code requires the CIO to designate an approval process for all major IT projects, which is either mission critical, having statewide application, or having a total estimated cost of \$1 million or more. The approval process seeks to prioritize project funding, to ensure the project definition, and to identify opportunities for agencies to consolidate similar development efforts.

- Currently the approval process requires agencies to submit a request to begin project planning along with supporting information to VITA's project management office. Upon review and approval by the project management office, the CIO reviews the project for rejection or approval. If the CIO approves the project, it goes to the IT Investment Board for planning approval, who then has final authority to approve or reject the project. A similar approval process exists when a project moves from planning to the development stage. The Comptroller, like any agency, must follow the same process as all major projects for planning approval.
- The Code gives the CIO responsibility for directing the development of any statewide or multiagency enterprise project. Unfortunately, the Code provides no definition of an enterprise project; however, the auditor found the following definition on an internet dictionary: *An integrated information system that serves all departments within an enterprise.* In the context of the Commonwealth this means a comprehensive information system that serves all state agencies defined as part of the Commonwealth enterprise. The system will encompass all business processes such as ordering, billing, accounts receivable management, accounts payable, inventory, asset management, general ledger, payroll, personnel, and demographic databases, to name a few, and will share information and databases in order to reduce redundancy.

The impact this Code section has on Comptroller's authority to develop a modern accounting system is unclear. We believe the Comptroller's authority to establish the requirements for and select the statewide financial management system still exists, but if the system selected by the Comptroller does not fit into the CIO's plan for an enterprise project, the CIO has the authority to reject the project. Further, the CIO's plan may limit the selection of vendors and systems that agencies or the Comptroller may choose.

In recent months, the CIO and the ITIB have received a public/private partnership proposal (PPEA) from a vendor to re-engineer state processes and develop an enterprise resource system that will replace all current statewide systems. This or any similar PPEA, if accepted, would impact systems currently maintained by the Comptroller.

The CIO has involved the Comptroller in the PPEA process. As a member of the PPEA Review Committee, the Comptroller has evaluated the PPEA conceptual proposals and will soon actively participate in the detailed review phase. This committee will also assist in base lining the current system environment and documenting the requirements for any new system. Although the State Comptroller is part of the process, there still remains the question of what would happen if the State Comptroller did not agree with the CIO's decision in this process.

Chapter 4 Preliminary Observations and Interim Proposals

As we compiled the background information contained in Chapters 1 through 3, we observed certain issues that we believe are worthy of further review. For this interim report, we are not making final recommendations for changes in the operations for all of the observations. We will study further some of the issues and have recommendations for changes included in our final report due November 15, 2005.

4.1 New Systems and Information Planning

In recent months, the Chief Information Officer (CIO) and the Information Technology Investment Board have received a public/private partnership proposal (PPEA) from a vendor to re-engineer state processes and develop an enterprise resource system that could replace all current statewide systems and some agency based systems. This or any similar PPEA, if accepted, would impact systems currently maintained by the Comptroller.

Neither the CIO nor the Comptroller have strategically developed any plan or process for assessing the financial management information system needs of the Commonwealth. Further complicating this process is that determining the financial management information system needs must involve all branches of government and involves numerous executive branch agencies not all reporting to the same Cabinet Secretary. The lack of strategy planning and development of essential financial management information requirements contributes to the Commonwealth's current decentralized approach to system and financial information needs.

The Comptroller and CIO should develop a working group to begin to accumulate and direct the strategic planning effort. This is especially important since the Commonwealth has significant investments in financial systems and the loss of this investment, without a sound strategy to transition to a new system, will create an environment of uncertainty and lack of direction. The working group needs to go beyond addressing current needs or new systems, and should address how the Commonwealth can take advantage of new technologies and meet its on-going financial management and information needs and maintain accountability. The CIO has organized the PPEA Review Committee that includes the Comptroller to evaluate the currently submitted PPEAs, however this Committee is not creating the long-term strategic plan that we envision above.

As stated above, the Commonwealth has allowed agencies and institutions to pursue independent accounting system to fulfill information needs not satisfied by the current statewide accounting systems. Many of the most popular systems include PeopleSoft, Oracle Financials, and SCT Banner. The Comptroller and CIO need to actively pursue a strategy towards a statewide financial management information solution that addresses agency needs and results in operational efficiencies and effectiveness for the Commonwealth. The solution should also address the investment already made in the systems currently in use. The Comptroller is in the process of hiring an individual who will be responsible for conducting an inventory of all existing systems throughout the Commonwealth. As a part of this process, the individual will determine the unique needs of the agency that led to the development of the system.

The Governor and General Assembly may wish to consider the development of a formal structure that addresses the long-term financial management information system needs of the Commonwealth. The structure should include all branches of government including independent agencies and provide not only guidance and direction on current informational needs, but address future needs both in term of data and how the Commonwealth can effectively benefit from new technologies. The Information Technology Investment Board should use the deliberations of this group in developing with the CIO the Commonwealth's Information Technology Strategy Plan.

Follow-up:

Chapter 6, Definition of a Modern Accounting System, further discusses the abovementioned issues and recommendations. In short, we recommend that as a member of the PPEA team, the Comptroller work to ensure that strategic planning is clearly defined in the agreement as the phase one milestone.

4.2 Training and Communication

The Comptroller will always depend on the originating agencies to provide information, and he cannot depend on new systems or reductions in decentralization to change this flow of information. Therefore, it is essential that agency personnel, including agency heads and managers, understand their responsibility for establishing and maintaining accountability.

As a result of the budget reductions, Accounts no longer provides the Fiscal Management Training program, which makes it difficult to communicate important internal controls to agency fiscal management. Further, individual agency budget reductions have depleted a lot of corporate knowledge at the agency level, which has lessened the effectiveness of some of the controls. Budget reductions also led to limited decentralized disbursement reviews, meaning less centralized monitoring of agency compliance.

In order to enhance the professional competence and overall strength and abilities of state agencies' fiscal staff, Accounts should look at how they can use technology to provide better on-line guidance and tutorials so that support is available when needed for agency staff. In addition, Accounts should consider offering fiscal officer training. Individuals that serve as fiscal officers do not always understand the scope of their responsibilities. This type of training would also be useful for newly appointed agency directors that have come from outside of state government as an introduction to state processes and regulations.

As mentioned above, decentralized disbursement reviews have been limited. Accounts needs to ensure agencies have appropriate internal controls in place and recently received funding for three positions, two in General Accounting and one in Financial Reporting to strengthen its oversight of agencies. General Accounting was also able to reinstate one disbursement review position that had been eliminated through budget cuts, and Internal Audit has filled a vacancy to assist with the review of internal controls. As Accounts conducts reviews at agencies, the staff should make recommendations to the agencies to help eliminate redundant controls. For example, in at least one agency, a position was created to be a liaison to the Payroll Service Bureau. This liaison duplicates some of what the Payroll Service Bureau does rather than relying on the Bureau which prevents full recognition of the potential savings from using the Bureau.

The Comptroller can better utilize the CAPP Manual to prescribe and communicate minimum internal control practices for state agencies. For example, the Comptroller should prescribe minimum acceptable controls for agencies' independent systems, including requiring all users to have their own user ID and password. The Comptroller communicates in the CAPP manual that agencies should have internal controls, but should also set minimum control standards. In addition, the CAPP Manual is currently on the Internet, but it is a series of Acrobat files. To make it more user-friendly and the information easily accessible, the Comptroller should consider changing the Manual to a searchable format that allows users to more easily search for a topic and find all references to the topic in the CAPP manual.

Follow-up:

Accounts provided mandatory fiscal officer training during calendar year 2005, and a vast majority of the fiscal officers across the Commonwealth attended the training. Initially, Accounts did not tailor the training to meet the varying levels of experience among the fiscal officers. Since Accounts has now provided the initial training, which established a baseline of knowledge, it should organize future sessions towards the appropriate levels of experience, including fiscal officers new to the government sector. Chapter 5 provides further discussion of the fiscal officer training and suggested areas for improvement. Also, based on feedback received from the fiscal officers, Accounts plans to make the training available to agency staff electronically.

With regard to decentralized disbursement reviews, General Accounting has been able to increase staffing in this area and consequently perform more reviews than compared with recent years. Now that Accounts has had the opportunity to strengthen its decentralized disbursement review function, it has shifted its focus from quantity to quality of reviews. Rather than strive to perform a significant number of reviews, the focus is on agencies that Accounts has identified as valuing most from the reviews, i.e. a risk-based approach. Accounts should continue to strengthen this function in order to provide sufficient oversight of agencies.

As for Accounts' quality assurance review function, the primary focus this past year was on the fiscal officer training mentioned above. The evaluation of agency performance will take place in phases. The first phase, which is currently underway, is to perform detailed analysis on agency CARS reports to identify anomalies and then obtain explanations and corrections from the agency fiscal officers. If the fiscal officer does not respond, then Accounts cites the agency in the Comptroller's quarterly Report on Statewide Financial Management and Compliance. The second phase of Accounts' quality assurance function is the development of an Enterprise Risk Management (ERM) document including internal control best practices for agencies. Accounts has developed this document, which is currently in draft form for comments. Once Accounts publishes these agency risk management and internal control standards, then it plans to begin the onsite agency quality assurance reviews. Accounts has currently staffed the quality assurance review section with three employees and plans to add one additional position. Accounts has also added a position to its Division of State Internal Audit to primarily focus on the ERM project. These changes reflect Accounts' efforts to expand its agency oversight.

The ERM document referenced above prescribes agency risk management and internal control standards. Although the ERM concept is broader than that of internal controls, Accounts' intention is that these standards will be an extension and clarification of existing requirements contained in the CAPP Manual, Internal Controls Topic. Each year, agency heads are required to certify to Accounts and the Auditor of Public Accounts that they have established, maintained, and evaluated their internal control frameworks. Therefore, Accounts plans to use these standards as the basis against which it will measure the certifications. The CAPP Manual itself is still available on the Internet in a series of non-searchable Acrobat files, but the Comptroller plans to research this issue further to determine how to make it more user-friendly and easier to access information.

4.3 Potential Legislative Changes

Chapter 1042 of the 2003 Acts of Assembly required Accounts to operate a fiscal service center to support certain agencies identified by Planning and Budget. As yet, Planning and Budget has not identified any additional agencies as specified by this language. The General Assembly should consider requiring Planning and Budget to identify agencies that could benefit from having selected fiscal functions performed

by a service center, or remove this language from the Appropriations Act if it is no longer desirable to pursue using a fiscal service center.

The General Assembly should consider establishing a separate group pool for Line of Duty health plan beneficiaries and setting up a separate trust fund for this program. The General Assembly should also consider moving responsibility for the Line of Duty health benefits to the Department of Human Resource Management as recommended by the study prepared pursuant to Chapter 899 of the 2002 Acts of Assembly.

The General Assembly may wish to amend the Code of Virginia to reflect current operations and needs. Several sections are outdated in what they require in comparison to what has evolved over time as current operating practices. Specifically,

1. Section 2.2-1512 of the Code of Virginia sets out requirements for information the Comptroller should include in the August 15 report. Over time, the contents of this report have evolved into what is most useful for the users and many of the requirements today would require the Comptroller to reproduce the accounting system reports, which would be thousands of pages.
2. Section 43-40 of the Code of Virginia requires the Comptroller to review the evidence of ownership before paying a claimant for sold unclaimed property. Accounts does produce the check, but Treasury is responsible for everything else related to unclaimed property.

Follow-up:

Chapter 951 of the 2005 Acts of Assembly requires Accounts to operate a fiscal service center to support certain agencies identified by Planning and Budget. However, Planning and Budget has not specifically identified agencies that could benefit from having selected fiscal functions performed by a service center. Accounts does currently provide fiscal services to certain agencies, and there are other agencies throughout the Commonwealth that provide similar fiscal services to certain agencies. Although Planning and Budget has not identified agencies that could benefit from these services, the practice of operating a fiscal service center, to a degree, is in place and the Appropriation Act gives Accounts the authority to do so. In Chapter 5, we again recommend that the General Assembly consider requiring Planning and Budget to identify agencies that could benefit from having selected fiscal functions performed by a service center.

During the 2005 General Assembly session, there was a bill to move responsibility for the Line of Duty program to the Virginia Retirement System. However, the General Assembly did not pass the bill; therefore, the Line of Duty program is still with Accounts. The Comptroller is currently reviewing the potential impact of upcoming governmental accounting standards on the program, which may result in changes regarding fund structure and funding mechanisms.

The General Assembly has not amended the Code of Virginia Sections 2.2-1512 and 43-40 to reflect current operations and needs of the Comptroller. The Comptroller may wish to pursue these changes with the General Assembly.

4.4 Consolidation of Functions and Staff Retention

Opportunities exist for consolidation of federal regulations into one division. At present, Financial Reporting is responsible for the Statewide Indirect Cost Allocation Plan (SICAP) and Schedule of

Expenditures of Federal Awards (SEFA), and Payroll Operations and Charge Card Administration is responsible for the Cash Management Improve Act (CMIA). Accounts should consolidate these responsibilities in one division and cross-train employees on performing the duties related to each of these functions. In addition, Accounts employees need to receive training on federal guidelines and programs in order to provide sufficient guidance to the various state agencies and complete their assigned functions without relying on the Auditor of Public Accounts office so heavily.

Accounts should examine ways to attract and retain quality employees. As Accounts has reorganized and flattened the organization due to budget reductions over the past 15 years, the result has been fewer available promotional opportunities. Significant employee attrition has taken place. Notably since 2001, 21 positions have not been filled. As a result of this attrition, Accounts has employees in some areas who specialize in what they do, and there is no one else within the organization that has a good understanding of the job functions. Additionally, some of the more experienced staff are approaching eligibility for retirement. Accounts should cross-train its employees to ensure that more than one individual can perform critical job functions.

Accounts should review the objectives of its strategic planning process, and how management disseminates the information to the staff. The current plan has many good ideas; however, some of the staff we talked to expressed uncertainty as to whether there was a current version of the strategic plan. In order to address the challenges set forth in the plan, it is critical that the staff be aware of the plan and, where appropriate, use it as a guide to setting their priorities.

Follow-up:

The federal regulation responsibilities still reside with two different divisions. Financial Reporting is responsible for SICAP and the SEFA, and Administrative Services is now responsible for the CMIA. Accounts plans to cross-train the new Administrative Services Assistant Director as the back-up CMIA coordinator. The Comptroller indicated that there is sufficient funding in the budget for employees to receive necessary training; therefore, Accounts' directors should ensure that staff receives adequate training, including training on federal guidelines and programs.

Accounts has filled numerous positions throughout the agency. Due to the difficulty of attracting and retaining qualified accounting staff in the government environment, Accounts should continue to look for new ways to attract and retain quality employees. The General Accounting Division is cross-training employees to perform critical functions in anticipation of employee attrition, including retirement. The Comptroller should continue to emphasize the importance of cross-training employees.

With regard to the strategic planning process, the Comptroller is confident that management does properly disseminate the information to staff. Management also receives input from all directors during the strategic planning process. The Comptroller may wish to inquire of individual directors as to whether staff is aware of a current version of the strategic plan and how to access it.

4.5 Re-engineering and Other Topics

Accounts accepts agencies into the Payroll Service Bureau on a voluntary basis and must adjust the Bureau's workload and staffing levels to meet these changes. Accounts should require the new agencies to sign a contract to ensure they stay with the Bureau for a minimum amount of time, such as one year. Otherwise it is difficult to do proper planning and staffing for the Bureau.

Section 58.1-3173 of the Code of Virginia requires the Comptroller to approve the system of accounting for each clerk of each court of record and to prescribe the method of making the entries and keeping the required records. In practice, Accounts sets the policies and procedures for the deposit of fines collected by the courts, but does not participate in approving systems of accounting for the courts. The Comptroller should determine what systems are currently in use by the courts of record and determine whether any changes are needed and develop a process to review future systems prior to their implementation by the clerks of the courts of record.

Accounts does not currently have a Human Resources position. Instead, Accounts relies on other agencies on an informal basis when a need arises for this type of expertise. Accounts should consider using the human resource service center operated by the Department of Human Resource Management under a formal arrangement.

Follow-up:

In the interim report, we recommended that Accounts require agencies new to the Payroll Service Bureau sign a contract to ensure they stay with the Bureau for a minimum amount of time. Accounts requires agencies give one year notice if they intend to reabsorb their payroll and leave functions which allows Accounts sufficient lead time to plan for changes in its workload. In Chapter 5, we recommend that the General Assembly consider requiring Planning and Budget to determine whether additional agencies should be required to use the Bureau. If additional agencies are required to use the Bureau, then Accounts should be able to adequately plan the Bureau's workload and staffing since participation would be mandatory.

There are no changes to report with regard to the requirements of Section 58.1-3173 of the Code of Virginia. The Comptroller must prioritize these requirements to ensure compliance with the Code.

Accounts chooses not to use the Department of Human Resource Management's human resource service center. The Administrative Services Director attends human resource training and is expanding his human resource responsibilities. As necessary, the Department of the Treasury provides human resource assistance to Accounts. At present, this arrangement between Accounts and Treasury is used to meet Accounts' human resource needs and given the number of Accounts employees, there is currently no plan to add a new human resource function to the agency.

Chapter 5 Duties and Responsibilities of a Modern Comptroller

The Comptroller's Office should be the financial information organization for the Commonwealth. This office should have access to the essential financial data through the state's accounting and other financial, budgetary, data gathering and reporting systems. This office should provide other agencies guidance on how to account and report on the state's financial status. This chapter provides specifics on the functions and processes Accounts should employ.

5.1 Survey of Other States

Annually, the National Association of State Comptrollers (NASC) surveys state comptrollers to determine whether they perform various financial management functions in their state. NASC prepared the most recent version of this survey in 2004, and 41 states responded. The table that follows provides a listing of the various functions, whether or not generally other states' Comptrollers are responsible for or share in the responsibility for this function, and whether the Comptroller handles this function in Virginia. In addition, we have indicated whether the typical corporate controller has responsibility for the functions that are similar between state government and the private sector, and functions that are unique to the private sector. We obtained the information on corporate controllers by reviewing the job duties and responsibilities of several controllers of large corporations we identified through a search of the internet.

KEY: The number of comptrollers that responded that they either have responsibility for or share in the responsibility for the function:

Common	21 or more
Few	5 to 20
Rare	Less than 5

Function	Other States	Virginia	Corporate
SIMILAR FOR STATE GOVERNMENT AND COPORATE			
Maintain the general ledger and chart of accounts	Common	✓	✓
Prepares the comprehensive annual financial report/ financial statements	Common	✓	✓
Operate the statewide financial management system	Common	✓	✓
Payroll processing	Common	✓ ^(C)	✓
Disbursement of funds	Common	✓ ^(C)	✓
Accounting for fixed assets	Common	✓ ^(C)	✓
Accounting for capital leases	Common	✓ ^(C)	✓
Preparation and processing of vouchers and claims	Common		✓
Budgetary reporting/Appropriation control	Common	✓ ^(A)	✓
Responsibility for debt collection	Few	✓ ^(B)	
Cash flows forecasting	Few		✓
Approval of contracts	Few		✓
Cost accounting	Few		✓
Payroll preparation	Few		✓
Prepares the budget	Few		✓
Collection of non-tax revenues	Rare		
Operation of risk management programs	Rare		
Procurement/purchasing	Rare		✓
Investment functions	Rare		
Management of retirement systems	Rare		

Function	Other States	Virginia	Corporate
UNIQUE FUNCTIONS FOR STATE GOVERNMENT			
Management of CMIA (the Cash Management Improvement Act of 1990)	Common	✓	
Prepare the statewide indirect cost allocation plan	Common	✓	
Manages state travel policies	Common	✓	
Pre-auditing of payments	Common	✓ ^(D)	
Post-auditing of payments	Common	✓	
Prepares the Schedule of Expenditures of Federal Awards	Few	✓	
Collection of tax revenues	Rare		
Management of federal grants	Rare		
UNIQUE FUNCTIONS FOR CORPORATIONS			
Due diligence for mergers and acquisitions			✓
Monitor financial results of key competitors			✓
Monitor regulatory compliance			✓
Sarbanes Oxley compliance			✓
Tax planning			✓

Notes:

- A. Shared with the Department of Planning and Budget.
- B. Shared with the Department of Taxation and the Office of the Attorney General.
- C. Shared with decentralized universities.
- D. Shared with agencies.

The survey results show that, in general, Virginia's Comptroller is performing the functions that are common across the other states. Corporate controllers have responsibility for many of the same functions, as well as some duties that are unique to the corporate environment. One unique area is corporate compliance with Sarbanes-Oxley, but this is changing. The federal government has taken the lead in applying similar internal control and risk management processes in the government sector. As further described in Chapter 4, Virginia's Comptroller is developing an Enterprise Risk Management process, including internal control best practices for agencies using the standards followed by the federal government, which in turn evolved from the requirements of Sarbanes-Oxley.

Our review of the survey results did not reveal any areas where Virginia should totally change its current approach to the financial functions. However, we did identify where improvements in the existing practices could provide efficiencies or make the Comptroller and his staff more effective in carrying out their duties.

5.2 Potential Process Improvements

Based on our observations of Accounts operations and comparisons of the financial management functions in Virginia to other states, we noted several opportunities for enhancements to Virginia's processes, as described below. We also reviewed surveys completed by 46 agencies as part of the Enterprise Application PPEA Due Diligence process, which we discuss further in Chapter 6. Many of the comments contained in those surveys reinforced the need for some of the process improvements indicated below.

Preparation and Processing of Payments

State agencies and Accounts share roles in the preparation and processing of payments. However, the state's accounting system for processing the payments does not exchange data with eVA, the procurement system. This results in inefficiencies in the payment process. Additionally, Virginia was the only state that does not use a central vendor file. A centralized vendor file would create efficiencies in maintaining and updating the file and make it less likely that duplication would occur.

As discussed in Chapter 2, the Comptroller delegated most of the pre-audit function to decentralized agencies and established a quality review process to monitor the decentralized agencies' compliance with the delegated pre-audit policies and procedures. However, due to layoffs in 2003, the performance of quality reviews has significantly decreased and Accounts has moved to a risk based approach in selecting which agencies to review.

As the Commonwealth moves towards an enterprise resource system, the Comptroller should seek to include the integration of these functions, as described further in Chapter 6, and require the adoption of a centralized vendor file in any new enterprise system. Additionally, the new system should include reports and queries to analyze the data to support the risk assessments General Accounting uses to determine which agencies to quality review. The Comptroller should also do a thorough analysis of the data available from the small purchase charge card vendor and perform adequate follow-up procedures during the quality review process.

Central Services

As discussed in Chapter 2, Accounts operates the Payroll Service Bureau to perform payroll processing, leave accounting, benefits data entry, and prepare certain payroll and benefits reconciliations and information returns for 32 agencies with approximately 5,300 employees. The Bureau's creation sought to achieve economies of scale and alleviate administrative burdens for smaller agencies having to maintain trained payroll staff. Accounts can also operate a fiscal service center to support certain agencies identified by Planning and Budget; however, Planning and Budget has not designated any agencies yet to use these services.

Other states offer similar central services agencies. For example, the state of Washington offers accounting, budgeting, and personnel and payroll services. Accounting includes accounts payable, invoicing, purchasing, fixed asset accounting, financial reporting, and accounts receivable. Budgeting includes biennial and supplemental budget development, allotment preparation, and financial reports and analysis. Personnel and payroll include inputting information for employees, supplying information on payroll changes to agencies, entering attendance, preparing state and federal reports, reconciliations, and preparation of semi-monthly payroll. Five people within the service agency assist each client: a lead accountant, two fiscal technicians, a payroll accountant, and a manager. The fee structure is based on the number of FTEs for the payroll services, and on workload volume and complexity of the budgeting and accounting needs.

The General Assembly should consider requiring that Planning and Budget provide justification for any agency having less than 200 employees for not using the service center and the payroll service bureau. Accounts should plan for the additional use of these service bureaus by establishing a fee structure to ensure there is adequate funding to hire the necessary additional staff and obtaining approval of the charging of fees from the General Assembly.

Training and Assistance to Other Agencies

Accounts gives training to agencies in areas such as payroll processing and on-line CARS data entry and provides reference materials on the internet. Because of staffing levels, the Accounts can only offer the courses a few times a year, but agencies are always hiring new employees. In order to make training available when needed, Accounts should create on-line self-study modules for the various functions in CARS and CIPPS. These modules would also serve as refresher training for someone who serves as a back-up and performs the functions infrequently.

Accounts provided fiscal officer training this past summer, requiring the fiscal officer at all agencies and institutions to attend. This class covered a broad range of material. In the future, Accounts should consider the benefits of providing two different levels of classes: one for new fiscal officers and one for experienced fiscal officers. Additionally, each year, Accounts provides training for agencies in completing the financial statement directives. As Accounts interacts with agencies throughout the year, they should also see if there are common issues or problems that would warrant a special training class, such as one covering the responsibilities of grantees of federal awards, including preparation of the Schedule of Expenditures of Federal Awards and subrecipient monitoring.

Over the years, Accounts has experienced staff reductions resulting in less resources to devote to building and maintaining relationships with other agencies. In order to adequately address imminent changes in auditing and accounting standards, including the potential trickle down effect of the Sarbanes Oxley Act on governments, as well as recent trends in financial reporting emphasizing the need for more timely financial information, it becomes more imperative for Accounts to build better relationships with agencies to ensure the Commonwealth can comply with these standards.

An informal process in another state to manage customer relationships is the assigning a specific Financial Reporting staff member in the Comptroller's Office to serve as an accounting "analyst" for each state agency. Over time, this approach can develop a good relationship because the agency fiscal staff knows they can call their analyst with any question. When newly hired analysts begin work, they go out and visit their assigned agencies to introduce themselves and establish a working relationship with the point of contact at the agency. Also, if an agency is facing a challenging issue, the analyst and any others who can assist from Financial Reporting go out to work with the agency on site. Accounts should consider whether this process could be beneficial in building a stronger relationship with the agencies, so that they are more comfortable calling Accounts for assistance in the resolution of questions and problems. The Comptroller should also consider developing a mechanism similar to a "help desk" approach for following up with agencies that have requested assistance in order to create accountability for ensuring that Accounts is responsive to their requests for assistance.

Accounts also provides reference materials, such as the CAPP manual and directives, on the Internet. To gain better "buy-in" from agencies, Accounts should ask for feedback on draft policies, both new and revisions of existing policies, and consider their feedback. Accounts did this recently with the proposed Agency Risk Management directive, which has allowed agencies to be alerted to this new requirement as early as possible and voice any concerns that need to be addressed in order to ensure an effective implementation of the directive. In updating the guidance contained in the CAPP manual, Accounts should also take a proactive approach and address the various technological advances that have been made at the agencies such as electronic invoicing capabilities and determine whether the policies and procedures adequately embrace and address the controls related to these processes.

Several states have created a state manager's handbook that provides useful information for manager's new to state government, as well as a reference for those who have been in state government for many years. The handbook discusses state ethics laws, including the receipt of gifts, the disclosure of

confidential information, compensation for outside activities, and the prohibitions against use of state resources for political campaigns. The handbook also contains a section on open government, including open meetings, public records, privacy protections, and whistleblower laws. Another section of the manual covers general administrative procedures such as purchasing, travel, surplus property, and leave procedures for agency heads. Other sections of the manual discuss personnel management, legislative relations, public relations, digital government, budgeting, and finance. Managers new to state government could use this type of resource to familiarize themselves with state policies and procedures.

Improve the Statewide Report Preparation Process

Recent trends in financial reporting emphasize the need for more timely financial information. As a result of statewide budget reductions leading to layoffs and reorganizations, Accounts faces the challenge of retaining and developing experienced professional accounting staff. Individual agency budget reductions have also depleted a great deal of institutional knowledge at the agency level.

The Commonwealth's primary accounting system, CARS, also limits Accounts' ability to expedite the financial reporting process. As discussed further in Chapter 6, there are inherent system limitations that make Accounts' ability to provide more timely financial information particularly challenging. Therefore, it is crucial that Accounts consider ways to increase the efficiency of the financial report preparation process. Improved efficiency should consequently lead to more timely financial information. We have provided below several areas in which we believe Accounts could achieve efficiencies in the report preparation process and recommend they consider these as part of their on-going review of the process.

Automate Processes - There are several areas where Accounts either has the automation in place and has not taken full advantage of its capabilities or where they can implement automation given their current resources. Further, Accounts should consider obtaining additional data accumulation and analysis software and tools to achieve efficiencies in accumulating and analyzing data and hiring an expert in this area to train and assist its analysts on the use of these tools.

In general, Accounts uses basic Microsoft Excel spreadsheets to enter financial data from CARS, accumulate information from the agencies, and make the necessary adjustments for financial statement presentation purposes. This process is only somewhat more sophisticated than a manual process and Accounts should recognize that increased reliance on Microsoft Excel is an interim solution for truly automating the financial report preparation process. Further, Accounts should ensure that agencies are correctly entering their data in the Commonwealth's accounting system in order to prevent the need for manual adjustments to reclassify activity.

As for financial information that agencies submit, Accounts should consider utilizing a web-based approach to accumulating this information as opposed to accumulating the information via electronic mail. If Accounts moves toward more web-based approaches to accumulating data, the Comptroller needs to ensure that his staff has adequate training to maximize the use of these technologies to perform automated analysis and downloads of the data.

Methods for Collecting Financial Information - Accounts should consider alternative methods for gathering financial information to determine whether there are more efficient ways to accumulate and report the information. Currently, some agencies use estimation processes to develop the information submitted to Accounts. However, many rely heavily on actual activity in determining balances. For example, Accounts uses actual

July and August data to report accounts payable on the modified accrual basis. Accounts could instead use a reliable estimate to report accounts payable based on information already available to them at fiscal year-end such as receiving reports.

Agency Guidance and Relationships - Accounts must enhance its relationships with the agencies that provide information for use in statewide reports. Accounts should ensure the agencies have a full understanding of their role in the reporting process and should continue to provide the agencies guidance on how their information affects statewide reporting. As part of this process they should educate the agencies on the need for more timely information and work with them to develop process improvements which would provide information more timely to Accounts.

Enhance Knowledge of Standards and Requirements - Accounts' employees should receive additional training on federal guidelines and programs in order to provide sufficient guidance to state agencies and to perform an effective desk review of agency submissions. Further, Accounts should enhance its review process of the Statewide Schedule of Expenditures of Federal Awards to ensure it is complete and accurate.

We communicated these items to Accounts in our March 2005 Review of Statewide Reporting Process report.

Chapter 6 Definition of a Modern Accounting System

6.1 Description of a Modern Accounting System

Modern accounting systems incorporate both accounting and technological best practices to deliver reliable, timely, and accurate financial information. Vendors creating these systems allow industry best practices to drive how the various software modules, including the general ledger, accounts payable, payroll, and inventory handle accounting transactions. These vendors often keep pace with technological best practices through partnering with leading technology companies in the area of application and database software, infrastructure, and security.

Modern accounting systems provide a host of core modules including the general ledger, accounts payable, accounts receivable, payroll, and inventory. They also have available advanced modules including encumbrance accounting, grants management, property management, and purchasing. An entity can select those modules they wish to implement now and those they wish to implement at a later time. In modern accounting systems the modules are designed to integrate with one another, so the systems appear to work seamlessly.

In reality, however, it is rare than an entity uses only one vendor's system and therefore, most modern accounting systems can be electronically interfaced to other vendor's products to also give the appearance of seamless operations. For example, an entity may install a new general ledger system, but have a ten-year old payroll system from a different software vendor. For this reason, many modern accounting systems already provide interfaces to other popular accounting packages, making this process even easier.

Modern accounting systems are generally referred to as commercial, off-the-shelf systems, meaning they contain best practices and implementation is best without further customization. All systems allow small amounts of customization during installation, but the software limits and controls these customizations. Avoiding customizations outside of those offered by the software allows entities to easily upgrade the system as the vendor provides new releases. It also provides flexibility and easier future additions of other modules.

Modern accounting systems have progressed over the years from primarily mainframes, to client-server, and now the Internet also known as web-based systems. Most systems include design flexibility since most entities have a variety of existing hardware and software that they want to continue to use. Therefore, most systems have designs that function with multiple database software products, such as Oracle, dBase, and Sybase, which also allows for easy integration with the entity's other existing systems that use similar software. The systems also work on a variety of servers and mainframes, such as Dell or IBM and can work with a variety of operating systems such as UNIX, Windows, and Linux.

The most modern systems now make use of the Internet to communicate between the users and the core system. This technological advance has resulted in fast systems that are accessible from anywhere in the world, are easy to update since software resides centrally on a server, and do not require expensive desktop equipment with significant memory. However, with all these benefits, the Internet also adds security concerns. Most vendors also recognize these concerns and recommend solutions to address security issues at multiple layers, including encryption, secure socket technology, firewalls, and user authentication.

Diagram 1 provides an overview of how selected modules of a modern accounting system would interact to create an Enterprise Resource Planning (ERP) system. As shown, the modules exchange information and share databases to reduce redundancy, create efficiencies, and make the modules appear seamless to the user. In Diagrams 2 and 3, we have provided more detailed descriptions of the typical procurement and facility management processes and how those processes would use and interact with the various modules. Specifically, Diagram 2 shows how an electronic payment process works and the various

modules that interact to indicate inventory reorder needs, to verify that sufficient budgets exist, to update inventory and fixed assets records as goods are received, and to create accounts payable transactions to pay the vendors. Diagram 3 demonstrates the process of managing and maintaining buildings and other capital assets and modules would interact.

Enterprise Resource Planning (ERP) Module Interaction

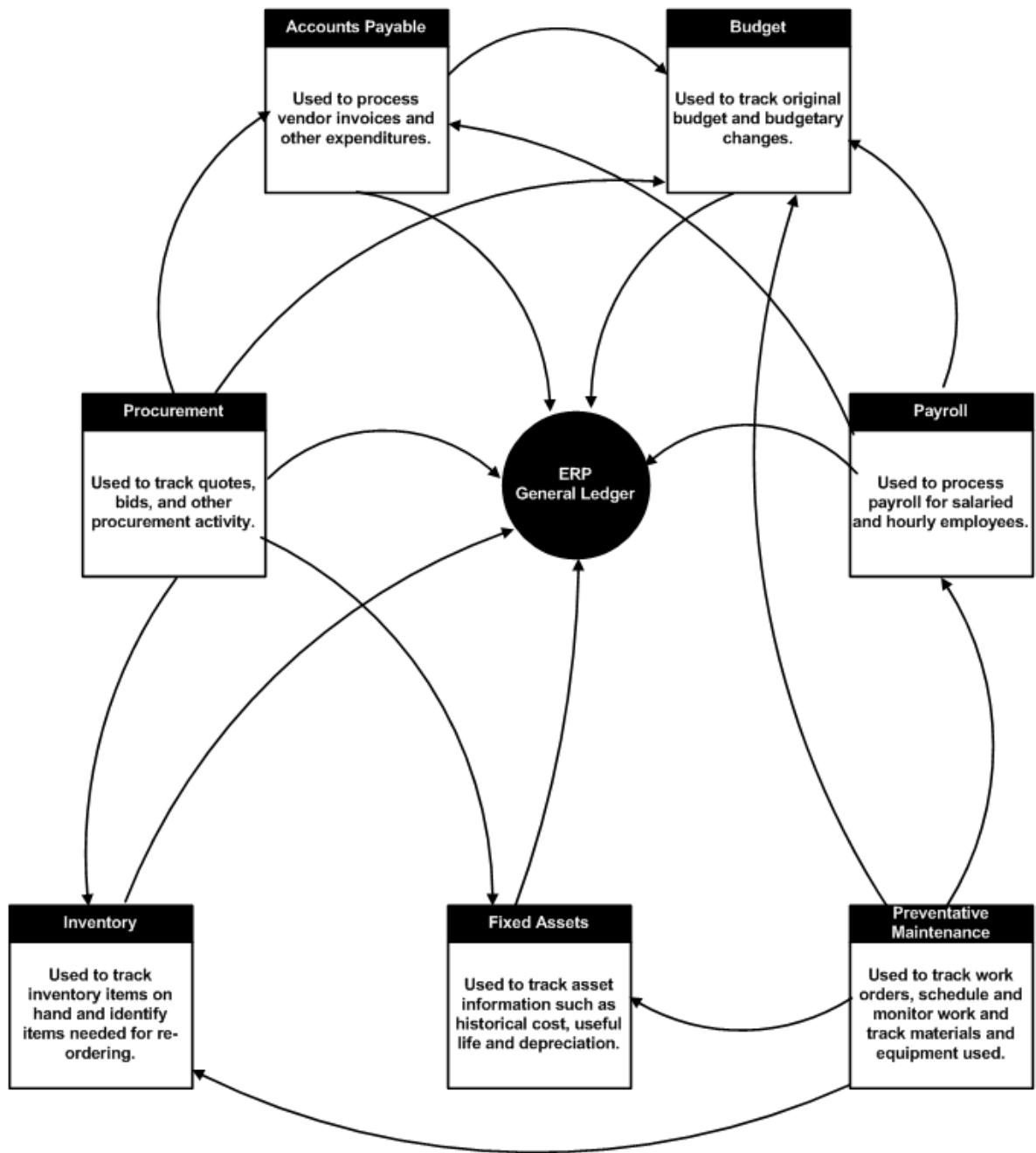


DIAGRAM 1

Actions inside the Procurement Module

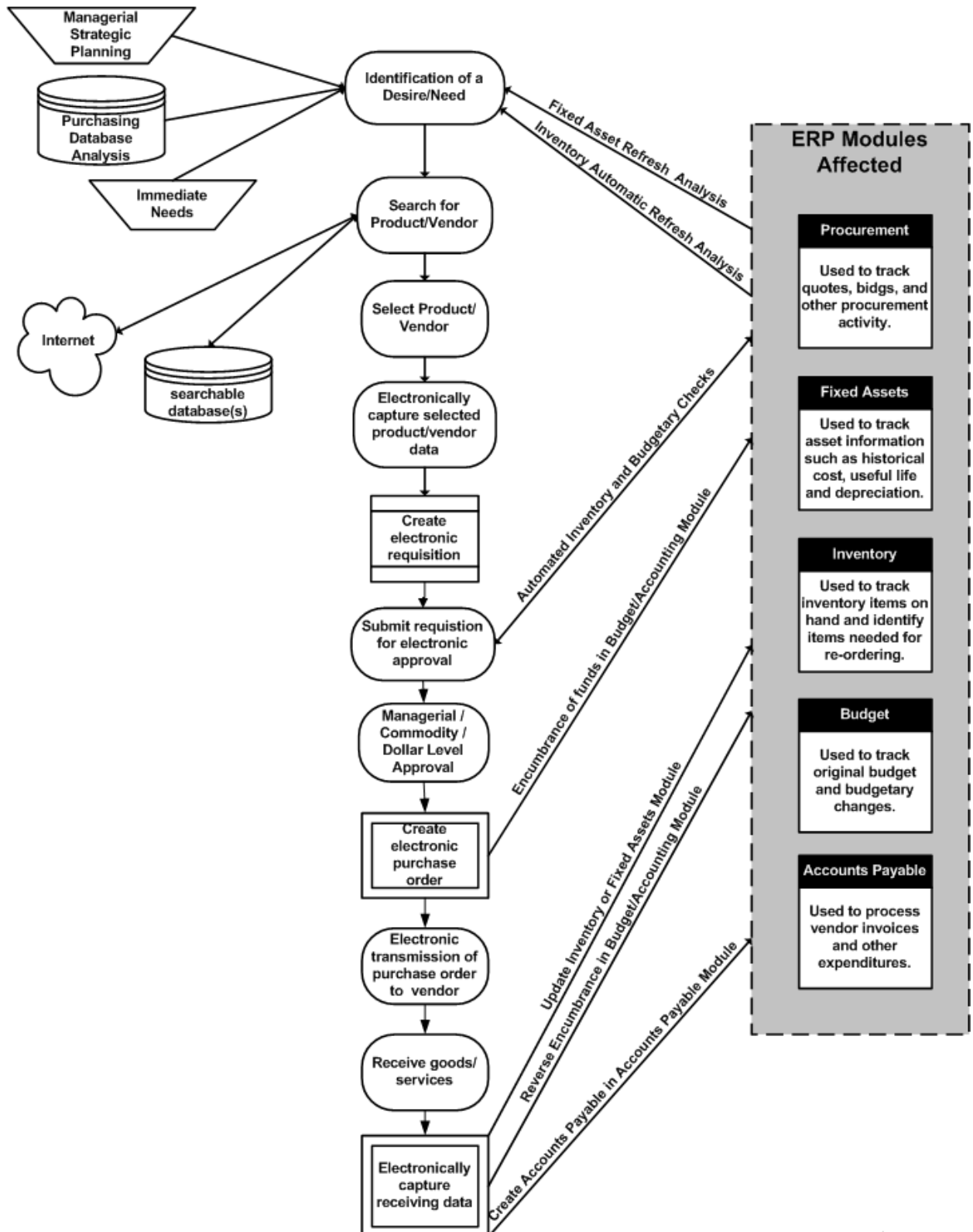


DIAGRAM 2

Facility Asset Management Process

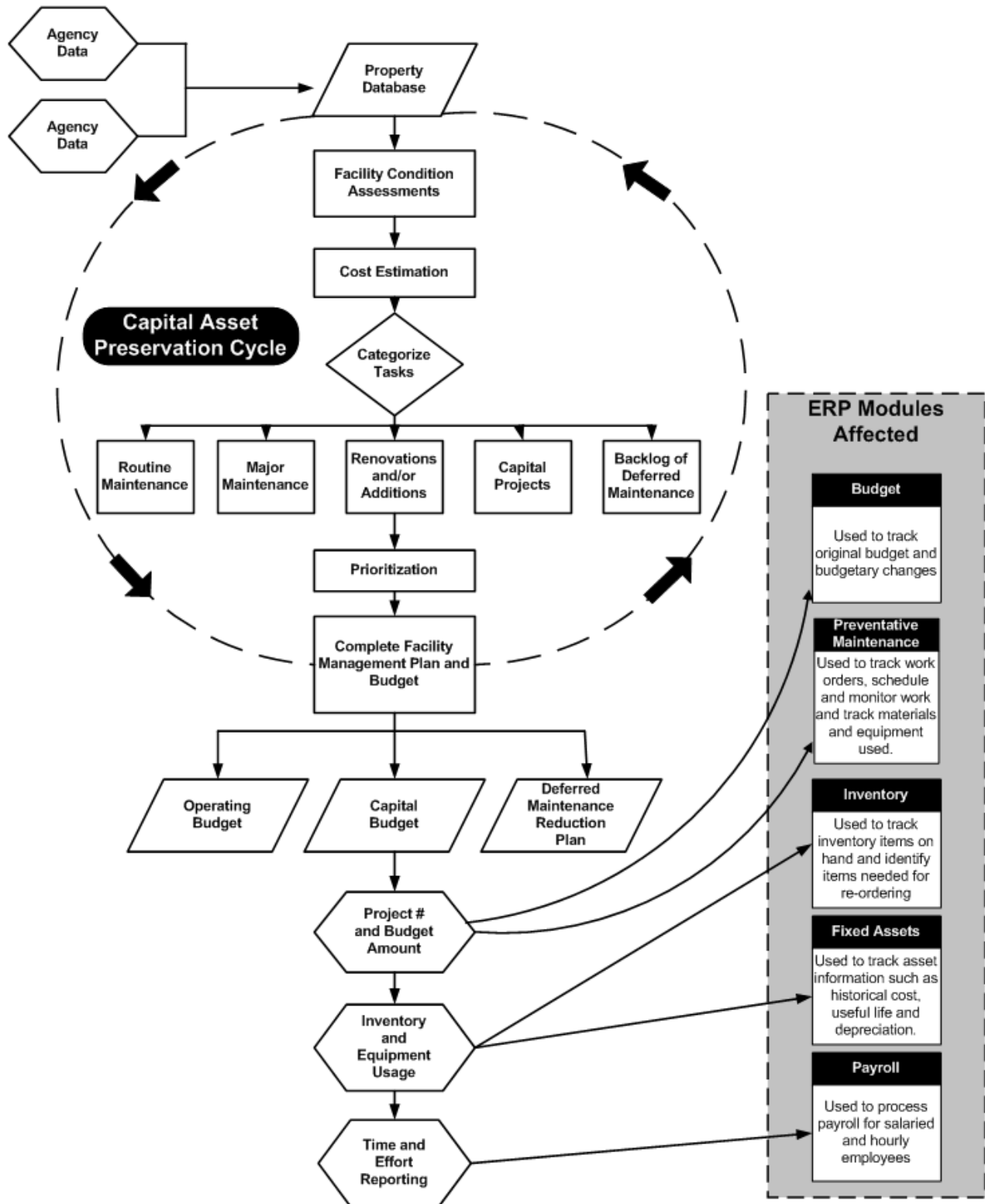


DIAGRAM 3

6.2 Comparison of CARS to a Modern Accounting System

As described in Chapter 3, the Commonwealth's accounting system, CARS, has been in use since the late-1970's, with a major upgrade in the mid-1980's. The Department of Accounts maintains the system, which resides on an IBM mainframe computer at the Virginia Information Technologies Agency's data center in Richmond, Virginia. Entities that use CARS as their primary accounting system connect to the system with their desktop computers. The system then returns screens that the user completes in order to capture the entity's accounting activity.

Entities that have their own accounting systems have developed interfaces that electronically transfer data from their system into CARS, so there is not duplicate entry of the information. CARS processes accounting activity each night and entities can then use a system, known as FINDS, to query and report the posted activity the next day.

When Accounts implemented CARS over 25 years ago, it was a modern accounting system. However, since that time many technological advances coupled with new accounting best practices now make CARS antiquated. Some of the areas where CARS is not modern by today's standards follow.

1. CARS is a batch processing system that only updates each night. Modern accounting systems are on-line, real-time, meaning that immediately after entry by the user the data updates the system.
2. CARS does not provide many on-line edit checks to detect potential errors during data entry. For example, if a user creates an out-of-balance transaction or uses a duplicate voucher number, CARS will continue to process the transaction and post it to a suspense file. The next day the user must post a correcting entry to fix the error. In addition, when CARS does perform edit checks, it gives the user an error code, rather than an error message. Modern accounting systems provide a host of real-time edits to warn the user of problems so they can correct them immediately, before they post to a suspense file. These edit warnings are written in simple to understand English, rather than error codes that are cryptic.
3. CARS is a cash basis system; however, the Commonwealth must prepare its financial statements using modified and full accrual accounting. Modern accounting systems provide both cash and accrual reporting.
4. CARS does not have an integrated ad-hoc reporting capability or on-line inquiry feature. Users receive stock reports at regular intervals or must download their CARS transactions to another system to produce customized analytical reports. Modern accounting systems allow users to create ad-hoc reports as needed and also allows the user to query and drill-down from summarized data to detailed data.
5. CARS is a mainframe based system and users can only access the system from a desktop computer that has a connection to the Commonwealth's data center; usually from a state agency. Modern accounting systems use web-based technology that provides users with fast access to the system from any Internet connection.

6. CARS interfaces with some systems, such as the Commonwealth's payroll system, but it does not interface with others. For the non-interfaced systems, users must enter information twice. For example, users procure items electronically in eVA and if they pay by invoice, they must re-enter much of the same information in CARS. Modern accounting systems provide integrated modules that share information to improve efficiencies.
7. CARS does not include a cost accounting module or a revenue module, which many entities often need. Entities requiring this functionality must purchase another system to do this work or perform the work manually. Modern accounting systems provide modules such as cost accounting and revenue that are part of the general ledger system. These systems can automatically allocate costs based on set rules, track and age accounts receivable, and monitor spending against budgets.
8. CARS does not automatically route transactions, such as journal entries, to various levels for approval. Instead users with approval status physically sign batches and also log onto the system to release transactions for processing. Modern accounting systems provide workflow features that allow entities to designate their approval rules and those users with approval rights. The system then automatically routes transactions to those users and will not process the transaction until the approver logs onto the system and releases the transaction.
9. CARS is a fixed-length database and does not have the flexibility to add more fields when entities wish to capture additional information. Modern accounting systems allow entities to create additional fields or turn-off fields that they do not need.

Many of the issues identified above that make CARS an antiquated system also exist with the Commonwealth payroll and fixed asset systems, CIPPS and FAACS.

A modern accounting system could make improvements in the Commonwealth by:

- Reducing errors and the time required to reconcile and correct errors by making real-time edits available.
- Providing mechanisms to better monitor budgets and spending through real-time queries and drill-downs.
- Allowing up-to-date monitoring capabilities since data is real-time rather than processed nightly.
- Facilitating the creation of ad-hoc reports needed for analysis by the entities.
- Allowing users to access the system from remote locations outside of their normal office.
- Providing flexibility since the database can expand to include additional fields that entities may need.
- Enhancing the integration between systems so that users do not need to double enter data into redundant databases. This would also eliminate the problem of databases not having the same information, when the user does not update them simultaneously.
- Allowing entities to set workflows that will improve controls by routing every transaction to the correct person based on entity defined rules.
- Producing both cash basis and accrual basis reports that would improve entity year-end accruals and financial reporting.

However, making the changes necessary to implement new business process and systems is not simple. The complexity was demonstrated in the mid-1990's when the Commonwealth attempted to replace the existing payroll and personnel systems with an integrated PeopleSoft system that failed after spending more than \$10 million. The implementation failure was due to several reasons including both technical and managerial. Existing technologies used by the Commonwealth at that time created challenges in trying to deploy a system using client-server technology. In addition, the two agencies responsible for human resources and payroll report to different Secretaries and they needed to work collaboratively to succeed. Managing this relationship was difficult since both agencies viewed their needs as a priority.

To succeed in implementing a modern accounting system will require defining a long-term strategic vision and strong project management to include a detailed project plan, work tasks in sufficient detail with resources assigned and committed, good communications between all team members, risk management strategies, and detailed monitoring and control. It will also require knowledgeable resources and the commitment at all levels of government to change state laws and policies rather than customizing the commercial, off-the-shelf software to accommodate the way the Commonwealth currently does business.

In Chapter 4 of our interim report in November 2004, we recommended that the Comptroller and Commonwealth Chief Information Officer (CIO) form a workgroup to develop a long-term strategic plan for the Commonwealth's financial management needs, including modern accounting systems. At that time, the Commonwealth had received two public-private partnership proposals from IBM and CGI-AMS to re-engineer business processes and implement new administrative systems even though we did not have a strategic plan for financial management. Although there continues to be no strategic plan in place, work on the Enterprise Application PPEA has persisted.

Traditionally, in accordance with VITA requirements, the Comptroller would identify system needs such as replacing CARS, in his IT Strategic Plan approved by VITA. VITA would then prioritize the Comptroller's system needs against other Commonwealth agencies and the priority report would receive the Information Technology Investment Board (ITIB) approval and then go to the General Assembly and Governor. However, in the case of the Comptroller, there is no request to replace administrative systems in his 2004-2006 IT Strategic Plan, no preliminary business case, and no ITIB ranking or approval. We obtained and reviewed the Comptroller's 2006-2008 Strategic Plan, and found that although it does not request that his systems be replaced, it does recognize that the Comptroller will be directly involved in all stages of the PPEA.

In spite of the lack of these plans, the Governor's Chief of Staff named an Enterprise Application PPEA team that worked with the PPEA vendors, IBM and CGI-AMS, to develop and administer a 700 question survey to state entities. The survey covered the following areas:

- **Administrative** areas such as Equipment Management, Facilities Management, Fleet Management, and Travel.
- **Financial** areas such as Accounting, Asset and Liability Management, Budget and Finance, Collections and Receivables, Payments, and Reporting.
- **Supply Chain** areas such as Goods and Services Acquisition and Inventory Control.
- **Human Resources** areas such as Applicant Intake and Recruiting, Evaluation, Payroll Management and Expense Reimbursement, Personnel Action Processing, Position Classification and Management, and Time and Labor Distribution.

The team selected 46 entities that they believe represented a good cross-section of state activities and functions. The process, known as Due Diligence, provided the Enterprise Applications PPEA vendors with an understanding of how agencies operate, what systems they use to support these functions, ways that processes could improve, and ways they work well.

The survey appears thorough and gives a good high level picture of the current state of operations. It identifies areas where processes can improve and identifies solutions that agencies have already implemented to address weaknesses in the central accounting systems. However, without a long-term strategic plan for the Commonwealth's financial management, we believe it is difficult for anyone to assess what the Commonwealth must do to achieve any improvement. Instead, the Commonwealth is allowing two vendors to submit proposals without having a strategic vision to compare them to.

If the Secretaries of Finance and Administration and the Comptroller recommend accepting one or both of these PPEA vendors proposals, and the CIO and the Information Technologies Infrastructure Board approve planning, the Governor intends to sign a comprehensive agreement in early November 2005. A comprehensive agreement is essentially a contract between the Commonwealth and a vendor to perform work or provide goods. An Enterprise Application comprehensive agreement may significantly change the way the Commonwealth manages its financial business and may outsource functions.

Based on our discussions with the Comptroller, we understand that the final comprehensive agreement envisions various phases of work and includes a strategic planning component. We reviewed drafts of the various phases however none of the phases clearly set out a strategic planning phase. We believe there is a need for a strategic planning phase to address important decisions such as whether the Commonwealth will operate centralized or decentralized accounting and how electronic workflow would occur, to name a few.

6.3 Recommendation

We initially recommended in our preliminary report and continue to recommend that the Governor and Commonwealth Chief Information Officer (CIO) form a workgroup with the Comptroller to develop a long-term strategic plan for the Commonwealth's financial management needs, including modern accounting systems. As part of the initial work phase of the Enterprise Application project this plan must become an essential element to monitor performance of any PPEA comprehensive agreement.

Regrettably, in an ideal world, we would have preferred that this workgroup complete its plan before the Commonwealth finalizes any Enterprise Application public-private partnership so that the Comptroller and CIO can compare the vendor final proposals to the vision set by the Commonwealth. Without a long-term strategic plan the Commonwealth is at risk of spending funds to develop a system that does not support what we need or how we want to do business.

Although the final decision to sign a comprehensive agreement may be outside of the Comptroller's control, we recommend that as a member of the PPEA team, the Comptroller work to ensure that strategic planning is clearly defined in the agreement as the phase one milestone. The strategic plan is critical because it sets the framework for how the Commonwealth will operate and sets the guiding principles for all other phases.

Going forward it is important that the Comptroller maintain an up-to-date strategic plan that links information technology needs to his business needs. Having such a plan will allow the Comptroller to make sound business decisions based on whether or not a product or service fulfills an identified business need.

Chapter 7 Working Relationships Between the Comptroller and Other Central Services Agencies

There are several agencies within the Commonwealth whose primary purpose is to provide support to other state agencies and their employees in the accomplishment of their missions. The primary central support agencies include the Departments of Accounts, General Services, Human Resource Management, Planning and Budget, and Treasury, and the Virginia Information Technologies Agency. The central support agencies provide a wide range of support including, but not limited to, financial accounting and control operations practices; travel and small purchase charge card administration; procurement guidelines; compensation and human resource management services; budget development and execution guidance; cash, investments and debt management; risk management services; and information technology services.

As the central support agencies often have overlapping support functions and systems, it is important that they develop and maintain good communication channels. Over the years, the Auditor of Public Accounts has issued numerous reports citing the lack of communication among these agencies. We have found that the central support agencies are very knowledgeable about their individual programs, but they do not consider the “big picture” as to how their activities impact other central support agencies. Through our audits of these agencies, we have acted as the catalyst for promoting communication either by scheduling meetings between the agencies or by making recommendations in our audit reports as discussed in more detail in the following sections.

7.1 Guidance

The central support agencies often issue guidance to other agencies surrounding the programs they operate. We have noted in previous reports instances where the guidance issued by several central support agencies contained conflicting information. For example, in our June 2005 eVA Security Review report, we noted that guidance issued by General Services concerning the use of purchase cards when making purchases through the Commonwealth’s on-line purchasing system (eVA) conflicted with small purchase charge card policies and procedures outlined in the CAPP manual, which is maintained by Accounts. In addition, in our November 2003 State Travel Charge Card Program report, we noted that in guidance provided to agencies concerning monitoring of travel charge card activity, the Comptroller and General Services did not use the same terminology resulting in inconsistent and confusing instructions. As recently as fiscal year 2005, General Services issued improper guidance regarding the classification of financing instruments for energy efficiency contracts without consulting Accounts or the State Treasurer.

In some instances, we noted that in promoting their agency programs, the central support agencies have actually negatively impacted the use of programs administered by other support agencies. For example, in our April 2004 Special Review – Small Purchase Charge Card Program report, we noted that General Services’ requirement that agencies maximize their use of the eVA system actually negated the efficiencies of the small purchase charge card program administered by Accounts.

In general, there is a need for the central support agencies to coordinate their efforts in providing guidance to agencies to ensure there is not conflicting information. Specifically, the agencies should be cognizant of the guidance in the CAPP Manual, which is the Commonwealth’s central location of accounting policies and procedures, and not issue guidance that conflicts with or undermines that guidance. Other support agencies should contact Accounts if they believe that the CAPP Manual requires change as opposed to issuing separate conflicting guidance that meets the needs of the programs they administer. Accounts should be flexible when working with the other central support agencies to make the modifications necessary to efficiently and effectively carry out the programs of other support agencies, while still maintaining adequate internal controls. Further, the support agencies should consider consolidating guidance in a central location to make it easier for agencies to obtain all of the necessary information necessary to effectively and properly utilize the services offered.

7.2 Systems Development and Integration

The central support agencies administer several systems that contain information that they either share through interfaces (such as FATS and CARS) or compare through automated matches (such as CIPPS and PMIS). In some cases, needed interfaces are not available between the central systems because the systems are incompatible. As discussed in Chapter 6, in order to move towards a modern accounting system it will be necessary to replace some, if not all, of these systems.

In order to successfully implement a modern accounting system such as the ERP system described in Chapter 6, the central support agencies will need to work together toward a common mission and avoid putting their individual needs above those of the Commonwealth as a whole. This has historically been a problem with the central support agencies which has led to system development failures in the past as detailed in Chapter 6.

7.3 Financial Reporting

Accounts prepares the Commonwealth's Comprehensive Annual Financial Report (CAFR). Collectively, the central support agencies provide a substantial amount of information necessary to prepare the CAFR including budgetary, cash and investments, debt, risk management, and capital assets data. Accounts has ultimate responsibility for educating agencies on how information they provide is used in the financial reporting process and for ensuring agencies understand new and existing accounting standards. However, the other support agencies should provide their full cooperation and dedicate sufficient resources to ensure the Commonwealth can successfully structure financial reporting in compliance with accounting standards.

In our March 2005 Review of Statewide Reporting Process report, we noted that it was important for the central support agencies to continue to develop a working relationship with each other that ensures maximum efficiency in the CAFR preparation process. We noted that Accounts and Treasury had duplicated efforts in large part due to a lack of understanding of the other's role in the process. In the same report, we also stressed the importance of the central support agencies working together in the implementation of new accounting standards and in adherence to existing standards. While not specifically mentioned in previous reports, we have also noted issues related to ineffective communication between the central support agencies regarding the presentation of budgetary information in the CAFR, as well as the classification of financing instruments for energy efficiency contracts.

7.4 Recommendations

As we reviewed the challenges currently faced by the Comptroller's Office with regard to its interaction with other central service agencies, we noted several opportunities for improving the relationships between these agencies, as described below.

Develop Better Communication Channels

The Commonwealth's central support agencies need to work together to build better communication channels to ensure they are communicating a consistent message to the agencies they support and that they understand the impact of their actions on the other central support agencies. As discussed in Chapter 1, the Comptroller establishes financial accounting and control operations practices for the Commonwealth. However, as indicated above the other central support agencies often issue guidance that contradicts or undermines the guidance from the Comptroller. Further, as the Commonwealth prepares to move toward a

modern accounting system, good communication among the central support agencies is necessary since they are responsible for many of the Commonwealth's statewide systems.

As the Comptroller has statutory responsibility for the Commonwealth's financial accounting and control operations practices, he should actively involve his staff in the development of any guidance by the other support agencies that relates to financial accounting and control operations. The Comptroller should take the lead in developing and enforcing a process using the statutory authority provided to him to ensure his office is aware of any activities of the central support agencies that could potentially impact the operations of the Comptroller's Office. The Comptroller should consider developing a liaison program with the other support agencies where designated staff from among the agencies would periodically update each other on the activities their respective agencies.

Review Organizational Structure of Central Support Agencies

Central support agencies often have overlapping support functions. The General Assembly should consider reviewing the current organization and operations of the central support agencies and determine whether there are opportunities to improve effectiveness and efficiency of these operations through the restructuring of certain responsibilities among these agencies. For example, in our interim report, we recommended to the General Assembly that they should consider moving responsibility for the Line of Duty health benefits from the Comptroller to the Department of Human Resource Management. We also believe there are some potential opportunities for consolidation within the operations of Accounts and Treasury particularly with regard to accounting and financial reporting functions. If the Commonwealth moves toward the development of an ERP system to replace the systems currently maintained by many of the central support agencies, the General Assembly may want to determine if there are opportunities to strengthen the current management structure of the Commonwealth based on the chief financial officer management structure. Typically, chief financial officers direct an organization's financial goals, objectives, and budgets. They oversee the investment of funds and manage associated risks, supervise cash management activities, deal with the sale and management of debt, and are responsible for financial accounting and reporting. In Virginia, this would require combining functions currently handled by the Comptroller's Office, the Treasurer's Office, and the Department of Planning and Budget.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 25, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have completed our review of the operations of the State Comptroller as they relate to the Commonwealth's financial accounting and control operations practices as required by Section 1-2.2.B. of Chapter 4 of the 2004 Virginia Acts of Assembly, Special Session I and are pleased to submit our report entitled **"Review of the Financial Accounting and Control Operations of the State Comptroller."** We conducted our review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

We had five objectives for our review of the State Comptroller. These objectives were to:

1. determine the factors that have led to the current structure of the Commonwealth's financial accounting and control operations;
2. determine the Comptroller's responsibility for financial and internal controls;
3. determine the impact of decentralization on the financial structure and internal controls;
4. determine whether the Commonwealth has a modern financial system and structure; and
5. provide the Chairmen of the Senate Finance Committee, the House Appropriations Committee, and the House Finance Committee with an assessment of the information available to them, how any changes in the Commonwealth's financial accounting and control operations could enhance their oversight, and what resources would be necessary to accomplish this function.

Our interim report dated November 18, 2004, primarily addressed objectives one through three, and is set out in chapters one through four of this report. The final review addressed objectives four and five and is set out in chapters five through eight of this report.

Scope and Methodology

In conducting this review, we researched the Code of Virginia, the Appropriations Act, and the Commonwealth Accounting Policies and Procedures Manual for duties of the State Comptroller. We examined the briefing document “The Department of Accounts Ten-year Perspective and Overview of Functions” prepared by the Comptroller’s Office for the General Government Subcommittee of the Senate Finance Committee. We reviewed the strategic plan prepared by the Comptroller for the 2004-2006 biennium. We surveyed agencies that operate their own computer systems to determine what systems they currently operate and the capabilities of those systems. We reviewed organization charts for the Comptroller’s office for the past 15 years. We obtained various Commonwealth Accounting and Reporting System reports and extracted data related to the operations of the Comptroller’s office. We conducted interviews with staff at the Department of Accounts to document various processes related to the Department’s responsibilities and operations. We reviewed the results of the National Association of State Comptrollers’ 2004 survey of the technical activities and functions of state comptrollers. We reviewed surveys conducted as part of the Enterprise Application PPEA Due Diligence process as described further in Chapter 6. We referenced previous audit reports that have been issued by our office, all of which are available on the Auditor of Public Accounts website.

We would like to thank the Comptroller’s management and staff for their cooperation and professionalism during this preliminary review. Without their knowledge and contributions, this report would not be possible.

We discussed this final report with the State Comptroller and have included his response at the end of this report.

AUDITOR OF PUBLIC ACCOUNTS

MSM

Appendix A – Study Language

Auditor of Public Accounts (133)

2. B. The Auditor of Public Accounts shall review the operations of the State Comptroller as they relate to the Commonwealth's financial accounting and control operations. The Secretary of Finance, State Comptroller, State Treasurer, Director of Planning and Budget and the Chief Information Officer shall provide any assistance and cooperation necessary for the Auditor to conduct this review. In conducting the review, the Auditor shall determine the factors that have led to the current structure of the Commonwealth's financial accounting and control operations, the Comptroller's responsibility for financial and internal controls, the impact of decentralization on the financial structure and internal controls, and whether the Commonwealth has a modern financial system and structure. Additionally, the Auditor of Public Accounts shall provide the Chairmen of the Senate Finance Committee, the House Appropriations Committee and the House Finance Committee with an assessment of the information available to them, how any changes in the Commonwealth's financial accounting and control operations could enhance their oversight, and what resources would be necessary to accomplish this function. The Auditor shall submit a planning document to the Chairmen of the Senate Finance and House Appropriations and House Finance Committees outlining the scope of this review by July 15, 2004. A preliminary report of initial findings, recommendations and issues shall be available to the Governor and the General Assembly by December 1, 2004, and a final report by November 15, 2005, with recommendations for proposed budgetary and statutory changes.

Appendix B – Report Outline and Research Activities

Submitted June 30, 2004

Report Outline:

INTERIM:

- I. Study Objectives
 - 1. Determine the factors that have led to the current structure of the Commonwealth's financial accounting and control operations.
 - 2. Determine the Comptroller's responsibility for financial and internal controls.
 - 3. Determine the impact of decentralization on the financial structure and internal controls.
 - 4. Determine whether the Commonwealth has a modern financial system and structure.
 - 5. Provide the Chairmen of the Senate Finance Committee, the House Appropriations Committee, and the House Finance Committee with an assessment of the information available to them, how any changes in the Commonwealth's financial accounting and control operations could enhance their oversight, and what resources would be necessary to accomplish this function.
- II. Background Information
 - A. Statutory duties and responsibilities
 - B. Organization of the Comptroller's Office
 - o Organizational structure, including how it has evolved over the last 15 years
 - o Trends in funding and MEL for the Comptroller's office for the last 15 years
 - o Factors that led to the changes
- III. Systems
 - A. Inventory of accounting systems maintained by the Comptroller's office
 - B. Inventory of financial accounting systems developed and used by other state agencies where financial information is provided to the Comptroller's office.

IV. Current Policies and Procedures to Accomplish Comptroller's Duties and Responsibilities

- A. Duties and responsibilities prescribed by the Commonwealth's Accounting Policies and Procedures Manual
- B. Activities performed by the Comptroller that have developed over time but are not prescribed by statute
- C. Impact of decentralization
- D. Comptroller's role in agencies systems implementation
- E. Relationship of Comptroller's office to other central agencies
- F. Cooperation (or lack thereof) from other state agencies

FINAL:

- V. Evaluate any additional study issues discovered during the interim study phase and include in final phase as appropriate.
- VI. Duties and responsibilities of a modern comptroller.
- VII. Definition of a modern accounting system.
- VIII. Identify most effective working relationship with other central agencies.
- IX. Proposals for budgetary and statutory changes as well as operational changes to recognize efficiencies.
 - A. Comptroller duties, responsibilities and organization
 - B. Automated systems recommendations

Research Activities:

- Data Analysis
 - o Various CARS reports
- Document reviews
 - o Code of Virginia
 - o Appropriations Act
 - o Commonwealth Accounting Policies and Procedures Manual
 - o Organizational Charts
 - o Briefing documents

- Meetings
 - o State Comptroller and his staff
 - o Staff at central state agencies (DHRM, DPB, DGS, Treasury, VITA)
- Surveys
 - o Agencies that operate their own computer systems
 - o Other state or large local governments

Timeline:

- July 15, 2004 – Submit planning document to the Chairmen of the Senate Finance and House Appropriations and Finance Committees outlining the scope of this review
- December 1, 2004 - A preliminary report of initial findings, recommendations and issues shall be available to the Governor and the General Assembly.
- November 15, 2005 – A final report with recommendations for proposed budgetary and statutory changes shall be available to the Governor and the General Assembly.



COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

November 14, 2005

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

The Department of Accounts (DOA) appreciates the opportunity to respond to the report on your review of the financial accounting and control operations of the State Comptroller. I agree with most of your recommendations and appreciate your recognition of our many accomplishments. As you report, significant and recurring budget reductions have severely limited DOA's capacity for the more expansive role of the Comptroller described in your summary. Although the more expansive role would be ideal under optimal budget conditions, DOA staff layoffs as recently as 2003 compelled me to make tough decisions in order to maintain basic, but critical, central accounting services and controls. While DOA's capacity for financial management oversight has narrowed, I am pleased with our record of statewide financial management leadership and my staff's efforts and success in meeting our core mission. I appreciate your support for the additional positions and funding needed to implement the improvements outlined in your report.

Improve New Systems and Information Planning

In the months since you issued your interim report, the Governor's Office and Secretaries of Finance, Administration, and Technology (and many of their agencies) have begun the challenging process of exploring ways for the Commonwealth to re-engineer and modernize our business processes and management information systems. We have accomplished a great deal with the small amount of start-up funding explicitly provided in Chapter 951 to review the enterprise-wide information technology proposals submitted under the Public-Private Education Facilities and Infrastructure Act (PPEA). We are confident that, if funded, the process we have started can lead to the changes needed to ensure Virginia remains the best managed state.

We recognize the need for visionary planning to precede any systems development effort. Accordingly, planned first steps include the kind of strategic business planning you recommend. This planning effort will be led and controlled by the Commonwealth and facilitated by expert consultants. An evaluation and selection of best business practices will precede and guide our development. These best practices will incorporate the modern accounting system attributes described in your report. An inventory of systems requirements and an assessment of whether these requirements could be met through a modern system generally available on the market are also planned in the first phase of the project. From a practical standpoint, altering course from the largely decentralized systems approach of the past while leveraging the investment already made in the central and agency-based systems currently in use will be a difficult challenge. In this regard, we plan to achieve broad consensus on the scope of the Commonwealth's enterprise

optimally served by central systems versus agency-based systems and on the data requirements supporting a statewide information repository prior to initiating system development or process re-engineering efforts.

Improve Training and Communication

We recognize the importance of training and communication with state agencies. DOA has a strong and effective working relationship with agency fiscal personnel built on our proven track record of providing expert fiscal advice and guidance. DOA plans to build upon our recent successful fiscal officer training program, financial reporting and general accounting quality assurance programs, and other agency internal control initiatives acknowledged in your report. We plan to identify and develop targeted specialized training for agency personnel, provide a more user-friendly search capability in our online policies and procedures manual, and continue to strengthen the disbursements review function to enhance agency oversight.

Expand Operation of Service Bureaus

We agree with your recommendation to expand the operation of service bureaus in the Commonwealth. The advantage of the administrative service bureau model for small and medium-sized agencies to minimize processing costs and maintain trained back-up staff is proven. Optimal deployment levels of additional administrative service bureaus will be determined during the Enterprise Applications project.

Improve Statewide Report Preparation Process

While we are confident our financial report preparation process is effective and efficient, we plan to explore the use of additional automated tools, such as Access databases, web-based reporting and automated trial balance software that might expedite the process. DOA also plans to identify additional opportunities to expedite reporting using reasonable estimation methodologies and will attend additional training on federal guidelines.

Coordinate with Central Support Agencies

We have considered the challenges of improving coordination between central support agencies and plan to address your recommendations through the development of an Enterprise Applications Governance structure. The level of coordination and cooperation between the Department of General Services, the Department of Human Resource Management, the Virginia Information Technologies Agency, the Department of Planning and Budget, Department of Treasury and the Department of Accounts (as well as many line agencies) during the due diligence and detailed proposal review phases of the Enterprise Applications project has been extraordinary. This joint effort has been crucial to making the business case for moving forward with the systems modernization and business process re-engineering effort. Development of a flexible and durable long-term governance structure to institutionalize these cooperative efforts is among the first projects scheduled to be planned and implemented during the initiative.

Staff Retention

We appreciate your acknowledgement of the steady and significant decline in funding and associated staffing levels the Comptroller's Office has endured over the past decade. As you report, sustained budget reductions throughout the 1990s reduced DOA staffing levels from 188

Mr. Walter J. Kucharski

November 14, 2005

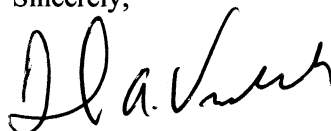
Page 3

to 126 positions. During my tenure, additional budget reductions totaling in excess of 20 percent during the 2001-2003 fiscal years forced many vacant positions to go unfilled and ultimately led to 14 layoffs and the elimination of 21 additional positions. DOA currently has funding to support 97 positions, all but two of which are currently filled.

While these reductions have significantly eroded DOA's capacity for internal cross-training and for agency financial management oversight, I am quite proud of what DOA has accomplished with the resources available. While many of our recent accomplishments are outlined in your report, many others could be recognized, including continued receipt of the GFOA Certificate of Achievement in Financial Reporting for the Comprehensive Annual Financial Report, continued expansion of statewide electronic payments and payment tools, and the complete conversion of all centrally printed financial reports to a secure web-based system (Reportline), to name but a few.

Thank you and your staff for your professionalism during the review. We look forward to continuing to work with you to improve statewide financial management.

Sincerely,

A handwritten signature in black ink, appearing to read "D. A. Von Moll", written in a cursive style.

David A. Von Moll

copy: The Honorable John M. Bennett, Secretary of Finance

DAV/bml

OFFICIALS

David A. Von Moll
Comptroller
November 2001 - present

PAST COMPTROLLERS (for the period of this report)

William E. Landside
December 1991 - October 2001

Edward J. Mazur
February 1980 - November 1991